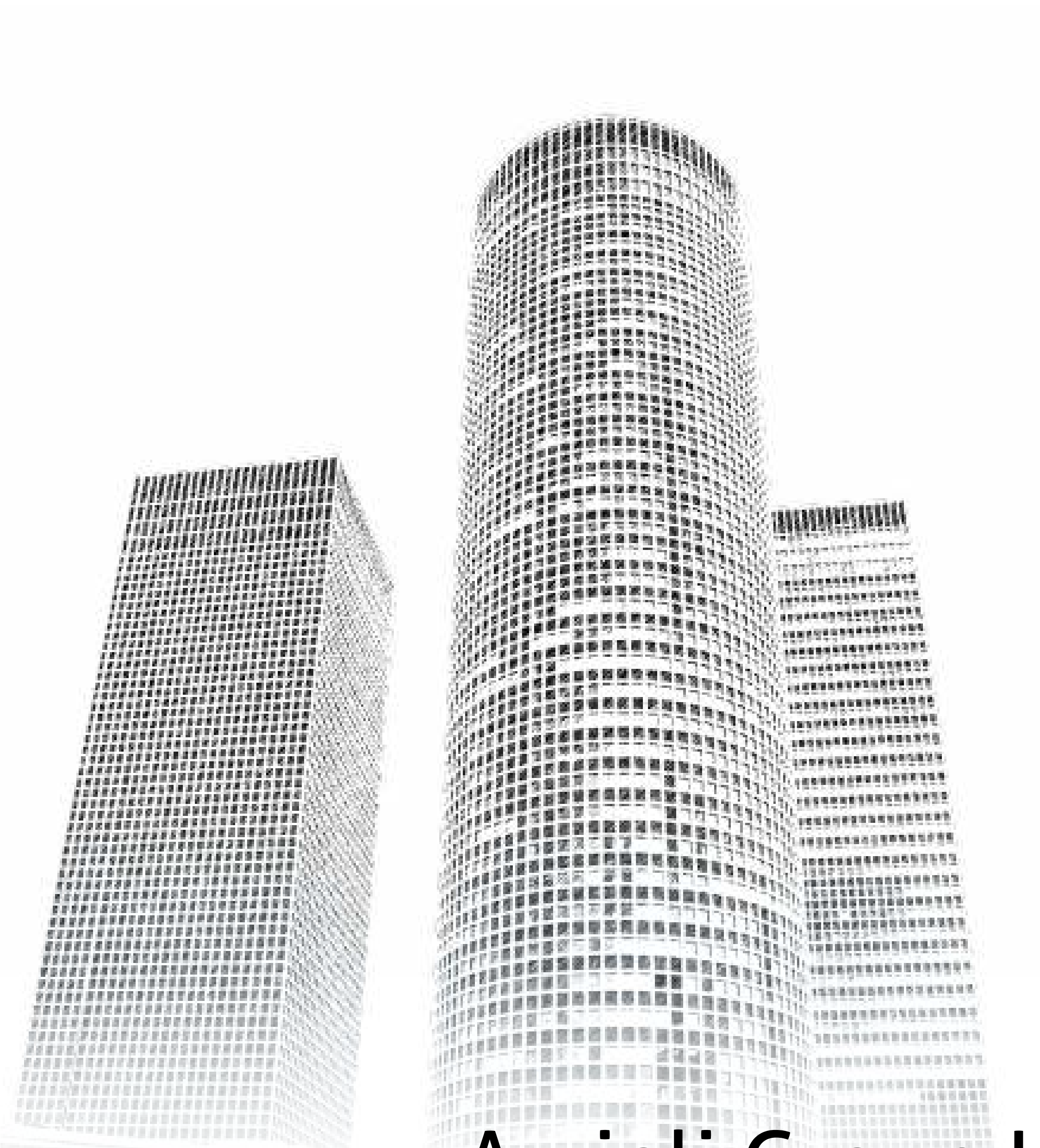
AZRIELI GROUP



Azrieli Group Ltd.

Annual report 2017

AZRIELIGROUP

Azrieli Group Ltd.

Periodic Report

As of December 31, 2017

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Part B | Board Report

Part C | Consolidated Financial Statements Dated 31 December 2017

Part D | Further Details about the Corporation

Part E | Corporate Governance

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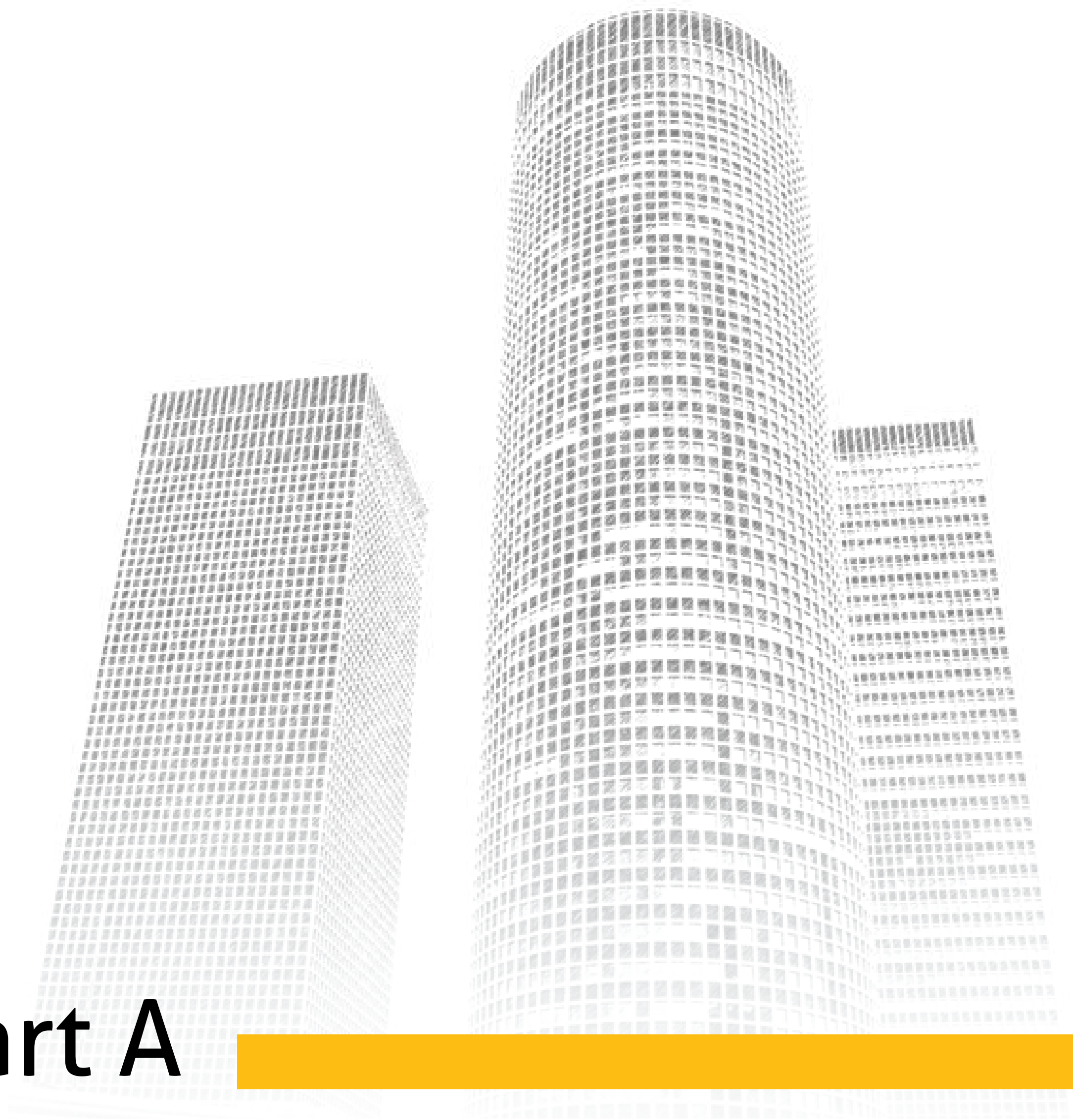
AZRIELI GROUP

Description of the Corporation's Business



Part A

CHAPTER A | DESCRIPTION OF THE COMPANY'S BUSINESS

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FOREWORD AND GENERAL DEFINITIONS

Azrieli Group Ltd. hereby respectfully files the Description of the Corporation's Business Report as of December 31, 2017 (the "**Report Date**"), reviewing the Group and describing the development of business thereof, in 2017 (the "**Report Period**") until the Report Release Date. The Report is prepared pursuant to the provisions of Regulation 8a of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Figures appearing in the Report are true as of the Report Date. However, in certain cases details appear in the Report reviewing events which occurred subsequently to the Report Date until shortly before the date of release thereof on March 21, 2018 (the "**Report Release Date**") and in such cases the Company notes that these are provided as of the relevant date.

Chapter A of the Report (this chapter) should be read together with its other parts, including the notes to the Financial Statements.

Materiality

The materiality of the information included in this Report, including a description of the material transactions and/or material projects, is evaluated from the point of view of the Company. It should be clarified that, in a part of the cases, the Company, in its exclusive discretion, decided to expand the description necessary, in order to give a more comprehensive picture of the subject being discussed.

Forward Looking Information

The description of the corporation's business in this Chapter A partly includes forward looking information as defined in the Securities Law. Such information which is presented below and indicated as forward looking information, includes forecasts, assessments, estimates or other information that is deemed as uncertain information which refers to a future event and which relies, inter alia, on publications of the Central Bureau of Statistics, Bank of Israel, other relevant professional entities and in addition, on internal estimates of the Company that are based on statistics, experience and information accumulated by the Company over the years. Actual results may materially differ from those forecasted in the context of the forward-looking information as aforesaid, as a result of a large number of factors, including as a result of the risk factors, in whole or in part, as described in Section 28 below, all as will be specified in the specific references to forward looking information later in the chapter. Sentences which include expressions such as "expected", "intends", "estimates", "foresees", "expects" and similar expressions indicate that this is forward looking information. Such information reflects the Company's current point of view regarding future events that are based on estimates and therefore are subject to risk and uncertainty.

DEFINITIONS

In this Chapter, the following terms shall bear the meaning stated alongside them:

"**TASE**"	Tel Aviv Stock Exchange Ltd.;
"**Granite**" or "**Granite Hacarmel**"	Granite Hacarmel Investments Ltd., a wholly-owned subsidiary of the Company;
"**Board of Directors' Report**"	The Company's Board of Directors' Report on the State of the Company's Affairs as of December 31, 2017, which is included in Chapter B of the Periodic Report;
"**Periodic Report**" or "**Report**"	The Company's periodic report for 2017;
"**Financial Statements**"	The consolidated financial statements of the Company as of December 31, 2017, which are included in Chapter C of the Periodic Report;
"**Company**"	Azrieli Group Ltd.;
"**Companies Law**"	The Companies Law, 5759-1999;
"**Securities Law**"	The Securities Law, 5728-1968;
"**Leumi Card**"	Leumi Card Ltd.;
"**Midroog**"	Midroog Ltd.;
"**Ma'alot**"	Standard & Poor's Maalot Ltd.;
"**Nadav Investments**"	Nadav Investments Inc., a private company incorporated under Canadian Law, fully owned and controlled by Azrieli Holdings;
"**Sonol**"	Sonol Israel Ltd.;
"**Supergas**"	Supergas Israeli Gas Distribution Company Ltd., a subsidiary wholly owned by Granite;
"**Azrieli E-Commerce**"	Azrieli E-Commerce Ltd., a wholly-owned subsidiary of the Company;
"**Azrieli Holdings**"	Azrieli Holdings Inc., a private company incorporated under Canadian Law, which is owned and controlled by Mmes. Sharon Azrieli, Naomi Azrieli and Danna Azrieli;
"**Granite Group**" or "**Granite Hacarmel Group**"	Granite Hacarmel and/or subsidiaries and/or affiliates thereof;
"**Azrieli Group**" or "**Group**"	The Company and/or subsidiaries and/or companies affiliated thereto;
"**Canit Hashalom**"	Canit Hashalom Investments Ltd., a wholly owned subsidiary of the Company;

"**Azrieli Foundation (Israel)**"	The Azrieli Foundation (Israel), R.A. 580503118, a not-for-profit association registered in Israel, acting, *inter alia*, to promote education and culture through projects in the fields of culture, welfare and science;
"**Azrieli Foundation (Canada)**"	The Azrieli Foundation is a registered Canadian charitable foundation, incorporated and seated in Canada, whose assets are designated for donations and for the funding of philanthropic activities in Israel and in Canada, which is a stakeholder in the Company.
"**Prospectus**"	A public offering prospectus published by the Company on May 12, 2010 as amended on May 12, 25 and 30, 2010;
"**Shelf Prospectus**"	A shelf prospectus released by the Company on May 10, 2016 bearing the date May 11, 2016. For details see the Company's immediate report of May 10, 2016 (Ref.: 2016-01-063049) which is included herein by way of reference;
"**GES**"	G.E.S.- Global Environmental Solutions Ltd., a private company which was incorporated in Israel and is a wholly owned subsidiary of Granite.

CHAPTER A | DESCRIPTION OF THE COMPANY'S BUSINESS

PART ONE: DESCRIPTION OF THE GENERAL DEVELOPMENT OF THE COMPANY'S BUSINESS

1. The Company's operations and description of the development of its business

1.1 General

The Company was incorporated on January 6, 1983, as a private company according to the laws of the State of Israel. On June 3, 2010, the Company's shares were issued to the public for the first time and began to be traded on TASE on June 7, 2010, and the Company became a public company, within the meaning thereof in the Companies Law. Commencing from July 1, 2010, the shares of the Company are included in the Tel Aviv 35 Index (Formerly Tel Aviv 25 index). The Company's Series B and Series C bonds are included, *inter alia*, in the Tel Bond 40 Index, and the Company's Series D bonds are included, *inter alia*, in the Tel Bond 20 Index.

As of the Report Date, Mmes. Sharon Azrieli, Naomi Azrieli and Danna Azrieli are the controlling parties of the Company[1].

As of the Report Date, the Company is engaged primarily in the various real estate segments, with most of the business operations of the Company being in the retail center and mall segment in Israel, in the office and other space for lease segment in Israel and abroad, and in the senior housing segment. The Company has an additional operating segment centralized under Granite Hacarmel, which is engaged through subsidiaries (Supergas and GES), in the marketing of alternative energy sources and chemicals, wastewater and water treatment (the "**Granite Segment**"). In addition, the Group has additional business of e-commerce and minority holdings in financial corporations, all as hereinafter specified.

Until July 2016, the Company, through Granite, held Sonol. In view of the closing of the transaction for the sale of the Group's holdings in Sonol, the Sonol business has become discontinued operations. In the long term, as previously reported by the Company, the Company intends to focus on the core areas of the real estate business and therefore examines, from time to time, its holdings in the non-real estate segments.

The Company owns income-producing properties in a total GLA of approx. 1,145 thousand sqm in addition to approx. 644 thousand sqm projects under construction. The average occupancy rate in Israel is approx. 99%[2], with 92% of the value of income-producing investment properties and income-producing properties under construction (consolidated) attributed to real estate in Israel.

Azrieli Group is the leading real estate group in Israel, was founded by Mr. David Azrieli OBM. In July 2014, Ms. Danna Azrieli, was appointed as Active Chairman of the Company's Board of Directors, after many years in which she served in key positions in the Group. The operations of the Group are carried out by means of a managerial headquarter that is comprised of professionals having a great deal of seniority and managerial experience, most of whom have been associated with the Company and the Group's companies for many years. The Company estimates that the Chairman of the Board, Ms. Danna Azrieli, as well as the experienced officers and managers in the Company who are considered professional and leading in the field, constitute some of the success factors for the Company's business results.

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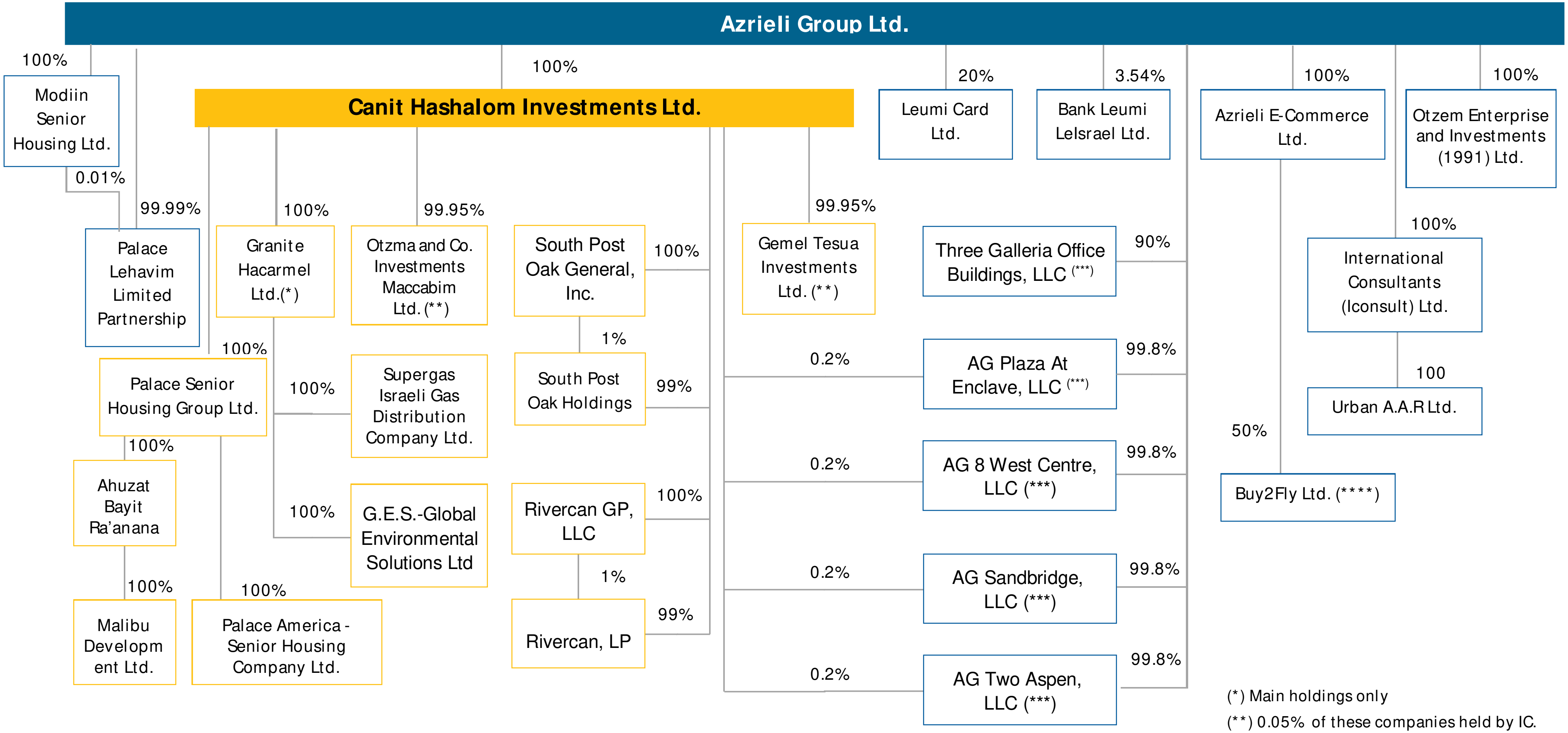
[1] For further details see immediate report on the status of holdings of interested parties and officers of January 7, 2018 (Ref.: 2018-01-002572), which is included herein by way of reference.

[2] Excluding the two buildings in Phase B in Holon Azrieli Center which opened at the end of 2015 and the end of Q1/2016 into which tenants are moving in as well as the offices in Rishonim and Sarona which opened in the Report period.

1.2 The Group's main holdings chart as of the Report Release Date*

1.2.1 Following is a chart updated as of the Report Release Date:



(*) Main holdings only

(**) 0.05% of these companies held by IC.

(***) Indirectly, through companies and/or partnerships.

(****) 50% by Gulliver Tourism Ltd.

* The chart does not include companies that are inactive as of the Report Release Date nor property management companies.

1.2.2 As of the Report Release Date, the Group's asset holdings chart, in the final holdings structure, by operating segment, is as follows:

The retail centers and malls

Asset	Holding
Azrieli Tel Aviv Mall	100%
Azrieli Holon Mall	100%
Azrieli Ayalon Mall	100%
Azrieli Haifa Mall	100%
Azrieli Jerusalem Mall	100%
Azrieli Kiryat Atta Mall	100%
Azrieli Hanegev Mall	100%
Azrieli Akko Mall	100%
Azrieli Modiin Mall	100%
Azrieli Center Holon	**83%
Azrieli Givataim Mall	100%
Azrieli Rishonim Mall	100%
Azrieli Sarona Mall (under construction)	100%
Azrieli Ramla Mall	100%
Azrieli Herzliya OUTLET	100%
Azrieli Town (under	100%
Azrieli Or Yehuda Outlet	*89%
Azrieli Center Expansion (under construction)	100
Azrieli Hod Hasharon Mall	100%
Azrieli Raanana	100%
Lodzia (in planning)	100%
Modiin 21 Lot (in Planning)	100%

Offices and other space for rent

Asset	Holding
Hakrayot Junction (Check Post) (Land Reserve)	100%
Azrieli Towers	100%
Azrieli Rishonim	100%
Jerusalem Offices	100%
Azrieli Center Holon	**83%
Hanegev Offices	100%
Azrieli Kiryat Atta	100%
Lodzia (planned)	100%
Azrieli Sarona	100%
Modi'in offices and residences	100%
Azrieli Town (under construction)	100%
Givatayim Offices	100%
Azrieli Center Expansion (under construction)	100%
Ceasaria Industrial Park	100%
Holon Manor (under	100%
K.M.T. Petach Tikva	100%
Modiin 21 Lot (in Planning)	100%
Herzliya offices	100%
Azrieli Petach Tikva (in	100%

Income-producing property in the US Offices

Asset	Holding
Three Riverway (Houston, Texas)	70%
One Riverway (Houston, Texas)	67%
Southern house 529 York Road (Leeds, England)	100%
Six Riverway Land (Houston, Texas) (land reserve)	45%
Three Galleria Office Building (Houston, Texas)	90%
Plaza At Enclave (Houston, Texas)	100%
8 West Centre (Houston, Texas)	100%
Aspen Lake II (Austin, Texas)	100%
Sandbridge land (Houston, Texas) (land reserve)	100%

Senior Housing

Asset	Holding
Palace Ra'anana	100%
Palace Modi'in (under construction)	100%
Palace Tel Aviv	100%
Palace Lehavim (under construction)	100%
Palace Rishonim (under planning)	100%

Granite Hacarmel

Asset	Holding
GES	100%
Supergas	100%
Mini Israel	50%

Others

- Investment in Leumi Card Ltd.
- Azrieli.com e Commerce
- Investment in startups and other companies
- Investment in Bank Leumi Lelsrael Ltd.

(*) The holding rate was determined after the deduction of stores not owned by the Company.

(*) Holding rate determined after deduction of stores not owned by the Company
(**)The Holon Municipality holds the remaining 17% of the property

1.3 Summary of the main developments occurring in the Group's structure and business in 2017 and until the Report Release Date

1.3.1 Properties under construction

During the Report Period the Group continued to invest in the development and construction of new properties, and in the expansion and renovation of existing properties. For detail regarding the developments in the Group's properties under development during the Report Period, see Section 7.7 of Chapter A of the Report.

1.3.2 Acquisition of income-producing properties

On January 11, 2018, the Group won a tender held by the Israel Land Authority for the purchase of long-term lease rights in a lot located in the CBD of Modi'in-Maccabim-Reut, on an area of approx. 5,300 sqm, designated for the construction of 80 residential units, 50 hotel rooms, offices and retail, in consideration for approx. NIS 101.5 million. The Company will examine a possibility to initiate an increase of the building rights on the lot.

During the Report Period, the Group purchased land in Petach Tikva spanning 19,000 sqm, and it intends to build an office project thereon. For further details, see the Company's immediate reports dated September 18, 2017, November 9, 2017 and of January 11, 2018, (Ref.: 2017-01-093630, 2017-01-098386 and 2018-01-004960, respectively). For further details regarding developments in the Group's land reserves during the Report Period, see Section 7.8 of Chapter A of the Report.

At the end of 2017, the Group increased its holdings in its two properties located in Houston, Texas: RIVERWAY 1 and RIVERWAY 3. For further details, see Section 10.9 of Chapter A of the Report.

1.3.3 Financing transactions

During the Report Period the Company issued bonds through the expansion of the Company's B-D Bond Series, based on a shelf prospectus. The issue proceeds, gross, totaled NIS 1,364.6 million, and net of the issue expenses, net revenues totaled approx. NIS 1,354 million. After the Report Period the Company issued bonds through the expansion of the Company's Bond Series D, based on a shelf prospectus. The issue gross proceeds totaled NIS 1,409.4 million, and net of the issue expenses, net revenues totaled approx. NIS 1,400 million. For further details see Section 19.5 of Chapter A of the Report.

1.3.4 Changes in senior officers

In October 2017, Mr. Yuval Bronstein, the Company's CEO at that time, gave notice of the termination of his office on December 31, 2017. On October 19, 2017, the board of directors appointed Mr. Eyal Henkin as the Company's CEO, beginning January 1, 2018. In November 2017, the Company's compensation committee and board of directors approved the Company's engagement with a company wholly owned by Mr. Henkin (the "**Management Company**"), which shall be submitted for the approval of the next general meeting, in accordance with a notice of meeting report to be published in proximity to the date of this Report. The Management Company is entitled a fixed monthly payment of NIS 313 thousand, linked to the June 2016 index, as published in July 2016 ("**Monthly Payments**"), and is entitled to related benefits including the provision of a car (level 7) and a cellular telephone. Each one of the parties may terminate the agreement, for any reason whatsoever, upon a three months advanced notice in writing. In addition, the Management Company shall be entitled to an adjustment bonus in an amount equal to 9 monthly payments. For further details, see the Company's immediate reports of October 22, 2017 (Ref.: 2017-01-092377, 2017-01-092380 and 2017-01-092392), which are included herein by way of reference, and Note 36C(6) to the financial statements.

On March 21, 2017, the office of the Company's internal auditor, Mr. Gali Gana, ended and the board of directors appointed Mr. Moshe Cohen to the position in his stead. For further details, see Section 6 of Chapter E of the Report.

On May 23, 2017, Mr. Menachem Einan, a director, was appointed as member of the Company's audit committee, compensation committee and enforcement committee.

In August 2017 Mr. Dor Lev-Ran, VP Engineering & Construction gave notice of his intention to end his term of office with the Company. The Company appointed Mr. Sharon Arie to replace Mr. Lev-Ran as VP Engineering & Construction, beginning December 1, 2017.

For further details and details regarding changes in the Group's officers during the Report Period, see Section 17 of Chapter A of the Report.

1.3.5 Tax Assessment

On December 5, 2016, the Tax Authority issued the Company and Canit Hashalom tax assessments to the best of judgment (the "**Assessment**") in the total amount of approx. NIS 170 million for the years 2011-2014 (inclusive) including interest and linkage differentials, in addition to the tax that was paid in respect of those years. It is noted that a tax liability is included in the Company's Financial Statements with respect to parts of the amount of the Assessment. The Company disputes the positions of the Tax Authority and believes, *inter alia*, in reliance on its professional advisors, that it has sound claims against such positions. Therefore, the Company submitted an objection to the Assessment in January 2017. Since no agreement was reached following the discussions on the objection with the tax authorities, orders were received under Section 152(B) of the Income Tax Ordinance, at the beginning of January 2018. On January 30, 2018 the Company filed with the Court an appeal on these orders. In the Company's estimation, the Assessment that was received as aforesaid is not expected to have a material effect on the Company's financial results. For further details, see the Company's immediate report of December 6, 2016 (Ref.: 2016-01-136948) and of January 2, 2018 (Ref.: 2018-01-000994), which are included herein by way of reference.

2. Main operating segments of the Group

As of the Report Date, the Company reports to the public on five operating segments[3]:

1. **The retail centers and malls in Israel segment**: In this operating segment, the Group focuses, primarily, on promoting, constructing, acquiring, renting, managing and maintaining malls and retail centers in Israel. As of the Report Date, the Group owns 17 malls and retail centers in Israel, in a total leasable area of approx. 332 thousand sqm leased (on a consolidated basis and the Company's share) to some 1,900 tenants, with most of the malls and retail centers spread throughout the large cities in Israel. In the framework of this operating segment, the Company provides management services to the retail centers and malls maintained thereby, with the management being performed by the Company and/or designated management companies in relation to each mall or retail center that is owned by the Group, which enters into management agreements with the tenants. All of the malls and retail centers also include car parks (above or underground) which serve

[3] In view of the closing of the transaction for the sale of the Group's holdings in Sonol, as of the quarterly statement for June 30, 2016, Sonol's operations have become discontinued operations, in accordance with GAAP, and it is presented in the Company's income statements separately from the continuing operations (see Note 8 to the Financial Statements). In view of the aforesaid, as of the statement for Q3/2016, the Company has begun reporting its operations in the Granite Segment as a separate operating segment, within the definition of such term in GAAP. Furthermore, as of the statement for Q3/2016, the Company's operations in the senior housing segment are being described as a separate operating segment, in view of the establishment and expansion of the operations and investment in projects under development in this segment.

the visitors and the potential tenants. See Section 8 of Chapter A of the Report for additional details regarding the retail centers and malls segment.

2. **The office and other space for lease segment in Israel**: In this operating segment, the Company focuses, primarily, on promoting, constructing, acquiring, renting, managing and maintaining office buildings and parks for offices and high-tech industry, logistic areas and storage in Israel. As of the Report Date, the Group owns 13 income-producing properties in the office and other space for lease segment in Israel, in a total leasable area of approx. 541 thousand sqm (on a consolidated basis and the Company's share) that are leased to about 600 tenants. Most of the Group's income-producing areas in this operating segment are located in projects which integrate commercial areas. See Section 9 of Chapter A of the Report for additional details regarding the office and other space for lease segment in Israel.

3. **The income-producing property segment in the U.S.**: As of the Report Date, the Group owns 7 office properties for lease outside of Israel, in a total leasable area of approx. 223 thousand sqm (the Company's share is approx. 213 thousand sqm) that are leased to some 170 tenants. See Section 10 of Chapter A of the Report for additional details with respect to the income-producing property segment in the U.S.

4. **The senior housing segment**: The Company has two active senior homes in an aboveground built-up area of approx. 79 thousand sqm (excluding areas which are attributed to the LTC unit and to retail areas), which comprise approx. 560 senior housing units, and three projects under development and construction for approx. 840 residential units in a total area of approx. 86 thousand sqm (excluding areas which are attributed to the LTC unit and to retail areas). For further details about the senior housing segment, see Section 11 of Chapter A of the Report.

5. **The Granite Segment**: The Company holds (through Granite Hacarmel) 100% of the rights in Supergas, which engages in the marketing of alternative energy sources and 100% (through Granite Hacarmel) of GES, which is engaged in chemicals, wastewater and water treatment. For further details about the Granite Segment, see Section 12 of Chapter A of the Report.

Other assets and business:

For details on other assets and business which is not included in the operation segments described above, including Commerce activity, investments in banking and financial corporations and investments in start-up companies and in investment funds, see Section 14 of Chapter A of the Report.

3. Investments in the Company's capital and transactions in its shares

To the best of the Company's knowledge, no investments have been made in the Company's capital over the past two years and no other material transaction has been executed in the Company's shares by an interested party outside of the TASE during the two years preceding December 31, 2017, as well as until this Report Release Date, except as specified below:

Subject of the Report	Report Release Date	Reference[4]
The Azrieli Foundation (Canada) sold 6,063,638 ordinary shares of the Company in off-TASE transactions, as part of the preparations toward the index reform announced by TASE.	March 29, 2016 March 30, 2016 April 3, 2016	2016-01-016773 2016-01-018678 2016-01-023424
Changes that occurred in the holdings of Mr. Menachem Einan, a director of the Company	April 3, 2016 January 1, 2017	2016-01-024156 2017-01-000042
Changes that occurred in the holdings of Mr. Joseph Ciechanover, a director of the Company	April 30, 2017	2017-01-043860
Changes that occurred in the holdings of Migdal Insurance and Financial Holdings Ltd. holdings, which ceased being an interested party in the Company	June 6, 2017	2017-01-057501

For details on the status of holdings of interested parties in the Company see immediate report of January 7, 2018 (Ref.: 2018-01-002572), which is included herein by way of reference.

4. Dividend Distribution

4.1 Following are details on the dividend distribution in 2016, 2017 and 2018 (until the Report Release Date):

Resolution Date	Distribution Date	Dividend Amount per Share (NIS)	Resolution Date
March 22, 2016	May 4, 2016	3.2983	400
March 21, 2017	May 10, 2017	3.9580	480
March 20, 2018	**May 2, 2018**	**4.28**	**520**

(a) The above-specified distributions did not require obtaining a court approval.

(b) The Company's retained earnings available for distribution as of December 31, 2017 are approx. NIS 13.8 billion (such retained earnings also include the revaluation fund for financial assets available for sale and property revaluation profits).

(c) For further details on the dividend distribution in the Company and a dividend distribution limitation, see Notes 22B-C and 20B(2) to the financial statements.

[4] All of the reports in this section below are included herein by way of reference.

PART TWO: OTHER INFORMATION

5. Financial information regarding the Company's operating segments

The following presents financial data of the Company, as specified in the Company's financial statements (NIS in millions) for the years 2015 to 2017:

Y2017:

	Retail centers and ` Israel	Office and other space for lease in Israel	Income-producing property in the U.S.	Senior housing	Granite	Adjustments*	Consolidated
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Revenues							
Total revenues from outsiders	1,032	489	221	126	705	19	2,592
Total revenues from other Group operating segments	-	-	-	-	-	-	-
Total	1,032	489	221	126	705	19	2,592
Attributed costs							
Costs not representing revenues from other Group operating segments	204	92	100	87	601	65	1,149
Costs representing revenues of other Group operating segments	-	-	-	-	-	-	-
Total	204	92	100	87	601	65	1,149
Income from operations attributed to operating segment (NOI in the income-producing real estate segments)	828	397	121	39	104	(46)	1,443
Variable costs attributed to the operating segment	204	92	100	-	403	19	818
Fixed costs attributed to the operating segment	-	-	-	87	198	46	331
Increase (decrease) in the fair value of investment property	(25)	630	(186)	81	-	-	500
Income from operations attributable to the shareholders of the parent company	828	397	117	39	104	(46)	1,439
Income from operations attributable to non-controlling interests	-	-	4	-	-	-	4
Total assets attributed to the operating segment	12,368	9,462	1,983	1,725	1,265	-	26,803

*Adjustments to the consolidated basis derive mainly from business in the e-Commerce segment – for details see Section 14 of Chapter A of the Report.

Y2016:

	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the U.S.	Senior housing	Granite	Adjustments*	Consolidated
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Revenues							
Total revenues from outsiders	974	447	229	95	653	7	2,405
Total revenues from other Group operating segments	-	-	-	-	-	-	-
Total	974	447	229	95	653	7	2,405
Attributed costs							
Costs not representing revenues from other Group operating segments	195	78	105	66	570	12	1,026
Costs representing revenues of other Group operating segments	-	-	-	-	-	-	-
Total	195	78	105	66	570	12	1,026
Income from operations attributed to operating segment (NOI in the income-producing real estate segments)	779	369	124	29	83	(5)	1,379
Variable costs attributed to the operating segment	195	78	105	-	374	5	757
Fixed costs attributed to the operating segment	-	-	-	66	196	7	269
Increase (decrease) in the fair value of investment property	220	517	(82)	56	-	-	711
Income from operations attributable to the shareholders of the parent company	779	369	119	29	83	(5)	1,374
Income from operations attributable to non-controlling interests	-	-	5	-	-	-	5
Total assets attributed to the operating segment	12,074	8,219	2,176	1,495	1,298	-	25,262

*Adjustments to the consolidated basis derive from insurance operations and the e-Commerce. For details see Section 14 of Chapter A of the Report.

For explanations by the board of directors with respect to the financial data of the Company as included in its consolidated financial statements, see the Company's Board of Directors' Report in Chapter B of the Report.

Y2015:

	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the U.S.	Senior housing	Granite	Adjustments*	Consolidated
	NIS in millions	**NIS in millions**	**NIS in millions**	**NIS in millions**	**NIS in millions**	**NIS in millions**	**NIS in millions**
Revenues							
Total revenues from outsiders	932	419	237	36	730	1	2,355
Total revenues from other Group operating segments	-	-	-	-	-	-	-
Total	932	419	237	36	730	1	2,355
Attributed costs							
Costs not representing revenues from other Group operating segments	184	72	105	24	644	-	1,029
Costs representing revenues of other Group operating segments	-	-	-	-	-	-	-
Total	184	72	105	24	644	-	1,029
Income from operations attributed to the operating segment (NOI in the income-producing real estate segments)	748	347	132	12	86	1	1,326
Variable costs attributed to the operating segment	184	72	105	-	455	-	816
Fixed costs attributed to the operating segment	-	-	-	24	189	-	213
Increase (decrease) in the fair value of investment property	123	70	(28)	14	-	-	179
Income from operations attributable to the shareholders of the parent company	745	344	126	12	86	1	1,314
Income from operations attributable to non-controlling interests	3	3	6	-	-	-	12
Total assets attributed to the operating segment	11,056	6,830	2,052	803	1,175	1,913	23,829

* Adjustments to the consolidated basis derive from insurance operations, with the exception of the total assets which also include the assets of the discontinued operations. See Section 0 of Chapter A of the Report.

For explanations by the board of directors with respect to the financial data of the Company as included in its consolidated financial statements, see the Company's Board of Directors' Report in Chapter B of the Report.

6. General environment and the effect of external factors on the Company's business

Following are the assessments of the Company as to the major trends, events and developments in the macroeconomic environment of the Company, which to the best of its knowledge and estimates, have or are anticipated to have material effect on the business results or the developments in the Group's operating segments. For details with respect to regulatory restrictions on the Company, see Section 23 of Chapter A of the Report.

The estimates of the Company below in this section and in this Report are based, *inter alia*, on data published by third parties and not independently examined by the Company. Every reference appearing in this section should be considered data not under the control of the Company and uncertain, and it is based, *inter alia*, on data published by the Bank of Israel, as specified below.

6.1 The business in Israel

As a company operating in the Israeli market, with its various industries, the Company is exposed to macro-economic changes in the condition of the economy in general and in the income-producing real estate industry, in particular. The central economic factors affecting the business of the Company and the Group companies in Israel are specified below.

Israel	For the Year Ended on		
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015
Macroeconomic parameters*			
Gross Domestic Product (PPP)*	$315.6 billion	$300.9 billion	$285.8 billion
Product per Capita (PPP)*	$36,250	$35,220	$34,117
Growth rate in the Domestic Product (PPP)*	4.9%	5.3%	3.7%
Growth Rate in the Product per Capita (PPP)*	2.9%	3.2%	1.7%
Inflation Rate **	0.4%	(0.2)%	(1.0)%
Return on long term domestic governmental debt * (NIS)**	1.7%	2.2%	2.1%
Rating of long term governmental debt ** (domestic rating)**	A+/ POSITIVE	A+/ STABLE	A+/ STABLE
Rating of long term governmental debt (international rating) ******	A+/ STABLE	A+/ STABLE	A+/ STABLE
Exchange Rate of domestic currency compared to the Dollar as of the last day of the year**	3.467	3.845	3.902

* Source: the International Monetary Fund website – www.imf.org - World Economic Outlook Database The figures for 2017 are based on a forecast of October 2017.

** Source: the Central Bureau of Statistics: www.cbs.gov.il

*** Source: yield on government debt, the Bank of Israel website: www.boi.org.il, yield-to-maturity on unlinked fixed-interest 10-year bonds (gross). The figures for 2017 are based on a forecast of August 2017.

**** Source: S&P rating report at www.standardandpoors.com, updated as of August 2017, from the website of the Ministry of Finance.

6.1.1 General

1. **Political-security situation** – The Company’s business is affected by the political-security situation in Israel. The Company’s management estimates that significant and long-term deterioration in the political security situation may cause a decline in the business in malls and retail centers, decline in demands and a decrease in prices in the income-producing property segment.

2. **Credit availability and cost** – Changes in financing cost and availability and the scope of available credit in the banking and non-banking system affect the real estate industry and the profitability thereof. As a result of the implementation of structural reforms implemented in recent years in the capital market (such as the Bachar Reform, the pension reform and the tax reform), the share of bank credit out of the total credit to the business sector, is declining and a non-banking credit market has developed, constituting an alternative for financing assets and projects. The local capital market too, constitutes a source for the raising of funds to finance the Company's business activity, by way of issuing bonds, and also presently serves as the Company's primary source of financing.

   Thanks to the financial strength of the Company, its accessibility to sources of bank financing, and the relatively low scope of pledges on properties, taking into consideration the extent of business thereof, the Company estimates that no difficulties are anticipated in raising the financing required thereby.

3. **Fluctuations in the inflation rate, the Consumer Price Index and the interest rates** – The real estate industry is exposed to risks deriving from changes in the interest rates, inflation rate and in the Consumer Price Index (CPI). The Company finances most of its business operations by means of loans linked to the CPI or linked to the Prime interest rate or to the Bank of Israel interest rate. In addition, most of the Company's revenues from rent are also linked to the CPI. The (known) CPI increased in 2017 by 0.3%, compared with a decrease of 0.3% in the course of 2016. At the end of 2017, inflation expectations for the capital market in 2018 were at a rate of 0.7%, and the deriving expectations from the banks' internal interest rates were at a rate of (0.3%)[5]. The Prime interest rate in 2017 remained at 1.60%, similar to the rate in 2016. The Bank of Israel interest rate in 2017 remained at 0.1%, similar to the rate in 2016.[6]

4. **Fluctuations in the exchange rate of the U.S. dollar** – The Company has real estate properties in the U.S. at a scope of approx. 8% from the Group's total real estate properties. These properties were financed by loans linked to the U.S. Dollar. The change in the exchange rate of the U.S. Dollar has an effect on the difference between the real estate properties' value and the loans therefrom. In 2017, the Dollar weakened against the Shekel, from an exchange rate of NIS 3.845 per Dollar at the end of 2016, to an exchange rate of NIS 3.467 per Dollar at the end of 2017.

6.1.2 Effects on the income-producing property in Israel segment

1. **The income-producing property in Israel segment** – For a description of the trends related to the income-producing property in Israel segment, in relation to each of the Company's business segments, see Sections 8.1, 9 and 11.1 below.

2. **The rate of growth and consumption per capita in Israel** - In real terms, the growth of the Israeli economy continues in 2017, and the real activity indicates that growth will continue in the upcoming years. The gross domestic product (GDP) increased by approx. 3.3% in 2017, compared with 4.0% in 2016. In addition, a high level of employment was maintained and the unemployment rate continued to decline down to an annual average of approx. 4.2% (4.2% in Q4/2017). This year, the growth in private consumption expenditure was moderated, following an increase of 6.3% in 2016. Net of the 1.9% population growth, private consumption expenditure per capita increased by 1.4% in 2017. According to publications of the Bank of Israel, the macroeconomic forecast was updated in January 2018, and according thereto growth in 2018 is expected to amount to approx. 3.4%. Forecasts by the International Monetary Fund also predict that, in the next two years, Israel's product will grow by approx. 3% per year. The growth forecast in Israel derives also from domestic factors including strong domestic consumption, increase in investments and

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[5] Bank of Israel, press release, December 19, 2017, the expectations for inflation from the various sources. The Bank of Israel website: http://www.boi.org.il/he/NewsAndPublications/PressReleases/Pages/20-12-2017.aspx.

[6] Bank of Israel, press release, February 28, 2018, the Monetary Committee decided to leave the interest for February 2018 at the level of 0.1%, the Bank of Israel website: http://www.boi.org.il/he/NewsAndPublications/PressReleases/Pages/26-2-18.aspx.

performance and also from factors in the global economy including rapidly growing global trade, the low interest rate environment, changes in the U.S. taxation policy and the bull capital market.

6.1.3 Data which may affect the results of the Granite Segment

The results of the Granite Segment are mainly exposed to the following effects: (1) changes in fuel prices, which affect the demand for Supergas' LPG and natural gas products; (2) effects of the competition in the alternative energy sources' market, which might adversely affect the business of Supergas, including a decrease in profit rates and the loss of market share; (3) regulatory changes applying from time to time to the operations of the Granite Segment, which might affect the businesses of the Segment, its financial position and the business results of the Granite Segment; (4) dependency on refineries, which are the main LPG supplier and on the Tamar gas reservoir, which is Supergas' only natural gas supplier; (5) since the companies in the Granite Segment (Supergas and GES) are engaged in operations that are subject to environmental regulation, including regulation concerning the segment of treatment, production and use of water, wastewater and hazardous and toxic substances, it is exposed to damage that might be caused due to such products or due to failures and malfunctions in such operations.

6.2 The business in the U.S.

U.S.	For the Year Ended on		
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015
Macroeconomic parameters			
Gross Domestic Product (PPP) (1) (U.S. $ in billions)	19,362	18,624	18,121
Product per Capita (PPP) (1) (U.S. $)	59,495	57,608	56,437
Growth rate in the Domestic Product (PPP) (1)	3.96%	2.78%	3.98%
Growth Rate in the Product per Capita (PPP) (1)	3.28%	2.07%	3.24%
Inflation Rate (2)	2.1%	2.1%	0.7%
Return on long term domestic governmental debt (3)	2.40%	2.45%	2.27%
Rating of long term governmental debt (4)	AA+/Stable	AA+/Stable	AA+/Stable
Exchange Rate New Shekel to U.S. Dollar (5)	3.467	3.845	3.902

(1) The product data is based on a publication by the International Monetary Fund in October 2017 (http://www.imf.org).
(2) According to publications by the U.S. Department of Labor.
(3) According to the U.S. Department of Treasury with respect to bonds for a period of 10 years from December 31, 2017.
(4) According to the rating by S&P (www.standardandpoors.com).
(5) According to Bank of Israel data.

The Company's business in the U.S. is primarily affected by the economic situation in the U.S. economy in general, and in the income-producing commercial real estate sector in particular, the demand and supply in the area in which the Company's properties are located and the amount of rent therefor. To the best of the Company's knowledge, similarly to recent years, the U.S. economy continued to be stable also in 2017. In Q4/2017 the U.S. economy grew at an annual rate of 2.6%, following an annual growth rate of 3.2% in the three months preceding this quarter. In the entire year of 2017, growth rate was 2.3%, which is higher than the 1.5% rate of 2016. For details with respect to the Houston Texas area, where, as of the Report Date, the majority of the Company's business in the income-producing property in the U.S. segment is situated, see Section 0 of Chapter A of the Report.

The above information in Sections 6.1 and 6.2 concerning the general environment and the external factors that affect the Company's business, includes information based on subjective estimates and approximations of the Company, which is forward-looking information, as defined in the Securities Law. The Company's estimations are in consideration of past experience, as well as publications and surveys written by professionals in connection with the condition of the Israeli economy, the real estate sector, the Granite Segment and the senior housing segment, and the condition of the economy in countries in which the Company operates, as detailed above in this section. The above data are only approximations and it is possible that they are incomplete, but, in the Company's estimation, are able to provide a general picture, even if inexact, of the markets in which it operates in the various operating segments. In *view of the above, and due to the existence of causes beyond the control of the Company, the actual results may vary from the estimates specified above if a change should take place in one of the factors which were taken into account in these estimates, the condition of the political and/or economic and/or security situation shall become worse or due to the realization of any of the risk factors specified in Section 28 of Chapter A of the Report, and mainly a global financial crisis, the condition of the economy in Israel and in the U.S. and the security situation in Israel, changes in relevant interest rates and indices, decline in demand for space for lease and in rent prices, deterioration of strength of primary tenants, and the costs of financing sources.*

PART THREE: DESCRIPTION OF THE GROUP'S BUSINESS IN THE INVESTMENT PROPERTY SEGMENT – AGGREGATE

7. Aggregate disclosure with respect to the investment property segment[7]

The disclosure with respect to the Company's investment property operating segment is made in accordance with the draft of the amendment to the Securities Regulations (Details of the Prospectus and the Draft Prospectus – Structure and Form) (Amendment), 5764-2013, as released by the ISA in December 2013 (the "**Disclosure Provision**"), which had been adopted by the Company even prior to the entering into effect of the same.

7.1 General

The Group began its activity in the investment property segment in 1983 and since then and as of the Report Release Date the Company operates in development, construction, acquisition, lease, management and maintenance of malls and retail centers in Israel as well as office and hi-tech parks, office and industry, light industry and storage buildings in Israel. Commencing from 2001 the Group began to operate also overseas (in particular in the U.S.) mostly in the office for lease segment and in 2014 the Group began developing also the senior housing segment.

As a development company, the Company examines, from time to time, growth and increase goals for the expansion of its scope of operations, and checks opportunities to purchase income-producing properties and lands for real estate development in Israel and overseas in the core segments thereof (retail and office spaces) and also in tangential segments such as senior housing and storage areas (logistics). Underlying the Company's policy is the basic assumption whereby the property's location is the most important factor for its success. Accordingly, upon examination of the location of a potential property, the Company ascribes significant weight to the population growth potential in the examined area and the urban development anticipated therein, based, *inter alia*, on urban research, segmentation of the existing and anticipated population, competition in the area and the unique or typical commercial needs of such area.

The Group's strategy and business in the investment property segment is performed both through initiation, development and construction of new properties and acquisition of existing income-producing property, upgrading the same and maximizing potential thereof. In the Report Period, a certain increase was recorded in the margins between the rates of capitalization on the properties and the financing costs, a trend which the Company estimates allows it to develop and purchase income-producing properties also at development yields or cap rates for purchase that are lower compared to rates in previous periods.

The Group, by itself (through companies which are entirely controlled thereby), manages and operates the properties in Israel, their construction and betterment while using the know-how and experience accrued by the Group, in order to give added value to its properties, tenants and the public visiting the properties.

The Company's properties in the retail centers and malls segment are located in the center of residential neighborhoods and at entrances to urban areas, insofar as possible, on main traffic arteries. Due to the location of the properties, their accessibility, spacious car parks, tenant mix and variety of activities therein, they attract a large and diverse target audience. Some of the retail centers include office space for lease designated to provide a supplementary response for the target audience's needs, according to the nature of the retail center and its location.

The Company's properties in the office and other space for lease in Israel segment, including the properties under construction, are located primarily in the central region (where there is an active demand for office buildings of various types) in proximity to central transport arteries; they are characterized by a high level of finish and management, relatively extensive floor and office spaces, and include designated parking lots.

According to its policy, for the maximization of its profits and in order to improve the experience of the users of the Group's properties, the Company acts, as necessary, to upgrade its existing properties, while using the existing and potential commercial, office and other areas, improving the tenant mix and adjusting the same to the target

[7] Disclosure is made jointly for the retail centers and malls in Israel segment, the office and other space for lease in Israel segment and the income-producing property in the U.S. segment and the Group's senior housing segment.

audience, renovating the properties, renewing the systems therein and implementing technological and/or digital improvements.

As previously reported by the Company, the Company examines, from time to time, the expansion of its operations, including entry into close real estate segments. Thus, in 2014, the Company began developing the senior housing business, upon the purchase of senior housing land in the city of Modi'in. As of the Report Release Date, the Company has two active senior homes: Palace Tel Aviv, which was acquired in 2015, and Palace Ra'anana (formerly Ahuzat Bayit Ra'anana), the acquisition of which was closed in Q2/2016. The Company also has two additional projects under construction - the first in Modi'in and the second in Lehavim, which are scheduled to be opened in 2018 and in 2019, respectively. An additional Company project, in the city of Rishon LeZion, is in planning.

Set forth below are aggregate figures regarding investment property owned by the Group. The figures will be presented jointly with regard to properties from the four operating segments of investment property owned by the Company, namely: the retail centers and malls in Israel segment, the office and other space for lease segment in Israel, the overseas income-producing property segment and the senior housing segment in Israel. For further details regarding the operating segments and regarding material properties and a very material property, see Sections 8, 9 and 0 of Chapter A of the Report.

For details on land reserves, see Section 7.8 of Chapter A of the Report.

7.2 Summary results in the investment property segments*

7.2.1 Summary of the aggregate results in the Group's four investment property segments

	For the year ended on		
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015
	NIS in millions		
Total business revenues (consolidated)	1,868	1,745	1,607
Profit from revaluations (consolidated)	500	711	179
Business profits (consolidated)**	1,885	2,012	1,418
Same property NOI (consolidated)	1,294	1,280	-
Same property NOI (corporation's share)	1,290	1,275	-
Total NOI (consolidated)**	1,385	1,301	1,238
Total NOI (corporation's share)**	1,381	1,296	1,227

* (1) The figures do not include the investment properties component appearing in the Financial Statements with respect to Sonol which does not constitute a part of the income-producing property segment of the Company.
(2) For details with respect to additional financial indicators which were examined by the Company, see Sections 2.7 to 2.8 of Chapter B (the Board of Directors' Report).

** The figures include the NOI of Palace Tel Aviv Medical and Palace Ra'anana LTC Units according to the management's position, which deems them part of the NOI of the senior homes although they are not investment properties (and therefore, the tables of the property chapter below shall not include information in respect thereof) and due to non-materiality in their separate presentation.

7.2.2 Summary of the results in the retail centers and malls in Israel segment

	For the year ended on		
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015
	NIS in millions		
Total business revenues (consolidated)	**1,032**	974	932
Profit (loss) from revaluations (consolidated)	**(25)**	220	123
Business profits (consolidated)	**803**	999	871
Same property NOI (consolidated)	**782**	769	-
Same property NOI (corporation's share)	**782**	769	-
Total NOI (consolidated)	**828**	779	748
Total NOI (corporation's share)	**828**	779	745

7.2.3 Summary of the results in the office and other space for lease in Israel segment

	For the year ended on		
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015
	NIS in millions		
Total business revenues (consolidated)	**489**	447	419
Profit from revaluations (consolidated)	**630**	517	70
Business profits (consolidated)	**1,027**	886	417
Same property NOI (consolidated)	**378**	369	-
Same property NOI (corporation's share)	**378**	369	-
Total NOI (consolidated)	**397**	369	347
Total NOI (corporation's share)	**397**	369	345

7.2.4 Summary of the results in the income-producing property in the U.S. segment

	For the year ended on		
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015
	NIS in millions		
Total business revenues (consolidated)	**221**	229	237
Profit (loss) from revaluations (consolidated)	**(186)**	(82)	(28)
Business profits (consolidated)	**(65)**	42	104
Same property NOI (consolidated)	**109**	119	-
Same property NOI (corporation's share)	**105**	114	-
Total NOI (consolidated)	**121**	124	132
Total NOI (corporation's share)	**117**	119	126

7.2.5 Summary of the results in the senior housing segment

	For the year ended on		
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015
	NIS in millions		
Total business revenues (consolidated)	**126**	95	36
Profit from revaluations (consolidated)	**81**	56	14
Business profits (consolidated)	**120**	85	26
Same property NOI (consolidated)	**25**	23	-
Same property NOI (corporation's share)	**25**	23	-
Total NOI (consolidated)	**39**	29	12
Total NOI (corporation's share)	**39**	29	12

7.3 The geographic territories in which the Company operates in the investment property segments

As of the Report Date, the Company operates in two main geographic territories, Israel and the U.S Most of the Company's business is in Israel, where the Company operates throughout the country, including North, Center, South and other urban areas, without preference to specific areas and without investing special managerial inputs in specific areas. The Company estimates that the State of Israel constitutes one geographical territory in terms of the risks and yields of the income-producing property business. In the U.S. the Company operates, as of the Report Date, mainly in Houston, Texas.

For details regarding the macroeconomic parameters affecting the business in Israel and the U.S., see Section 6 of Chapter A of the Report.

7.4 Breakdown of the investment property business

Set forth below are details of the Company's investment property business, in four segments: the malls and retail centers in Israel, the office and other space for lease in Israel, senior homes and the land designated for this segment, and income-producing property in the U.S., on a consolidated basis, broken-down by the various uses of the space of each segment. All of the figures in the following tables do not include the investment property component appearing in Granite Hacarmel's operations. The commercial use in Israel in the tables below is attributed to the retail centers and malls operating segment, whereas the office, industrial and residential uses are attributed in Israel to the office and other space for lease operating segment (and do not constitute operating segments in and of themselves). Furthermore, as of Q3/2016, the Company's operations in the senior housing segment is being described in the Company's Financial Statements as a separate operating segment, in view of the establishment and expansion of the operations and investment in projects under development in the segment, and therefore the segment is included as a separate column in the following tables. The figures of the income-producing property segment in the U.S. all appear under the U.S. territory, while the amounts with respect to this territory are translated into NIS according to the conversion rate of 1 US Dollar =NIS 3.467.

The following breakdown of uses is in the format in which the information is presented to the Group's management. As a rule, in properties whose main use is commerce, the car park was attached to such use, whereas in properties whose main use is offices, the car park was attached to such use. As for the Tel Aviv Azrieli Center, for the purpose of the Report, the car park space is divided equally between the commercial and office uses, due to its similar contribution to both uses. As for the Herzliya Business Park, as of 2016 for the purpose of the Report, the areas of the car park are divided into 25% for retail and 75% for offices, in view of the increased use of the car park by the visitors of the retail areas. With respect to Rishonim, the areas of the parking lot are divided into

33% for retail and 67% for offices according to the Company's estimation, in connection with the use made thereof.

The following terms shall hereinafter have the meaning set forth beside them:

"**Space**"/"**Area**" – the space/area for which rent is paid, with the addition of unleased areas (excluding areas sold or acquired after the Report Date, if any). With respect to senior housing, the area refers to all of the built area of the home, in view of the fact that the rate of the public areas in the senior housing facility that the Company operates, out of the total facility area is relatively large and the public areas are also intended to serve the tenants of the homes.

"**Revenues**" – all payments made by the tenant, including rent, management fees, profit from electricity, parking fees and other payments, if any.

1. Breakdown of income-producing property space (aggregate) by territories and uses, as of December 31, 2017 (in sqm)

Territories	Uses	Offices	Industry	Retail	Residence	Senior Housing*	Car Parks	Total	% of total area of properties
Israel	Consolidated	510,241	22,521	332,341	8,698	48,939	652,495	1,575,235	80%
	Corporation's share	510,241	22,521	332,341	8,698	48,939	652,495	1,575,235	81%
U.S.	Consolidated	223,137	-	-	-	-	167,905	391,042	20%
	Corporation's share	213,226	-	-	-	-	165,127	378,353	19%
Total	Consolidated	733,378	22,521	332,341	8,698	48,939	820,400	1,966,277	100%
	Corporation's share	723,467	22,521	332,341	8,698	48,939	817,622	1,953,588	100%
% of total property area	Consolidated	37%	1%	17%	-	3%	42%	100%	
	Corporation's share	37%	1%	17%	-	3%	42%	100%	

* 559 residential units – adjoined residential units are treated as one unit.

2. Breakdown of income-producing property space (aggregate) by territories and uses, as of December 31, 2016 (in sqm)

Territories	Uses	Offices	Industry	Retail	Residence	Senior Housing*	Car Parks	Total	% of total area of properties
Israel	Consolidated	360,688	22,521	309,987	8,698	48,939	541,954	1,292,787	79%
	Corporation's share	360,688	22,521	309,987	8,698	48,939	541,954	1,292,787	80%
U.S.	Consolidated	198,905	-	-	-	-	139,223	338,128	21%
	Corporation's share	188,995	-	-	-	-	136,445	325,440	20%
Total	Consolidated	559,593	22,521	309,987	8,698	48,939	681,177	1,630,915	100%
	Corporation's share	549,683	22,521	309,987	8,698	48,939	678,399	1,618,227	100%
% of total property area	Consolidated	34%	1%	19%	1%	3%	42%	100%	
	Corporation's share	34%	1%	19%	1%	3%	42%	100%	

* 559 residential units – adjoined residential units are treated as one unit.

3. **Breakdown of the fair value of income-producing properties (aggregate) by territories and uses, as of December 31, 2017 (in sqm)**[8]

Territories	Uses	Offices	Industry	Retail	Residence	Senior Housing*	Total	% of total area of properties
Israel (NIS in millions)	**Consolidated**	7,832	96	11,673	165	1,161	20,927	91%
	Corporation's share	7,832	96	11,673	165	1,161	20,927	92%
U.S. (USD in millions)	**Consolidated**	566	-	-	-	-	566	9%
	Corporation's share	545	-	-	-	-	545	8%
Total (NIS in millions)	**Consolidated**	9,794	96	11,673	165	1,161	22,889	100%
	Corporation's share	9,721	96	11,673	165	1,161	22,816	100%
% of total property value Israel	**Consolidated**	43%	-	51%	1%	5%	100%	
	Consolidated	43%	-	51%	1%	5%	100%	

* Gross value, without setoff of the balance of deposits from tenants. The value after setoff of the tenant deposits balance is approx. NIS 503 million.

4. **Breakdown of the fair value of income-producing properties (aggregate) by territories and uses, as of December 31, 2016 (in sqm)**[9]

Territories	Uses	Offices	Industry	Retail	Residence	Senior Housing*	Total	% of total area of properties
Israel (NIS in millions)	**Consolidated**	5,162	92	10,950	143	1,086	17,433	89%
	Corporation's share	5,162	92	10,950	143	1,086	17,433	89%
U.S. (USD in millions)	**Consolidated**	560	-	-	-	-	560	11%
	Corporation's share	537	-	-	-	-	537	11%
Total (NIS in millions)	**Consolidated**	7,315	92	10,950	143	1,086	19,586	100%
	Corporation's share	7,229	92	10,950	143	1,086	19,500	100%
% of total property value	**Consolidated**	37%	-	56%	1%	6%	100%	
	Corporation's Share	37%	-	56%	1%	6%	100%	

* Gross value, without setoff of the balance of deposits from tenants. The value after setoff of the tenant deposits balance is approx. NIS 460 million.

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[8] The fair value of the Group's income-producing properties in Israel is according to valuations the Group received, which were prepared by a certified land appraiser independent of the Company or of the Group companies as of December 31, 2017. As to the properties overseas, the valuations were prepared by certified land appraisers, who are defined as dependent in view of the directives of the ISA due to the indemnification given to them (excluding a non-material property in the amount of approx. NIS 39 million whose value was updated by the Company).

[9] The fair value of the Group's income-producing properties in Israel is according to valuations the Group received, which were prepared by a certified land appraiser independent of the Company or of the Group companies as of December 31, 2016. As to the properties overseas, the valuations were prepared by certified land appraisers, who are defined as dependent in view of the directives of the ISA due to the indemnification given to them (excluding a non-material property in the amount of approx. NIS 40 million whose value was updated by the Company).

5. **Breakdown of NOI of income-producing properties (aggregate) by territories and uses, for the year ended on December 31, 2017**

Territories	Uses	Offices	Industry	Retail	Residence	Senior Housing*	Total	% of total property NOI
Israel (NIS in millions)	**Consolidated**	387	7	828	3	39	1,264	91%
	Corporation's share	387	7	828	3	39	1,264	92%
U.S. (USD in millions)	**Consolidated**	35	-	-	-	-	35	9%
	Corporation's share	34	-	-	-	-	34	8%
Total (NIS in millions)	**Consolidated**	508	7	828	3	39	1,385	100%
	Corporation's share	504	7	828	3	39	1,381	100%
% of total property NOI	**Consolidated**	37%	-	60%	-	3%	100%	
	Corporation's Share	36%	1%	60%	-	3%	100%	

* The figure includes the NOI of Palace Tel Aviv Medical and Palace Ra'anana LTC Units, as aforesaid.

6. **Breakdown of NOI of income-producing properties (aggregate) by territories and uses, for the year ended on December 31, 2016**

Territories	Uses	Offices	Industry	Retail	Residence	Senior Housing*	Total	% of total property NOI
Israel (NIS in millions)	**Consolidated**	359	7	779	3	29	1,177	90%
	Corporation's share	359	7	778	3	29	1,176	91%
U.S.* (USD in millions)	**Consolidated**	32	-	-	-	-	32	10%
	Corporation's share	31	-	-	-	-	31	9%
Total (NIS in millions)	**Consolidated**	483	7	779	3	29	1,301	100%
	Corporation's share	478	7	778	3	29	1,295	100%
% of total property NOI	**Consolidated**	37%	1%	60%	-	2%	100%	
	Corporation's Share	37%	1%	60%	-	2%	100%	

* The figure includes the NOI of Palace Tel Aviv Medical and Palace Ra'anana LTC Units, as aforesaid.

7. **Breakdown of NOI of income-producing properties (aggregate) by territories and uses, for the year ended on December 31, 2015**

Territories	Uses	Offices	Industry	Retail	Residence	Senior Housing*	Total	% of total property NOI
Israel (NIS in millions)	**Consolidated**	338	6	748	3	12	1,107	89%
	Corporation's share	335	6	745	3	12	1,101	90%
U.S. (USD in millions)	**Consolidated**	34	-	-	-	-	34	11%
	Corporation's share	32	-	-	-	-	32	10%
Total (NIS in millions)	**Consolidated**	470	6	748	3	12	1,239	100%
	Corporation's share	461	6	745	3	12	1,227	100%
% of total property NOI	**Consolidated**	38%	-	61%	-	1%	100%	
	Corporation's Share	38%	-	61%	-	1%	100%	

* The figure includes the NOI of Palace Tel Aviv Medical, as aforesaid.

8. **Breakdown of real estate revaluation profit (loss) (aggregate) by territories and uses, for the year ended on December 31, 2017**

Territories	Uses	Offices	Industry	Retail	Residence	Senior Housing	Total	% of Total Revaluation Profit
Israel (NIS in millions)	**Consolidated**	604	4	(25)	22	81	686	138%
	Corporation's share	604	4	(25)	22	81	686	136%
U.S. (USD in millions)	**Consolidated**	(53)	-	-	-	-	(53)	(38%)
	Corporation's share	(51)	-	-	-	-	(51)	(36%)
Total (NIS in millions)	**Consolidated**	418	4	(25)	22	81	500	100%
	Corporation's share	428	4	(25)	22	81	510	100%
% of total revaluation profit	**Consolidated**	84%	1%	(5%)	4%	16%	100%	
	Corporation's Share	84%	1%	(5%)	4%	16%	100%	

9. **Breakdown of real estate revaluation profit (loss) (aggregate) by territories and uses, for the year ended on December 31, 2016**

Territories	Uses	Offices	Industry	Retail	Residence	Senior Housing	Total	% of Total Revaluation Profit
Israel (NIS in millions)	**Consolidated**	510	3	220	4	56	793	112%
	Corporation's share	510	3	220	4	56	793	111%
U.S. (USD in milions)	**Consolidated**	(21)	-	-	-	-	(21)	(12%)
	Corporation's share	(20)	-	-	-	-	(20)	(11%)
Total (NIS in millions)	**Consolidated**	428	3	220	4	56	711	100%
	Corporation's share	434	3	220	4	56	717	100%
% of total revaluation profit	**Consolidated**	60%	-	31%	1%	8%	100%	
	Corporation's Share	61%	-	30%	1%	8%	100%	

10. **Breakdown of real estate revaluation profit (loss) (aggregate) by territories and uses, for the year ended on December 31, 2015**

Territories	Uses	Offices	Industry	Retail	Residence	Senior Housing	Total	% of Total Revaluation Profit
Israel (NIS in millions)	**Consolidated**	54	2	123	14	14	207	116%
	Corporation's share	54	2	122	14	14	206	115%
U.S. (USD in millions)	**Consolidated**	(7)	-	-	-	-	(7)	(16%)
	Corporation's share	(7)	-	-	-	-	(7)	(15%)
Total (NIS in millions)	**Consolidated**	26	2	123	14	14	179	100%
	Corporation's share	27	2	122	14	14	179	100%
% of Total Revaluation Profits	**Consolidated**	15%	1%	68%	8%	8%	100%	
	Corporation's Share	15%	1%	68%	8%	8%	100%	

11. Specification of actual average monthly rent per sqm by territories and uses

Uses	Offices		Industry		Retail		Residence	
	For the year ended on							
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Israel (in NIS)	85	77	28	28	200	199	39	38
Maximum (*)	(**)106	(**)104	-	-	325	329	-	-
Minimum (*)	35	35	-	-	68	69	-	-
U.S. (in USD)	18	19	-	-	-	-	-	-

The maximum represents the average rent per sqm in the property for which the rent average is highest, whereas the minimum represents the average rent per sqm in the property for which the rent average is lowest. The average was calculated according to the areas suitable for use only. The table does not include figures with respect to the senior housing, in respect of which the average payment of tenants for a residential unit in 2017 is NIS 11,328 per month (in 2016 NIS 11,284 per month) (including revenues from the forfeiture of deposits and payment of monthly maintenance fees).

* The broad range of rent in all of the uses derives, *inter alia*, from the diversity in the nature of the leased property, in the type of the leased unit in the property even in the same building, and in other parameters that are not expressed in this table.

** The maximum represents the average rent per sqm of Azrieli Center towers, and does not include the rent of the hotel. If the average included the rent of the hotel, the average for 2017 would be approx. NIS 101 per sqm and the average for 2016 would be approx. NIS 99 per sqm.

12. Specification of average occupancy rates by territories and uses*

Uses	Offices			Industry			Retail			Senior Housing			Residence		
	Percentage (%)														
	As of Dec. 31, 2017	For Y2017	For Y2016	As of Dec. 31, 2017	For Y2017	For Y2016	As of Dec. 31, 2017	For Y2017	For Y2016	As of Dec. 31, 2017	For Y2017	For Y2016	As of Dec. 31, 2017	For Y2017	For Y2016
Israel	**99%	**99%	**99%	100%	100%	100%	98%	98%	97%	99%	97%	92%	100%	100%	100%
U.S.	84%	85%	83%	--	--	--	--	--	--	--	--	--	--	--	--

* The average occupancy rate was calculated based on the lease agreements' data for the beginning of the period and for the end of each period.

** Excluding the two Phase B buildings of the Azrieli Holon Center, which were opened at the end of 2015 and at the end of Q1/2016 into which tenants are moving in as well as the offices in Rishonim and Sarona which opened during the Report period. The occupancy rate of the office and other space for lease segment including the above is approx. 95% as of December 31, 2017 and approx. 94% in 2017.

13. Number of income-producing buildings, by territories and uses*

Uses	Offices		Industry		Retail		Senior Housing		Residence	
For the year ended										
	Dec.31, 2017	Dec. 31, 2016	Dec.31, 2017	Dec. 31, 2016	Dec.31, 2017	Dec. 31, 2016	Dec.31, 2017	Dec. 31, 2016	Dec.31, 2017	Dec. 31, 2016
Israel	12	10	1	1	17	16	2	2	1	1
U.S.	7	7	-	-	-	-	-	-	-	-
Total income-producing properties	19	17	1	1	17	16	2	2	1	1

* A number of properties have several different uses, and in such cases the properties were classified in the table under each of such uses.

14. Breakdown of actual average yield rates (according to year-end value), by territories and uses*

Uses	Offices		Industry		Retail		Senior Housing**		Residence	
For the year ended on (percentages)										
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Israel	5.94%	6.95%	7.40%	7.38%	7.09%	7.11%	6.28%	4.93%	2.15%	2.45%
U.S.	5.81%	5.74%	-	-	-	-	-	-	-	-

The rate of the yield is a division of the actual NOI by the value of the property as of end of year. In the event of the acquisition of properties or completion of construction thereof in the course of the year, the index does not reflect the rate of the annual yield from these properties. The rate of the actual yield does not constitute the CAP rate that the Group used for revaluation of its properties.

* The figures do not represent representative yield but rather the division of actual NOI by the value of the properties, and do not take into account other influences, such as properties populated, properties purchased during the period, revenues expected from vacant spaces, expected investments in the property etc.

** For the senior housing segment – calculated according to net value (after deduction of the tenant deposits balance) as of end of period.

7.5 Projected revenues due to signed lease contracts (NIS in millions)

Period of Revenue Recognition		Revenues from Fixed Components	Number of Ending Contracts	Area Contemplated in the Ending Agreements (sqm in thousands)
Y2018	Q/1	426	220	32
	Q/2	422	245	35
	Q/3	418	206	25
	Q/4	411	250	32
Y2019		1,473	883	142
Y2020		1,166	913	209
Y2021		849	557	115
Y2022 forth		1,933	1,068	480
Total		7,098	4,342	1,070

The revenues figures in the above table, which include revenues from rent, management fees and parking, were calculated based on the basic amounts determined in the lease agreements, linked to the CPI known on December 31, 2017, and based on the following assumptions: (1) The exercise of the tenants' options to extend the lease periods included in the lease contracts, was not taken into account, since the CODM does not review, on a regular basis, the expected revenue figures under the assumption of the exercise of options granted to the tenants to extend the lease period; (2) Lease contracts, the lease period under which has ended, and new lease contracts have not yet been signed with the tenants, were not taken into account; (3) The possibility of sale of the properties or the purchase of new income-producing property, was not taken into account; (4) Fines due to early termination, if any, were not taken into account; (5) The increments to the rent due to percentages of the sales were not taken into account for calculation of the rent, and (6) No change has occurred in the management fees advance payments per tenant in respect of 2017.

The Company's revenues include variable components due to additional revenue from sales alone. The Company does not prepare estimates for revenues from variable components which are immaterial in relation to the Company's revenues from its income-producing properties, and therefore it does not have the information.

The revenue figures specified in the above table are under the assumption that the options for extension of the lease periods included in the lease contracts will not be exercised, although many of the Company's tenants usually extend the lease agreements upon the expiration thereof, according to the extension options specified in the agreements.

The above figures are based on the Company's assessment considering signed agreements as of the Report Date and constitute forward-looking information, as this term is defined in the Securities Law. Actual results may significantly differ from the above specified estimates and the implications thereof, for various reasons, including early termination of lease contracts or a business crisis of any of the tenants.

7.6 Main tenants

In 2017, the Company did not have a tenant, the revenue from whom constituted 10% or more of its total revenues.

In 2017, the revenues from the fashion industry accounted for approx. 17% of the revenues from the Group's income-producing property operations and approx. 48% of the revenues from the Company's retail centers and malls segment. If and when material changes shall occur in costs in this segment and insofar as the effect of the changes continues over time, the Company's profitability may also be affected thereby.

However, most of the lease agreements include a fixed rent, such that the Company's exposure in this respect is limited in the short term.

7.7 Properties under construction In Israel(*) (aggregate level) by use

Uses	Parameters	For the Year Ended		
		December 31, 2017	December 31, 2016	December 31, 2015
Retail (4)	Number of properties under construction at the end of the period	3	4	2
	Total space under construction (planned) at the end of the period (sqm in thousands) (1)	39	49	31
	Total costs invested in the current period (consolidated) (NIS in millions)	37	207	86
	The amount at which the properties are presented in the statements at the end of the period (consolidated) (NIS in millions)	504	941	401
	Construction budget in the consecutive period (estimate) (consolidated) (NIS in millions)	30-40	90-130	135-175
	Total estimated balance of construction budget for completion of the construction work (consolidated) (estimate as of the end of the period) (NIS in millions) (2)	360-400	163-195	35-55
	Rate of built-up area in respect of which lease contracts have been signed (%)	3%	29%	26%
	Projected annual income from projects to be completed in the consecutive period and in which contracts have been signed for 50% of the area or more (consolidated) (estimate) (NIS in millions)	-	Approx. 45	-
Offices and Others (4)	Number of properties under construction at the end of the period	3	4	4
	Total space under construction (planned) at the end of the period (sqm in thousands) (1)	176	227	171
	Total costs invested in the current period (consolidated) (NIS in millions)	50	441	312
	The amount at which the properties are presented in the statements at the end of the period (consolidated) (NIS in millions)	507	2,043	1,400
	Construction budget in the consecutive period (estimate) (consolidated) (NIS in millions)	145-185	245-285	410-450
	Total estimated balance of construction budget for completion of the construction work (consolidated) (estimate as of the end of the period) (NIS in millions) (2)	1,580-1,720	485-575	155-225
	Rate of built-up area in respect of which lease contracts have been signed (%)	15%	47%	20%
	Projected annual income from projects to be completed in the following period and in which contracts have been signed for 50% of the area or more (consolidated) (estimate) (NIS in millions) (4)	-	Approx. 165	Approx. 1
Residence (4)	Number of properties under construction at the end of the period	2	2	-
	Total space under construction (planned) at the end of the period (sqm in thousands) (1)	49	48	-
	Total costs invested in the current period (consolidated) (NIS in millions)	29	16	-
	The amount at which the properties are presented in the statements at the end of the period (consolidated) (NIS in millions)	545	523	-
	Construction budget in the consecutive period (estimate) (consolidated) (NIS in millions)	50-100	35-75	-
	Total estimated balance of construction budget for completion of the construction work (consolidated) (estimate as of the end of the period) (NIS in millions) (2)	560-620	490-535	-
	Rate of built-up area in respect of which lease contracts have been signed (%)	-	-	-
	Projected annual income from projects to be completed in the following period and in which contracts have been signed for 50% of the area or more (consolidated) (estimate) (NIS in millions)	-	-	-

Senior Housing	Number of properties under construction at the end of the period	2	2	1
	Total space under construction (planned) at the end of the period (sqm in thousands) (1)	79	79	35
	Total costs invested in the current period (consolidated) (NIS in millions)	120	111	18
	The amount at which the properties are presented in the statements at the end of the period (consolidated) (NIS in millions)	331	207	74
	Construction budget in the consecutive period (estimate) (consolidated) (NIS in millions)	245-255	185-225	80-100
	Total estimated balance of construction budget for completion of the construction work (consolidated) (estimate as of the end of the period) (NIS in millions) (2)	190-200	275-305	166-176
	Rate of built-up area in respect of which contracts have been signed (%)	20%	8%	0%
	Projected annual income from projects to be completed in the following period and in which contracts have been signed for 50% of the area or more (consolidated) (estimate) (NIS in millions) (3)	-	-	--

* The Company has no properties under construction outside of Israel.
(1) Marketable space.
(2) Balance of construction budget after the expiration of the consecutive period.
(3) There are no projects that expected to be completed in the consecutive period in which contracts for 50% or more of the area have been signed.
(4) Projects which combine several uses were split among the various uses.

PROPERTIES UNDER DEVELOPMENT – FURTHER DETAILS:

Set forth below is a specification regarding the main new properties under development as of the Report Date in the operating segments of investment property and in the senior housing segment (for further details see Section 4.1 of the Board of Directors' Report in Chapter B of this Report):

Azrieli Sarona, Tel Aviv

The Company fully owns the long-term lease rights in a lot of an area of approx. 9.4 thousand sqm in the Sarona complex in Southern Hakirya in Tel Aviv, which is intended for the construction of an office and retail project. In May 2017, an occupancy approval was received for the basements, and an approval for the occupancy of the office tower was received in June 2017. The Construction of the project's office tower was completed in Q2/2017. The construction of a "boutique" mall with an innovative commercial concept on the site is expected to be completed in Q3/2018.

For further details, see Section 4.1.1 of the Board of Directors' Report.

Azrieli Town

On October 22, 2012, the Company won a tender for the purchase of the rights of Clalit Health Fund in a lot in the area of approx. 10thousand sqm on 146 Menachem Begin Road in the Northern Tel Aviv Central Business District. The project is adjacent to the Azrieli Towers and the retail and office parts of the project are scheduled to be completed in 2020. In January 2017, the Local Committee had approved the Company's application for a shoring, excavation and foundation permit for the project, and the Company commenced the work under the permit. In April 2017, the Local Committee approved the application for aboveground permit and for basements for the project, and the Company is acting to comply with the stipulated conditions, in order to get the permit. As of the Report Release Date, the Company has signed agreements for the lease of areas in the scope of 26 thousand sqm, which represent more than 50% of the leasable office space in the project. As of the Report Release Date, the Company is promoting a zoning plan for the addition of residential and office rights.

For further details see the Company's immediate report of September 1, 2016 (Ref.: 2016-01-115657), which is included herein by way of reference and Section 4.1.1 of the Board of Directors' Report.

Palace Modi'in Senior Housing

In May 2014, the Company closed a transaction to purchase 100% of the shares of a private company which is the holder of 100% of the rights to a capitalized long-term lease of approx. 10.5 thousand sqm located in the city of Modi'in, which pursuant to the valid zoning plan are designated for a senior housing facility. A senior housing facility is being built on the land for the elderly population that includes approx. 239 senior housing units and approx. 136 LTC beds, of which 34 are recovery units, in a built-up area of approx. 35 thousand sqm (main and service). As of the Report Release Date, the Company continues to perform the work, with structure work completed and finishing work is performed by the Company. The Company is expected to receive a Form 4 in Q3/2018. The Company continues marketing activity of the residential units. For further details see the Company's immediate reports dated February 17, 2014 (Ref.: 2014-01-041110) and May 1, 2014 (Ref.: 2014-01-055626) included herein by way of reference as well as Section 4.1.1 of the Board of Director's Report.

Palace Lehavim Senior Housing

In December 2014, the Company won a tender issued by the Israel Land Authority, for the long-term leasehold of land in the area of approx. 28 thousand sqm in the southern town of Lehavim. The Company intends to construct a senior home for the elderly on the land, which home will comprise 350 residential units, an LTC unit with full medical observation, and retail space of up to approx. 1,500 sqm. In October 2016, an appeal was filed by Lehavim residents against the decision of the licensing authority to approve the aboveground permit for the project. As of the Report Release Date, the decision of the appeals committee has been received, which decision rejected the appellants' claims, other than with respect to the number of LTC units in the project. The appeals committee has approved the construction of one LTC unit only. The appeals' committee decision also determined that, subject to a recommendation by the Ministry of Health, the construction of another LTC unit may be permitted. The Company has received the recommendation of the Ministry of Health and submitted to the Local Committee an application for a permit including, *inter alia*, an additional LTC unit in accordance with the recommendation of the Ministry of Health. In July 2017, the project received a permit for the construction of 350 residential units, an LTC unit, related areas, retail and an underground basement. The project's structure work is progressing. For further details see the Company's immediate report of December 2, 2014 (Ref.: 2014-01-212310), which is included herein by way of reference, and Section 4.1.1 of the Board of Directors' Report.

Holon Manor Land

In February 2015, the Company won a tender held by the Israel Land Authority for the purchase of 4 employment-designated lots in the employment zone of the city of Holon, in a total area of 12.4 thousand sqm, in consideration for approx. NIS 64 million. Two of the aforesaid lots (approx. 6.2 thousand sqm) will be used by the Company to construct a project designated for retail and offices, with marketable spaces of approx. 28 thousand sqm. In July 2017, the company's application for a basement building permit was approved and the same was received in February 2018. In September 2017 the Company commenced shoring work, following the receipt of a permit. In July 2017 the Company submitted an application with the Local Committee for above-ground permit. As of the Report Release Date, the Committee approved a conditional permit and the Company is acting to comply with the stipulated conditions.

Expansion of the Azrieli Tel Aviv Center

In May 2013, the Company engaged in an agreement for the purchase of full title to the land of approx. 8,400 sqm in the intersection of the streets Menachem Begin Road and Noah Moses in Tel Aviv, adjacently to the Azrieli Tel Aviv Center, which held the building known as the "Yediot Aharonot House" in the area of approx. 18,000 sqm. On March 31, 2016, the transaction has been closed and possession of the lot has been handed over to the Company. In May 2017, the Company received a modifications permit in respect of the excavation and shoring permit that was issued thereto. In February 2018 the Company completed the demolition of the said building. As of the Report Release Date, the Company continues the excavation and shoring work. The total existing rights for the lot are 41,275 sqm of aboveground main areas for uses of retail, residence and offices, and 44,400 sqm of aboveground service areas. The rights include up to 19 thousand sqm of an aboveground parking structure which is convertible into the zoning plan uses, *inter alia*, retail. The Company is acting to change the zoning plan, and in April 2016, the deposit was approved (subject to conditions set by the district committee) of the zoning plan with an urban-mixed designation, which allows uses of retail, offices, hotels, residence and senior housing with aboveground building rights of 147,260 sqm (gross), and, in addition, approx. 3,000 sqm of underground main retail space. In the framework of the committee's decision, the Company has undertaken to allocate from the aforesaid rights in the project up to two public floors to the Municipality of Tel Aviv – Jaffa, and has also undertaken to perform various tasks in the vicinity of the project, including in the Azrieli Center. Following discussion at the District Committee regarding objections to the expansion plan, in October 2017 the Company received the approval of the District Committee to publish the said plan for validation. The Company intends to construct retail space that will serve to expand the existing mall and a multi-story tower, subject to receipt of the required statutory approvals.

For further details see the Company's immediate report of April 3, 2016 (Ref.: 2016-01-023433), which is included herein by way of reference, and Section 4.1.1 of the Board of Directors' Report.

Betterment of existing properties:

During the Report Period, the Company continued to promote the betterment of existing properties, *inter alia*, as follows:

Azrieli Akko Mall – the Company is acting to obtain a permit for the addition of parking and office floors.

Azrieli Jerusalem Mall – the Company is acting to promote a zoning plan for the expansion of the mall, senior housing and office spaces. After the Report Period, the Company completed the renovation of the mall.

Azrieli Givatayim Mall – the Company is renovating the fast-food court in the mall.

Azrieli Tel Aviv – the Company continues the renovation of the fast-food court in the mall, and the upgrade of the office elevators, and is further acting to renovate the public areas of the project.

Herzliya Business Park – the Company is acting to promote a zoning plan for the addition of floors in the project, and for the addition of retail spaces.

Palace Ra'anana Senior Home – the Company is acting to promote a zoning plan for additional building rights for a senior home and an LTC unit, above the building of the Azrieli Ra'anana Retail Center. In addition, the renovation of the buildings of Palace Ra'anana is in advanced stages.

Azrieli Rishonim – the Company is acting to promote a zoning plan for additional office spaces at the office tower of the project.

The Company reviews, from time to time, options to promote zoning plans for additional building rights in its projects.

The Company's estimates in this Section 7.7 are forward-looking information, as defined in the Securities Law, which is based on subjective estimates of the Company as of the Report Date, and the materialization thereof, in whole or in part, is uncertain, or they may materialize in a significantly different manner, inter alia, due to factors which are *beyond its control, including changes in market conditions, the period of time that shall be required for approval of the building plans for performance and the construction input prices.*

7.8 Land (aggregate)

The table below presents a summary of figures on the Company's land reserves:

Territory		For the year ended on:	
		December 31, 2017	**December 31, 2016**
Israel	The amount at which the lands are presented in the financial statements at the end of the period (NIS in millions)	**550**	483
	Total area of the lands at the end of the period (sqm in thousands)	**109.7**	96.9
U.S.	The amount at which the lands are presented in the financial statements at the end of the period (USD in millions)	**6**	6
	Total area of the lands at the end of the period (sqm in thousands)	**13.7**	13.7

As of the Report Date, the construction in some of the Company's land reserves is impossible due to planning and other restrictions.

LAND RESERVES – FURTHER DETAILS:

Following are details regarding the lands intended for construction as of the Report Date in the operating segments of investment properties and in the senior housing segment (for further details see Section 4.1.1 of the Board of Directors' Report in Chapter B of this Report):

Property in the Holon Industrial Zone – Holon 3 (formerly Lodzia)

A property consisting of land in a registered area of approx. 53 thousand sqm, located in the Holon Industrial Zone, acquisition of which was closed in April 2016 and two additional lots originally purchased in the framework of an ILA tender and constituting part of the Holon Manor land. The seller was entitled to all of the revenues after deduction of the management expenses of the property (NOI) in the 12 months as of the signing date of the agreement, in a sum estimated at approx. NIS 10 million. As of the Report Date, the Lodzia land holds approx. 14.3 thousand sqm of built-up areas of retail and workshop structures, which are leased-out to various tenants. In March 2017, the Local Committee approved the application for a demolition, shoring and excavation permit, and the same was received in September 2017. In January 2018 the Company completed the vacation of the tenants from the buildings, and the demolition thereof began in March 2018. In March 2018, the local licensing authority of Holon approved the building permit application for the underground parking at the site subject to conditions, and the Company is acting to fulfill these conditions.

For further details, see the Company's immediate reports of March 2, 2016, March 23, 2016 and April 14, 2016 (Ref.: 2016-01-039331, 2016-01-012798 and 2016-01-048550, respectively) which are included herein by way of reference, and Note 13E to the financial statements.

Land in Petach Tikva

On September 17, 2017, the Group has engaged in an agreement for the purchase of land in Petach Tikva of an area of around 19,000 sqm for NIS 91 million together with lawful VAT. On November 9, 2017, the transaction was closed and the possession of the land was handed-over to the Group. The land is situated in the eastern part of the Kiryat Aryeh Industrial Zone in Petach Tikva, near an existing office project owned by the Group. The land includes building rights for around 53,000 sqm as well as parking basements. As of the Report Release Date, the Company examines an option to promote a zoning plan for additional rights, based on a zoning plan which is promoted by the municipality in this area, and the Company intends to build an office project on the land.

For further details, see the Company's immediate reports of September 18, 2017 and November 9, 2017 (Ref.: 2017-01-093630 and 2017-01-098386, respectively) which are included herein by way of reference.

Senior Housing Land in Rishon LeZion

On March 13, 2016, a consolidated company of the Company has won a tender issued by the Israel Land Authority for the purchase of long-term lease rights in a lot of 3.4 thousand sqm designated for senior housing in HaRakafot Neighborhood in East Rishon LeZion, designated for the building of 250 senior housing units and approx. 3,000 sqm of retail, for approx. NIS 26 million. According to the terms of the tender, the consolidated company paid development costs in the amount of approx. NIS 22 million. In November 2017, a plan was submitted to the Local Committee for the purpose of discussion of the application to increase spaces in the project, such that the total scope of rights in the project (including basement areas) will total approx. 61 thousand sqm. After receipt of the approval of the Local Committee, the plan will be forwarded for discussion at the District Committee for deposit. In January 2018, the zoning plan for building basement spaces was approved for deposit by the Local Committee.

For further details, see the Company's immediate report of March 13, 2016 (Ref.: 2016-01-005097) which is included herein by way of reference.

Sale of Pi Glilot Land

On May 10, 2016, the Company and Granite, including through Sonol, sold third parties all of their holdings of land in Pi Glilot and shares of Pi Glilot (which holds the long-term leasehold on land in the Pi Glilot complex), for a total consideration of approx. NIS 130 million. As of the Report Release Date, the transactions have been consummated and the consideration thereof has been paid in accordance with the provisions of the sale agreements.

7.9 Purchase and Sale of Properties (aggregate)

Territory		Parameters (figures of area in thousands and amounts in millions)	Period (Year ended on)		
			December 31, 2017	December 31, 2016	December 31, 2015
Israel (NIS)	Properties Sold	Number of properties sold in the period	--	--	--
		Consideration from realization of properties sold in the period (consolidated)	--	--	--
		Area of properties sold in the period (consolidated)	--	--	--
		NOI of properties sold (consolidated)	--	--	--
		Profit / loss due to realization of the properties (consolidated)	--	--	--
	Properties Purchased	Number of properties purchased in the period	1 (3)	3 (2)	4 (1)
		Cost of properties purchased in the period (consolidated) (4)	91	847	654
		NOI of properties purchased (consolidated)	(8)	19 (6)	20 (5)
		Area of properties purchased in the period (consolidated)	19	85	45
U.S. (US Dollar)	Properties Sold	Number of properties sold in the period	--	--	--
		Consideration from sale of properties in the period	--	--	--
		Area of properties sold in the period (consolidated)	--	--	--
		NOI of properties sold	--	--	--
		Profit / loss in respect of realization of the properties (consolidated)	--	--	-
	Properties Purchased	Number of properties purchased in the period	(9)	2 (2)	--
		Cost of properties purchased in the period (consolidated)	(9)	174	--
		NOI of properties purchased (consolidated)	--	13 (7)	--
		Area of properties purchased in the period (consolidated)	--	24	--

(1) In 2015 the Group purchased the following properties: (a) land in Akko; (b) land in Holon for details see Section 7.7 of Chapter A of the Report; (c) Palace Tel Aviv Senior Housing facility for details see Section 11.1 of Chapter A of the Report; (d) Pi Glilot Land

(2) In 2016, the Group acquired the following properties: (a) The land of Lodzia in Holon – for details see Section 7.8 of Chapter A of the Report; (b) Senior housing land in Rishon LeZion – for details see Section 7.8 of Chapter A of the Report; (c) The Palace Ra'anana Senior Home (in the framework of the acquisition of the Ahuzat Bayit company) – for details see Section 11.1 of Chapter A of the Report; (d) An office building in Austin, Texas, U.S. – for details see Section 10.1 of Chapter A of the Report; (e) Land in Houston, Texas, U.S.

(3) In 2017 the Group purchased the following properties: Land in Petach Tikva. For details see Section 7.8 of Chapter A of the Report.

(4) The costs include the entire purchase amount even if not yet paid and exclude purchase taxes and transaction closing costs.

(5) The NOI includes only Palace Tel Aviv Senior Home, the other properties purchased are land.

(6) The NOI only includes Palace Ra'anana Senior Housing and the Ra'anana retail center. The other acquired properties were land.

(7) The NOI only includes the office building in Austin. The additional property is land.

(8) The property purchased is land.

(9) At the end of 2017, the Group increased its holdings in two of its properties located in Houston Texas: 1 Riverway and 3 Riverway. For further detials see Section 10.9 of Chapter A below.

7.10 Fair value adjustments of values in the Statement of Financial Position required at the corporation level

		As of (Consolidated) (NIS in millions)	
		December 31, 2017	**December 31, 2016**
Presentation in the Description of the Corporation's Business Report	Total Income-Producing Property (as presented in the total column in the income-producing properties fair value by territory and use tables as of December 31, 2017 and December 31, 2016 Number 3+4)	**22,889**	19,586
	Total Income-Producing Property under Construction (as presented in the "Total" column in Table 7.7) in Israel	**1,887**	3,714
	Total Land for Investment in Israel (as presented in the "Total" column in Table 7.8)	**550**	483
	Total Land for Investment in the U.S. (as presented in the "Total column in Table 7.8)	**21**	23
	Consolidated Total	**25,347**	23,806
Adjustments	Adjustments to value deriving from receivables items	**(110)**	(89)
	Land presented within a property held for sale	**(40)**	-
	Other adjustments[10]	**9**	6
	Total adjustments	**(141)**	(83)
	Total, After Adjustments	**25,206**	23,723
Presentation in the Statement of Financial Position	Investment Property Item in the Statement of Financial Position (Consolidated)	**23,319**	20,003
	Investment Property under Construction Item in the Statement of Financial Position (Consolidated)	**1,887**	3,720
	Total	**25,206**	23,723

For an explanation with respect to the changes in the investment property items between 2016 and 2017, see Sections 2.10.2, 2.11.2 and 2.13.2 of Chapter B of this Report.

7.11 Adjustments to FFO profits

The Company is not required to perform FFO disclosure since the total revenues of the Company from investment properties are lower than 90% of the Company's total consolidated revenues during the report year and year preceding it. In view thereof, the Company calculates FFO profits for the income-producing property business only with the necessary adjustments. For details and a calculation of the FFO profits for the Company's income-producing properties business, see Section 2.7 of the Board of Directors' Report.

[10] In 2017 and 2016, the adjustments are for immaterial costs for projects in early planning stages.

PART FOUR: DESCRIPTION OF THE GROUP'S BUSINESS - DESCRIPTION OF THE GROUP'S BUSINESS PER OPERATING SEGMENT AND MATERIAL PROPERTIES

8. The retail centers and malls in Israel segment

8.1 General information on the operating segment

8.1.1 General

Most of the Group's malls and retail centers are spread out throughout the central cities of Israel and are located close to the main traffic thoroughfares which enable easy access and outdoor or indoor parking. The retail centers and malls are optimally planned according to the needs of the population in the area in which the mall is located, and they offer a wide and varied mix of shops in the fields of fashion, footwear, jewelry, gifts, house-wares, communications, electronics and computers, optical devices, entertainment and food centers for the wellbeing of the visitors, easy access and a large number of parking spaces. The Company puts an emphasis on tenants' mix in each one of the malls and retail centers owned thereby, which it believes shall constitute a center of public attraction to each one of them, in accordance with the characteristics of the local public, and performs suitable marketing work, upgrades and renovates the systems and appearance of the malls and performs technological adjustments. During the Report Period, the Company expanded the marketing methods of the malls through use of the digital space where most of the end consumers of the retail centers and malls spend time for other purposes, through personal marketing and attractive promotion campaigns, in a manner capable of providing the end-consumer, *inter alia*, a unique shopping experience, which will commence in the digital domain and end in shopping at the Group's malls. Thus, for example, during 2016, the Company launched the Azrieli Malls app, which compiles unique shopping offers and sales at the Group's malls, the ability to pay for parking at the mall and useful information for visitors. The Group also launched the Azrieli Gift Card, which is issued either digitally or as a physical card and is redeemable in a broad range of chain stores at the Group's malls.

The Company routinely focuses on the betterment of the Group's existing properties and acts for optimization in the use of its commercial spaces and creates a suitable and modern mix of tenants while differentiating between the projects in order to maintain the relative advantage versus the Group's existing and future competitors.

Most of the Group's lease contracts in Israel are for periods of three to five years and in most cases include an option for additional lease periods (usually three to five additional years), other than agreements in respect of relatively large leasable space, which are mostly signed for longer lease periods ranging between 8 to 25 years (including extensions and exercised options). Most lease agreements include rent that is composed of fixed rent or of rent derived as a percentage of the tenant's turnover in the leased premises, whichever is higher; however, in most cases, the rent actually paid to the Company is the fixed rent, and the Company's revenues from turnover-dependent rent are in an immaterial amount. The occupancy rate of the Group's properties in this operating segment, from the date of lease-up of the retail centers and malls in Israel, and as of the Report Date, is approx. 98%.

The Group's retail centers and malls in Israel are managed, with relation to each mall or retail center, by designated management companies established by the Group, which enter with the tenants into management agreements for the purpose of management and maintenance of the public areas, in consideration for management fees.

Most of the management agreements determine that the management fees will be paid based on the cost of the management services, plus overhead expenses. The management services include, *inter alia*, marketing services of the mall and/or the retail center, both to visitors and to potential tenants, security services, cleaning of public areas, gardening, maintenance of elevators and public systems. The management companies collect from the tenants the management fees or the maintenance fees, which are used, *inter alia*, for financing the maintenance of public areas. The management company leases from the Group companies, as the case may be, in each of the malls and retail centers, an area in a small scope located in a non-central area of the mall or retail center, to serve as the offices and storage rooms of the management company, in consideration for fixed rent. In most of the management agreements between the management companies and the tenants, the management companies undertake to maintain and operate the public areas in the malls and retail centers, including cleaning, security, renewal, advertising, insurance, under conditions and to the extent that will be determined by the management companies from time to time.

All of the Group's retail centers and malls include also car parks (aboveground and/or underground) which serve the visitors and the potential tenants, with some of the car parks being open to the general public and some requiring payment.

Above or in proximity to the retail areas in some of the malls and retail centers there are areas designated for lease as offices. See Section 9 below for additional details on the office and other space for lease segment.

8.1.2 The structure of the operating segment and changes occurring therein

The retail centers and malls in Israel segment is affected by the business activities in the economy, the political and security situation in Israel. Various entities operate in the retail centers and malls segment which locate, plan, construct, lease and maintain properties designated for lease for various uses.

Based, *inter alia*, on publicly-available information, at the outset, most of the malls relied on large anchor tenants (such as supermarkets, department stores and movie theatres), which were considered to be crowd attracting. However, in recent years, the concept has changed for the malls in Israel and an opposite trend has begun, of reduction of the space of the anchors, due to the low rent per sqm paid by such tenants and the large space occupied thereby. However, there are presently "new" anchors in the form of large and leading fashion stores.

Concurrently, the Company is acting to integrate innovative entertainment centers such as the "Zappa" Club, restaurants and cafes in a way that creates an innovative shopping experience for recreation, leisure and shopping, and is also acting to improve its properties by renovating and refreshing the fast- food courts and the public areas.

Note that in recent years, there has been an increase in the retail space intended for the fashion industry in the malls in Israel segment and in the Company's properties in this operating segment. For further details see Section 7.6 of this chapter above.

In recent years, there has been a noticeable trend of brand fashion retail chains growing strong at the expense of single local stores, including international fashion retail chains, the construction of low-priced power centers outside of cities, which compete with the malls. In addition, an increasingly strengthening trend can be observed in the context of which, several retail groups hold a growing number of leading brands and consequently expand the spaces leased thereby in each mall and necessarily improve their bargaining power vis-à-vis the malls. Furthermore, we are witnessing the development of new formats of large branded family-oriented stores. At the same time, it is noted that from time to time, various chains, including fashion chains, encounter financial difficulties, however, the wide range of businesses and the mix in the Group's malls and retail centers contribute to the reduction of the scope of exposure to events of this kind.

In addition, in recent years, changes have occurred in the Israeli consumer's shopping habits, *inter alia*, in view of the "open skies" reform, which led to a reduction in the prices of flights to various destinations overseas, thereby enabling the execution of more purchases outside Israel as well as online retailing, which brings to the consumer's doorstep a larger variety of products, a quicker and more convenient service and mainly personal tailoring of products according to the consumer's preferences and habits. The Group is acting to develop ways to combine the new digital retailing and the popular mall experience in a manner which creates a novel consumption experience, through, *inter alia*, Azrieli.com and a designated application.

8.1.3 Restrictions, legislation, standards and special constraints applying to the operating segment

This operating segment is subject mainly to the land laws and the land use and zoning laws. In addition, the business in this segment is affected by legislative updates in the field of business licensing, land taxation and municipal taxation. See Section 23 of Chapter A of the Report for details on the matter of the restrictions, legislation, standards and additional constraints applying to the Group.

8.1.4 Changes in the volume of business and profitability of the segment

During recent years, the volume of operations of the Group in the retail centers and malls segment grew, mainly due to the development and construction of new income-producing properties like Azrieli Rishonim Mall that was opened to the public in March 2017 (for a specification of the properties under construction see Section 7.7 above.) or expansion and renovation of existing properties (construction of the second floor at Azrieli Ayalon, renovation of Azrieli Hanegev mall and Azrieli Jerusalem Mall), as well as the acquisition of existing income-producing properties (the purchase of the Azrieli Givatayim Mall, the purchase of the Azrieli Haifa Mall and the purchase of the full control of the Azrieli Hod Hasharon Mall).

The indicators for activity in 2017 show that the Israeli market is continuing to grow. The gross domestic product, at fixed prices and the gross domestic product *per capita*, increased in 2017 by approx. 3.4% and approx. 1.4% respectively. There was also an increase recorded in the private consumption and private consumption *per capita* by approx. 3.3% and approx. 1.4% respectively. The rate of unemployed is low and in January 2018 is approx. 3.7% and the average compensation in the market increased. Stability was maintained in the income-producing property segment in Israel, both on the demand level and on the rent prices and occupancy rate level. The (known) CPI recorded an 0.1% increase in Q4/2017 and an increase of 0.3% in the entire year of 2017. The Bank of Israel interest rate in 2017 is at the historical low rate of 0.1%. The Prime interest rate is 1.6%.

However, sometimes, a challenging environment is occasionally felt in negotiations with tenants toward the signing of new lease agreements or the renewal of existing contracts.

The Report Period was characterized by a moderate increase in the average turnover[11] in the Group's malls. In the Company's estimation, coming years may see changes in the competitive balance between the players in the income-producing real estate sector, among other things, in view of the forecast for a decrease in the number of significant new projects which offer retail space, which might strengthen the existing leading malls.

See Section 2.10.12 of Chapter B of the Report for the Board of Directors' explanations on changes to the fair value of the Group's investment property as of the Report date.

The Company's management estimates that the wide dispersion of the portfolio of properties owned thereby, the maintenance and active management of the properties, their location mainly in areas of demand, the high business positioning of the properties and the Company's investment in the betterment of its properties for maintaining such advantage, the high occupancy rates, the broad variety of businesses in the malls and retail centers of the Group and the suitable mix of businesses, and the Company's stable capital structure, contribute to a reduction of the exposure of the Company's businesses to a crisis and/or to significant instability due to the materialization of any of the Company's risk factors.

The Company's *aforesaid estimations regarding the changes in the income-producing real estate sector in Israel and the effects of such changes on the Company's results are merely subjective assessments and constitute forward-looking information, within the definition of such term in the Securities Law. Actual results and effects may materially differ from the aforesaid estimations and what they imply for various reasons, including an additional intensification of competition, a decrease in demands and a deterioration in the economic situation in Israel.*

[11] Revenue figures are based on the figures provided by the tenants. In addition, not all of the tenants report to the Group on the revenue figures.

8.1.5 Critical success factors in the operating segment and changes occurring therein

The Company estimates that the main success factors in the segment are, *inter alia*: locating retail centers and malls in areas where there is a relatively high level of demand; the right geographic location of retail centers and malls as a response to the needs of the residents in each area; expertise in development, unique architectural planning, management and construction of retail centers and malls through the professional management team; the creation of a mix of diverse, quality tenants with financial strength, know-how and experience in marketing, property management and operation; positive goodwill as well as business positioning and financial strength which allows development at relatively low financing costs and provision of immediate response to attractive business opportunities.

8.1.6 Changes to the set-up of suppliers and raw materials for the operating segment

In the framework of the maintenance and management of income-producing properties segment, the Group has no material suppliers with which it engages and it does not purchase raw materials in material scopes.

8.1.7 Main barriers to entry and exit of the operating segment and changes occurring therein

Entry Barriers - To the Company's belief**,** entities operating in the retail centers and malls segment require, primarily, equity and financial strength. The main barrier to entry for the development and construction of a retail center, after finding suitable land in an area of demand, is the need for financial strength that enables to obtain financing for the purpose of the construction, *inter alia*, due to a growing trend whereby developers are increasing investment budgets for lessees of income-producing properties upon the initial lease-up of areas under development. In addition, required mostly are professional knowledge, experience in development segment, positive reputation in the industry, availability of financing sources at good terms and land reserves available and planned in areas with high levels of demand for leasable space for commercial purposes. In addition, entities operating in the retail centers and malls segment are required to meet high regulatory requirements, *inter alia*, zoning, business licensing, safety, accessibility, antitrust and environmental regulation. It is noted, that despite the high barriers to entry, in recent years it was possible to indicate a significant increase in the construction and development of many retail centers, all over Israel. However, the future may bring a decrease in the development and construction of significant projects of malls and large retail centers and a shift towards the development of small, neighborhood centers.

To the Company's belief, the malls' barriers to entry are significantly higher than those of power centers outside the cities, due to the high construction costs that characterize the malls (including the cost of the land, which is more expensive since the locations of the malls are closer to the city centers).

Exit Barriers - exiting this operating segment is mainly contingent on the ability to dispose of properties, which is a direct result of the location of the properties, their physical condition and the condition of the market, as well as various costs, including in connection with land taxation.

8.1.8 Structure of competition in the operating segment and changes occurring therein

For a description of the structure of the competition in this operating segment, see Section 8.4 below.

8.1.9 Manner of execution of purchases or construction of properties

For details on the manner of execution of purchases or construction of properties see Section 8.1.9 of the Company's periodic report for 2013, as amended on March 23, 2014 (Ref.: 2014-01-021204) (the "**2013 Periodic Report**").

8.2 Material properties

Set forth in the table below is a concentration of figures pertaining to material properties of the Group in the retail centers and malls segment as of December 31, 2017 which were evaluated by the valuator Mr. Ronen Katz, a partner at Greenberg Olpiner & co (*) through the income capitalization method:

Name and features of property			Year	Information item											According to Regulation 8b(i) (as applicable)
				Fair value/book value at end of period (NIS in millions)	Revenues from rent during the period (NIS in millions)	Actual NOI during the period (NIS in millions)	Rate of Yield (%)	Adjusted Rate of Yield (%)	Rate of Yield on the Cost (%)	Property Value to Debt Ratio (LTV)	Revaluation profits (losses) (consolidated) (NIS in millions)	Occupancy rate as of the end of the period (%)	Average monthly rent per sqm from main use – retail (in NIS)	Ratio of average revenue per sqm to average rent per sqm**	Other assumptions underlying the valuation
Azrieli Tel Aviv Mall (1)	Territory	Israel	2017	2,162	118	148	6.85%	7.13%	29%	0%	(36)	100%	325	15% [12]	Main rent cap rate – 7.00% [13]. Weighted cap rate – 7.07%.
	Functional currency	NIS													
	Main use	Retail	2016	2,181	118	147	6.76%	7.10%	29%	0%	-	100%	329	14%	Main rent cap rate – 7.00% [14]. Weighted cap rate – 7.09%.
	Construction cost (NIS in millions)	512													
	Corporation's share (%)	In 2016-2017 – 100%; in 2015 - 99.1%	2015	2,150	119	145	6.77%	7.22%	28%	0%	58	100%	326	14%	Main rent cap rate- 7.00% [15] Weighted cap rate- 7.13%.
	Area [sqm]	36,400													

[12] Ratio of average revenue per sqm to average rent and management fees per sqm 18%.
[13] Approx. 29% of the rent (for large areas) was capitalized according to a cap rate of 6.75%.
[14] Approx. 25% of the rent (for large areas) was capitalized according to a cap rate of 6.75%.
[15] Approx. 25% of the rent (for large areas) was capitalized according to a cap rate of 6.75%.

Name and features of property			Year	Information item										According to Regulation 8b(i) (as applicable)
				Fair value/book value at end of period (NIS in thousands)	Revenues from rent during the period (NIS in thousands)	Actual NOI during the period (NIS in thousands)	Rate of Yield (%)	Adjusted Rate of Yield (%)	Rate of Yield on the Cost (%)	Property Value to Debt Ratio (LTV)	Revaluation profits (losses) (consolidated) (NIS in thousands)	Occupancy rate as of the end of the period (%)	Average monthly rent per sqm from main use – retail (in NIS)	Ratio of average revenue per sqm to average rent per sqm**	Other assumptions underlying the valuation
Azrieli Ayalon Mall (2)	Territory	Israel	2017	1,628	104	115	7.08%	7.25%	25%	0%	3	100%	268	13%[16]	Main rent cap rate – 7.00%[17]. Wighted cap rate – 7.04%.
	Functional currency	NIS.													
	Main Use	Retail	2016	1,610	103	113	7.05%	7.23%	25%	0%	24	100%	261	13%	Main rent cap rate – 7.00%[18]. Weighted cap rate – 7.05%.
	Construction cost (NIS in millions)	461													
	Corporation's share (%)	100%	2015	1,580	98	107	6.76%	7.25%	23%	0%	(13)	100%	258	13%	Rent cap rate-7.00%[19] Weighted cap rate-7.07%
	Area [sqm]	33,269													

[16] Ratio of average revenue per sqm to average rent and management fees per sqm - 15%.
[17] Approx. 41% of the rent (for large areas) was capitalized according to a cap rate of 6.75%.
[18] Approx. 39% of the rent (for large areas) was capitalized according to a cap rate of 6.75%.
[19] Approx. 25% of the rent (for large areas) was capitalized according to a cap rate of 6.75%.

Name and features of property			Year	Information item: Fair value/book value at end of period (NIS in millions)	Revenues from rent during the period (NIS in millions)	Actual NOI during the period (NIS in millions)	Rate of Yield (%)	Adjusted Rate of Yield (%)	Rate of Yield on the Cost (%)	Property Value to Debt Ratio (LTV)	Revaluation profits (losses) (consolidated) (NIS in millions)	Occupancy rate as of the end of the period (%)	Average monthly rent per sqm from main use – retail (in NIS)	Ratio of average revenue per sqm to average rent per sqm**	According to Regulation 8b(i) (as applicable): Other assumptions underlying the valuation
Azrieli Jerusalem Mall (excluding the office component)	Territory	Israel	2017	2,058	129	144	7.01%	7.02%	32%	0%	29	100%	283	13% [20]	Rent cap rate-6.75%. Weighted cap rate-6.87%.
	Functional Currency	NIS													
	Main Use	Retail	2016	1,974	125	138	7.01%	7.15%	31%	0%	76	100%	278	12%	Rent cap rate-6.80%. Weighted cap rate-7.09%.
	Construction Cost (NIS in millions)	447													
	Corporation's share (%)	100%	2015	1,880	125	138	7.33%	7.31%	31%	0%	(9)	99%	282	12%	Main rent cap rate-7.00% [21] Weighted cap rate-7.14%.
	Area [sqm]	39,985													
The other Properties (other than material and highly material)***			2017	11,984	706	752	--	--	--	--	121	--	--	--	--
The other Properties (other than material and highly material)***			2016	10,943	731	692	--	--	--	--	556	--	--	--	--
The other Properties (other than material and highly material)***			2015	9,880	696	638	--	--	--	--	118	--	--	--	--

* Mr. Ronen Katz is a certified real estate appraiser, with B.A. in Agricultural Economy and Administration from the Agriculture Faculty of the Hebrew University in Jerusalem, and has gained experience as a real estate appraiser since 1997.

** The figure is to the Company's best knowledge. It does not include lease agreements which do not include rent from sales and is given based on information received from the tenants or from other third parties (as the case may be), and therefore the Company cannot verify that this information is indeed true.

***In all of the real estate properties' sectors.

(1) The figures include 50% of the profits of the Azrieli Center parking lot (another 50% were included in a very material property – Azrieli Center offices, a valuation with respect to which is attached to this Report).

(2) The Company is registered in the Land Registration Bureau as a long-term lessee of Azrieli Ayalon Mall for a 49-year period ending on August 1, 2031, with an option for an additional 49-year period. The Municipality of Ramat Gan owns the adjacent car park, which includes approx. 2,350 parking spaces. The Municipality of Ramat Gan has undertaken (and an easement therefor has been registered) to enable a right of passage for vehicles and pedestrians, as well as an open parking right for the public, including the Mall's visitors, in the parking spaces that were arranged (excluding 250 parking spaces, use of which will discontinue insofar as the Municipality realizes building rights thereon) and so long as the Company continues leasing and operating the Azrieli Ayalon Mall. Due to shortage of parking space and use by the neighboring office buildings of the parking areas around the mall, during 2015 an agreement was executed with the Municipality of Ramat Gan for the regulation of parking by marking it in blue and white while reserving the Company's rights in the car park and granting free parking to the mall's visitors at certain times.

[20] Ratio of average revenue per sqm to average rent and management fees per sqm 15.5%.

8.3 The table below contains a summary of data about a material income-producing building under construction of the Group, as of December 31, 2017. It shall be emphasized that the uses of this property will be divided between the operating segment of the retail centers and malls in Israel and the operating segment of the office and other space for lease in Israel, according to the different uses in the designation of the building rights in the property:

Name of the Property	Location of the Property	Date of Land Purchase	Actual Share of the Corporation (%)	Method of Presentation in Consolidated Report	Estimated Construction Completion Date	Designated Areas of the Property (by usage) (sqm)	Total Projected Investment, including Land, Construction and Development (NIS in millions)
Expansion of Azrieli Center Tel Aviv	Tel Aviv	May 2013	100%	Fair value	Not yet determined	150,000 sqm for offices, retail and residential	2,300-2,500

[21] Approx. 30% of the rent (for large areas) was capitalized according to a cap rate of 6.75%.

<table>
<tr><th rowspan="3">Name and Features of the Property</th><th rowspan="3">Reporting Period</th><th colspan="3">Financial Data</th><th rowspan="3">Rate of Completion at Year-End [engineering] (%)</th><th rowspan="3">Rate of Property's Areas with respect to which Binding Lease Contracts have been Signed as of Year-End (%)</th><th colspan="3">Data on Valuation and its Underlying Assumptions</th></tr>
<tr><th rowspan="2">Aggregate Cost at Year-End, including Land, Construction Development and Financing (consolidated) (NIS in millions)</th><th colspan="2">Data on Fair Value and Revaluations</th><th rowspan="2">Valuator's Name and Experience</th><th rowspan="2">Valuation Model</th><th rowspan="2">Additional Underlying Assumptions of the Valuation</th></tr>
<tr><th>Fair Value/Book Value at the end of the Period (consolidated) (NIS in millions)</th><th>Revaluation Profits (Losses) in the Period (consolidated) (NIS in millions)</th></tr>
<tr><td>Expansion of Azrieli Center Tel Aviv</td><td>2017</td><td>458</td><td>708</td><td>88</td><td>2%</td><td>-</td><td>Mr. Ronen Katz is a certified real estate appraiser, with a B.A. in Agricultural Economy and Administration from Faculty of the Agriculture at the Hebrew University in Jerusalem. Experienced from 1997 as a real estate appraiser.</td><td>Presented according to fair value under the Comparative method</td><td>N/A</td></tr>
<tr><td colspan="2">Remaining properties under construction 2017</td><td>1,069</td><td>1,179</td><td>(29)</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
</table>

8.4 Competition

Beyond the aforesaid, in the Company’s estimation, over recent years, the retail centers and malls in Israel segment has been characterized with high competitiveness, and to the best of the Company's knowledge, there are more than 300 retail centers in Israel. The structure, size and business mix of each retail center are adjusted to the characteristics of the demand of those leasing areas in the geographical region in which it is located. The competition in this area revolves around several parameters, of which the main ones are: (1) the geographical location of the properties and the level of demand for spaces for lease in such area; (2) the level of revenues in the properties; (3) the rent level and management and maintenance costs; (4) the quality of construction of the leased buildings; (5) the level of auxiliary services and, (6) The Lessor's goodwill.

As of the Report Date, the Company operates in that operating segment principally in the development and construction of retail centers, and focuses on discovering reserves of land in attractive locations and with the potential for high revenues, and therefore the competition vis-à-vis bodies which concentrate primarily on acquisitions of existing retail centers is lower. In retail complexes and centers located in residential areas a competition could also develop with local developers. The market trends over the recent years and the attempt to adjust the characteristics of the retail center accurately to local demands and to the substitutes available to the consumer have blurred the lines distinguishing between the different types of retail centers.

Due to the intensification of the competition in the sector, the addition of retail space in many regions and a trend of increase in on-line commerce, the Company acted in 2017 and will continue to act for the development of the end consumer marketing segment. *Inter alia*, the Company continues activity for branding of the Group’s malls through a uniform language of communication in the properties themselves, marketing activities and campaigns on the different types of media, and planning of further marketing, branding and differentiation activities and sales campaigns for all of the Group's malls (hard sale).

To the best of the Company's knowledge, a number of entities operate in Israel which hold significant portions of properties in the retail centers and malls segment, including Reit 1 Ltd., Gazit Globe Ltd., Melisron Ltd., Industrial Buildings Ltd., Amot Investments Ltd., Jerusalem Economy Ltd. and Big Shopping Centers (2004) Ltd. In addition, to the best of the Company's knowledge, in recent years new players are joining the market such as the institutional bodies (either directly or through a managing body which knows the operating segment well) and investment funds, that seek alternative yield for the members and for themselves.

The Company estimates that the geographic location of the retail center and its differentiation directly affect its characteristics and its tenant mix since each center adjust itself to the sizes of the geographic market in which it is located in order to create a center of attraction which is unique therefor and deal with centers existing in the area which created the consumers’ purchase habits. For the most part, the tenants will consider the benefit of space in a retail center with a better geographic location, a mix conforming to its business operations versus its cost and with a better reputational image.

Competition for the private consumer is also mainly characterized by the geographic location and against other centers of the power center-type as well as shops on city streets. Most of the retail centers and malls serve the population residing or employed in the geographic area in which the retail center is situated. Nonetheless, the Azrieli Tel Aviv Mall, due to its location, accessibility and proximity to the train station and to major intersections, serves consumers from all across Israel.

In the Company’s estimation, the competition vis-à-vis the private consumer is influenced, *inter alia*, by the tenant mix, the types of the shops and their branding, the atmosphere and shopping experience, benefits to consumers, events initiated in the framework of the retail center, access to the retail center and available parking (free or paid). The malls and retail centers are therefore required to renovate, upgrade and adjust the tenant mix therein from time to time.

In the Company's assessment, the volume of its business in the retail centers and malls in Israel segment is large, and it is one of the leading companies in the field in Israel. As of the Report Date, approx. 1,900 tenants operate stores and retail in the Group's retail centers and malls. In the Company's estimation, the factors and methods that help the Group cope with the competition in the segment are as follows:

- Most of the retail centers and malls of the Group are characterized by quality planning and a high-quality tenant mix, which the Company carefully maintains over the years and that contribute to its competitive advantage and offer to the visitors to the retail centers and malls a quality shopping experience;
- The volume of the Company's business in the segment allows the Company to engage with chains and service providers at beneficial terms, thus allowing it to specialize in the management of retail centers and malls in an efficient manner in order to lead to savings in costs and in manpower;
- Most of the Company's tenants are large chains and/or companies with superior financial strength and the lease agreements therewith are for a relatively long period;
- The Company's retail centers and malls are located in high-demand areas, enabling the Company to lease the properties to numerous and diverse types of tenants;
- The expertise of the Group in the planning and construction of retail centers and malls according to the needs of the tenants and visitors in the retail center and/or mall.
- The scope of business and the Company's experience in the segment, allows it to carry out marketing activities also to the end consumers, the mall visitors and to adopt innovation in the retail segment, improving the experience of shopping at the Company's shopping centers, including use of digital media. For details with respect to the Company's e-commerce business, see Section 14.1 of Chapter A of the Report.

8.5 Goals and business strategy for the segment

See Section 26 of Chapter A of the Report for the Company's goals and the Group's strategy.

9. The Office and other space for lease in Israel segment

9.1 General information on the operating segment

9.1.1 General

In this operating segment, the Group operates, as of the Report Date, in the development, construction, acquisition, lease, management and maintenance in Israel of parks for offices and the high-tech industry, office buildings and industrial buildings, workshops, storage and residences. The parks for offices and office buildings are designated primarily for businesses in the segments of liberal professions, service providers, headquarters of financial entities, hotelkeeping, medical services and high-tech industry, which are characterized by a large number of personnel and a demand for adjacent parking spaces.

Most of the Group's lease agreements are for periods of about five years on average, with the tenant given an option for additional lease periods of about five years and the rent is at a fixed amount per each square meter of the leased space. A recent trend is the engagement in lease agreements for large spaces, for longer periods of around 10 years.

All of the Group's office and other space for lease properties in Israel include also car parks (above or underground) which serve the tenants and their customers.

In this operating segment, the Group's income-producing space that are leased to third parties are mainly divided into two types:

- **Parks for businesses and for high- tech industries** - The Group specializes in responding to the special needs of the high-tech industries and the construction of purpose-built buildings fitted in advance to the needs of the tenants. The purpose-built construction provides a comprehensive and complete solution to tenants, that includes the guidance of the tenant beginning from the stage of preparing the working plans for purposes of the design requested by the tenants, the planning and construction of the building in full cooperation with the tenant and through responding to all of the tenant's demands as to the interior of the leasehold. The business parks present a quality and clean working environment in a central location, quality infrastructure, green areas and parking spaces.

- **Office towers** - The Group has office towers that are leased, in most cases, with high occupancy to numerous and diverse tenants for long lease periods.

The office and other space for lease segment of the Group in Israel is managed with relation to each building or group of buildings through the Company or designated management companies owned by the Group, which engage with the tenants in management agreements. Most of the management agreements determine that the management fees will be paid on the basis of the cost of the management services plus overhead expenses. The management companies collect from the tenants the management fees or the maintenance fees, which are used, *inter alia*, for financing the maintenance of public areas, whereas in most of the management agreements between the Company or the management companies and the tenants, the management companies undertake to maintain and operate the public areas, including cleaning, security, renewals and insurance, under terms and in the scopes as shall be determined by the management companies from time to time.

9.1.2 The structure of the operating segment and the changes occurring therein

The office and other space for lease segment is mainly affected by the economic activities in Israel and abroad. Various entities are active in this operating segment which locate, plan, construct, lease and maintain properties designated for lease for various uses. There are many companies in Israel in the office and other space for lease segment, including large, veteran and leading companies, which own properties in large volumes, as well as smaller, local developers who operate in specific geographic areas. The business in this segment is generally characterized by the fact that part of the costs of construction or acquisition is financed by independent sources and the remainder is financed by credit from outside sources.

9.1.3 Restrictions, legislation, standards and special constraints applying to the operating segment

This operating segment is subject mainly to the land laws and the land use and zoning laws. In addition, the business in this segment is affected by legislative updates in the field of business licensing, land taxation and municipal taxation. See Section 23 of Chapter A of the Report for details on the matter of the restrictions, legislation, standards and additional constraints applying to the Group.

9.1.4 Changes in the volume of business and profitability of the segment

To the best of the Company's knowledge, in 2017, the office segment continued, to demonstrate stability, which was reflected in stability in the demand for office space and in stability in the amount of the rent in many projects. Due to a shortage in supply of available high-quality office space in Tel Aviv and Herzliya, the Report Period was characterized by a moderate rise in rent in leading projects in Tel Aviv and Herzliya.

In addition, the soundness recorded in the hi-tech industry, creates, and in the Company’s estimate, will continue to create, in the upcoming years, demand for office space due to the projected continued increase in the number of employees in the information technology, information security and cyber sectors. In view of the aforesaid, there is a noticeable increase in the Company’s exposure to the high-tech sector, due to the increase in the lease of offices to companies of this sector.

As of the Report Date, the Group has preserved very high occupancy rates in its income-producing properties in the segment and even increased its total revenues from rent. The Company estimates that its financial strength, the strength of the Company's tenants, some of which constitute the leading firms in the economy (AAA tenants), its high liquidity and standing in the financial market are advantages and strengthen its status in the segment.

See Section 2.11.2 of the Board of Directors' Report for details concerning the development of the revenues from this operating segment.

In addition, in recent years, the Company has acted to expand its business in this operating segment, *inter* alia, by development and construction of new projects (the Azrieli Sarona project in Tel Aviv, the Azrieli Holon Center and the office tower in Azrieli Rishonim Mall). Furthermore, as part of the business strategy the Company is examining attractive investment opportunities and the creation of new growth engines also in tangential segments, and possibilities to create a synergy with the other operating segments thereof, such as construction of logistic storage structures.

The Company estimates, in view of the aforesaid and due to the expected increase in the supply of new office buildings in the central region, a moderate decrease in the prices of rent may occur in lower-demand areas (Bnei Brak, Ramat Gan and the suburbs of Tel Aviv). The Company estimates that such decrease is not expected to have a very material effect in the long term on the rent prices of the Company's properties, which are essentially characterized by a high quality level of construction, location and management, the level of demand for which in recent years has continuously increased. In addition, a large part of the increase in the supply of offices in the central region is made up of buildings that are being constructed in the context of purchase groups, or buildings that are intended to be sold to a large number of buyers, that are not expected to materially affect the rent prices in the central region. In the Company's estimation, these may increase the supply of leasable office space with respect to spaces for lease of 200-500 sqm. In addition, in the Company’s estimation, the coming years may see changes in the competitive balance between the players in the income-producing real estate sector, *inter alia*, due to the lease-up of office space projects, primarily in the Dan Metropolitan Area, which pose challenges for the sector.

The Company's aforesaid estimations with regard to the changes in the segment and the effect thereof on the Company's results are merely subjective estimations and forward-looking information as per the definition thereof in the Securities Law. The actual results and effects may significantly differ from the estimations specified above and the implications thereof, for various reasons, inter alia, a further strengthening of the competition, a decrease in the demand for office spaces and a worsening of the economic situation in Israel.

9.1.5 Critical success factors in the operating segment and changes occurring therein

The Company estimates that the main success factors of the Company in the segment are, *inter alia*: the geographic dispersion and the location of the income-producing properties in areas in demand throughout Israel for offices, commerce and industry; the quality of the properties; expertise in development and architectural planning; management and construction of properties conforming to potential tenants, in relation to which the Company had engaged in advance in lease contracts through the professional management team employed by the Group; the level of demand and supply of properties of a similar type which dictate the terms of the lease contracts and the potential changes thereto; know-how and experience in marketing, property management and operation; positive goodwill; and business positioning and financial strength which allows immediate response to attractive business opportunities.

9.1.6 Changes to the set-up of suppliers and raw materials for the operating segment

Within the framework of this segment, the Group has no material suppliers with which it engages and does not purchase raw materials in material scopes.

9.1.7 Main barriers to entry and exit of the operating segment and the changes occurring therein

Barriers to Entry - To the Company's belief, entities operating in this operating segment require mainly equity and financial strength. In addition, professional know-how, experience in the development segment, positive reputation in the industry and available and planned land reserves in areas with high demand for office buildings space for lease bear great importance. Development in the segment requires financial soundness which enables operating in the development segment at relatively low financing costs

Barriers to Exit - exiting this operating segment is conditional, mostly, on the ability to realize properties, which is a direct result of the location of the properties, their physical condition and the condition of the economy, as well as various costs, including in connection with land taxation.

9.1.8 Structure of competition in the operating segment and changes occurring therein

See Section 9.3 below for a description of the structure of competition in this operating segment.

9.1.9 Manner of executing acquisitions of the Company

See Section 8.1.9 of Chapter A of the 2013 Periodic Report, which is included in this Report by reference for a description of the manner of acquisition and exercise of the Group's rights in properties.

9.2 Details on the very material properties of the Group in the office and other space for lease segment

9.2.1 Azrieli Tel Aviv Towers

The following tables include data regarding the office towers in Azrieli Center, Tel Aviv, which, as of the Report Date, constitutes 10% of the Company's total properties and complies with the definition of a very material property. The valuation of this property which is defined as a very material valuation, is attached to this Report as Annex D to the Board of Directors' Report.

The Group, through Canit Hashalom, is the holder of all of the lease rights in the center named "Azrieli Center". Azrieli Center extends over a land block at a total area of approx. 33 thousand sqm, located in the center of Tel Aviv, on a junction which is a main transport route and in proximity to the main transport routes of Tel Aviv (Ayalon Highways, Hashalom Road, Menachem Begin Road) and HaShalom train station, located on Hashalom intersection.

To the best of the Company's knowledge, as of the Report Date, Azrieli Center is the largest business center in Israel, with an overall built-up area (gross) of approx. 328,393sqm, comprising an underground car park and storage rooms (at an area of 122,258 sqm), a mall including 3 commercial floors and a public floor (at an area of 61,110sqm), public passage bridges over Menachem Begin Road and Hashalom Railway at an area of 1,365 sqm and three towers: the Round Tower (at an area of 55,823 sqm), which includes 38 office floors and another roof floor serving as an observatory and a restaurant; the Triangle Tower (at an area of 47,348 sqm), which includes 35 office floors and 2 more service floors; and the Square Tower, which is a tower with mixed uses (at an area of 40,489 sqm), including 18 office floors above the 13 hotel floors. For details about the Company's plans to expand the center and the closing of the acquisition of the "Yediot Aharonot House", see Section 7.7 of Chapter A of the Report.

9.2.2 Presentation of the property

	Details as of December 31, 2017
Name of property	**Azrieli Towers**
Location of property	**Tel Aviv**
Property areas – split by usage	**Offices – 131,255 sqm; hotel – 18,000 sqm; offices used by the Group – 1,855 sqm.**
Company's share in the property	**100%**
Structure of holding in the property	**Through Canit Hashalom which is wholly (100%) held by Azrieli Group Ltd.**
Corporation's actual share in the propert	**100%**
State the names of the partners in the property*	**-**
Date of acquisition of the property	**The land was acquired in August 1992.**
Specification of legal rights in the property (ownership, lease etc.)	**Capitalized long-term leasehold.**
Significant unutilized building rights	**-**
Status of registration of legal rights	In July 2014, the registration of Canit Hashalom's lease rights with the Land Registration Bureau was completed.
Special issues (material building code violations, soil contamination, etc.)	**There are no special material issues. For further details see the valuation attached hereto.**
Method of presentation in the Financial Statements	**Consolidation**

For details on the registration of rights in the property, pledges and guarantees, pertaining to Azrieli Center towers, see Section 1 of Chapter A of the Report. It shall be noted that all of Azrieli Center's space is designated for lease on the free market, other than space for self-use by Canit Hashalom and the Group's companies (on the top office floor of the Round Tower and part of Floor 33 and other negligible areas, such as archives, gallery, storeroom, etc.), and other than an area of approx. 5,500 sqm, which is located in the project's basements which serves as an IEC sub-station which was sub-leased in 2006 to the Israel Electric Corp. Ltd. in consideration for an amount of approx. NIS 14 million, for the entire lease period of Canit Hashalom (such area was not taken into account in the valuation of the center which is attached to this Report).

Yarden Hotels M.H.Y. Ltd. which operates the hotel, which is located in the Square Tower of Azrieli Towers, has a business license for the operation of the hotel that as of the Report Date, is effective until December 31, 2018.

9.2.3 Main figures

Figures per 100%. The Company's share in the property – 100%	Y2017	Y2016	Y2015		On date of purchase of the property
Fair value at end of the period (NIS in millions)	**3,008**	2,878	2,822	Cost of construction (NIS in millions)	1,292
Revaluation profits (NIS in millions)	**111**	53	25	Date of purchase of the land	August 1992
Average occupancy rate (%)	**~100%**	100%	100%		—
Leased space (sqm)	**148,001**	149,264	149,529		—
Total income (NIS in millions) (*) per month	**245**	243	239		—
Average rent per sqm per month (NIS) (**)	**106**	104	101		—
Average rent per sqm per month in contracts signed during the period (***) (NIS)	**122**	126	123		—
NOI (NIS in millions)	**210**	209	206		—
Adjusted NOI (NIS in millions)	**217**	215	213		—
Actual yield rate (%)	**7.0%**	7.3%	7.3%		—
Adjusted yield rate (%)	**7.2%**	7.5%	7.6%		—
Number of tenants at end of reporting year	**125**	131	135		—

(*) The revenues and NOI include 50% of the revenues and the car park's NOI.
(**) Excluding the hotel's rent. If the average included the hotel's rent, the average for 2017 would be approx. NIS 101 per sqm, and the average for 2016 would be approx. NIS 99 per sqm and the average for 2015 would be approx. NIS 97 per sqm.
(***) With new tenants only (excluding the extensions of contracts for existing tenants).

9.2.4 Breakdown of revenues and cost structure

Figures per 100%. The Company's share in the property – 100%	Y2017	Y2016	Y2015
Revenues:		(NIS in millions)	
From rent – fixed	**179**	177	173
From rent – variable*	**-**	-	-
From management fees	**38**	38	37
From car park	**24**	24	24
Others	**4**	5	5
Total Revenues	**245**	244	239
Costs:			
Management, maintenance and operation	**35**	35	33
Depreciation	**-**	-	-
Other expenses	**-**	-	-
Total Costs:	**35**	**35**	**33**
Profit:	**210**	**209**	**206**
NOI:	**210**	**209**	**206**

(*) No turnover addition for lease of offices.

9.2.5 Principal tenants at the property

The Company does not have an anchor tenant (as defined in the Disclosure Provision) or a principal tenant at the property the revenues from whom generate 20% or more of the property's revenues.

9.2.6 Projected revenues due to signed lease contracts

	Year ending December 31, 2018	Year ending December 31, 2019	Year ending December 31, 2020	Year ending December 31, 2021	Year ending December 31, 2022, forth
	NIS in millions (figures according to 100% . Corporation's share in the property – 100%)				
Fixed components	**218**	**173**	**145**	**81**	**135**
Variable components (estimate)*	—	—	—	—	—
Total	**218**	**173**	**145**	**81**	**135**

*For the purpose of calculating the rent, supplements to the rent for a percentage of the turnover were not taken into account, since the Company's management has no estimate of such sums. In 2017, the variable component consisted of approx. NIS 0.8 million, and in 2016 approx. NIS 0.4 million (for 2015 there was none).

The revenue amounts in the above table, were calculated based on the basic amounts set forth in the lease agreements while linked to the CPI known on December 31, 2017, and based on the following assumptions: (1) The exercise of options for extension of the lease periods included in the lease contracts was not taken into account (although many of the tenants of the Company's spaces usually extend the lease contracts upon the termination thereof); (2) Lease contracts which the lease period pursuant thereto has ended and new lease contracts have not yet been signed with the tenants were not taken into account; (3) The possibility of sale of the properties or purchase of new income-producing properties was not taken into account; (4) Early termination fines, if any, were not taken into account; and (5) no change will occur in the advance payments of management fees for each tenant for year 2017.

The amounts of revenues specified in the aforesaid table are under the assumption that the options for extension of the lease periods included in the lease contracts would not be exercised, in spite of the fact that many of the tenants in the Company's premises usually tend to extend the lease agreements upon their termination.

The above figures are based on the estimates of the Company considering the signed agreements as of the Report Date and constitute forward-looking information, within the definition thereof in the Securities Law. Actual results may significantly differ from the above specified estimates and the implications thereof, for various reasons, including early termination of lease contracts or a business crisis of any of the tenants.

9.2.7 Specific financing for the property

<table>
<tr><th colspan="3">Specific Financing</th><th>Loans</th></tr>
<tr><td rowspan="4">Balances in the Statement of Financial Position</td><td rowspan="2">December 31, 2017 (NIS in millions)</td><td>Presented as current maturities:</td><td>89</td></tr>
<tr><td>Presented as long-term loans:</td><td>266</td></tr>
<tr><td rowspan="2">December 31, 2016 (NIS in millions)</td><td>Presented as current maturities:</td><td>89</td></tr>
<tr><td>Presented as long-term loans:</td><td>355</td></tr>
<tr><td colspan="3">Fair value as of December 31, 2017 (NIS in millions)</td><td>354</td></tr>
<tr><td colspan="3">Original date of taking the loan</td><td>August 2013</td></tr>
<tr><td colspan="3">Original amount of loan (NIS in millions)</td><td>710,000</td></tr>
<tr><td colspan="3">Effective Interest Rate as of December 31, 2017 (%)</td><td>1.16%</td></tr>
<tr><td colspan="3">Dates of repayment of principal and interest</td><td>The principal is returned in equal semiannual payments until August 2021.
The interest is paid on the unpaid balance every 6 months.</td></tr>
<tr><td colspan="3">Key financial covenants</td><td>The Lender shall have the right to accelerate payment under the loan upon fulfillment of generally accepted causes, which are provided in the agreement, including, inter alia, a material adverse change in the tenant status in the Round Tower or if the ratio between the balance of the loan as of the calculation date and the value of the Round Tower (as shall be determined by an appraiser, who shall appraise the Round Tower once a year) (LTV), commencing from the end of two years as of the date of the provision of the loan, amounts to not more than 70% (and its rate decreases over the term of the loan down to 25% one year prior to repayment of the loan in full). This ratio, as of December 31, 2017, is approx. 28%.</td></tr>
<tr><td colspan="3">Other key covenants</td><td>-</td></tr>
<tr><td colspan="3">Is the corporation compliant with key stipulations and with the financial covenants as of the end of the reporting year</td><td>Yes</td></tr>
<tr><td colspan="3">Is it non-recourse</td><td>No</td></tr>
</table>

9.2.8 Pledges and material legal restrictions on the property

Type		Details	The amount secured by the pledge December 31, 2016(*) (NIS in millions)
Pledges	First-ranking	Part of the lobby floor, the roof floor and Floors 11-49 of the Round Tower are pledged by a fixed charge to an institutional body group (also see Section 19.3 below).	**355**

(1) Canit Hashalom has provided the City of Tel Aviv with a guarantee in the amount of NIS 8 million, linked to the Residential Construction Input Price Index (standing, as of December 31, 2017 at approx. NIS 24 million), which is intended to secure Canit Hashalom's compliance with its obligations in connection with the performance of the development and construction work for the project. This guarantee is expected to be returned to Canit Hashalom upon the issuance of a certificate of completion for the project. As of the Report Date, Canit Hashalom is acting towards obtaining the aforesaid certificate of completion, and does not expect any part of the guarantee to be forfeited.

The provisions of this section constitute forward-looking information, as the definition of the term in the Securities Law, which is based upon estimates of the Company in reliance on past experience and the actual results may be different, primarily due to requirements of the authorities which are unknown as of the Report Date.

(2) On February 28, 2008, Canit Hashalom signed a letter of undertaking addressed to the City of Tel Aviv and also provided an additional bank guarantee in the amount of approx. NIS 8 million, linked to the CPI (in the sum of approx. NIS 9 million, as of December 31, 2017), in connection with the granting of a Form 4 for the square tower of the project, in the context of which it undertook to act to establish a steering team to evaluate the need to build another tunnel underneath the Kaplan interchange, and further undertook to build the tunnel at its expense, to the extent determined as aforesaid. Insofar as the construction of the aforesaid tunnel will be required, Canit Hashalom estimates the cost of construction in the amount of approx. NIS 7 million.

9.2.9 Details regarding the valuation

		Y2017	Y2016	Y2015
The value determined (NIS in millions)		**3,008**	2,878	2,822
Identity of the appraiser[22]		Ronen Katz of Greenberg Olpiner & Co.	Ronen Katz of Greenberg Olpiner & Co.	Ronen Katz of Greenberg Olpiner & Co.
Is the appraiser independent?		yes	yes	yes
Is there an indemnification agreement?		yes	yes	yes
Date of validity of the valuation (the date to which the valuation pertains)		Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015
The valuation model		DCF	DCF	DCF
Main parameters used for the valuation[23]				
The valuation according to the Income Approach	Gross leasable area used in the calculation (sqm)[24]	**149,255**	149,264	149,529
	Representative occupancy rate out of the leasable area for the purpose of valuation (%)[25]	**100%**	100%	100%
	Representative average monthly rent per leased sqm for the purpose of valuation	**101.7**	101.1	100.3
	Representative NOI for the purpose of valuation (NIS in millions)[26]	**217**	215	213
	Annual average periodic expenses for preservation	**See "Other main parameters" below**		
	Weighted cap rate used for the valuation	**7.06%**	7.34%	7.37%
	Other main parameters	Projected investments in the property were depreciated, as well as investments due to contractual undertakings to the City of Tel Aviv. The overall depreciation of the property value due to the aforesaid totaled at approx. NIS 66 million.	Projected investments in the property were depreciated, as well as investments due to contractual undertakings to the City of Tel Aviv. The overall depreciation of the property value due to the aforesaid totaled at approx. NIS 54 million.	Projected investments in the property were depreciated, as well as investments due to contractual undertakings to the City of Tel Aviv. The overall depreciation of the property value due to the aforesaid totaled at approx. NIS 68 million.
Value sensitivity analyses		Change in value (NIS in millions)		
Cap rates	Rise of 0.25%	**(105)**	(97)	(95)
	Decline of 0.25%	**113**	103	101
Average rent per sqm	Rise of 5%	**133**	126	125
	Decline of 5%	**(133)**	(126)	(125)

22 Mr. Ronen Katz is a certified real estate appraiser, holding a B.A. in Agricultural Economy and Administration from the Agriculture Faculty of the Hebrew University in Jerusalem, and has gained experience as a real estate appraiser since 1997.
23 The valuation is attached as annex D to the Board Report.
24 Not including area for the Company's own use of approx. 1,855 sqm on the last office floor and part of floor 33 of the round tower.
25 Represents the ratio of marketed area out of the total area, but in appraisal, value was taken for vacant areas too.
26 Including 50% of NOI represetning a car park which is included in the property value. (The remaining 50% were included in the valuation of the mall).

9.3 Competition

The income-producing property segment in general and the office and other space for lease segment in particular, is characterized by a high level of competition. The competition in the office and other space for lease segment in Israel is characterized by a high level of competition which revolves around a number of parameters, the main ones of which are: (1) the geographic location of the properties and the level of demand for spaces for lease in that area; (2) the rent level and management and maintenance costs; (3) the quality of construction of the leased buildings; (4) The level of auxiliary services, and (5) the Lessor's goodwill. The competition in this sector exists both at the stage of identification of the properties for purposes of initiation, development and construction of properties, and at the stage of the leasing of the properties. The Group is exposed in Israel to competition by numerous companies engaging in the lease of business property, in areas of demands similar to those in which the Group’s properties are located, while in most cases, the competition is local competition. Thus, for example, the competition for the Azrieli Center is the high priced office buildings in Tel Aviv and the competition for the Herzliya Business Park is other alternate office buildings in that area.

To the best of the Company's knowledge, several bodies are active in Israel, holding significant shares of the office and other space for lease, including Reit 1 Ltd., Gav Yam Land Ltd., Nitzba Holdings 1995 Ltd., Industrial Buildings Ltd., Levinstein Properties Ltd. and Amot Investments Ltd. In the Company's estimation, the scope of its business in the office and other space for lease in Israel segment is among the leading companies in the segment, particularly following the completion of the projects which are under various construction stages, as of the Report Date.

The factors assisting the Company to deal with the competition in this segment are as follows:

- The Company's volume of operation in the segment enables the Company to communicate with companies and service providers at beneficial terms, and it further enables it to specialize in the management of commercial parks and office buildings in an efficient manner which leads to savings in costs and in manpower.
- Most of the Company's tenants are companies with high financial strength and the lease agreements therewith are for a relatively long period of time.
- The Company's office and other space for lease is located in areas of high demand, enabling the Company to lease the properties to numerous diverse types of tenants.
- The unique characteristics of the Group's properties, such as: a retail center in proximity to the office space for rental, access to public transportation, including the railroad and underground car parks for the convenience of the tenants and their customers.
- Most of the Company’s office space is characterized by its high quality and prestigious nature, which distinguishes the Company's property from those of the competing companies and strengthen its competitive edge.

9.4 Goals and business strategy in the segment

See Section 26 of Chapter A of the Report for details on the Company’s goals and the Group’s strategy.

9.5 Material Properties

Set forth in the table below is a summary of figures pertaining to material properties of the Group in the office space for lease segment as of December 31, 2017 which were evaluated by the valuator Mr. Ronen Katz, a partner at Greenberg Olpiner & co (*) through the income capitalization method:

Name and features of property			Year	Information item											According to Regulation 8b(i) (as applicable)
				Fair value/book value at end of period (NIS in millions)	Revenues from rent in the period (NIS in millions)	Actual NOI in the period (NIS in millions)	Rate of Yield (%)	Adjusted Rate of Yield (%)	Rate of Yield on the Cost (%)	Property Value to Debt Ratio (LTV)	Revaluation profits (losses) (consolidated) (NIS in millions)	Occupancy rate as of the end of the period (%)	Average monthly rent per sqm from main use – retail (in NIS)	Ratio of average revenue per sqm to average rent per sqm**	Other assumptions underlying the valuation
Azrieli Sarona Tel Aviv	Territory	Israel	2017 (until June 2017, the property was under construction	2,165	16	15	0.69%	7.79%	1%	0%	388	92%	105	N/A	Main rent cap rate – 7.25%. Weighted cap rate – 7.34%.
	Functional currency	NIS													
	Main use	Offices													
	Construction cost (NIS in millions)	1,514													
	Corporation's share (%)	100%													

10. The income producing property in the U.S. segment

10.1 General

As of the Report Release Date, the Group owns seven (7) office rental properties outside of Israel (six in the U.S.), of a total leasable area of approx. 223 thousand sqm (the Company's share is approx. 213 thousand sqm), which is leased to approx. 170 tenants. The Company's properties in this operating segment do not amount to material properties or very material properties. For aggregate details regarding all of the Company's income-producing properties in this operating segment (including land reserves in Section 7.8 above), see Section 7 of Chapter A of the Report, under the geographic territory of the U.S.

About 50% of the Group's office properties in this operating segment are multi-tenant properties and the other 50% are properties with a small number of tenants. All are Class A properties that also include car parks (aboveground or underground) which are used by the tenants. The properties are located in high demand areas with more office building clusters. Unlike the Company's properties in Israel, in some of the Company's properties in the U.S., the Company holds the property together with one or more local partners. As of the Report Date, the Company is routinely examining the expansion of its activity in additional markets, mainly in North America (in addition to Houston and Austin in Texas), with an emphasis on markets where the population of the metropolitan area exceeds two million residents.

The office buildings in the operating segment are mostly intended for businesses (*inter alia* from the energy industry) and service providers which are characterized by a large number of employees and demand for adjacent parking spaces. Most of the Group's lease contracts in this operating segment are for periods of between three and ten years, while often the tenant is given an option for additional lease periods of approx. five years. The rent is at a fixed amount per square meter (or the U.S. customary unit – sq. ft) of the leased area, while often the lease contract includes a rent increase during the term of the lease.

Unlike the Group's office properties in Israel, the Group's office space in the U.S. is managed by professional and local management companies with which the Company has engaged in agreements, and which the Group is entitled to terminate by advance notice of 30 days. The management companies collect from the tenants the rent, as well as current expenses, such as security, cleaning, maintenance, municipal taxes, insurance, gardening, maintenance of elevators and public systems. The Company is examining, in a current manner, possibilities for both operational and property management streamlining.

10.2 The structure of the operating segment and changes occurring therein

Between 2011-2017, the Company expanded its business in the U.S. and made several purchase transactions - the first of three office towers in the "Galleria" area of the city of Houston, Texas, and two additional transactions for the purchase of two office buildings in the "Energy Corridor" and “West Belt” area of Houston, Texas. In the course of 2016 the Company purchased an office building in Austin, Texas and a land block in Houston, which is adjacent to a Company-owned property. At the end of 2017, the Company purchased 33.33% and 25% of Riverway 1 and 3, respectively, properties in which the Company already holds 33.33% and 45%. Most of the Group’s properties in the U.S. are situated in the Houston metropolitan area, which has more than 6 million inhabitants[27] and where population growth in the last 30 years exceeded the U.S. average. Such growth stemmed, *inter alia*, from a high quality of life, a low unemployment rate, the absence of state income tax and an attractive cost of living.

The Group's income-producing property segment in the U.S. is affected by the economic activity in the U.S. economy, and mainly by the economic business in Houston and its office lease market.

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[27] The figures are taken from publications of the real estate consulting company Cushman and Wakefield.

The recovery process in Houston after the economic crisis which began in 2008, was among the quickest throughout the U.S. and good figures continued to be recorded in the local economy, mainly thanks to the strong connection that the local economy has with the energy market which experienced a significant price increase until mid-2014. The summer of 2014 saw the beginning of a global downtrend in energy prices, which affected the local economy in 2015-2016. This downtrend was halted in the course of 2017, and a moderate rise in prices began. The employment situation in the Houston metropolis continues to be stable, with a low unemployment rate. In October 2017 the unemployment rate in the Houston metropolis was 4.1% , in comparison to 5.3% in the previous year[28].

The effect of the fluctuations of energy prices on the office real estate market in Houston, was reflected in 2016-2017 in various ways such as: A high rate of vacant office spaces, high competitiveness for engagements with new tenants, which increased the costs of the engagement process with these tenants. Furthermore, energy companies offered large spaces in the sublease market, which resulted in a decline in the number of new lease transactions (compared with 2014-2015), a decrease in the number of projects planned towards commencement of construction; and a decrease in rent prices. At the same time, the increased willingness of property owners to grant incentives to new tenants such as a high budget for "improvements to the leased property" and a long "grace period".

In addition to the effect of the gas and energy sector on Houston's economy, to the best of the Company's knowledge, the local economy is also affected by its large medical center (Houston Texas Medical Center), which is the world's largest medical center, as well as the growth in the activity of Houston's port, in which extensive investments were made in recent years, to adjust it to the cargo ships and tankers that recently began to operate in the area. In June 2016, a significant project was completed for the adjustment of the Panama Canal to the new maritime vehicles. The strategic cooperation between the Panama Canal and the Houston port is expected to bring about a significant increase in the operations of the local port and constitute a notable advantage over other competing ports.[29]

In August 2017 Houston was struck by the tropical storm "Harvey", which caused numerous flooding incidents, mostly in residential buildings. The Company holds two office properties in Houston, which suffered water damage during the storm. The Company is expected to complete the repair of the damage in the said properties during Q3/2018. It is noted that these properties are covered by an insurance policy. For details regarding the Company's expected deductible, see Note 13H(2) to the Company's financial statements.

In 2016, the Company purchased, for the first time, a property in Austin, Texas. This is a new property whose construction had been completed in 2015 and is wholly occupied by a high-tech company. One of the growth engines of the demand for office space in Austin is the numerous high-tech companies whose research and development activities are concentrated in this city.

10.3 Restrictions, legislation, standards and special constraints applying to the operating segment

This operating segment is subject mainly to the local planning and building laws and land laws. In addition, the business in this segment is affected by legislation and regulation of authorities in the fields of environmental protection, safety, business licensing, land taxation and municipal taxation. For details in the matter of the tax reform in the U.S. see Note 29A(2) to the financial statements. See Section 23 of the Report for details on the matter of the restrictions, legislation, standards and additional constraints applying to the entire Group.

10.4 Changes in the volume of business and profitability of the segment

As aforesaid, 2017 saw the continued trend of increase in vacant space in the Houston office market, although the trend weakened in comparison to 2016. The Increase in vacant space derives mainly from a decrease in

[28] The figures are taken from publications by the real estate company Cushman and Wakefield.
[29] The figures are taken from publications of the real estate consulting company Cushman and Wakefield.

demand on the part of energy companies consequently to the decrease in energy prices, as well as from an increase in the office space placed on the sublease market. The total rate of vacant space in the Houston metropolitan area grew from 15.7% to 17.3% in the course of 2017, whereas vacant space rate in Class A office buildings was 15.5% at the end of 2017 (the total rate of vacant spaces for lease, including the sublease market was 20.9% at the end of 2017)[30]. In addition, to the best of the Company's knowledge, in 2017, rent prices remained at a level similar to that of 2016, but the cost of incentives to tenants in new transactions grew in view of the competition between property owners and in view of the competition stemming from the sublease market.

10.5 Critical success factors in the operating segment and changes occurring therein

The Company estimates that the main success factors in this operating segment are its know-how, expertise and experience in the location and acquisition of attractive properties that will yield a high return, and the location of local management companies specializing in the local market, for the purpose of management of the properties and marketing of the space therein. The Company estimates that the success factors in the acquisition of such properties in the operating segment are, *inter alia*, location of worthwhile transactions and identification of opportunities in the market with a fast response capability, acquisition of properties in attractive, high demand locations with improvement potential, acquisition of properties of a high building and finishing standard, acquisition of properties with a range of related services that are not available in nearby properties which are competing for new contracts, performance of meticulous due diligence investigations, *inter alia* with respect to the expected expense structure in the property and the profit increase potential, the strength of the tenants in the property and the nature of the collateral, as well as knowledge of the financial markets and the various players therein for the purpose of achieving attractive financing terms.

10.6 Main barriers to entry and exit in the operating segment and changes occurring therein

Barriers to Entry - To the Company's belief**,** entities operating in this operating segment require mainly equity and financial strength which allow the acquisition of existing properties at relatively low financing costs. In addition, professional know-how, experience in the segment of acquisitions and management of income-producing properties, as well as know-how and experience in the credit and financing sector are important. Positive goodwill is another important element, both during tenders for the acquisition of income-producing properties and in order to attract attractive tenants to the properties.

Barriers to Exit - exiting this operating segment is conditional, mostly, on the ability to realize properties, which is a direct result of the location of the properties, their physical condition and the condition of the economy, as well as various costs, including in connection with land taxation.

10.7 Structure of competition in the operating segment and changes occurring therein

The income-producing property industry, in the U.S. and in Houston in particular, is characterized by a high level of competition. Competition in this segment revolves around a number of parameters, of which the principal ones are; (1) the geographic location of the properties and the level of demand for the space for lease in that area; (2) the amount of the rent and the management and maintenance costs; (3) the granting of incentives to new tenants or upon renewal of the lease agreement, such as improvements in the leased premises or a certain lease period in which the tenant will not be charged any rent; (4) the quality of construction of the leased buildings; (5) the level of related services; and (6) the reputation of the lessor. The competition in this sector exists both at the

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[30] According to figures appearing in MarketView, Houston, Office Q4 2016, published by CBRE in Q4 2017.

stage of acquisition of the properties and at the stage of lease-out of the properties. See Section 10.10 below for a description of the structure of competition in this operating segment.

10.8 Manner of executing acquisitions of the Company

For the purpose of the Group's development in this operating segment, the Group focuses, as of the Report Date, on the acquisition of existing and populated income-producing properties, and is not building new properties itself. In addition, the Company usually enters into financing agreements with different financing bodies for the purpose of the acquisition of the properties in this operating segment, usually under non-recourse terms (with exceptions standard in the U.S. with respect to which a guarantee of the Company is provided). See section 8.1.9 of Chapter A of the 2013 Periodic Report, which section is included herein by way of reference for a description of the manner of acquisition and exercise of the entire Group's rights in properties.

10.9 Acquisitions performed in the Report Period

At the end of 2017, the Company purchased 33.33% and 25% of Riverway 1 and Riverway 3, respectively, such that following the closing of the said purchases the Group holds 66.66% and 70% of those properties, respectively, for details see Note 13H(3) to the financial statements.

10.10 Competition

The income-producing property segment in the U.S. is, in general, characterized by a high level of competition in all aspects pertaining to the rent, the quality of the finishing of the building and other unique characteristics of the property. The Group is exposed in the U.S. to competition by numerous companies engaging in business property lease, in areas of demands similar to those in which the Group's properties are located. The market of leasable offices in Houston, Texas, constitutes approx. 213.2 million sq. ft of leasable office space (of which approx. 116 million sq. ft is defined as Class A), and includes a large number of properties. To the best of the Company's knowledge, several bodies are active in Houston, holding significant shares of the office lease areas segment[31], and the Group's share in the income-producing property segment in the U.S. is negligible.

The factors assisting the Company to deal with the competition in this segment are as follows: (1) The Company's office lease areas are located in high demand attractive areas, enabling the Company to lease the properties to numerous and diverse types of tenants; (2) most of the Group's properties in this operating segment have special characteristics, including: green building rating (LEED certification), financially sound tenants, attractive location adjacent to large retail centers, as well as a high parking space ratio relative to the size of the property; (3) most of the Company's office space in this operating segment is characterized by a high building and finishing standard and has been granted the highest rating level of office properties (Class A).

The Group engages in this operating segment in management agreements with local entities which have vast experience in and deep knowledge of the local market, for the purpose of management and lease of the properties.

10.11 Goals and business strategy in the segment

See Section 26 of the Report for details on the Company's goals and the Group's strategy.

[31] According to figures appearing in MarketView insert, Houston, Office, Q4, 2016 published by CBRE in Q4/2017.

11. The Senior Housing Segment

11.1. General information about the senior housing segment

The Group's operations in the senior housing segment are presently performed through corporations which are held thereby directly and indirectly, under the "Palace" brand **("Palace"** or the **"Palace Chain"**) and it engages in the operation and development of senior homes for the elderly population that feature a high finishing standard and the provision of high-standard related services, which are generally designated for tenants who are capable of leading an independent life. As of the Report Release Date, the Palace Chain employs, directly and indirectly, approx. 470 employees in total. As specified below, all senior homes of the Palace Chain operate Long-term care (LTC) units (either inside or adjacently to the senior homes). The construction of LTC units is also planned for senior homes that are under development and construction.

As of the date of this Report, Palace holds and operates two upscale senior homes as specified below:

- **Palace Tel Aviv** – a senior home at the center of Tel Aviv, including an advanced medical center for recuperation and LTC, also known as "Palace Tel Aviv", which consists of 231 senior residential units, and "Palace Medical", which contains 136 beds in 4 different units (jointly: "**Palace Tel Aviv**");
- **Palace Ra'anana** – a senior home in Ra'anana, including an LTC unit, also known as "Palace Ra'anana" (formerly Ahuzat Bayit), which consists of 326 residential units and 67 LTC beds in two units ("**Palace Ra'anana**"), as well as an active retail center located adjacently to the senior home and known as Azrieli Ra'anana (formerly: "**Park Mall**").

Palace has also acquired the rights in three sites, on which it is planning and constructing additional senior homes which are in various stages of development and construction, as specified below:

(1) Palace Modi'in – a senior home in the city of Modi'in, which is in advanced construction stages as of the Report Date and is expected to comprise approx. 239 residential units and approx. 136 LTC beds, of which 34 are recovery units ("**Palace Modi'in**"); For further details, see Section 7.7 of Chapter A of the Report.

(2) Palace Lehavim – land situated within the Lehavim Local Council, which is in construction stages toward the building of a retirement village, which is expected to include approx. 350 residential units and approx. 36 LTC beds ("**Palace Lehavim**"); On July 30, 2017, Palace receive a permit for the construction of Palace Lehavim; For further details see Section 7.7 of Chapter A of the Report.

(3) Palace Rishon LeZion - in March 2016, the Company won a tender issued by the Israel Land Authority for the purchase of long-term leasehold rights in a lot of approx. 3.4 thousand sqm designated for senior housing and situated in HaRakafot Neighborhood in East Rishon LeZion, which is designated for the construction of approx. 250 residential units, an LTC wing and approx. 3 thousand sqm of retail space ("**Palace Rishon LeZion**"). For further details see Section 7.7 of Chapter A of the Report.

11.2. Structure of the senior housing operating segment and the changes occurring therein[32]

To the best of Palace's knowledge, recent years have seen an increase in the life expectancy of the elderly population in Israel, alongside a rise in the standard of living of such population. According to data from the Central Bureau of Statistics (CBS)[33], at the end of 2016, there were approx. 978,400 residents at the age of 65 years or older living in Israel, representing a rate of approx. 11.3% of the population of Israel's residents. Nearly one half of them (approx. 44%) are older than 75. According to population forecasts, by 2040 persons who are 65 years of age or older will be around 1,900,000 in number, representing approx. 14.3% of the population. According to CBS data and publications by Standard & Poor's Ma'alot ("**Ma'alot**")[34], alongside the increase in life expectancy, there is considerable improvement in the standard of living of the elderly, which is reflected in their increased participation in the Israeli employment market, an improvement in their physical, financial and social wellbeing, and an increase in their general satisfaction with their lives. In the elderly housing sector, a distinction may be made between two main solutions: retirement homes and senior homes. Most retirement homes are characterized by elderly residents of middle-to-low socioeconomic status, who are not independent and require constant nursing and medical services. Residents of the traditional retirement homes mostly share one room and their schedule is dictated by the retirement home's operator. According to Ma'alot's publications, retirement homes in Israel consist of approx. 10,000 residential units.

Unlike retirement homes, the senior housing market is aimed at an aged population which is financially established and mostly independent. Senior homes feature modern and luxurious services and facilities, including deluxe complexes that include expansive public areas containing facilities such as: a swimming pool, spa and fitness club, class rooms, restaurant, cafeteria, clinic, and the like. Senior homes provide a respectable and high-quality solution for the elderly, and allow the tenants to lead an independent life in the residential units, along with a social life in the public complexes and the provision of initial medical attention and LTC when necessary. According to Ma'alot's publications, as of the Report Date, the senior housing market consists of approx. 12,500 senior housing units. As a result of the increase and improvement in the life expectancy of the elderly as described above, and due to the desire of such tenants to conduct an active and social lifestyle, there has been an increase in the demand for senior residential units.

The Senior Housing Law, 5772-2012, which took effect in 2012, and the regulations promulgated thereunder (jointly: the "**Senior Housing Law**"), regulates operations in the Israeli senior housing sector for the first time. The Senior Housing Law prescribes various rules in relation to the permits and requirements for the operation of senior homes, including the duty to receive a senior home operation license, and also prescribes sanctions for the violation of such rules. For additional details with respect to the regulation of the senior housing sector, see Section 23.1.3 below.

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32 This information is taken from the following sources:
Mashav (National Information Center for Old Age Planning) – the Elderly in Israel, Statistical Year Book 2016 - https://goo.gl/ouxS3D
The Central Bureau of Statistics – Press Release for the Senior Citizen Day of September 27, 2017 - - https://goo.gl/cxEkj4
Amidar – Senior Housing – https://goo.gl/JAkoGT

33 The Central Bureau of Statistics – Press Release for the Senior Citizen Day of October 1, 2016 - https://goo.gl/EzVAjZ

34 Ma'alot – The Senior Housing Market in Israel, June 2015 - https://goo.gl/F3oj4I and the Central Bureau of Statistics – Life Expetancy in Israel 2016 - https://goo.gl/8cHQCE

Tenant agreements

Palace's engagements with the tenants of the senior homes are made by means of tenant agreements that grant the tenants the right to use the residential unit and the public areas and also grant them entitlement to the service basket offered and provided by every senior home to its tenants, *inter alia*, in view of the provisions of the Senior Housing Law and by virtue of the relevant engagement agreement. The language of the agreements with the tenants varies among the various senior homes operated by Palace (*inter alia*, considering the fact that some were purchased from previous owners), and according to the time of their signing and the provisions of the law at such time.

As a rule, the engagement is made by means of the standard track, i.e., the deposit forfeiture track, which includes the resident depositing a deposit for the duration of the term of the agreement. In most cases, the amount of the deposit is determined according to the location of the home and the services provided thereby, the size of the apartment and the finishing level, the levels of demand, and more (the "**Deposit**"). The tenant agreement determines the period over which the deposit will be forfeited (mostly over the course of 12 years) (the "**Forfeiture Period**") and the rate at which it will be forfeited every year (mostly a rate ranging between 3% and 4%, plus V.A.T. as required by law). At the elapse of the Forfeiture Period, the forfeiture of the Deposit comes to an end and the balance of the principal plus linkage differentials is repaid to the tenant or his heirs upon the expiration of the tenant agreement and the discontinuance of use of the residential unit.

The tenant agreement also specifies the collateral to be provided to secure the Deposit.

In view of the Group's financial soundness, Palace also enables tenants to engage in alternative tracks to the deposit forfeiture track described above, including a lease track in which the tenant pays rent on a monthly basis etc.; however, the scope of such tracks is significantly smaller than that of the track described above.

In addition to the forfeiture of the Deposit and/or the payment of rent as described above, the tenant agreement provides the amount of the monthly maintenance fees to be collected from the tenant. Subject to the provisions of the Senior Housing Law, Palace may increase the maintenance fees at a real rate and subject to an actual increase in the operating expenses of the home, and, in any event, by no more than the maximum increase rate specified in the tenant agreement.

11.3. Restrictions, legislation, standardization and special constraints applicable to the senior housing operating segment

For details with respect to restrictions, legislation, standardization and special constraints applicable to the operating segment, see Section 23.1.3 below.

11.4. Changes in the scope and profitability of the senior housing operations

According to the various publications as specified in Section 11.2 above, the increase in life expectancy combined with the increase in population and the improvement in the standard of living among the elderly population targeted by Palace lead to an increase in the scope of demand for high-quality and luxurious senior housing solutions in Israel and to the expansion of Palace's operations in the segment.

Furthermore, the increased awareness of the target group to the advantages of senior housing and the recognition that senior homes for the aged population are a respectable and high-quality solution for this population, while differentiating this operating segment from the image associated with traditional retirement homes, contributes to the development of this segment. As of the Report Date, Palace holds rights in three sites on which it is planning and constructing additional senior homes (Palace Modi'in, Palace Lehavim and Palace Rishon LeZion), and Palace's management expects that their completion and occupancy will increase the scope of its operations in the senior housing segment and turn Palace into a significant and leading agent in the senior housing market in Israel.

The information regarding the factors which in the estimation of Palace's management may affect the scope of its operations in the senior housing segment and the implications thereof on Palace's positioning as a significant and leading factor in the senior housing market as aforesaid, constitute forward-looking information, as defined in the Securities Law, which is based on the estimations of Palace's management. Such estimations are based on external information sources and subjective assessments by Palace's management. Actual results may differ from the estimations so predicted.

11.5. Developments in the markets or changes in the characteristics of customers

The scope of the operations in the senior housing segment is growing, as a result of the increased life expectancy of the aged population. This trend is also characterized by the desire of parts of such population to preserve the high standard of living and quality of life to which they have become accustomed during the years of their life, and the feeling of loneliness and lack of independence created due to the difficulty in accessibility to the various community services compared with the fulfillment of needs provided by senior housing. In addition, whereas the elderly population had been deterred in the past from moving to senior housing due to the negative image associated therewith and the poor level of services featured thereby, the senior housing setting presently provides a high quality of life while ensuring a safe environment that preserves the tenant's independence, cares for his health, ensures an active daily schedule, which includes culture, sports, social interaction and community, and facilitates living at a high level of comfort in luxurious centers. The entry of leading entities such as Palace into the senior housing sector, which players introduce a modern construction standard of high-level senior homes into the sector, also contributes to the improvement of this image. These developments have brought with them new market demands for expansion of the services offered in senior housing. Therefore, recent years have seen an increased demand for an environment that offers, in addition to the basic services, a variety of social and cultural activities, such as a swimming pool, spa, classes, restaurant, cafeteria, alternative medicine services and more.

11.6. Critical success factors in the senior housing operating segment and the changes occurring therein

It is Palace's management's position that there are several critical success factors in the operating segment, which include: (1) Knowledge, experience and management: The senior housing segment is complex and requires experience in and knowledge of issues that are unique to the elderly population, with an emphasis on the operation of senior housing homes. The ability to optimally manage a senior home bears great importance in Palace's coping with the competition against the existing competitors in the sector; (2) Financial soundness: The Group's ability to withstand the costs involved in the construction, purchase and/or operation of premium high-level senior homes is critical to the subsistence of Palace's operations and its positioning as a leading factor in the senior housing market, and may be a central consideration in the choice of a senior home by potential tenants. In addition, Palace's ability to provide collateral to the tenants and repay the funds of the Deposit deposited by them, as mandated by the Senior Housing Law, constitutes, in the estimation of Palace's management, a key success factor; (3) Structure of the senior home, the residential units and the surroundings: Since the senior housing sector is on the course of constant development, both in terms of the quality of the structures and residential units and in terms of the level and variety of services, it is necessary to maintain a high construction and finishing standard in the senior home and the public areas thereof, which constitutes a critical success factor in the sector; (4) Location and nationwide presence: A central and accessible location that also facilitates access to nearby centers, recreation and cultural institutions, convenient access to railway stations and public transportation as well as traffic arteries, in the area of the senior home, constitutes an advantage and a central consideration in the choice of a senior home. Furthermore, the location of the senior home in relation to the place of residence of the children and family and former life center of the tenant is a highly significant factor that affects the tenant's choice of such or other senior home. A more attractive location of the senior home brands it as a more luxurious place and affects the price and the amount of the deposits that may be charged for the residential unit; (5) The size of the residential center: A large residential center consisting of hundreds of residential units entails economies of scale in view of the number and diversity of the tenants residing therein, which enables and creates an abundance of activities and a vibrant community and social life; (6) Reputation and branding: The right branding of a senior home, i.e., the attribution of positive values such as quality, enjoyment, luxury, value for money, the branding of the company running the senior home, years' long reputation, the company's stability, etc., and the creation of a positive position and perception among consumers with respect to the senior home, bear importance in the positioning of the senior home in relation to its competitors; (7) Tenant satisfaction: Tenants who express high satisfaction with their standard of living in the senior home are a major marketing tool vis-à-vis potential clients, which has a high cost-to-benefit ratio. Palace ensures that it is attentive to the needs of the tenants and provides them with a quick response, while maintaining a high level of service and personal response to each and every tenant. Palace also holds various multigenerational events that involve the tenants of the homes and their families in order to expose Palace's senior homes and the services provided thereby to as many potential clients as possible.

11.7. Key entry and exit barriers of the senior housing operating segment and the changes occurring therein

In the estimation of Palace's management, the principal barriers for entry into the senior housing operating segment are:

1. The need for unique knowledge, experience and reputation, which are required for the construction and management of a senior home;
2. The need for material capital investments for the purpose of purchase or construction of modern senior housing homes of a high finishing standard and their marketing;
3. The shortage of potentially economically viable land for the construction of senior homes;
4. The ability to comply with regulation requirements that prescribe threshold conditions for the operation of senior homes;
5. The requirement for financial soundness and current cash flow for the purpose of ensuring the ability to repay deposits, and, *inter alia*, the provision of collateral to the tenants according to the provisions of the Senior Housing Law.

In the estimation of Palace's management, the principal barriers for exit from the senior housing operating segment are:

1. The difficulty in finding a purchaser for such operation due to the substantial scope of investment, the knowledge and the experience required for the operation of a senior home under the provisions of the Senior Housing Law;
2. Long-term contractual obligations and the difficulty in evicting tenants within a short time.

11.8. Alternatives to the senior housing sector and the changes occurring therein

As of the Report Date, the principal alternative to the senior housing sector is the residence of the elderly in households. In 2016, approx. 96% of persons 65 years old or older and approx. 82% of persons 85 years old or older were living in households[35]. Among the reasons that may be listed as leading to such high rates, one may specify the improvement in the lifestyle and health of the aged population in recent years, which allow for independent living, and the increase in the variety of services offered to the aged population at home (for

[35] The Central Bureau of Statistics - Press Release for the Senior Citizen Day of September 27, 2017 - https://goo.gl/cxEkj4

example, emergency call centers, medical care at home, etc.). Furthermore, the ability to be assisted by live-in caregivers makes it easier for the elderly to stay at home.

Another alternative to the operating segment is retirement homes which are mostly characterized by elderly residents of middle-to-low socioeconomic status, who are not independent and are in need of constant medical and nursing services, with the cost of residence in such homes being lower than that of senior homes.

It is noted that Palace's management estimates that the existing alternatives on the market do not fully address the social and cultural life aspects that Palace offers in the senior homes, and the sense of security that senior homes provide to their tenants, which constitute a significant consideration when choosing an alternative to senior housing,

11.9. Manner of performance of the Group's acquisitions in the senior housing segment

For a description of the manner of purchase and exercise of the Group's rights in properties, see Section 8.1.9 of the 2013 Periodic Report, which section is included herein by way of reference.

11.10. Acquisitions made during and after the Report Period

No acquisitions were made during the Report Period and thereafter.

11.11. Competition

To the best of Palace's knowledge, as of the Report Date, there are more than 50 entities operating approx. 100 senior homes in Israel, among which are Mish'an Center, Mediterranean Towers, Ahuzot Rubinstein, Bayit Bakfar and others, with half of them located in the Tel Aviv District. In the estimation of Palace's management, the following may be listed among the factors that affect the structure of the competition in the sector: (1) Geographical location, which constitutes a central consideration in the choice of a senior home by potential tenants, who tend to prefer a senior home located in proximity to their family members' place of residence or in proximity to their previous living environment; (2) The nature of the tenants in the senior home and their lifestyle, due to the importance of the cultural and social life that senior homes offer tenants; (3) The standard of the residential units, public areas and other facilities that the senior home offers its tenants; (4) The amount of the deposit and the usage fees collected from the tenants. In Palace's estimation, as of the date of this Report, Palace's market share in the senior housing market is approx. 4.5% based on the presently existing homes and irrespective of the operation of the Medical units.

Principal methods for coping with the competition

In order to preserve Palace's competitive position in the senior housing market and cope with the existing competition, Palace takes, *inter alia*, the following measures:

1. Preserving and ensuring a high standard of services and maintenance in the senior homes. In Palace's estimation, the standard of maintenance and services that Palace provides its tenants is among the highest in the sector.
2. Constructing new senior homes in attractive and competitive geographic locations, built to a high finishing standard that includes public areas, luxurious convenience facilities, including infrastructure for the provision of functional services according to the tenants' needs.
3. Preserving and ensuring a high level of tenant satisfaction, attention to their various needs and quick personal response.

4. Maintenance of an effective marketing and sales layout and branding of the chain as a premium chain under the "Palace" brand.

In the estimation of Palace, its competitive position is favorably affected by the following factors: The reputation and high branding of the existing homes (Palace Tel Aviv and Palace Ra'anana), impeccable management and service, the Group's financial soundness, presence in demanded marketing areas and more.

In the estimation of Palace, its competitive position may be adversely affected by the following factors: entry into and/or expansion of competitors into the senior housing market, mainly in the geographical areas in which Palace operates.

11.12. Goals and business strategy in the segment

For a specification of the Company's goals and the Group's strategy, see Section 26 of the Report.

12. The Granite Segment

12.1. General information about the Granite Segment

As of the Report Date, the Company, through Canit Hashalom, holds 100% of the issued and paid-up capital of Granite Hacarmel, which is mainly active in the marketing of alternative energy sources (LPG and natural gas) through its subsidiary Supergas, and in the treatment of water, wastewater and chemicals, through its subsidiary GES.

12.2. Alternative energy sources – general information

In the marketing of alternative energy sources, Granite operates through Supergas.

12.2.1. Marketing of alternative energy sources

Supergas is engaged in the marketing of alternative energy sources such as LPG, natural gas and compressed natural gas ("**CNG**"). Alternative energy sources are mainly used in the operation of industrial burners, the operation of ovens in bakeries and restaurants, the heating of institutions, the heating of henhouses in agriculture, and in household cooking and heating. In the context of such activity, Supergas purchases locally, imports, stores, markets and distributes LPG to industrial, business, institutional and household customers.

12.2.2. Restrictions, legislation, standardization and special constraints applicable to the operations of Supergas

For details with respect to restrictions, legislation, standardization and special constraints applicable to the operations of Supergas, see Section 12.15 below.

12.2.3. Changes in the scope and profitability of Supergas

See Section 3.1 of the Board of Directors' Report (the contribution of the Granite segment to the business results).

12.2.4. Developments in the markets of the Supergas operations or changes in the characteristics of its customers

Recent years have seen an intensification of the competition in the marketing of alternative energy sources in the LPG market, mainly due to an increase in the number of competitors, which leads to a decrease in prices in the sector. However, Supergas' standard of service and reputation are also factors in customers' decisions on the choice of supplier in this sector.

12.2.5. Critical success factors in the Supergas operations and the changes occurring therein

The key success factors are: developed marketing, distribution and logistics, reliability of supply, ability to extend credit to customers, a developed billing and collection system, professional knowledge, safety level, service quality and price.

12.2.6. Changes in suppliers and raw materials in the operating segment

For details with respect to raw materials and suppliers, see Section 12.13 below.

12.2.7. Key entry and exit barriers of the Supergas operations and the changes occurring therein

LPG marketing requires the receipt of a gas supplier license from the Ministry of National Infrastructures, Energy and Water Resources (the "**Ministry of Energy**"). The receipt of such license and compliance with the conditions thereof, and with the conditions of additional provisions of the law that apply to those operating in this sector, entail considerable investments in manpower and equipment.

Natural gas operations require engagement for the purchase of natural gas. CNG operations require the receipt of a CNG supplier license from the Ministry of Energy.

Supergas has long-term contractual engagements with suppliers and customers, which might be a barrier to exit the sector. Furthermore, the vacating of various sites and facilities may involve costs and may also serve as an exit barrier.

12.2.8. Structure of the competition in the Supergas operations and changes occurring therein

For details with respect to the structure of the competition in the operating segment and changes occurring therein, see Section 12.8 below.

12.3. Products and services

Alternative energy sources

Supergas is primarily engaged in the marketing of LPG, natural gas and CNG. Supergas' products serve as energy sources in the operation of industrial burners, the operation of ovens in bakeries and restaurants, the heating of institutions, the heating of henhouses in agriculture, and in household cooking and heating. LPG is marketed to customers in movable gas containers (of 12 kg and 48 kg capacities) and by means of the refilling of gas in immovable bulk gas containers located on the customers' premises. Supergas also markets to its customers LPG-operated devices (water heaters, heaters and household radiators). Natural gas is marketed to customers by means of the natural gas distribution network directly to plants or by means of conveying CNG in containers to plants to which the distribution network has not yet arrived.

12.4. Breakdown of revenues and profitability of products and services

Supergas' revenues from the operations of marketing alternative energy sources in 2015 and 2016 and for the Report Period, totaled NIS 499 million, NIS 505 million and NIS 556 million, respectively, which represent 21% of the Company's total revenues on a consolidated basis in each year.

12.5. Customers

Supergas' customers in the alternative energy sources segment include industrial customers, various institutional and commercial customers, customers engaged in agriculture, commerce and private households. Supergas is also the only LPG supplier to the Israel Defense Forces (IDF), the Israel Police and the Israel Prison Service.

Supergas' engagements with its commercial customers include installation of the equipment, storage of the LPG, and with some customers – the supply of customer-premises equipment. The term of Supergas' engagement with its customers is affected, *inter alia*, from the amount of investment in the equipment made available to the customer. With its institutional customers, engagements are mostly based on the winning of tenders.

Supergas is not dependent on a single customer or a small number of customers, whose loss would materially affect it. Furthermore, Supergas has no single customer the revenues from whom are 10% or more of the total revenues of Supergas.

12.6. Marketing and Distribution

Marketing of alternative energy sources

Supergas markets its products both directly and through independent agents that act to seek and engage with customers. LPG sales to household and small business customers are also carried out through call centers located in the various branches of Supergas. LPG supply to customers is carried out by means of transportation of movable gas containers (of 12 kg and 48 kg capacities) and by means of the transport of LPG in tanks for the purpose of refilling immovable bulk containers (of various capacities) located on the customers' premises.

Supergas, through wholly-owned subsidiaries thereof, acts to market natural gas and CNG among potential institutional and industrial customers in various regions all across the State of Israel. For the marketing of natural gas, Supergas has recruited professionals that specialize in the planning and construction of natural gas and CNG systems, and it further engaged with a number of engineering companies specializing in these fields, in order to provide the customers with services of conversion of the energy systems installed with the customers to working with natural gas. The supply of natural gas to the customers is carried out by means of the gas pipe that runs from the Tamar Reservoir to the natural gas reception terminal at the shores of the State of Israel, and subsequently on to the national transportation system and the regional distribution networks. Supergas is dependent on such gas pipe. In addition, Supergas markets CNG in tanks to plants which the transportation system has not yet reached.

12.7. Order backlog

Most of the orders of alternative energy sources' products are delivered a short time before the supply date.

12.8. Competition

The alternative energy sources market is characterized by the existence of competition, both with respect to the product types and with respect to the marketing and distribution to commercial, institutional and private customers. The products marketed by Supergas face competition against various fuel products, which are also used in the operation of industrial burners and ovens. In recent years, competition between the companies operating in the segment has increased, which led, *inter alia*, to an increase in discounts to customers, to flexibility in the credit extended to customers and the terms of payment. The market features strong competition, as the product marketed by Supergas and its competitors is uniform.

In LPG marketing, Supergas' main competitors are Pazgas Ltd., the American Israeli Gas Corporation Ltd. (known as Amisragas) and New Dorgas Ltd. There are also several other small gas companies in the market. In the estimation of Supergas' management as of the Report Date, Supergas' market share in LPG marketing is approx. 18%.

In natural gas marketing through the distribution network, Supergas' main competitors are Dor Alon Gas Technologies Ltd., Delek Natural Gas Ltd. and Amisragas.

The principal considerations taken into account by customers when choosing an LPG and natural gas supplier are: a professional engineering and technical layout, supply reliability, safety, service and the price of the product.

Supergas dedicates efforts to the improvement of its customer service, *inter alia*, by improving availability, safety and reliability. Supergas further acts to enhance its employees' professional knowledge.

12.9. Seasonality

LPG consumption is affected by seasonality. LPG sales in the wintertime are higher, since LPG is used for heating, among other things.

12.10. Fixed assets, real properties and facilities

Alternative energy sources

Supergas operates two main logistic facilities for the storage, refilling and supply of LPG: (1) A storage, refilling and distribution facility in Kiryat Ata in an overall area of approximately 15 thousand sqm. This area is leased by Supergas from the Israel Land Authority. The facility includes LPG warehouses with an overall storage capacity of approx. 300 tons in bulk tanks and approx. 250 tons in containers; (2) a central logistics center located in the Ramla industrial zone in an overall area of approximately 4.4 thousand sqm. This area is leased by Supergas from the Israel Land Authority. The facility includes a warehouse for the storage of LPG cylinders with an overall storage capacity of 100 tons, equipment warehouses, a heating department, a workshop, a laboratory and a machining shop; (3) In addition, Supergas leases storage volume of approx. 1,500 tons in the facilities of EAPC in Ashkelon, which allows it, *inter alia*, to import LPG, accumulate a stock of LPG thereby reducing LPG importation in wintertime.

In addition, Supergas also stores LPG in tanks installed on the customers' premises in order to supply it to such customers, and it further lends its customers equipment owned thereby (gas containers, regulators and gas meters) against the deposit of an appropriate deposit according to the Control of Prices of Commodities and services Order (Determination of Supervision Level and Maximum Deposit Prices for Gas Equipment), 5776-2015.

Supergas holds a plant for natural gas compression in the Alon Tavor Industrial Zone, in the total area of approx. 11 thousand sqm. The plan includes an advanced system for the treatment of natural gas that arrives at the plan by means of the transportation network and the compression thereof to high pressure. CNG is transported to the customers' premises by means of tanker trucks held by Supergas.

12.11. Intangible assets

12.11.1. Trademarks

Supergas has registered trademarks by which it is recognized as a longstanding, known and dominant company in the Israeli market. The principal trademarks are: "Supergas Israeli Gas Distribution Company Ltd.", which includes Supergas' logo, and "Supergas Natural", which includes the logo of Supergas Natural.

12.11.2. Distribution rights

Over the years, Supergas has acquired gas distribution rights from agents that had worked therewith in various geographic areas. The payments paid for the purchase of the rights are presented in the Financial Statements as distribution rights at the reduced cost of NIS 46 million.

12.11.3. Licenses

Supergas holds a gas supplier license from the Ministry of Energy for LPG purchase and marketing in portable and immovable containers, GPG storage in portable containers, LPG transportation, LPG refilling in portable containers and LPG bulk storage, LPG purchase and marketing in non-refillable containers and LPG purchase and marketing to gas-operated vehicles in fueling stations. Furthermore, Supergas Home Ltd., a wholly-owned subsidiary of Supergas, holds a gas supplier license for LPG purchase and marketing in portable and immovable containers.

Supergas Natural holds a CNG supplier license from the Gas Authority at the Ministry of Energy for the refilling of CNG tanker trucks via a fixed compression station, and for the transportation of CNG to consumers through CNG tanker trucks.

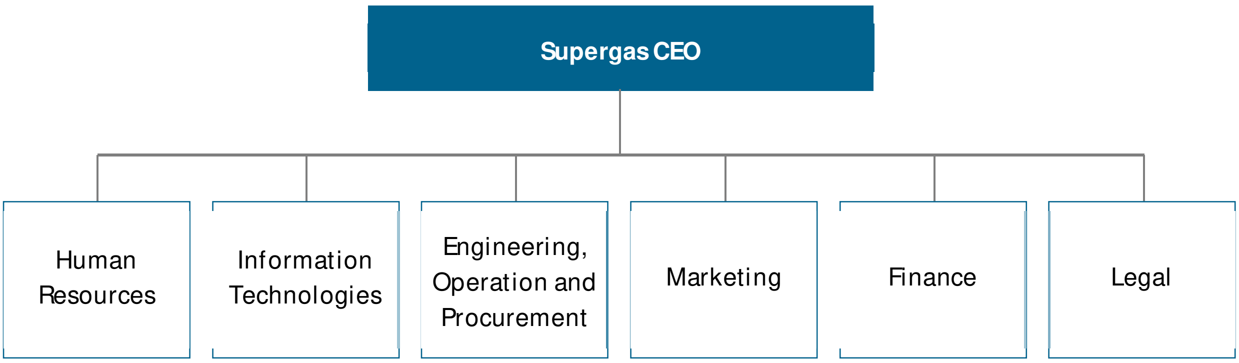
Super N.G. Ltd. ("**Super NG**") and Super N.G. Hadera and the Valleys Ltd. ("**Super NG Hadera**") hold licenses for the construction and operation of a natural gas distribution network.

12.12. Human capital

12.12.1. Organizational structure and workforce

Supergas places a special emphasis on the quality of human capital, by employing professional manpower possessing knowledge and vast experience in the variety of fields required within the areas of its operations. Most of the Company's employees, mainly in the management ranks, have substantial tenure with the Company and extensive experience in the fields of its operations.

12.12.2. The following chart describes Supergas' organizational structure as of the Report Date:



As of December 31, 2017, Supergas employs approx. 354 employees. The following table specifies the breakdown of employees into the main fields:

Position	Number of Employees December 31, 2017	Number of Employees December 31, 2016
Officers and senior management	6	6
Marketing, sales and service	239	250
Finance	38	27
IT	4	4
Human resources and administration	2	2
Engineering, operation and procurement	65	63
Total employees	354	352

12.12.3. Investments in training, instruction and development of the human capital

Supergas holds professional training and instruction sessions for its employees, according to the employee's position and the needs of Supergas. Supergas' employees participate, *inter alia*, in exhibitions, seminars and study days on various matters pertaining to Supergas. Instruction sessions on safety, fire, work at heights and so forth are conducted according to the duties prescribed by the provisions of the law applicable to Supergas and its operations. Furthermore, a special emphasis is placed on instruction sessions on safety and service.

12.12.4. Employment agreements

255 employees employed by Supergas and its subsidiaries are employed under the provisions of two collective bargaining agreements that are periodically updated in negotiations (about every three years).

The collective bargaining agreements regulate the entire employment relations, and, *inter alia*, the employment terms and conditions (including for specific groups such as technicians), social benefits (pension or managers' insurance, advanced study fund, leave, sick leave, recuperation and the like), participation in expenses such as telephone and vehicle, prior notice, dismissal, confidentiality and non-competition, discipline and more.

The employment terms and conditions of other employees, including the officers and senior management employees, are regulated by means of personal agreements and their conditions are individually determined.

12.13. Raw materials and suppliers

Alternative energy sources

Supergas, as other gas companies in Israel, is dependent on Oil Refineries Ltd. ("**ORL**") and Oil Refineries Ashdod Ltd. ("**ORA**"), as primary and central suppliers of LPG. In the event that ORL and ORA do not provide Supergas with the quantity of LPG it wishes to purchase therefrom, and Supergas is required to increase the quantity of LPG directly imported thereby, a preparation period will be required and additional costs may be involved. Such import will be subject to and contingent on finding a solution to the existing problem of lack of sufficient storage space for the imported LPG and ability to unload the same. However, it should be noted that ORL and ORA are obligated by law to refrain from discrimination in the supply of LPG to their customers. Due to the increase in LPG consumption in the winter months and the inability of the Israeli refineries to supply such quantities, a shortage of LPG occurs in the winter months. Therefore, Supergas imports LPG. The price of imported LPG is mostly higher than its purchase price from the refineries in Israel.

In 2015, 2016 and 2017, Supergas purchased from Israeli refineries approx. 73%, approx. 73% and approx. 68% of the total amount of LPG purchased thereby, respectively. The rest of the LPG purchased by Supergas was purchased primarily from import.

The State Economy Arrangements Regulations (Legislative Amendments) (Gas Sale by Refineries and Gas Suppliers), 5770-2009, prescribe the quotas to be supplied by refineries to gas marketing companies in months of shortage. See Section 12.15 below with respect to these regulations.

Supergas, as the other natural gas marketers, is dependent on the Tamar reservoir, which is the sole source of natural gas supply to Israel. Supergas has an agreement for the purchase of natural gas with Tamar Partnership, which produces natural gas from the "Tamar" reservoir, and it occasionally purchases natural gas in interruptible transactions from various bodies. In recent years, several other gas reservoirs were found, including the Leviathan

Reservoir, and the reservoirs "Karish" and "Tanin" which are a potential gas source for future use. As of the Report Date, commercial use of these reservoirs is yet unavailable.

In February 2018, Supergas Natural signed an agreement with a third party for the purchase of natural gas in the amount of approx. NIS 400 million for the purpose of marketing the same to its customers. Supply is expected to commence during 2020 for a period of approx. 7 years. The agreement includes mechanisms of a minimal purchase undertaking and compensation as per the standard in similar transactions.

12.14. Environmental risks and their management

12.14.1. General

Supergas deems environmental protection, the prevention of environmental hazards, and adherence to maximum safety in all components of its business operations, as values of utmost priority. Supergas dedicates great resources and time to realize this purpose. However, due to Supergas' operations and its working with hazardous substances, it involves several environmental risks stemming from the possibility of Supergas' operations leading to various environmental hazards. To cope with such environmental risks, Supergas acts for increased safety in its various operations and for compliance with the mandatory provisions of the law pertaining thereto.

Supergas routinely acts for implementation of and compliance with the provisions of the law and regulation applicable thereto, including the directives and instructions of the Ministry of Energy and the Ministry of Environmental Protection. Supergas is also in constant contact with the municipalities relevant to its operations, the Israel Fire Services and any other relevant authority – all, in order to prevent environmental hazards and minimize potential environmental risks.

12.14.2. Environmental risks bearing material implications

LPG is a hazardous substance to both those working therewith and the environment. Improper activity and/or use thereof may cause explosion, flare-up, or poisoning, and consequently harm persons, the environment and property. Working with LPG thus dictates extra care in adhering to various safety rules and taking various precautions, which Supergas follows and acts for assimilation thereof amongst its employees and suppliers. Due to the aforesaid and as shall be further specified below, Supergas' operations is subject to various provisions of law; various regulatory provisions; requires various approvals and licenses and is reviewed by various administrative authorities, such as the Ministry of Energy and the Ministry of Environmental Protection.

Supergas has permits for the construction and operation of LPG repositories across the country, including the logistics center in Ramla and Supergas' refilling, storage and distribution facility in Kiryat Ata. For the past several years, the facility in Kiryat Ata has not had a business license due to the municipality's refusal to grant a business license, as aforesaid. For the legal proceedings pertaining to the gas farm in Kiryat Ata and the conditions required for its operation, see Notes 32B4 and 32B5 to the Financial Statements. Supergas has an approval from the Israel Fire Services for the Kiryat Ata facility, effective until January 2019.

Poison permit – The Hazardous Substances Law, 5753-1993, prescribes that the holding of LPG in a site at which the amount of LPG storage exceeds 8,000 kg requires a "poison permit" from the official in charge authorized by the Minister of Environmental Protection. Furthermore, a poison permit is also required for the natural gas compression plant in Alon Tavor. Following discussions between Supergas and the Ministry of Environmental Protection, the Ministry's approval for the continued operation of the gas farm in Kiryat Ata has been obtained, in the outline specified in the approval issued until June 4, 2018 and permitting Supergas to use the facility subject to conditions specified in the permit. Furthermore, Supergas holds poison permits for the refilling and supply facilities owned thereby.

12.14.3. Civil, tortious and criminal liability and administrative sanctions

In view of the nature of its activity and business, Supergas is exposed to various civil, criminal, administrative and tortious claims, inter alia in cases of damage occurring as a result of various incidents related to LPG or natural gas. This may adversely affect Supergas' business results, its business and its goodwill. In order to insure its assets and its liability deriving from the work with hazardous substances as aforesaid, Supergas purchases standard insurance policies customary in Israel. Such policies are subject to various exclusions and restrictions. There is no certainty that the coverage and/or the liability caps of the policies cover all of the risks involved in Supergas' business.

In addition, due to the provisions of the law and the regulation applicable thereto, Supergas is exposed to the initiation of criminal proceedings against it, including the filing of indictments against its officers and itself, and to the imposition of various administrative sanctions thereon. A conviction of criminal offenses might lead to a criminal record against the officers of Supergas and against the Company and to the imposition of heavy fines on Supergas. Administrative sanctions against Supergas might lead to the imposition of (temporary or permanent) bans on Supergas' business or parts thereof.

12.15. Restrictions and Supervision over the operations of Supergas

The operations of Supergas are subject to laws, regulations and orders which pertain, *inter alia*, to the determination of specific instructions pertaining to the marketing of the products, to the determination of standards of quality, safety, security, storage, labeling and identification of products, transportation, proper business management, consumer protection, environmental protection, price control and various legislation and standardization restrictions. Various regulatory requirements, including ones requiring compliance with strict safety requirements for the purpose of supply of LPG and CNG, compel Supergas to make considerable financial investments in order to comply therewith. Set forth below is a concise review of laws, regulations, orders, restrictions and requirements which are material to Supergas' business:

Licensing and safety

The Gas Law (Safety and Licensing), 5749-1989 (the "**Gas Law**") regulates the matter of licensing of gas suppliers and the matter of safety in work with gas. The law requires, *inter alia*, receipt of a license for the supply of gas and for the performance of gas work and receipt of a permit for the installation of gas facilities. The Gas Law further requires that gas systems be tested periodically.

In addition, there are binding standards for gas containers, gas systems, the installation of a central gas system etc. Standardization includes, *inter alia*, a labeling duty, technical instructions, pressure tests and safety tests that must be carried out prior to the supply of gas, as well as the performance of routine periodic tests for LPG containers and for gas systems and facilities.

As gas is defined as a hazardous substance, various activities with gas require permits under the Hazardous Substances Law, 5753-1993 (the "**Hazardous Substances Law**"). The Hazardous Substances Law prescribes that no person shall work with poisonous substances unless holding a poison permit from the commissioner as defined in the Hazardous Substances Law. Supergas has a general poison permit for its activity and also for facilities thereof which require a poison permit as aforesaid.

In the framework of its operations, Supergas transports, both itself and through subcontractors, LPG and CNG, which, as aforesaid, are deemed hazardous substances. For the purpose of such operation, Supergas holds an appropriate license for transportation and a license for transportation of hazardous substances according to the Transportation Regulations.

Purchase of LPG from the refineries

In 2007, control over the refineries by way of setting a maximum LPG price was lifted and in its stead, supervision is effected by way of reporting on profitability, prices and quantities. If one or more of the following cases takes place: (1) the refineries fail to comply with the reporting duties applicable thereto in relation to quantities and prices of petroleum products; (2) it transpires that the refinery sold LPG at a price exceeding the import price in the month preceding the month in which the sale was made; or (3) the refinery supplied LPG to different consumers at a different price at the same time - control of the ex-refinery LPG maximum price shall be reinstated.

Furthermore, in 2009, regulations[36] were promulgated, which regulate the matter of LPG sale by the refineries. Among other things, the regulations define new, small and large gas suppliers, and the corresponding gas allocations to such suppliers in months of shortage, i.e. months in which the refinery is unable to supply the full gas demand therefrom.

Control of LPG prices

The Control of Prices of Commodities and Services Order (Application of the Law to LPG), 5770-2010 prescribes that supervision over LPG will be at the level of reporting on profitability and prices according to Chapter G of the Control of Prices of Commodities and Services Law, 5756-1996 (the "**Control of Prices of Commodities and Services Law**"). The manner of reporting on LPG profitability was published under the said order in May 2010, and according thereto gas marketing companies, including Supergas, shall annually furnish the Supervisor of Prices with data as stated in the manner of reporting on profitability.

September 2011 saw the publication of the report of the Socioeconomic Change Committee (the "**Trajtenberg Committee**"), in which report the Trajtenberg Committee proposed to impose, for the short term, control over the ex-refinery and retail LPG prices, which would lead to their reduction. At the same time, the Trajtenberg Committee proposed to set up a governmental team that would propose further reform in the LPG sector.

In May 2013, a letter from the Ministry of Energy was received at Supergas' offices, from which letter it arises that the Director of the Fuel and Gas Administration and the Supervisor of Prices at the Ministry of Energy are considering recommending the imposition of control over LPG prices in sales via central gas dispensers and via containers to the private sector, further to the supervision at the level of profitability reporting as described above. The letter includes a preliminary draft of attribution of Supergas' costs to the LPG margin, which was prepared by the Fuel Administration and is based, according to the letter, on data submitted by Supergas and data processing by the Ministry of Energy. Supergas responded to the Ministry of Energy and, *inter alia*, rejected most of the calculations and assumptions underpinning the said letter.

As of the Report Release Date, Supergas is unaware of whether it has been decided to impose such control. It is noted that the State Auditor's report of October 2017 includes a recommendation whereby the Ministries of Energy and Finance should address updated figures regarding the profitability of LPG suppliers in the household sector, while examining the effect of legislation changes that were made in recent years on the competition in this market. Insofar as control is imposed, the manner of its imposition and the implications thereof are unclear. Therefore, Supergas is unable to predict the effect of control on the Company, if and insofar as imposed.

Moreover, the Control of Prices of Commodities and Services Order (Determination of Control Level and Maximum Prices for a Deposit for Gas Equipment), 5776-2015 defines the maximum deposit prices that a gas supplier may charge a domestic gas consumer for the supply of gas equipment and prohibits the collection of a deposit for gas equipment not listed in the order. The order also sets, *inter alia*, provisions concerning an update of the deposit price and a refund of the deposit to the consumer.

Promotion of competition in the gas sector

[36] The State Economy Arrangements Regulations (Legislative Amendments) (Gas Sale by Gas Suppliers and Refineries), 5770-2009.

In the context of increasing the competition in gas for domestic consumption, laws and regulations were enacted with respect to the conduct of gas companies vis-à-vis domestic consumers. Such laws and regulations regulate, *inter alia*, the manner of replacing a gas supplier, the prohibition on retention actions vis-à-vis customers who have given a gas supplier replacement notice, the refunding of gas deposits, the grant of option to an incoming gas supplier to purchase the gas tanks from the outgoing gas supplier etc.

Supergas is also subject to various provisions in the framework of its being an entity that provides a service to consumers, both in the context of the Consumer Protection Law (such as scheduling the time for technician arrival, maximum hold time for human telephone response, etc.) and in the context of specific legislation (such as which services are included in the gas price, various provisions concerning the manner of charging for gas consumption, conduct vis-à-vis debtors, etc.).

June 2015 saw the entry into effect of regulations took pertaining to the provision of information concerning gas supply. Such regulations impose a duty on gas suppliers to provide the consumer, on the gas invoice, with the addresses of the other consumers connected to the same central gas system or with an identification code for the supplier's website where such addresses will be available. In addition, gas suppliers are required to transfer, at the beginning of every month, to the Director of the Gas Administration, a report specifying the average prices charged to domestic consumers in the two months preceding the report, broken down by local authority, the type of gas infrastructure (12/48 Kg containers, portable container, immovable container) and the type of service provided (e.g., installation, connection and supply). The Director of the Gas Administration is entitled to post the report also on the website of the Ministry of Energy. Moreover, any gas supplier that has a website is obligated to post the appropriate report on such site.

In addition, additional legislative amendments were made in the Arrangements Law for the Years 2017-2018, the purpose of which is to increase competition in the gas sector and address, *inter alia*, a change of the majority of apartment owners required to replace the gas supplier, the prevention of discrimination between consumers connected to the same tank and in the deposit fees.

Draft of the Liquefied Petroleum Gas Bill, 5776-2015, various draft regulations and various orders

The Draft Bill, the new draft regulations and the new orders (which have been published for the public's comments) seek to regulate, *inter alia*, the licensing duty of LPG suppliers (including by agents) those engaged in LPG work, the validity term of the license of LPG suppliers, the duty to test LPG facilities and LPG-consuming appliances prior to the supply of LPG and once per the period to be determined, the duty to supply LPG only to a consumer with whom there is a written agreement, the duty to take out insurance to cover the liability of the LPG supplier for any incident in the sum no lesser than U.S. $5 million, the order of the actions to be taken upon a gas incident, etc.

In addition to the safety aspect, the Gas Bill proposes to authorize the Minister of National Infrastructures, Energy and Water Resources, in consultation with the Consumer Protection Commissioner and with the approval of the Knesset's Economic Affairs Committee, to determine criteria regarding the level, nature and quality of the services provided by an LPG supplier license holder. As of the Report Release Date, the Company cannot estimate if and when the said bill is promoted.

Natural gas operations

Supergas' operations in the natural gas marketing sector is subject to the provisions of the Natural Gas Sector Law, 5762-2002 (the "**Gas Sector Law**"), which is the principal law regulating the Israeli natural gas sector. The Gas Sector Law prescribes, *inter alia*, that engagement in activities of construction and operation of a transportation system or part thereof, construction and operation of a distribution network or part thereof, and construction and operation of a storage facility, are prohibited, unless done pursuant to a license granted by the Minister of National Infrastructures and in accordance with the conditions thereof.

The Gas Sector Law further prescribes that the following are prohibited from engaging in the sale and marketing of natural gas: (a) a transportation license holder; (b) an electricity supplier.

According to the Gas Sector Law, engagement in the sale and marketing of natural gas does not require a license, but the Minister of Infrastructures may determine, upon the fulfillment of the conditions prescribed by the Gas Sector Law and with the consent of the Minister of Finance and approval by the Knesset's Economic Affairs Committee, that, for a period to be determined, engagement in natural gas marketing will require a license. In April 2013, the Control of Prices of Commodities and Services Order (Application of the Law to Natural Gas and Determination of Control Level), 5773-2013 and an announcement by the Supervisor of Prices at the Ministry of Energy were published, whereby every marketer or anyone that has signed a contract for the marketing or sale of natural gas, is required to report on the profitability and prices of natural gas, once every six months, on the dates and in the manner published by the Supervisor.

Antitrust

Since 1999 Supergas has implemented an internal enforcement program in the format defined by the Antitrust Authority (the "**Antitrust Authority**"). Supergas updates the internal enforcement program from time to time and follows the outline defined therein for efficient and effective internal enforcement of the provisions of the Restrictive Trade Practices Law, 5748-1988 (the "**Restrictive Trade Practices Law**"), the regulations and the orders promulgated thereunder. Participation in the program increases the awareness of Supergas' employees and managers as aforesaid of the requirements of the Restrictive Trade Practices Law and opens up channels of communication between the employees and the senior management of Supergas, and also between them and the officer in charge of internal enforcement of the Restrictive Trade Practices Law, as appointed by Supergas' management. Beyond the aforesaid, through the enforcement program, Supergas is doing everything in its power to ensure that Supergas, its managers and its employees act and will act in accordance with the provisions of the law, thereby reducing the exposure of itself and its managers and employees to legal proceedings related to this matter. On September 13, 2016, investigators of the Antitrust Authority arrived at Supergas' offices for the purpose of collecting documents in connection with an investigation conducted by the Authority, on the suspicion of violation of the Restrictive Trade Practices Law. To the best knowledge of Supergas, the investigation of this matter by the Antitrust Authority is yet unfinished.

Standardization and quality control

Supergas markets its products in accordance with various standards that are relevant to the marketing and supply of LPG which are published from time to time by virtue of the Standards Law, 5713-1953. The standards specify technical requirements that apply to products including with respect to product specifications, methods of production, storage, supply, operation etc. Supergas is certified under quality standard ISO 9001-2000, which concerns quality assurance for the production-supporting management processes. Once every six months the Standards Institution of Israel holds an audit of compliance with the procedures and requirements. Supergas has also been certified under safety standard OHSAS 18001. Supergas has systems for quality control, security and quality management in accordance with the requirements of such standards. Compliance with the procedures and requirements is inspected by the Standards Institution of Israel every six months. Supergas has specific employees who are in charge of quality assurance.

12.16. Material agreements

Construction and operation of natural gas distribution networks

In the segment of construction and operation of natural gas distribution networks, Supergas acts through Super NG and Super NG Hadera, which are equally held by Supergas and by Shapir Civil and Marine Engineering Ltd.

In November 2009, Super NG was granted a license for the construction of a natural gas distribution network in the central region and for the operation thereof for a term of 25 years. Under the terms and conditions of the license, Super NG is obligated to invest approx. NIS 160 million in the construction of the distribution network, which sum will be paid over the course of 8 years according to the milestones specified in the license, and it will receive its revenues from a one-time connection fee and from the distribution fee tariff according to the size of the customer (the extent of natural gas consumption).

Super NG has several signed contracts with customers for natural gas distribution services in the Ramla Industrial Zone. In view of bureaucratic and regulatory difficulties which are delaying progress with rollout of the network and the connection of consumers, Super NG is acting to update the timetables and the conditions of the license.

In April 2013, Super NG Hadera was granted a license for the construction of a natural gas distribution network in the Hadera and Valleys region and for the operation thereof for a term of 25 years. Under the terms and conditions of the license, Super NG Hadera is required to invest NIS 217 million in the construction of the distribution network, which sum shall be paid over the course of 5 years, according to the milestones specified in the license, and it will receive its revenues from a one-time connection fee and from the distribution fee tariff according to the size of the customer (the extent of natural gas consumption).

Super NG Hadera is working on the completion of planning of sections of the distribution network and continues to develop the construction of the network. In view of bureaucratic and regulatory difficulties which are delaying progress with rollout of the network and the connection of consumers, Super NG Hadera is acting to update the timetables and the conditions of the license.

The shareholders of Super NG and Super NG Hadera have also provided, according to their holdings, a guarantee in favor of the Natural Gas Authority, in accordance with the terms and conditions of the tender and the license.

Treatment of Water, Wastewater and Chemicals

12.17. General information about GES

In the water, wastewater, chemicals and environmental protection sector, Granite operates through GES and consolidated companies thereof (the "**GES Operations**"). GES engages in engineering design, construction and production, operation and maintenance of plants for water filtration and improvement, desalination of seawater and saline wells, pumping stations and water pools, treatment of well water and treated wastewater and treatment of sanitary, industrial, and municipal wastewater. In addition, GES, by itself and thorough its subsidiaries, engages in marketing and development of chemical products for the purpose of metal treatment and protection, water treatment and also in the importation and marketing of oils, adhesives and chemicals for industry.

12.17.1. Structure of the competition in the GES Operations and changes occurring therein

GES and its consolidated companies act in this sector through two divisions:

The water and wastewater division

The division engages in the production, construction, operation and maintenance of seawater and brackish water desalination plants; wastewater treatment and treated wastewater reclamation; water betterment and wastewater treatment in the industrial sector; water purification and wastewater treatment in the municipal sector; provision of system operation and maintenance services; planning and production of systems for wastewater and water treatment. GES presently operates approx. 110 plants all across Israel.

Industrial chemicals division

The division engages in production, importation and marketing of chemicals and finishing processes for metals; chemicals for the preparation of surfaces for painting and industrial paint strippers; implementation of special chemicals for the treatment of water and wastewater, desalination and cooling towers for the municipal and industrial sector; electrochemical coating materials for the high-tech and electronics industries; industrial cleaning materials; special industrial adhesives and lubricants and chemicals for water and an operation of solvent recycling for parts washers.

12.17.2. Restrictions, legislation, standardization and special constraints applicable to the GES Operations

See Section 12.28 below.

12.17.3. Changes in the scope and profitability of the GES Operations

See Section 3.1 of the Board of Directors' Report (the contribution of the Granite Segment to the business results).

12.17.4. Developments in the markets of the GES Operations or changes in the characteristics of its customers

Recent years have seen a development in the perception of and attitude towards the water and wastewater industry, primarily in view of the increased awareness of the shortage of clean water in various parts of the world, including Israel, alongside technological developments in these fields that led to reduced water treatment costs and saturation in the construction of desalination facilities and water treatment sector in Israel, even though in Northern Israel, there is still a water shortage. On the other hand, increased regulation and enforcement create opportunities in the wastewater treatment industry.

12.17.5. Critical success factors in the GES Operations and the changes occurring therein

In the water and wastewater segment

The integration and implementation of advanced water and wastewater treatment methods and technologies, which lead to energetic and operational streamlining, are a factor that affects the production costs in the water and wastewater plants constructed and operated by GES. Such streamlining leads to tenders being won and to engagement in agreements in the water and wastewater segment for the sale and operation of water and wastewater treatment plants, in Israel and abroad.

In the chemicals segment

The production and distribution of high-quality chemicals of world leading producers to customers that demand high-quality and not necessarily inexpensive products.

12.17.6. Changes in suppliers and raw materials

Several factors, which are specified below, support the continued activity of construction, upgrade, operation and maintenance of plants for the treatment and desalination of wells and for the treatment and purification of wastewater and reclamation thereof for industrial and agricultural use, and possibly even an increase in the use of such means. Thus, such factors include the shortage of drinking water in some areas of Israel, the high costs of the potable water used both for drinking and for industry along with the damage to wells due to the salification and contamination of aquifers in past years and the strict enforcement of the regulation that governs the treatment of municipal and industrial wastewater. For details with respect to raw materials and suppliers, see Section 12.26 below.

12.17.7. Key entry and exit barriers of the GES Operations and changes occurring therein

The principal entry barriers in the operations of desalination and treatment of water and wastewater, are the accumulation of proven experience in the construction and operation of similar plants, which is a threshold requirement in most tenders and engagements in the sector, skilled and experienced manpower, including water and wastewater engineers and technicians, and the requirement to have the appropriate contractor licenses required for the purpose of construction of plants of such type.

The principal barriers for exit from this field are the undertakings to complete the construction of plants, the warranty period granted in the framework of the plant construction agreements, and the term of the undertakings under maintenance and operation agreements.

The principal entry barriers in the chemicals sector are the existence of a suitable production facility, which requires approvals by various authorities, chief of which is the Ministry of Environmental Protection, and the knowledge required for the production of the materials, as well as engagements with leading producers in the world for the receipt of intellectual property usage rights for the purpose of producing and supplying ready-made products for sale and distribution.

The principal barriers for exit from this activity mainly pertain to the ending of the lease agreement of the production facility's premises and the duties imposed in connection with the requirements of the law and the Ministry of Environmental Protection in the vacating of land on which operations of such type were conducted.

12.17.8. Structure of the competition in the GES Operations and changes occurring therein

For details with respect to the structure of the competition in the GES Operations and changes occurring therein, see Section 12.21 below.

12.18. Products and Services

12.18.1. Water and wastewater segment

The primary systems used by GES for the treatment of water and wastewater are: membranal high-pressure systems for the separation of salts, systems of filtration and purification through chemicals and various filters, anaerobic and aerobic systems for the treatment of industrial and municipal wastewater and systems for the treatment of sewage sludge. The systems include dosage, command and control units.

GES offers its customers a broad range of water and wastewater treatment systems and solutions, the principal of which are: Brackish water and seawater treatment systems; wastewater treatment systems; well betterment and improvement plants; water treatment methods based on diverse technologies; treatment of steam systems and energy centers; plants for the desalination of treated wastewater to irrigation standard.

GES offers customers project supervision and management, including construction, professional support and backup services, which include the instruction of operators at the customer's site, professional advice and consultation in the operation of the project, maintenance and operation services, monitoring and supervision for the purpose of performing process optimization and the performance of periodic surveys and ongoing maintenance of the project.

12.18.2. Chemicals segment

The principal services and products of GES in the chemicals segment include surface treatments, adhesives and sealing materials, chemicals for electrolytic coating and printed circuit boards, special industrial lubricants, industrial maintenance products, recycling of industrial cleaning materials and chemicals for water.

12.19. Customers

GES's customers include water corporations and local authorities, government-owned companies and industrial companies.

12.20. Marketing and Distribution

GES invests great efforts in diverse marketing activities in each of its operating segments. Such marketing activities include the following:

1. Domestic sales agents – some of GES's people are domestic sales agents who are on the ground on a daily basis in order to identify new customers, address the needs of existing customers, and market GES's products.
2. Focused sales efforts overseas, particularly targeting suitable markets both geographically and vis-à-vis potential customers who are engaged in relevant business.
3. Distributors – in the chemicals segment, there are some 10 large distributors (mostly stores) nationwide, through which GES markets some of its products.
4. Management and maintenance of informational websites at the addresses: www.ges.co.il and www.ges-texma.co.il, which include an extensive description of the company's operations and products and contact information.
5. Activity amongst professionals – GES maintains relations with professionals in the context of exhibitions (in Israel and abroad), professional conferences, training sessions, seminars, etc.
6. Tenders – GES has a system for identifying tenders and requests for proposals for the performance of projects relevant to its operating segments, including the preparation of tender bids and proposals for such requests.

In addition, GES conducts export activities in all of its operating segments. Most of GES's products marketed abroad are marketed under the "GES" brand.

12.21. Competition

Competitors in the operating segments of GES are a large number of companies engaged in the construction of systems for water purification and wastewater treatment, as well as companies engaged in the manufacture and import of chemicals. Competition exists both in the search for and identification of new customers and in the provision of high-quality services in all of GES's operating segments. Competition revolves around prices, service quality, financing terms and technical specifications. The operations of the divisions of GES in the fields of projects and operation have a large number of competitors, including: Nirosoft, Rimon, E.L.D., Elco, Winter, Odis, IDE, Palgey Maim, Lesico, Shtang, Mekorot Development, T.G.L., Minrav, Baran, Shikun & Binui Water, EPT, Hutchison, Ludan, Elad, Jetline, and D.S. Service Provision.

In the chemicals segment, each of the division's product lines has several significant competitors that produce and/or import alternative products to the division's products, such as: Amza and Elad Technologies in chemicals, Nalco and YWCT in water chemicals, Layogev, Pronat and Rotal in adhesives, and the large energy companies (Paz and Delek) in lubricants.

GES is handling the competition via, *inter alia*, the implementation of new, advanced technologies, analyzing and understanding customer needs and professionalization which enable the offering of a quality, advanced and efficient product in comparison to parallel products. This is performed through the engagement with new suppliers in existing markets, the development of new technologies through new suppliers and the implementation of advanced technologies of existing suppliers.

12.22. Production Capacity

GES's production layout is centered in two sites: Akko South and Askar (in the Akko area).

Water and wastewater segment

The production layout responsible for the construction of water and wastewater treatment systems is based in the Askar site, which is situated in the municipal area of Regional Council Matteh Asher. GES has the capacity to simultaneously produce a number of plants. The production may be carried out independently, as was done in the recent period for reasons of streamlining through subcontractors, with supervision thereof.

Chemicals segment

The Akko South site, which is situated in the municipal area of the Akko Municipality, hosts the production layout responsible for the production of special chemicals for the treatment of metals, water, wastewater, desalination, and cooling towers for the municipal and industrial sectors.

All finished products in the chemicals segment are manufactured to order. Under GES's policy, the production site does not produce a regular inventory of finished materials, but rather per customers' orders.

GES uses approx. 60% of the production potential of the production site. The potential production capacity is approx. 5,000 tons of various types of chemicals, assuming that production work is performed in two shifts per 24 hours, with work presently performed in one shift.

12.23. Fixed Assets, Real Property and Plants

GES and its wholly-owned subsidiary GES Plant Operation Ltd. have several water and wastewater treatment plants in the framework of BOT and BOO agreements with the private and municipal sectors. GES has machines and equipment that are used to produce chemicals and an evaporation plant for the treatment of industrial wastewater, which are situated in the Akko South production site. GES's production layout is centered in two sites: Akko South and Askar (in the Akko area), under lease agreements from a third party.

12.24. Intangible Assets

12.24.1. Trademarks

GES has a trademark on goods and services supplied thereby which include: the provision of environmental protection solutions, seawater and brackish water desalination, wastewater treatment and treated wastewater reclamation, water betterment and implementation of special chemicals for water treatment.

The registration of the trademarks is highly important, since they serve as means for the identification of GES's products in its business field with GES.

12.24.2. Distribution rights

In the chemicals segment, GES has a large number of marketing and distribution agreements with companies in Israel and around the world which are leading in their fields. Under such agreements, GES is the official representative in the marketing, production and import of these companies in Israel.

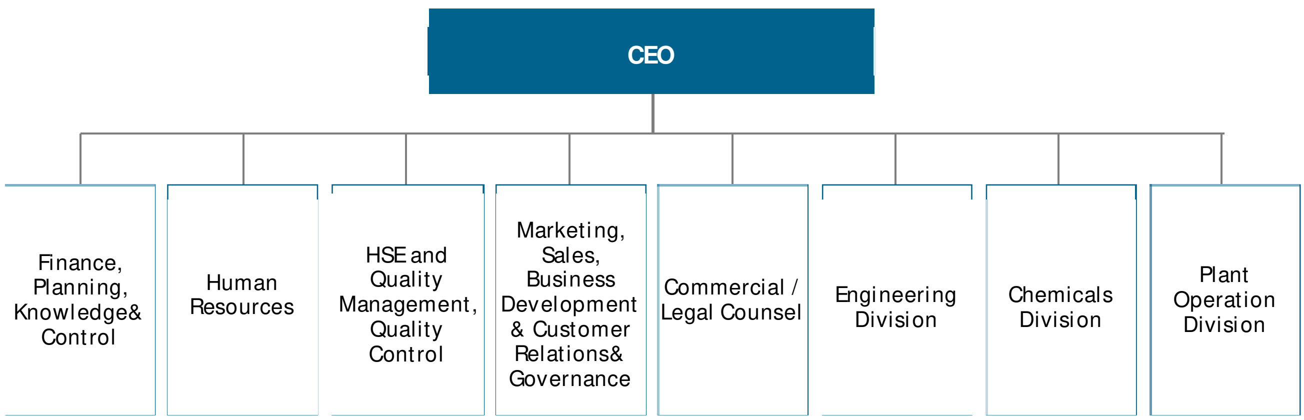
12.24.3. Marketing and distribution Agreements

The chemicals segment has a large number of marketing and distribution agreements with companies in Israel and around the world which are leading in their fields. Under such agreements, GES is the official representative in the marketing, production and import of such companies in Israel.

12.25. Human Capital

As of December 31, 2017, GES employs approx. 188 employees.

12.25.1. A description of the organizational structure of GES follows:



12.25.2. Breakdown of employees by position:

The breakdown of GES's employees is detailed below:

Position/Division	Number of Employees December 31, 2017	Number of Employees December 31, 2016
GES Management	23	23
Water and Wastewater Division		
Production and operation	78	94
Marketing and sales	17	20
Chemicals Division		
Production and operation	30	32
Marketing and sales	40	41
Total employees	188	210

12.25.3. Benefits and the nature of employment agreements

GES employs permanent employees, 33 of whom are employees who are subject to special collective bargaining agreements. GES is not dependent on any particular employee.

The other employees of GES are employees employed under personal employment agreements, temporary employees employed under the rules of the special collective bargaining agreement and the general labor law, seasonal employees, and contractor employees engaged under agreements with employment agencies.

The permanent, monthly and temporary employees are divided as follows:

Permanent employees are divided into two groups as follows:

1. **Permanent employees employed under a collective bargaining agreement –** As of the Report Date, this group consists of 33 employees (Generation A and Generation B). The terms and conditions of their employment are provided by a collective bargaining agreement of 1988, which is valid to date. GES employees working in the production department, workshop and junior clerks (according to an agreed list of professions) are subject to the terms and conditions of such collective bargaining agreement.
2. **Permanent employees under personal agreements** – As of the Report Date, this group consists of 155 employees. Standard employment agreements apply between GES and such employees which provide, in most cases, the employee's salary, working hours, social benefits, such as managers' insurance, provident funds, pension funds, advanced study fund, entitlement to leave, recuperation pay and sick leave, participation in mobile telephone expenses, reimbursement of *per diem* expenses, the period of prior notice for resignation and for dismissal, confidentiality and non-competition. Most of the employees are employed based on an overtime-inclusive salary. About 50% of the employees receive a company vehicle for their use for the purpose of fulfilling their duties. Salespersons are granted quarterly incentives. All personal contracts

include an express provision as to the application of Section 14 of the Severance Pay Law, 5723-1963, and the balance is covered by full severance pay contributions.

In addition, GES has agreements in place with several employment agencies for the placement of temporary professional employees. The temporary employees are usually employed for specific purposes and for predefined time periods.

12.25.4. Liabilities for the termination of employment relations

The liabilities of GES and its subsidiaries to employees for the termination of employment relations are covered by current payments to insurance companies for managers' insurance policies, pension funds and provident funds, and by a provision in the Group's financial statements reflecting liabilities thereof which are not so covered.

12.26. Raw Materials and Suppliers

The main raw materials used by GES for the water and wastewater operation are: finished equipment, which includes pumps, membranes, pressure cabins, tanks and chemicals for the operation of water and wastewater plants. Such raw materials and equipment items are acquired from leading companies in the world. All of the purchased raw materials and parts are checked by a quality control lab and the Quality Assurance Department of GES according to international standards. In some cases, equipment items are manufactured specifically for GES according to defined requirements for specific projects, especially when particularly good abilities and quality of materials are required according to the customer's demand. Supply times of such equipment range from one month to a period longer than one year. Substantial raw materials are mainly purchased from local suppliers, and parts are also imported, mainly from the U.S., Canada, Korea and European countries.

In the chemicals operation, GES uses numerous raw materials for its and its customers' purposes, the principal ones of which are: 60% nitric acid and technical hydrochloric acid. These raw materials are purchased chiefly from the local market. All of the purchased raw materials are checked by a quality control lab and the Quality Assurance Department of GES. Supply time of the raw materials in the chemicals segment is immediate when sourced locally and around two months when imported. Most of the imported raw materials are purchased from U.S. and European suppliers.

12.27. Environmental risks and their management

12.27.1.GES's operations of industrial and sanitary wastewater treatment, recycling of materials and water treatment and betterment, and production and distribution of chemicals (including adhesives, lubricants, oils) are subject to provisions that pertain to environmental protection and which are relevant to the operating segment, as well as to aspects of health and safety. Operations in such fields are performed under the supervision of the Ministry of Health which performs routine tests to examine the quality of the water generated in the treatment plants and in the desalination plant, and under the supervision of the Ministry of Environmental Protection, the Ministry of Health and the Water Authority over the quality of the wastewater treatment in the treatment plants and compliance with the production permit. In addition, in the context of this activity, supervision is exercised also by government authorities such as the Ministry of Environmental Protection, the Water Commission and the Water Economy Administration, the local authorities and the water and sewage corporations and relevant business licensing authorities. Under various provisions of the law and permits issued thereto, GES is obligated to comply with stringent standards with respect to the drinking water desalinated in its plants and the treated wastewater discharged into streams and into the sea or used in agriculture.

GES treats industrial wastewater created in the production of chemicals at GES's Akko South production site in full and in accordance with the provisions of the law and the requirements of the Ministry of Environmental Protection and the Municipal Association for Environmental Protection.

The implications of failure in the treatment of byproducts (such as sewage sludge and brine) created in the context of GES's operations constitute a risk of environmental hazard and soil contamination. Deviation from the provisions of the law and the requirements of the Ministry of Environmental Protection and the Municipal Association for Environmental Protection might lead to health damage or environmental damage, including the supply of substandard drinking water, harm to agricultural crops and soil contamination. GES also handles and trades in poisonous and hazardous substances within its business operation of manufacture and distribution of products in the segment of water and industrial chemicals and within the maintenance of GES's water and wastewater treatment plants. GES has valid poison permits and a hazardous substances certification. GES's chemicals production site includes a wastewater treatment plant. The plant treats the wastewater of the production site and the wastewater of customers transported to GES's plant with the approval of the Ministry of Environmental Protection.

Furthermore, since a large part of the GES Operations is based on the use of chemicals, GES is supervised by the Ministry of Environmental Protection and the municipal authorities and is committed to the protection of the environment and to working in accordance with the environmental standards, laws and regulations of the Ministry of Environmental Protection and the relevant municipal associations, including the provisions of the Hazardous Substances Law.

12.27.2. GES's policy on environmental risk management

GES strictly ensures to fully comply with all of the requirements of the provisions of the law pertaining to environmental protection. GES regularly implements Environmental Protection Standard ISO 14001 and is annually certified by the Standards Institution of Israel. GES implements an internal environmental enforcement program, under which periodic inspections are performed in order to ascertain that the company's operations in the various sites comply with the requirements of the various environmental protection laws and the business licenses applicable to the various plants operated by GES. GES conducts occupational medical and environmental monitoring on an annual basis to ascertain that there are no deviations from the level permitted under the standardization.

Once every three years, GES conducts a job safety analysis (JSA) in all of the company's sites and carries out the remedial actions required pursuant to the analysis.

GES employs a full-time safety and environmental protection manager, whose responsibility includes management, monthly supervision of sites, training and the organization of emergency teams for an environmental incident, investigation of incidents and implementation of remedial actions, in order to reduce the exposure to environmental risks. GES annually carries out occupational medical check-ups for employees who are exposed to hazardous substances and to noise in their work, in accordance with the provisions of the law. The check-ups for the employees and the medical follow-up are performed by the occupational clinic of the Rambam Hospital.

In the framework of GES's operations both in the water and wastewater treatment segment and in the chemicals production and distribution segment, use is made of materials defined as hazardous substances under appropriate licenses and poison permits issued for the purpose of water and wastewater treatment and also due to their being a raw material for the production of chemicals, which are also defined as hazardous substances. Failures in the production, operation, storage, use or transportation of such substances might lead to environmental hazards or to accidents, such as: flare up, air pollution, soil contamination and more. The GES Operations in such fields is performed under an environmental enforcement program in which exposures have been and are mapped, and based thereon, emphases are made and preventive action is taken and considerable management resources and input are invested.

12.28. Restrictions on and Supervision of the GES Operations

12.28.1. Water and wastewater

This operation in Israel is subject to various legal provisions that regulate environmental protection and the quality of the water and wastewater treated by GES in the various plants, chief of which are the Water Law and the regulations thereunder, the Prevention of Marine Pollution by Land-Based Sources Law, the Water Regulations (Prevention of Water Pollution – Use and Disposal of Sewage Sludge), the People's Health Ordinance and the regulations thereunder, the Water and Sewage Corporations Law and their rules, the Hazardous Substances Law, the Environmental Protection Law (Emissions and Transmissions to the Environment – Register and Reporting Duties) and more. Such laws, ordinances and regulations prescribe a line of provisions pertaining to the protection of water sources and the prevention of water contamination, the quality of the water and treated wastewater produced at the plants, the types of treated wastewater, the manner of disposal of the sewage sludge and wastewater in various cases, the hazardous substances that are used and the manner of storage thereof, the emission of contaminators from the GES plants and more. In addition to the aforesaid, GES operates in accordance with and by virtue of certificates, permits and specific instructions by the various authorities.

12.28.2. Chemicals

This operation is subject to various legal provisions that regulate environmental protection, chief of which is the Hazardous Substances Law and the regulations thereunder, the Clean Air Law, the Environmental Protection Law (Emissions and Transmissions to the Environment – Register and Reporting Duties) and more. Such laws, ordinances and regulations regulate the manner of preventing the emission of contaminators from GES's production plants and the reporting of such emissions, procurement, storage, production and trade in the hazardous substances distributed by GES and more. In addition to the aforesaid, GES operates in accordance with and by virtue of certificates, permits and specific instructions by the various authorities.

GES holds all of the licenses and permits required by law, as aforesaid.

12.29. Granite Segment – other operations

Other than the operations described above, Granite is a 50%-partner in a limited partnership that has built and operates a unique tourist attraction known as "Mini Israel", which presents miniature models of renowned Israeli sites.

12.30. Goals and business strategy

Supergas and GES periodically examine their strategic plans and update their goals according to the developments in the markets in which they operate. Supergas seeks to expand the range of energy solutions provided thereby to its customers and to expand and diversify its customers in its operating segments. Supergas and GES also act for the constant improvement of customer service and for strict compliance with safety and environmental protection rules, and also act for the identification of new business opportunities.

13. The Sonol Segment – Discontinued Operations

13.1.

Until July 2016, the Group operated through Sonol in two principal business sectors: direct marketing and fueling and retail complexes. The Group, through Granite Hacarmel, held 100% of the rights in Sonol.

13.2.

In accordance with the Group's strategy of focusing on the core areas of the real estate business while regularly examining its holdings that are not within its core business, on April 14, 2016, Granite Hacarmel entered into a transaction for the sale of all of its holdings (100%) in Sonol to Israel Oil & Gas Fund L.P., a limited partnership incorporated in Israel, the general partner of which is controlled by Mr. David Weissman, in consideration for a total sum of NIS 363.5 million, most of which will be paid on the transaction's closing date (subject to certain adjustments stipulated in the agreement), and some of which will be paid on a date subsequent to the transaction's closing date. As part of the transaction, it is agreed that as of the transaction's closing date and for a 4-year period, the Company and Granite Hacarmel will not compete with Sonol's business. This obligation does not apply to the operations and business plan of the Supergas Group.

On July 24, 2016, in view of the fulfillment of the conditions precedent specified in the agreement, the transaction was closed, without material change. On the closing date and thereafter, the purchaser paid such part of the consideration as was scheduled for payment on the closing date. For further details, see the Company's reports of June 18, 2015, October 26, 2015, February 2, 2016, April 14, 2016, June 19, 2016 and July 24, 2016 (Ref.: 2015-01-050991, 2015-01-141945, 2016-01-021562, 2016-01-048793, 2016-01-052239, and 2016-01-088873, respectively), which are included herein by way of reference.

13.3.

In view of the sale of Sonol and in accordance with GAAP, as of the transaction's closing date, Sonol is presented in the Financial Statements as discontinued operations. For further details, see Note 8 to the Financial Statements.

PART FIVE: ADDITIONAL OPERATIONS

14. Azrieli Group - Additional Business

The Group has various operations which are not included in the operating segments described above, and do not meet the quantitative threshold for presentation as reportable segments in the Financial Statements. These activities comprise mainly the following:

14.1. The e-commerce business

On June 2, 2016 the Company closed a transaction for the purchase of an e-commerce business from Buy2 Networks Ltd. This business is currently operated by Azrieli E-Commerce (formerly Netex New Media Ltd.).

This company has been operating an e-commerce website since 2010, which until February 2017operated under the brand name "Buy2". As of February 2017, this website was re-launched by Azrieli E-Commerce under the brand name "Azrieli.com" at the address www.azrieli.com ("**Azrieli.com**" or the "**E-Commerce Website**")

Azrieli.com offers internet users a range of products and services, which are supplied by various businesses of various areas, including electricity and electronics, fashion, home and garden, parents and children, and more. Furthermore, the E-Commerce Website grants internet users benefits that vary from time to time, including free shipping and express deliveries to the customer's home and payment in installments.

Azrieli.com facilitates a comprehensive solution of online marketing and sale for businesses that seek to sell products and services at Azrieli.com, including the storage of products in a central logistics center, the sale, supply and distribution of products to the customer's home, through third parties. Azrieli E-Commerce works on the development of long-term relations and work interfaces with the businesses active on Azrieli.com, aiming to retain and increase the cooperation. Alongside the sale of the businesses' products, Azrieli E-Commerce selectively purchases products it sells on the E-Commerce Website and supplies such products to customers by means of third parties.

In addition to the aforesaid business, as part of Azrieli.com's operations, the website displays a range of domestic tourism and foreign tourism (an operation in cooperation with a third party). Azrieli E-Commerce employs some 80 employees and its offices are located at the industrial zone of Hod HaSharon.

General description of the E-Commerce Business

Recent years saw changes in the shopping habits of Israeli consumers alongside technological changes that enable online shopping and render a larger range of online-offered products and services available to the consumer. Online shopping enables quick and convenient service which is customized to the consumer's consumption habits and preferences. In recent years, the e-commerce business in Israel has been developing at an accelerated pace and this sector is expected to double by 2021 and reach approx. NIS 15 billion per year and expected to represent approx. 12% of the Israeli retail market in that year[37].

Concurrently with the increase in the range of products purchased online by Israeli consumers, there is a noticeable increase in online shopping on international websites (such as eBay, AliExpress, Next and Amazon). In the estimation of Azrieli E-Commerce, the volume of the activity is affected by the volume of private consumption and changes in Israeli consumers' use of the internet. The growing use of the internet by means of mobile devices, such as tablets and cellular telephones, may contribute to greater exposure and availability of e-commerce services.

[37] Geocartography, data taken from a comprehensive study of the trade sector in Israel, March 2018 , conducted for Azrieli Group.

Entry and exit barriers

The setup of a line of suppliers, while developing ties and retaining the relationship therewith, may serve as an entry barrier to new players in the short-term and the mid-term. Furthermore, the development of the technology required for the operation of the e-commerce business in similar form and scope and the need to generate a high rate of user traffic may serve as entry barriers to new players, *inter alia*, due to the great importance of the website's reliability and the high costs involved in the recruitment of user traffic. Moreover, the building of a registered user database, including the ability of mailing thereto, also serves as an entry barrier.

Exit barriers may stem from the need to convert a complex set of agreements with various suppliers, and also from the need to preserve the brand name and its credibility among the public of customers.

Restrictions on and supervision of the operations

The e-commerce operations are subject to various laws, such as: the Consumer Protection Law, 5741-1981 and the regulations thereunder, the Privacy Protection Law, 5741-1981, the Communications Law (Telecommunications and Broadcasting), 5742-1982, and the Debit Cards Law, 5746- 1986. .

Furthermore, since purchases on Azrieli.com are made by means of credit cards, various provisions and restrictions required by the credit card companies apply, including security standard PCI.

Competition

The e-commerce market is a competitive market and includes competition by international websites that offer shipping to Israel (such as eBay, Amazon and AliExpress) along with Israeli e-commerce websites, such as Walla! Shops, Shufersal, GetIt, as well as the websites of other companies on which such companies directly offer their products for sale.

In the estimation of Azrieli E-Commerce, the success factors in the e-commerce operations are, *inter alia*: (a) The offering of high-quality products and services on attractive terms to internet users; (b) Engagement with reliable businesses, in a blend addressing a broad array of internet users; (c) User traffic and the size of the mailing list; (d) Reliable and available customer service; (e) Technological improvements and innovations that contribute to the improvement of the quality of the website's applications, with an emphasis on the devising of simple and user-friendly interfaces; (f) Compliance with supply time obligations, which contributes to the increase of the number of repeat purchases by Azrieli.com customers.

The Company's estimations with respect to the e-commerce operations, including the development of such operations in Israel, the increase in online purchases and the volume of operations in the segment constitute forward-looking information, within the meaning of this term in the Securities Law, which is based on publications in the field and subjective assessments by the Company's management as of the Report Date. There is no certainty that such estimations will materialize, in whole or in part, and they may also materialize in a materially different manner, inter alia due to factors that are beyond the Company's control, including changes in market conditions, growing competition and deterioration in the economic situation, which might affect customers' consumption habits.

14.2. Investments in financial assets available for sale in the banking and finance sector

14.2.1. Investment in Leumi Card

On May 26, 2008, the Company invested the sum of NIS 360 million, as a passive financial investment, in Leumi Card (total investment net of a dividend and consideration from the sale of Visa Europe Ltd.[38] that were received, as of the Report Date, is NIS 274 million), and in consideration for which Leumi Card issued shares to the Company representing 20% of the issued and paid-up capital of Leumi Card (post money and on a fully diluted basis) (the "**Investment Agreement**"). The Company's investment in Leumi Card is presented on its books as an available for sale financial asset, according to GAAP. The value of the Company's investment in Leumi Card as of December 31, 2017, in accordance with an independent valuation was approx. NIS 536 million.

Within the framework of the Investment Agreement, the Company undertook to comply with and fulfill regulatory requirements to be imposed, if any, on the shareholders of Leumi Card, in its capacity as an Auxiliary Corporation, as this term is defined in the Banking Law (Licensing), 5741-1981. To the best of the Company's knowledge, as of the Report Date, no regulatory requirements as aforesaid have been imposed on the Company except as specified below.

On May 6, 2010, for the purpose of clarifying the lack of material effect of the Company on Leumi Card, the Company's board of directors decided to irrevocably waive the Company's voting rights in connection with two percent (2%) of the issued and paid-up capital of Leumi Card held thereby, such that, in view of the said waiver, the Company is holding 20% of the issued and paid-up capital of Leumi Card and 18% of the voting rights therein.

Within the framework of the Investment Agreement, the Company and Leumi Card undertook to one another, *inter alia*, as follows:

1. **Recommendation on the appointment of directors** – The Company will be entitled to recommend the appointment of two directors to the board of directors of Leumi Card, as well as their removal from office and the appointment of others in their stead, with one director serving as an outside director according to the provisions of Proper Conduct of Banking Business. The agreement provides that should the Company's holdings decline to less than 20% due to a sale of shares or transfer thereof to an unauthorized third party, or less than 18% as a result of a private placement of Leumi Card shares, or less than 15%, the Company will be entitled to recommend the appointment of only one director. The Company's right to appoint directors shall expire in the event that its holdings decline to less than 10% due to a sale of shares or transfer thereof to an unauthorized third party or in any other event in which its holdings decline to less than 8%. On May 6, 2010, further to the said resolution of the same date, the Company's board of directors resolved to irrevocably waive the right to recommend the appointment of another director to Leumi Card, as an outside director. As of the Report Date, only one director holds office on behalf of the Company on the board of directors of Leumi Card, which consists of 8 directors (3 of whom are outside directors).
2. **Letter of indemnification** – In the agreement, the Company granted Leumi Card a letter of indemnification, under conditions back-to-back with the conditions of the letter of indemnification provided by Bank Leumi Le-Israel Ltd. ("**Bank Leumi**") in favor of the directors holding office at Leumi Card (and as long as it shall not have been changed without the advance written consent of the Company), whereby in any event in which Leumi Card will be obligated to indemnify the directors holding office therein on behalf of the Company, the Company will indemnify Leumi Card, upon receiving its written demand, for any amount paid by Leumi Card as aforesaid.
3. **Rights upon a transfer of shares** – The Company will have the right to tag along in a sale and/or transfer of control in Leumi Card to a third party who is not an authorized transferee of Leumi Financial Holdings Ltd. ("**Leumi Holdings**"), Leumi Card's controlling shareholder, until the expiration of the right according to the provisions of the agreement or the occurrence of certain events which are specified in the agreement, such as a public offering. In addition, Leumi Holdings was granted a right of first refusal and a bring-along right vis-à-vis the Company upon a transfer of shares.

[38] For details about the disagreement between the Company and Bank Leumi and the resolution thereof, in respect of the sale of Visa Europe Ltd., see Note 11(2) to the financial statements.

4. **Shareholder financing –** The parties have undertaken to provide financing to Leumi Card proportionately to their holdings at such time, pursuant to a resolution of the board of directors of Leumi Card. The agreement sets forth dilution formulae for the dilution of a party which does not finance its share as aforesaid.

Dividend policy in Leumi Card

The dividend distribution at Leumi Card is subject to the directives of the Supervisor of Banks, including compliance with capital adequacy restrictions mandated by the Basel Directives. Dividend distribution is allowed subject to the provisions of the Companies Law, which stipulates, *inter alia*, that the Company may perform a distribution out of its profits, provided that there is no reasonable concern that the distribution would deny the Company of its ability to comply with its existing and projected liabilities, when they become due. According to the dividend distribution policy document, which was updated and approved by Leumi Card's board of directors, it was decided on February 22, 2017 to distribute a dividend in the amount of NIS 50 million (approx. NIS 0.2 per share), which was paid on March 1, 2017. The Company's share in the said dividend is NIS 10 million. On February 19, 2018 it was decided to distribute a dividend in the amount of NIS 50 million (approx. NIS 0.2 per share), which was paid on March 4, 2018. The Company's share in the said dividend is NIS 10 million. Leumi Card's financials are publicly posted on Leumi Card's website.[39]

Loyalty Program

On May 26, 2008, the Company entered into a cooperation agreement with Leumi Card for the establishment of a program for the benefit of customers of the commercial centers and malls owned by the Company and/or affiliates of the Company, whose members would hold a Leumi Card card conferring special benefits and services (the "**Loyalty Program Agreement**").

The Loyalty Program Agreement regulates the relationship between the parties, and, *inter alia*, sets forth provisions with regards to the terms of the loyalty card to be issued to the customers of the commercial centers and malls of the Company and its design, including the Company's rights to the loyalty program trademark and the member database, and registration thereof in its name.

On January 7, 2010, the Company entered into a licensing agreement with Leumi Card for the use of trademarks, whereby the Company granted Leumi Card an exclusive license to use all of the trademarks registered in the Company's name in connection with the "Multi Azrieli" mark, in connection with a loyalty program of same name.

The license is effective throughout the term of the Loyalty Program Agreement and subject to the conditions thereof. During 2011, the Company registered the "Multi Azrieli" trademark.

In the agreement, the Company undertook to employ a management team to manage the Program's activities throughout the term of the agreement, at an annual cost that shall not exceed the amount of NIS 250,000, to be financed by Leumi Card. In addition, the Company neither has had, nor expects to have any revenues or benefits in connection with the Loyalty Program Agreement. To the best of the Company's knowledge, as of the Report Date, the Loyalty Program comprises approx. 150,000 valid loyalty cards, out of, to the best of the Company's knowledge, approx. 2.65 million valid credit cards that are held by Leumi Card customers.

The loyalty card provides discounts in some of the chains which have presence in the Group's malls, and at the parking lots thereof.

Developments during the Report Period

[39] https://www.leumi-card.co.il/he-il/GeneralPages/Pages/FinancialReport.aspx

In October 2017, Shufersal Ltd. notified of its intention to engage with another credit card company *in lieu* of Leumi Card Ltd. in the joint activity of the loyalty program. Considering the value of its holdings in Leumi Card and other offsetting effects, the effect of this notice on the Company is immaterial.

The Concentration Law

December 2013 saw the publication of the Promotion of Competition and Reduction of Concentration Law, 5774-2013 (the "**Concentration Law**"), which implements the main recommendations of the Committee for Increasing Competitiveness in the Economy. The law includes three main chapters, as follows: (a) limitation of control in companies in a pyramid structure; (b) separation between significant non-financial corporations and significant financial bodies; (c) weighing of economy-wide concentration considerations and sector-specific competition considerations in the allocation of rights. The last two chapters may be relevant to the Company, if no change occurs in the circumstances thereof, in the scope of its business and holdings, as being as of the Report Date.

Creation of separation between significant financial bodies and significant non-financial bodies (as such terms are defined in the Concentration Law). The main restrictions set forth in the Concentration Law in respect of the separation of significant financial bodies and significant non-financial bodies are, *inter alia*: (1) generally, a significant non-financial corporation or the entity controlling it shall not control a significant financial body and shall not hold more than 10% of a certain type of means of control in a significant financial body, and shall not hold more than 5% of the means of control in a significant financial body which has no controlling shareholder; and (2) no person holding more than 5% of a certain type of means of control in a significant non-financial corporation shall control a significant financial body; all subject to the conditions, exceptions and restrictions as were determined in the provisions of the Concentration Law. The aforesaid notwithstanding, a significant non-financial corporation which, on the eve of publication of the Concentration Law, duly held means of control in a significant financial corporation, at a rate exceeding the holding rates specified above, may hold such means of control for 6 years from the date of publication of the Concentration Law (i.e. until December 11, 2019). The Concentration Law prescribes that the Committee for the Reduction of Concentration shall release the list of the centralistic entities, which list includes the list of corporations included in the definition of a significant non-financial corporation[40] and the list of the entities included in the definition of a significant financial body. On December 11, 2014, the centralization committee released the list of centralistic entities in the market on the Ministry of Finance's website.[41]

According to the list, Azrieli Group was included in the list of the significant non-financial corporations. In April 2015, the Antitrust Commissioner published an updated list of the significant financial bodies according to the Concentration Law and included Leumi Card (which was not included in the original list) therein. Insofar as the Group shall continue to be deemed as a significant non-financial corporation and insofar as Leumi Card shall continue to be deemed as a significant financial body, by December 11, 2019, the Group will be required to reduce its holdings in the shares of Leumi Card below a 10% holding rate.

It is noted that, from time to time, the Concentration Committee publishes in the Official Gazette updates to the lists of significant non-financial corporations, significant financial bodies and centralistic entities. In the last update of such lists, published on December 25, 2017, Azrieli Group continued to be listed among the significant non-financial corporations, and Leumi Card continued to be listed among the significant financial bodies.

Proper Conduct of Banking Business Directive No. 312

On July 10, 2014, the Supervisor of Banks released an update to the Directive on Proper Conduct of Banking Business No. 312, regarding a banking corporation's business with related persons (the "**Amendment**"). Following the Amendment, the controlling shareholders of Azrieli Group, their spouses, children and dependents are

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40 The definition principally includes an effective sales turnover exceeding NIS 6 billion or effective credit exceeding NIS 6 billion. For the accurate definitions, the binding language of the Concentration Law must be consulted.

41 The address of the Ministry of Finance's website: http://mof.gov.il/Committees/Pages/CentralizationDecreaseCommittee.aspx

defined as “related persons” of a banking corporation, in addition to Azrieli Group, which was included in the definition of “related person” already prior to the Amendment. Such expansion may affect the amount of credit that Azrieli Group or any of its corporations will be able to receive from Bank Leumi or Leumi Card. However, at this stage the Company is not aware of such effect.

The Promotion of Competition and Reduction of Concentration in the Israeli Banking Market Law

The Promotion of Competition and Reduction of Concentration in the Israeli Banking Market Law, 5777-2017 (the “**Law**”) was passed on January 23, 2017. The Law prohibits a bank with large scale operations from operating the issuance of payment cards, clearing payment cards, and holding a corporation that operates such issuance or settlement. This provision applies to Bank Leumi and Bank Hapoalim as of the elapse of 3 years as of the publication date or after 4 years as of the publication date, if, in a 3-year period, the bank’s rate of holdings in means of control of the company shall have decreased to 40% or less and at least 25% of the means of control of the payment card company shall have been issued to the public.

The Law also includes a series of provisions designated to facilitate competition by the separated companies and players, including:

A limit on the issuance and processing a bank may perform through one credit card company to 52% of the total of new payment cards issued to its customers; a limit of credit facilities on the credit cards of customers of Bank Hapoalim and Bank Leumi, which are not exceed in any year 50% of the total credit facilities existing in 2015 ; the provision of access to and use of information by the credit card companies; the distribution of non-bank cards by the bank; regulation of the work vis-à-vis hosted acquirers and regulation of the work vis-à-vis aggregators. The law bears implications for Leumi Card’s operations, *inter alia*, in the aspects of raising funding sources (including in relation to restrictions prescribed by the Banking (Licensing) Law and restrictions under Directive 313 regarding the limitation of a single borrower in banks), sale and distribution channels for its business operations, engagement with banks for the purpose of issuance and distribution of payment cards, and in the settlement sector in the aspect of work vis-à-vis a hosted acquirer and aggregators.

Following the Law, changes have been incorporated into the Proper Conduct of Banking Business Directive applicable to Leumi Card (Directive No. 470) with respect to payment cards.

The Control of Financial Services Law (Regulated Financial Services), 5776-2016

The Control of Financial Services Law (Regulated Financial Services), 5776-2016 (the “**Control Law**”) prescribes duties of licensing and supervision with respect to entities engaged in a line of financial services, including (non-bank) credit providers, providers of services in financial assets, as defined in the Control Law, and also platforms for credit brokerage between lenders and borrowers who are individuals or corporations, which are limited to loans of NIS 1 million.

Settlement Fees

On January 16, 2018, the Governor of the Bank of Israel notified of its intention to reduce the interchange fee in deferred debit transactions, in three phases commencing in 2019, down to a rate of 0.5% on January 1, 2024. The outline will substantially reduce Leumi Card’s revenues from the interchange fee (both in respect of bank cards and in respect of non-bank customers). On February 25, 2018, the Governor of the Bank of Israel announced that the reduction period would be shortened, such that the rate of 0.5% would be reached on January 1, 2023. As this is a gradual reduction outline until 2023, and since changes and developments may occur in Leumi Card’s operating segments over the next years, Leumi Card is unable to predict the extent of the effect of the interchange fee reduction on its business results in the future.

On January 16, 2018, the Antitrust Authority delivered to Leumi Card a draft of the conditions of the local settlement exemption, which includes, *inter alia*, a demand for the settlement of accounts between an issuer and an acquirer for transactions made by a single payment, no later than one day after the date on which the transaction is made, as well as a duty to add to the interchange agreement, in an equal manner and free of charge, any issuer, acquirer or anyone on their behalf that wishes to join the agreement. Leumi Card estimates that insofar as no supplementary regulatory steps are taken, this provision may adversely affect the Company's business results, insofar as implemented in its current format.

The Fair Credit Law

On July 26, 2017, Amendment No. 5 to the Regulation of Non-Bank Loans Law, 5753-1993 was passed, within which the name of the law was changed to the Fair Credit Law. The Law prescribes provisions concerning the maximum interest rate collectible on credit, as well as a line of provisions on fair disclosure when providing a loan and various restrictions related to the acceleration of a loan. Furthermore, the law prescribes a series of sanctions for violation of its provisions, including criminal sanctions.

The Reduction of the Use of Cash Law, 5778-2018

On March 18, 2018, the Reduction of the Use of Cash Law, 5778-2018 was published in the Official Gazette, which will take effect on January 1, 2019. The purpose of the said law is to limit, in a phased manner, the use of cash and negotiable checks. The law determines various provisions and restrictions on the use of cash and negotiable checks, such that a dealer will neither give nor receive payment in cash for a transaction in the framework of his business, and a person will not pay a dealer as aforesaid if the price of the transaction exceeds NIS 11,000. In addition, the law limits cash transactions between two parties who are not "dealers" up to NIS 50,000. The law permits organs that shall be authorized therefor at the Tax Authority (such as assessing officers) to impose pecuniary sanctions on a person or a dealer who shall have violated provisions of the law. The law permits the Minister of Finance, with the approval of the Finance Committee of the Knesset, to determine rules requiring dealers to keep dedicated devices for reading charge cards or for clearance of other payment methods.

Regulation of payment services in Israel

The Bank of Israel and other regulators are promoting several provisions related to the regulation of payment services in Israel.

June 24, 2017 saw the publication of the final report of the Inter-Ministerial Committee for the Promotion of Use of Advanced Means of Payment in Israel, calling for the formulation of a legislative memorandum for the regulation of payment services, payment account and settlement and issuance services. Further to the report, the Payment Services Legislative Memorandum was published, which addressed, *inter alia*¸ e-wallets, the NFC technology and digital cheques and which is designated to replace the Payment Cards Law, 5746-1986.

September 24, 2017 saw the publication of the terms of the Shva's new exemption, which were approved by the Antitrust Commissioner. Among other things, the exemption addresses Shva's operating segments, and particularly the Ashrait EMV protocol (the "**Protocol**"), the connection of terminals and more. The Antitrust Authority ordered Shva to transfer, free of charge, the rights in the communication protocol according to which various entities operate in the payment cards sector to a nonprofit organization, and the bylaws of the nonprofit organization for the management and operation of the protocol were discussed by the Payment Cards Committee of the Bank of Israel.

EMV Standard

On July 26, 2017, the Supervisor of Banks published an update to a circular concerning "Acquirers and the Settlement of Payment Card Transactions" with respect to the application of the EMV standard, whereby as of January 1, 2018, a new terminal will be connected only to the new payment cards system that supports the standard, subject to exceptions as set forth in the circular. The date on which the liability shift mechanism in relation to the EMV standard will take effect was postponed to January 1, 2019.

14.2.2. Investment in Bank Leumi

On April 30, 2009, the Company acquired from third parties, unaffiliated with the Company, as a passive financial investment, ordinary shares of Bank Leumi, a banking corporation whose shares are listed on TASE, which represented approx. 4.8% of the issued and paid-up share capital of Bank Leumi, in consideration for a sum total of approx. NIS 742 million. During 2016-2017 and up to the Report Release Date, the Company disposed of some of its holdings in Bank Leumi for a total sum of approx. NIS 283 million, and its current holding represents approx. 3.54% of Bank Leumi's issued and paid-up share capital (as of the Report Date, the total investment net of a dividend received is approx. NIS 369 million). The value of the Company's investment in Bank Leumi as of December 31, 2017 was approx. NIS 1,132 million. The Company's investment in Bank Leumi is presented in its books as a financial asset available for sale in accordance with GAAP.

For details on the disagreement between the Company and Bank Leumi, and the resolution thereof, with respect to the sale of Visa Europe Ltd., see Note 11(2) to the Financial Statements.

In 2017, the Company recorded a comprehensive profit (before tax) of approx. NIS 295 million due to this investment. For details, see Section 3.2.1 of the Board of Directors' Report.

On the date of the acquisition, on April 30, 2009, the share price was 1,055 (in *Agorot*). As of December 31, 2017, the share price was 2,100 *Agorot*, whereas at the close of trading on March 19, 2018, the share price was 2,185 *agorot*.

On March 29, 2017, the Bank's board of directors approved a dividend distribution policy, beginning on the release date of the financial statements for Q1/2017. Pursuant to the said policy, the bank will distribute in each quarter a dividend equal to 20% of its net profit according to the bank's financial statements for the previous quarter and subject, *inter alia*, to the Bank's meeting its capital adequacy targets even after the distribution of dividend. On November 20, 2017 the board of directors of Bank Leumi approved a modification to the dividend distribution policy, from 20% each quarter to up to 40% in each quarter, of the net profit for that quarter, beginning with the profits of Q3/2017. In 2017 Bank Leumi distributed dividend to its shareholders in the amount of NIS 627 million. The total amount of dividend received by the Company for the said distribution is approx. NIS 23 million. On March 5, 2018 it was decided to distribute a dividend in the sum of approx. NIS 342 million (approx. NIS 0.22 per share), which shall be paid on March 28, 2018. The Company's share in the sum of the aforesaid dividend is approx. NIS 12 million.

Bank Leumi's financials are publicly posted on the distribution website of the ISA at: www.magna.isa.gov.il and on the TASE website at www.tase.co.il.

14.2.3. Investments in high-tech start-up companies and investment funds

As of December 31, 2017, the Company has invested in 4 startup companies and active investment funds, which are presented at fair value in the sum of approx. NIS 17 million, compared with a fair value in the sum of approx. NIS 24 million as of December 31, 2016.

14.2.4. Holdings in other foreign companies

Over the course of 2017, the Company discontinued the operations of Azrieli Insurance Corporation in Barbados, which served as a reinsurer for companies that provide property insurance services and was held through Otzem Enterprise and Investments (1991) Ltd. (a subsidiary wholly-owned by the Company).

In addition, the Company holds approx. 3.8% of the issued and paid-up share capital of Health and Fitness East Med. B.V., which operates the "Holmes Place" chain of fitness centers in Greece.

PART SIX: MATTERS COMMON TO THE GROUP'S ACTIVITIES IN ALL OF ITS OPERATING SEGMENTS[42]

15. Fixed assets, land and facilities

The Company's offices are situated on the 48th floor and part of the 33rd floor of the Round Tower in Azrieli Center in Tel Aviv. The Company leases its offices, a gross area of 1,855 sqm, from Canit Hashalom for a long-term period, for immaterial amounts.

The Group has no material fixed assets.

The fixed assets of Palace Tel Aviv are primarily a building that holds the LTC and recuperation units, see Section 11.1 of Chapter A above.

The fixed assets of Palace Modi'in are primarily the LTC and recuperation units, which are under construction.

Supergas' main fixed assets are equipment that is loaned to its customers to be used for LPG supply, such as: stationary or portable gas tanks, meters, regulators and other gas equipment which is installed at Supergas' customers (both the domestic customers and the commercial and institutional customers). For the most part, upon expiration of the engagement the customer is required to return the equipment loaned thereto to Supergas.

16. Intangible assets

The primary trade mark of the Company and the Group companies (excluding Granite and its subsidiaries) which is under registration processes, is a designed mark which includes the inscription "Azrieli Group", and the Group's logo:

As of the Report Release Date, the Company owns registered trademarks, including the Multi Azrieli trademark. In addition, the Group filed additional applications for registration of trademarks, which applications are under registration and review, mainly in respect of new properties (e.g., the trademarks of the Group's senior housing chain, Palace Senior Housing) and properties under construction, and also in respect of the E-Commerce Website launched by the Company in February 2017 – Azrieli.com. Furthermore, trademarks have been registered on the shape of the ball that appears at the entrance to some of the Company's malls. Registered trademarks are valid for 10 years and can be renewed, per the Company's decision, for additional periods of 10 years each, without limit, subject to the payment of a renewal fee.

[42] This part "Matters Common to the Group's Activities in All of its Operating Segments" does not include the operating segment of Granite Hacarmel and companies controlled thereby and the e-commerce business, unless otherwise expressly stated.

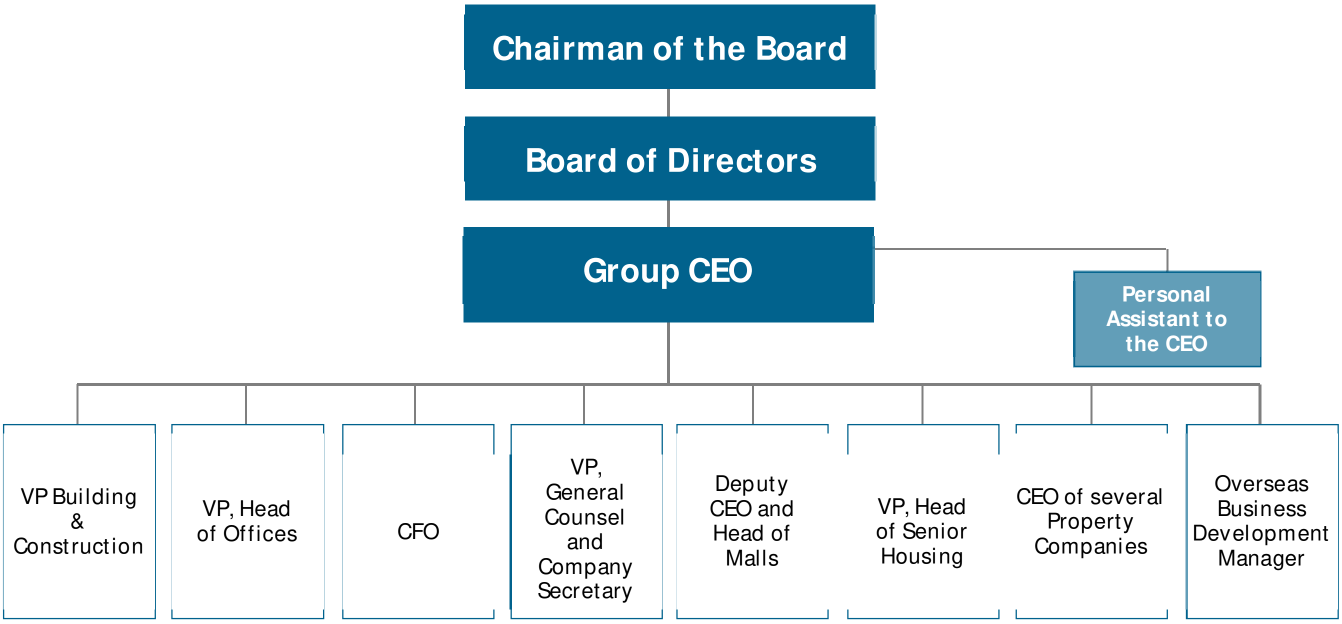
17. Human capital

17.1. General

The Company places special emphasis on the quality of human capital, particularly at the Company's management level, by hiring a professional workforce with vast knowledge and experience in a variety of fields which are required within the framework of the Company's operating segments. Most of the Company's employees, mainly at its management level, have significant seniority in the Company, and vast experience in its operating segments. Unless otherwise noted, the specification in this Section does not include reference to human capital aspects of the Granite Segment. (For details regarding the human capital in the Granite Segment, see Sections 12.12 and 12.25 of Chapter A of the Report). In view of the aforesaid, in this section, the term "Group" does not include the Granite Segment and the e-commerce business.

17.2. Organizational structure and workforce

The diagram below describes the Group's organizational structure as of the Report Release Date:



As of December 31, 2017, the Group companies employ 327 employees. The segmentation of the employees in the main segments is detailed below:

Department	Number of Employees as of December 31, 2017	Number of Employees as of December 31, 2016
Management Headquarters	**58**	55
Commercial Centers and Malls Segment	**170**	162
Office and Other Space for Lease in Israel Segment	**89**	74
Income-producing property in the U.S. Segment*	**1**	1
Senior housing headquarters**	**9**	8
Total	**327**	300

*One employee from the management headquarters is attributed to the income-producing property in the U.S. segment.

**For details with respect to all employees of senior housing segment, see Section 11.11 above.

The Group's management and headquarters employs 58 employees, including the Group's CEO, the Deputy CEO and Head of Malls, CFO, VP, General Counsel and Company Secretary, VP and Head of the Office Segment, Overseas Business Development Manager, VP, Head of Senior Housing and VP Engineering and Construction. The members of the Group's managerial headquarters are of vast managerial experience, most of whom have been by the Group's side for many years. The increase in the number of employees relative to the previous year is attributed to the growth in the Company's real estate business. 170 employees are employed in the Group's retail centers and malls segment, of whom 154 work for the management and maintenance teams of the retail centers and malls engaged in the current management of the retail centers and malls, and 16 provide marketing services to all of the Group's retail centers and malls.

89 employees work in the office and other space for lease in Israel segment, of whom 85 work for the segment's management and maintenance teams engaged in the current management of the offices, and 4 engage in the provision of marketing services.

As of the Report Date, the income-producing property in the U.S. segment is managed by the Company's headquarters and the Overseas Business Development Manager and management services and other services are provided to the Group in this segment by local professional management companies, as of the Report Date.

As of the Report Date, there are, between the Company and the Group companies, cooperation and agreements in connection with the provision of management services between themselves, including, *inter alia*, financial advice, strategic advice and current management advice, in consideration for a monthly payment. In addition, there are management agreements with the Group companies which derive, in part, as a percentage of such company's total expenses. The total payments that were made between the Group companies (including a management agreement between Granite Hacarmel and Canit Hashalom) for these management services, in 2016 and 2017, amounted to the sum of approx. NIS 52 million and approx. NIS 52 million, respectively.

17.3. Changes in senior officers in the corporation

In October 2017, Mr. Yuval Bronstein, the Company's CEO at that time, gave notice of the termination of his office on December 31, 2017. On October 19, 2017, the board of directors appointed Mr. Eyal Henkin as the Company's CEO, beginning January 1, 2018. In November 2017, the Company's compensation committee and board of directors approved the Company's engagement with a company wholly owned by Mr. Henkin (the "**Management Company**"), which shall be submitted for the approval of the next general meeting, in accordance with a general meeting invitation report released in proximity to the date of hereof. The Management Company is entitled a fixed monthly payment of NIS 313 thousand, linked to the June 2016 index, as published in July 2016 ("**Monthly Payments**"), and is entitled to related benefits including the provision of a car (level 7) and a cellular telephone. Each one of the parties may terminate the agreement, for any reason whatsoever, upon a three months advanced notice in writing. In addition, the Management Company shall be entitled to an adjustment bonus in an amount equal to 9 monthly payments. For further details, see the Company's immediate reports of October 22, 2017 (Ref.:

2017-01-092377, 2017-01-092380 and 2017-01-092392), which are included herein by way of reference, and Note 36C(6) to the financial statements.

On March 21, 2017, the office of the Company's internal auditor, Mr. Gali Gana, ended and the board of directors appointed Mr. Moshe Cohen to the position in his stead. For further details see Section 6 of Chapter E of the Report.

On May 23, 2017, Mr. Menachem Einan, a director, was appointed as member of the Company's audit committee, compensation committee and enforcement committee.

In August 2017, Mr. Dor Lev-Ran, VP Engineering & Construction gave notice of his intention to end his term of office with the Company. The Company appointed Mr. Sharon Arie to replace Mr. Lev-Ran as VP Engineering & Construction, beginning December 1, 2017.

For further details on the senior officers in the corporation, see a specification with respect to Section 26 and Section 26A in Chapter D of the Report.

17.4. Investment in training, instruction and development of human capital

The Group companies hold training and instruction workshops from time to time for their employees in accordance with the employee's position and the Group's needs, in order to ensure that employees have adequate training. Once a year, the Company holds concentrated training for officers and employees of the Company in accordance with the Company's Internal Enforcement Program, including in the areas of securities, business licensing, labor law, environment, safety and accessibility, prevention of sexual harassment as well as additional training held from time to time according to need. Employees of the Group companies keep abreast of fields touching on their responsibilities in the Group, from time to time, by participating in exhibitions, seminars, conferences and professional courses.

17.5. Benefits given to employees and the nature of the employment agreements

Employees of the Group are employed under personal contracts and no collective bargaining agreements apply.

The employment conditions of the Group's employees include, in some cases, *inter alia*, *per diems*, travel expenses/car maintenance/making a vehicle available to the employee, managers insurance/pension fund, advanced training fund, annual leave, recuperation pay, basic health insurance, work disability insurance, payment for global overtime, reimbursement of expenses and a 13th salary.

Additionally, the Group's third-party insurance policy is an extended policy that includes coverage for professional liability for the management companies and the Company's employees who are professionals, with a liability cap of $2 million per incident and per insurance period, as part of the policy's liability cap.

In addition to the above, all of the Company's and the Group Companies' liabilities are covered in respect of the employees' social benefits and termination of the employment relationship by deposits that are made in severance pay funds and insurance policies and/or provisions that exist on the Company's books. For a description of the Company's liabilities in relation to the employees' social benefits and termination of the employment relationship, see Note 21 to the Company's Financial Statements.

17.6. Employment of officers and senior management employees of the Group

As of the Report Date, members of senior management in the Group are hired as employees under personal employment agreements or through management agreements.

The Company estimates that the Group headed by the Chairman of the Board, Ms. Danna Azrieli and the CEO of the Group, Mr. Eyal Henkin, as well as the experienced officers and managers in the Company who are considered professional and leading in the field, constitute some of the success factors for the Company's business results.

The Group's business was established by Mr. David Azrieli OBM and has developed, *inter alia*, on the basis of the know-how and vast experience accrued thereby over many years in the income-producing property, mainly in Israel. Mr. Menachem Einan, who had joined him and served as the Company's CEO for 20 years, serves as a director of the Company as of the Report Date. For details regarding the agreement with Mr. Einan, which expired in February 2017, see the immediate report of March 22, 2017 (Ref.: 2017-01-027009), included herein by way of reference.

17.7. Company's officers compensation plan

For details regarding the Company's officer compensation policy approved on October 6, 2016 by the general meeting of the Company's shareholders (Ref.: 2016-01-060735), see immediate report of August 28, 2016 (Ref.: 2016-01-111643), which is included herein by way of reference.

18. Working capital

18.1. Working capital

As of December 31, 2017, the Group has negative working capital (excluding Granite Hacarmel and Azrieli E-Commerce) in the sum of approx. NIS 1.3 billion compared with negative working capital in the sum of approx. NIS 1.7 billion, as of December 31, 2016. The deficit in the working capital derives, *inter alia*, also from the decision of the Company's management, at this stage, to finance its activity through short-term credit, considering the business opportunity of low rates of interest on these credits. For details regarding the Company's board of directors' estimation regarding the deficit in the working capital see Section6.3 of the Board of Directors' Report.

The company estimates that should it decide to exchange the said credit for long term credit at any point in time, it would be able to do so and therefore the aforesaid working capital deficit does not affect its ability to timely repay its liabilities.

For details regarding the Company's liquid means and its credit raising possibilities, see Section 5.2 of the Board of Directors' Report.

18.2. Customer credit

In the income-producing property segment there is no customer credit since the lease agreements with tenants contain provisions for payment of rent in advance and for monthly or quarterly periods. The Group collects the rent pursuant to the terms and conditions of the lease agreement, usually, by way of a standing order, bank transfers and postdated checks. The tenants, before the handing over of the leased premises thereto, provide collateral for performance of their undertakings pursuant to the lease agreements and the management agreements (bank guarantees, deposits, promissory notes, personal guarantees, etc.). The cases in which rent is not paid in advance are immaterial to the Group.

18.3. Suppliers credit

The Company receives credit from its suppliers (primarily contractors and maintenance service providers) for average periods ranging from 15 to 60 days, after the requested service has been completed (on average - a period of approx. 45 days). The scope of credit from suppliers in the Group, as of December 31, 2017, amounted to approx. NIS 218 million, compared with a sum of approx. NIS 155 million as of December 31, 2016.

18.4. Working capital of the Granite Segment

As of the Report Date, the Granite Segment (Supergas and GES), has (net) working capital in the amount of approx. NIS 84 million, comprising the total of current assets (which mainly consist of cash, trade receivables, other receivables and inventory) less the current liabilities (which mainly consist of current liabilities to banks, current bond maturities and trade and other payables). Working capital does not include balances of the Granite Group vis-à-vis the parent company, Granite Hashalom.

19. Financing

19.1. General

Unless otherwise noted, the specification in Sections 19.1-19.16 below does not include reference to financing aspects related to Granite Hacarmel and other companies controlled thereby. For details regarding Granite Hacarmel's financing, see Section 19.17 of Chapter A of the Report. In this section, the term "Group" does not include Granite Hacarmel and other operations of Granite Hacarmel.

The Group finances its activities from independent resources, from bank credit from financial institutions and non-bank credit, including through the issue of bonds from institutional bodies. The Group has liabilities to banking corporations and non-bank financing sources amounting, as of December 31, 2017, to the sum of approx. NIS 9 billion (including current maturities). Most of the agreements include provisions pursuant to which the Company has the right to prepayment which is contingent, in most cases, upon the payment of a prepayment fine to the financing entity. Additionally, the loan agreements with banking corporations contain certain conditions, upon the occurrence of which, the banks may accelerate the loan amounts (primarily in the case of restructuring and a change of control in the Company, delinquent payments, receivership, and an adverse change in the value of the collateral, if and insofar as collateral was provided). To the best of the Company's knowledge, as of the Report Release Date, the conditions for acceleration of the loans have not been fulfilled. For details concerning the financial liabilities of the Group as of December 31, 2017, see Sections 5.5 and 5.6 of the Board of Directors' Report. For details concerning projected payments per year, see immediate report on the Company’s status of liabilities dated March 21, 2018 which is published concurrently with this Report. For further details concerning the Company’s financing in general, see Section 5 of the Board of Directors' Report.

19.2. The Group’s loan balance (not intended for specific uses) as of December 31, 2017

Set forth below is a specification of the average interest rate and the effective interest rate (which, as specified below, as of the Report Date, is identical to the average interest) on long-term loans and short-term loans that were in effect during 2017, and which are not intended for specific uses by the Group, while distinguishing between bank credit sources and non-bank credit sources:

	As of December 31, 2017					
	Long-Term Loans			Short-Term Loans		
	Amount (NIS in millions)	Average Interest Rate	Effective Interest Rate	Amount (NIS in millions)	Average Interest Rate	Effective Interest Rate
Non-bank sources – Index-linked financing	6,250	1.26%	1.28%	-	-	-
Banking sources - Index-linked Financing	-	-	-	-	-	-
Non-bank sources - NIS financing	250	1.35%	1.35%	582	0.4%	0.4%
Banking sources – foreign currency financing	-	-	-	19	1.88%	1.88%
Total financial liabilities	6,500	1.26%	1.28%	601	0.45%	0.45%

19.3. Reportable credit made available to the Company

Set forth below is a specification of the balances of the material loans that were provided to the Company as of December 31, 2017 (NIS in millions)[43].

[43] In accordance with Legal Position No. 104-15: Reportable Credit Event of October 30, 2011, as updated on March 19, 2017, and the parameters approved by the board of directors for the examination of materiality in the Reporting Procedure as part of the Internal Enforcement Program.

Loan provision date	Loan designation	Type of Loan			Amount of loan taken (NIS in millions)	Balance (including current maturities) as of December 31, 2017 (NIS in millions	Type and rate of annual interest	Principal repayment dates	Interest repayment dates	Linkage	Guarantees/ collateral	Is the Company compliant with the financial covenants?	Repayment due date of long-term loans
		Banking corporation	Short-term	Long-term									
August 2013	Financing of Azrieli Center	Institutional body group		X	710	**355**	1.16%	Semiannual	Semiannual	CPI	Pledge of the rights of Canit Hashalom in part of the lobby floor, the roof floor and Floors 11-49 of the Round Tower in Azrieli Center in Tel Aviv. Acceleration right for standard causes set forth in the agreement, which include, inter alia – an adverse material change in the status of tenants or the ratio between the loan balance as of the calculation date and the value of the Round Tower (according to an external appraisal revaluation once a year) (LTV), as of the elapse of 2 years from the loan provision date exceeds 70% (the rate decreases to 25% over the loan period).	Yes – for the results of the calculation of compliance with covenants, see Note 20D of the Financial Statements	Until August 2021
May 2016	Current needs	Institutional body		X	550	**554**	1.5%	Quarterly, as of July/2018	Quarterly	CPI	Canit Hashalom placed a first-ranking fixed charge in an unlimited amount on the Azrieli Rishonim Center in Rishon LeZion, including its rights to receive rent from the tenants in the property and its rights under insurance policies in relation thereto. Financial covenants as provided in the indentures of the Company's Series B and Series C bonds, i.e.: net debt to net assets ratio not exceeding 60% and equity not to fall below NIS 5 billion. In addition, the Company has undertaken as of April 1, 2018 to maintain a debt to collateral ratio (LTV) of no more than 80%. Furthermore, restrictions on dividend distributions, such that no distributions will be performed if as a result thereof equity shall fall below NIS 6 billion and the debt to assets ratio shall exceed 50%. An undertaking not to create a floating charge identical in rank and scope (pari passu).	Yes – for the results of the calculation of compliance with covenants, see Note 20B(8) of the Financial Statements	April 2028

The Company has other non-material loans from banking corporations whose balance in the books, as of December 31, 2017, is approx. NIS 0.2 billion. These loans bear interest ranging between 4.2% and 5.8% and will be repaid in 2018-2020. In addition, the Company has undertaken vis-à-vis some of the banking corporations not to create a floating charge on all of its assets without receipt of their consent, and that in the event of a breach vis-à-vis the banking corporations, they will be entitled to accelerate also other loans that shall have been given to the Company.

As of December 31, 2017, the total long-term credit received from Bank Leumi amounts to the sum of approx. NIS 148 million. As of December 31, 2017, the Group's unmortgaged investment properties total approx. NIS 18.7 billion, as specified in Section 5.7 of the Board of Directors' Report, out of the sum total of the Group's income-producing properties in the sum of approx. NIS 25.2 billion. For details on non-bank credit see in this section below.

19.4. Reportable credit made available to the Group's companies

Set forth below is a specification of the balances of the material loans that were provided to the Group companies as of December 31, 2017 (NIS in millions):

Borrowing Corporation	Loan provision date	Loan designation	Type of Loan			Sum of loan taken	Balance as of December 31, 2017 (Company's share) (NIS in millions)	Principal repayment dates	Interest repayment dates	Annual interest rate	Linkage	Guarantees / Pledge	Repayment due date of long-term loans
			Banking corporation / financial institution	Short-term	Long-term								
Shareholders of the property[44]	February 2014	Acquisition of Three Galleria	Foreign financial institution A		X	$130 million	417	Monthly	Monthly	5.998%	U.S.$	Pledge of the property and all of rights related thereto and deriving therefrom. Guarantee by the Company, forfeitable only in several specific instances defined in the loan agreement. The Company's undertaking to indemnify the financer for its damage in the event of certain breaches of the buyer's undertakings in the loan agreement	By March 2021

A number of the Group's Companies have other non-material loans whose balance on the books, as of December 31, 2017, is approx. NIS 786 million, approx. NIS 752 million of which are linked to foreign currency and bear interest ranging between 3.2% and 5.5%, which shall be repaid in 2018-2032 and there are no financial covenants for these loans. A balance of approx. NIS 34 million constitutes a variable interest loan in Shekels against which there are pledges and financial covenants and it will be due for payment in the years 2018-2022.

[44] The loan was taken by Three Galleria Office Buildings, LLC, 90% of which are indirectly held by the Company. The presented amount of the loan is in respect of 100% of the loan.

19.5. Non-bank financing for the Company

Commercial paper

As of the Report Release Date, the Company has two CP series, a rated series in the amount of approx. NIS 361 million (following the repayment of approx. NIS 74 million over the year's course) and an unrated series in the amount of approx. NIS 190 million. For details regarding the Company's CP see Note 20A to the Financial Statements. For details with respect to the rating of the Company's CP, see Section 19.12 of Chapter A of the Report.

Long-term loans from institutional bodies

The Company has non-material loans from institutional bodies, the balance of which in the books as of December 31, 2017 is approx. NIS 0.4 billion. Such loans bear fixed interest at a rate ranging between 0.74% and 1.35%, and will be repaid in 2018-2023. The loans involve financial covenants, with which, as of the Report Date, the Company complies.

The Company's Series A Bonds

On March 31, 2017, the Company's Series A Bonds were paid up.

The Company's Series B Bonds

On March 29, 2017, the Company released a shelf offering report for the issue and listing on TASE of up to NIS 263 million par value which were offered through the expansion of the Company's B Bond Series, based on a shelf prospectus. On March 30, 2017, the Company announced that according to the issue results, approx. NIS 229 million par value of Series B Bonds more have been allotted in consideration for approx. NIS 223 million (approx. NIS 221 million after attribution of issue expenses).

During the Report Period, principal and interest payments were made in accordance with the payment schedule thereof. As of the Report Date, the balance of the par value of the Company's Series B Bonds is NIS 1,208 million. In accordance with the terms and conditions thereof, the final maturity date of the Company's Series B Bonds is April 1, 2025. For details regarding the current credit rating of the Series B Bonds, see Section 19.12 of Chapter A of the Report.

The Company's Series C Bonds

On March 29, 2017, the Company released a shelf offering report for the issue and listing on TASE of up to NIS 220 million par value which were offered through the expansion of the Company's C Bond Series, based on a shelf prospectus. On March 30, 2017, the Company announced that according to the issue results, approx. NIS 179 million par value of Series C Bonds more have been allotted in consideration for approx. NIS 182 million (approx. NIS 180 million after attribution of issue expenses).

During the Report Period, principal and interest payments were made in accordance with the payment schedule thereof. As of the Report Date, the balance of the par value of the Company's Series B Bonds is NIS 1,184 million. In accordance with the terms and conditions thereof, the final maturity date of the Company's Series B Bonds is April 1, 2025. For details regarding the current credit rating of the Series B Bonds, see Section 19.12 of Chapter A of the Report.

The Company's Series D Bonds

On March 29, 2017, the Company released a shelf offering report for the issue and listing on TASE of up to NIS 1,090 million par value which were offered through the expansion of the Company's D Bond Series, based on a shelf prospectus. On March 30, 2017, the Company announced that according to the issue results, approx. NIS 984 million par value of Series D Bonds more have been allotted in consideration for approx. NIS 960 million (approx. NIS 955 million after attribution of issue expenses).

During the Report Period, principal and interest payments were made in accordance with the payment schedule thereof. As of the Report Date, the balance of the par value of the Company's Series D Bonds is NIS 3,177 million. In accordance with the terms and conditions thereof, the final maturity date of the Company's Series D Bonds is July 5, 2030.

After the Report Period, on January 31, 2018, the Company released a shelf offering report for the issue and listing on TASE of up to NIS 1,490 million par value which were offered through the expansion of the Company's D Bond Series, based on a shelf prospectus. On February 1, 2018, the Company announced that according to the issue results, approx. NIS 1,367 million par value of Series D Bonds more have been allotted in consideration for approx. NIS 1,409 million (approx. NIS 1,400 million after attribution of issue expenses).

For details regarding the current credit rating of the Series D Bonds, see Section 19.12 of Chapter A of the Report.

For further details on the Company's bonds, see Annex E to the Board of Directors' Report and Note 20B to the Financial Statements.

19.6. Non-bank financing for the Group's companies

In the year of the Report and as of the Report Date, other than as specified with respect to non-bank financing of the Company in Section 19.5 above, no use of non-bank financing has been made for companies of the Group.

19.7. Inter-company loans

Set forth below is a specification of the balances of loans provided between the Group companies, excluding inter-company debit and credit balances, as of December 31, 2017 (NIS in millions) in amounts exceeding NIS 20 million:

The Lending Corporation in the Group	The Borrowing Corporation in the Group	Date of Provision of the Loan	Original Loan Amount (NIS in millions)	Last Date For Payment	Annual Interest	Linkage	Balance Of Loan Amount As Of Dec. 31, 2016 (NIS in millions)
Canit Hashalom (1)	Gemel Tesua	January 2009	74	January 2019	—	—	74
Canit Hashalom (2)	AG Galleria Office Buildings LP	February 2011	99	February 2021	Libor+ 7.1%	U.S. $	99 (3)
Canit Hashalom (4)	Gemel Tesua	January 2017	270	December 2017	1.5%	Index	270
Canit Hashalom (5)	Palace America Senior Housing Company	March 2016	41	March 2021	-	-	41
Canit Hashalom (6)	Palace Senior Housing Chain	May 2016	55	May 2021	-	-	55

* For a description of the balances of the loans provided by the Company to the Group companies, see Section 11 of Part D of the Report.

1. Against the loan, Gemel Tesua issued a capital note in the sum of NIS 74 million to Canit Hashalom, bearing neither interest nor linkage, and the date of payment thereof will be no earlier than January 1, 2019, although the parties may agree to postpone the payment date. Payment of the capital note is not secured by any collateral and is inferior to other Gemel Tesua undertakings and precedes only the distribution of surplus assets upon dissolution.
2. The loan is in the sum of approx. U.S. $28 million.
3. The loan balance, including unpaid interest as of December 31, 2017, is approx. NIS 168 million.
4. Against the loan, Gemel Tesua issued Canit Hashalom a bond in the sum of NIS 270 million. Insofar as Gemel Tesua fails to repay on the due date the principal, interest and linkage differentials accrued until the due date, the bond will be deemed to have been repaid and reissued on the day following the due date.
5. Against the loan, Palace America Senior Housing Company issued Canit Hashalom capital notes in the aggregate sum of approx. NIS 41 million, which bear no interest and linkage and the due date of which will be no earlier than March 23, 2021. The repayment of the capital notes is not secured by any collateral, is inferior to other liabilities of Palace America Senior Housing Company and only precedes the distribution of surplus assets upon the liquidation thereof.
6. Against the loan, Palace Senior Housing Chain issued Canit Hashalom a capital note in the sum of approx. NIS 55 million, which bears no interest and linkage and the due date of which will be no earlier than May 25, 2021. The repayment of the capital notes is not secured by any collateral, is inferior to other liabilities of Palace Senior Housing Chain and only precedes the distribution of surplus assets upon the liquidation thereof.

19.8. Credit restrictions

For a description of the Company's undertakings in connection with the issue of the Series B Bonds, Series C Bonds and Series D Bonds vis-à-vis the bondholders, see Note 20B to the Financial Statements.

19.9. Credit facilities

As of the Report Date, the Group has not been provided with any binding credit facilities or non-binding credit facilities.

19.10. Bank and non-bank credit received between the date of the Financial Statements as of December 31, 2017 until shortly before the Report Release Date

The Company took no bank and non-bank credit in the period between December 31, 2017 and until shortly before the Report Release Date, other than the expansion of the Series D Bonds as specified in Section 19.5 above.

19.11. Loans repaid between the date of the Financial Statements as of December 31, 2017 and shortly before the Report Release Date

No such loans have been repaid, over and above current payments in accordance with the payment schedule of each loan.

19.12. Credit rating

19.12.1. On January 11, 2018, Ma'alot ratified the Company's rating AA+/Stable/ilA-1+, which Ma'alot had given the Company on January 19, 2017 (Ref.: 2017-01-008085). To inspect the full report by Ma'alot, see the Company's immediate report of January 11, 2018 (Ref.: 2018-01-005065), which is included herein by way of reference. On December 31, 2017, Midroog ratified the Company's rating Aa1.il with a stable outlook, which was given to the Company on March 28, 2017 (Ref.: 2017-01-030939). To inspect the full report by Midroog, see the Company's immediate report of December 31, 2017 (Ref.: 2017-01-123126), which is included herein by way of reference.

As of the Report date, the Company's B-C Bond Series are rated by Ma'alot at AA+/stable rating. For further details, and details on the rating history of the Company's B-C Bond Series, see the Company's immediate report of March 28, 2017 (Ref.: 2017-01-030966).

The Company's D Bond Series are rated by Midroog at Aa1.il rating with a stable outlook. For further details, and details on the rating history of the Company's D Bond Series, see the Company's immediate report of January 31, 2018 (Ref.: 2018-01-010804).

The Company's commercial paper are rated by Ma'alot at ilA-1+ rating. For further details, see the Company's immediate report of June 23, 2014 (Ref.: 2014-01-096798).

On January 11, 2018, Ma'alot ratified the Company's AA+/Stable/ilA-1+ rating, issued to the Company thereby on January 19, 2017 (Ref.: 2017-01-008085). To review Ma'alot's full report, see the Company's immediate report of January 11, 2018 (Ref.: 2018-01-005065), which is included herein by way of reference. On December 31, 2017, Midroog ratified the Company's Aa1.il stable outlook rating issued to the Company on March 28, 2017 (Ref.: 2017-01-030939). To review Midroog's full report, see the Company's immediate report of December 31, 2017 (Ref.: 2017-01-123126), which is included herein by way of reference.

As of the date of the Report, the Company' bonds (Series B-C) are rated AA+ stable by Ma'alot. For further details and for details about the rating history of the Company's bonds (Series B-C), see the Company's immediate report of March 28, 2017 (Ref.: 2017-01-030966).

As of the date of the Report, the Company's Series D Bonds are rated Aa1.il with a stable outlook by Midroog. For further details and for details about the rating history of the Company's Series D Bonds, see the Company's immediate report of January 31, 2018 (Ref.: 2018-01-010804).

The Company's commercial paper is rated ilA-1+ by Ma'alot. For further details, see the Company's immediate report of June 23, 2014 (Ref.: 2014-01-096798).

19.12.2. Rating of private loans taken by the Company

Rating agency	Rating date	Rating	Notes
Ma'alot	March 2016	AA+	Rating of private loan in the sum of NIS250 million Present rating

To review Ma'alot's report on a private loan in the sum of NIS250 million, see the Company's immediate report of March 29, 2016 (Ref.: 2016-01-017358), which is included herein by way of reference.

19.13. Pledges

For details regarding various pledges which were created by the Company and the Group's companies to secure their obligations, see Note 31A to the Financial Statements.

19.14. Guarantees

In the ordinary course of business, at the request of the Company and the Group's companies, bank guarantees are issued by banking corporations in connection with their properties, including guarantees to secure the obligations of the Company and the Group's companies. For information regarding guarantees which the Company has extended, *inter alia* in connection with the financing of the acquisition of properties overseas, see Note 31B to the Financial Statements.

19.15. Variable interest credit

The Group has several loans at variable interest credit. Most of the credit was taken in Shekel currency linked to Prime or Bank of Israel interest, and the remainder in foreign currency linked to the LIBOR, plus a margin determined in relation to each loan. The foregoing credit changes in accordance with changes in the LIBOR interest or the Prime or Bank of Israel interest.

Set forth below is a specification of the range of (nominal) interest for the periods of the Report, as well as the interest rate in proximity to the Report Release Date in respect of the loans at variable interest:

Credit type	Currency	Sum of credit shortly before the Report Release Date (NIS in millions)	Interest rate shortly before the Report Release Date (in %)	Interest range in the reporting periods (in %)	
				December 31, 2016	December 31, 2015
Non-bank credit	NIS	**544**	**0.4%**	**0.4%**	0.4%
Bank credit	NIS	**34**	**2.7%**	**2.7%**	2.7%
Bank credit	**GBP**	**20**	**1.88%**	**1.88%**	**2.2%**

The Company and/or the Group's companies will raise additional funds, according the Company's decision, for the purpose of its business operations, the continued construction of projects under development and investment in new projects.

19.16. Regulatory Implications

The instructions of the Supervisor of Banks in Israel include borrower group and "individual borrower" limits that affect the provision of credit beyond certain scopes, relative to the total liability of one group of borrowers and total liabilities of the six largest borrowers of the bank. Azrieli Group, together with Granite Hacarmel, and companies controlled thereby may be considered one "group of borrowers" for this purpose.

In accordance with Section 26 of the Promotion of Competition and Reduction of Concentration Law, 5774-2013, provisions are to be determined in respect of limitations on credit to be provided by financial entities to a corporation or a business group. A 'business group' is defined in said Section as the "controlling shareholder and the companies controlled thereby", notwithstanding the inclusion of any of such entities in the list of centralistic bodies. In the context of the report of the Committee to Assess Debt Restructuring Proceedings in Israel (the "Andorn Committee") that was released in November 2014, several recommendations were included regarding such matter, including a credit limit of business groups, whose effective credit exceeds 5% of the market business credit, and an imposition of a reporting obligation to the Committee for Reduction of Concentration on companies whose effective credit exceeds 3% of the scope of market business credit. As of the Report Date, such recommendations have yet to receive statutory or binding status and the Company is not aware of other new limitations deriving from the Concentration Law. It should be noted that insofar as is known to the Company's management, as of the Report Date, a borrower limit does not apply to the Azrieli Group and/or Granite Hacarmel.

19.17. Financing of Granite Hacarmel Group

19.17.1. Financing sources

As of the Report Date, Supergas and GES finance their activity from their own means, from short-term bank credit, from project-designated long-term loans and from monies received from the issuance of non-negotiable bonds to institutional investors.

19.17.2. Loans and interest rates at Granite Hacarmel Group

Details of the average interest rate and the effective interest rate on long-term and short-term loans, from bank sources and non-bank sources, at Granite Hacarmel, Supergas and GES, as of December 31, 2017 and as of December 31, 2016:

As of December 31, 2017:

	Long-term			Short-term		
	Amount (NIS in millions)	Average interest rate	Effective interest rate	Amount (NIS in millions)	Average interest rate	Effective interest rate
Non-bank sources – Index linked	351	4.9%	5.26%	-	-	
Bank Sources – Index linked	37	3.77%	3.8%	-	-	
Bank sources – NIS	-	-	-	28	2.1%-2.85%	
Total financial liabilities	388			28	2.1%-2.85%	

As of December 31, 2016:

	Long-term			Short-term		
	Amount (NIS in millions)	Average interest rate	Effective interest rate	Amount (NIS in millions)	Average interest rate	Effective interest rate
Non-bank sources – Index linked	384	4.9%	5.26%	-	-	
Bank Sources – Index linked	38	3.77%	3.61%	-	-	
Bank sources – NIS	-	-	-	19	2.1-2.4%	
Total financial liabilities	422			19	2.1-2.4%	

19.17.3. Credit Facilities

In the Granite Segment, Supergas and GES have short-term credit facilities which are agreed with the banks in the amount of approx. NIS 155 million, some of which are secured and some are not due to the high credit allocation fees. The used credit balances as of the Report Date amount to approx. NIS 75 million (including use in respect of guarantees). Short-term credit from banks bears an unlinked variable Shekel interest rate, which is a function of the Prime interest rate. The Prime interest rate varies monthly according to the decision of the Bank of Israel.

To secure the bank credit extended to Supergas, a floating charge unlimited in amount and a fixed charge on its uncalled and/or unpaid share capital, its goodwill, securities and pledged documents, were registered in favor of the banks that finance its operations. As part of the floating charge, Supergas has undertaken not to create additional charges without the consent of the banks and subject to conditions as set forth in the bonds. To the best of the Company's knowledge, there is an inter-bank agreement between the charge-holding banks, according to which they hold a *pari passu* charge on the assets of Supergas. To secure the bank credit extended to GES, a guarantee was provided by Granite. In addition, GES has a long-term loan agreement with one of banks, which is intended to finance the construction of a wastewater treatment plant in the BOT Method. Such loan agreement is backed by revenues from the operation of the plant, which are pledged in favor of the financing bank and are backed by Granite's guarantee.

19.17.4. Bonds issued by Supergas

In July 2007, a consolidated company of Supergas, which was established for the purpose of the issue and to which were transferred the domestic gas activity and some of the commercial gas activity for marketing gas in portable gas containers, issued to institutional investors by way of a private placement, bonds with a total par value of approx. NIS 600 million. The bonds are rated Aa1 by Midroog Ltd., are for a period of 18 years and have been paid in quarterly principal installments since 2010. The bonds are linked to the CPI (principal and interest) and bear interest at an annual rate of 4.9% , which is paid once every calendar quarter. As of December 31, 2017, Supergas' liability in respect of the bonds amounts to approx. NIS 351 million.

In June 2014, Supergas completed a proceeding for changing the bonds issued thereby in 2007, which included the bringing forward of certain principal payments (constituting approx. 11.5% of the balance of the bonds), which in accordance with the original terms of the issue were due in the course of the next five years, and the flattening of quarterly principal payments such that they shall be uniform and equal. In this context, Supergas repaid 51,829,380 par value in the total amount of approx. NIS 75 million that includes approx. NIS 12.3 million paid due to the repayment due date being pushed forward. In addition, the company undertook, that in the event that Canit Hashalom Investments shall cease to be a controlling shareholder of Supergas, Granite Hacarmel shall make an offer to the bond holders for the purchase of bonds at a scope of no less than 45 million par value and at a price reflecting the adjusted value of the bonds on such date.

The bonds are secured by a first-ranking floating charge, unlimited in amount, on all of the assets of Supergas' consolidated company. In addition, Supergas charged, in a first-ranking fixed charge, unlimited in amount, all of the consolidated company's shares owned and held thereby, including the rights deriving from such shares. In accordance with the terms and conditions of the bonds, Supergas' consolidated company is required to meet financial covenants. Deviation from the financial covenants will allow the bondholders to demand acceleration or prepayment. As of December 31, 2017, Supergas' consolidated company meets the covenants determined. For further details, see Note 220B(5) to the Financial Statements.

19.17.5. For details regarding limitations, including financial covenants of consolidated companies of Granite Hacarmel, see Notes 9B to the Financial Statements.

20. Insurance

The Company's insurance policies for the insurance of property and liability include insurance policies which cover certain risks in the Group's assets, up to the amounts set in such policies. These policies include: all-risks property insurance at reinstatement value, which includes coverage of fire, machinery breakdown, loss of rent and loss of profits from machinery breakdown, terror and war insurance, third party liability insurance, employers' liability insurance, contractor work insurance and crime insurance.

The amounts of the Group's property insurance were determined thereby according to its estimation, and the insurance policies are reviewed periodically by the Company's insurance consultants before the Board of Directors.

For details regarding the insurance coverage applicable to the Company's officers, see Note 36D to the Financial Statements.

21. Taxation

For details regarding the taxation applicable to the Company and the Group companies (including the Granite Group), see Note 29 to the Financial Statements.

22. Environmental risks and the management thereof

In the framework of its activities in the property segment, (including the development segment and the senior housing segment)the Group is required, *inter alia*, to meet the conditions and requirements of the Planning and Building Law, 5725-1965, including the Planning and Building Regulations (application for a permit, the conditions therein and fees), 5730-1970, the Planning and Building Regulations (Environmental Impact Surveys), 5763-2003 etc., *inter alia*, in the framework of approval of zoning plans, building permits, various licensing proceedings under the planning and building laws and the performance of building and construction work. The Group companies are responsible, by virtue of their owning or leasing land, under certain circumstances, pursuant to law, for compliance with the provisions of the environmental protection laws, including the Water Law, 5719-1959, the Business Licensing Law, 5728-1968 and the Hazardous Substances Law, 5753-1993, the Nuisance Prevention Law, 5721-1961, Sewage and Water Corporations Rules (Plant Wastewater Discharged into the Sewage System), 5771-2011, the Maintenance of Cleanliness Law, 5744-1984, the Senior Housing Law, 5772-2012 and more. A considerable tightening of the aforesaid regulation may have material implications for the Group’s business results and the amount of expenses required consequently thereto. In this context it is noted, that as of the Report Release Date, several bills are pending which, if passed, will affect the Group’s business, including: the Prevention of Soil Pollution and Treatment of Polluted Soil Bill, 5771-2011 and the Senior Housing Bill whose chances of approval are not certain.

It shall be noted that in recent years, environmental activity, in Israel and worldwide, has significantly increased, as expressed, *inter alia*, in supervision and enforcement by government agencies and activity by environmental organizations. In the Group’s estimation, this trend is expected to continue in the coming years. The Group is investing many resources in ensuring its compliance with the provisions of the environmental laws that apply thereto, and is acting to prevent and minimize the environmental risks from its activity.

The Group’s policy is to comply with the provisions and requirements of the law, including the environmental laws, as well as the requirements of the various supervisory bodies. For this purpose, professional environmental consultants are assigned to each project of the Group, who assist the Group and advise it throughout the project.

Complex at the Check Post Intersection in Haifa - In accordance with the information leaflet that was received from the City of Haifa, the lot that is located at the Check Post intersection in Haifa may be affected by hazardous substances. As of the Report Release Date, the Company has not yet received any additional update from the authorities with respect to such hazardous substances. The Company carries out, in coordination with the Ministry of Environmental Protection, various tests on the soil.

Cellular rental space - In some of the Group's income-producing properties, the Group leases space to the cellular companies (the "**Leased Space**") for the purpose of installing and operating cellular antennas and/or miniature transmitters (the "**Telecommunications Equipment**"). In accordance with most of the agreements between the Company and/or the Group's management companies and the cellular companies, responsibility for obtaining all of the approvals required by law to set up and operate the antennas and/or miniature transmitters, and responsibility for complying with the various environmental protection laws lies with the cellular companies, including holding, so long as they lease the Leased Space, the approval of the Radiation Commissioner at the Ministry of Environmental Protection regarding instructions and restrictions relating to the use of the Telecommunication Equipment, and acting in accordance with this approval, and they also undertake to comply with the safety instructions that shall be published by the Company or the management companies. Additionally, in the framework of these agreements, the cellular companies undertake to indemnify and compensate the Company and/or the management companies for any damage and/or expense that shall be caused as a result of the cellular companies' activities on the Leased Space, and for their liability by law for any act or omission of the cellular companies, and they undertake to insure their liability under the law for any damage and/or harm that may be caused to a third party. Finally, pursuant to the provisions of most of the agreements as stated above, each cellular company undertake to cooperate with the other cellular companies with which the Company has engaged, with respect to the operation of the Telecommunications Equipment in the Leased Space.

Water and Sewage Corporations (Plant Wastewater Discharged into the Sewage System) Rules, 5771-2011 – In the Report Period, the Company is acting in relation to several malls owned thereby vis-à-vis the water and sewage corporations at the relevant authorities in order to arrange the issue of the waste water discharged by certain businesses leasing space in such properties, which ostensibly result in deviations in the values of the waste water discharged into the municipal sewage system. The Company has retained professional consultants on the matter and places great importance on strict compliance in environmental issues.

23. Restrictions on and Supervision over the Corporation

Below is a brief overview of the laws, regulations, orders, restrictions and requirements with which the Group is obligated to comply in its various operating segments:

23.1. In Israel

23.1.1. Real estate operations

The Company's operations in Israel is subject to the land laws, including in relation to land taxation and lease and borrowing laws, as well as directives and contracts of the Israel Land Authority and Local Authorities, planning and building laws and environmental laws.

23.1.2. General laws concerning the Group’s operating segments

In the framework of its activities, the Company and the Group companies are subject to municipal bylaws in each one of the local authorities in which the Group’s income-producing properties are located, insofar as relevant, including regarding the opening and closing of businesses, the Prevention of Smoking and Exposure to Smoking in Public Places Law, 5743-1983, Equal Rights for Persons with Disabilities Regulations (Service Accessibility Adjustments), 5773-2013, Water and Sewage Corporations rules, the Privacy Protection Law, 5741-1981, the Communications Law (Telecommunications and Broadcasting), 5742-1982 (which includes clauses addressing "Spam") etc.

Furthermore, some of the Group’s companies purchase electricity through a high-voltage connection and supply the electricity to tenants according to a low-voltage tariff as determined and updated from time to time by the Electricity Authority (PUA-E). To the best of the Company’s knowledge, as of the date of the Report, the Ministry of Energy and the PUA-E are acting for the regulation of electricity distribution in retail centers and malls across the country.

The Concentration Law

Further to the description of the Concentration Law and the three principal chapters thereof in Section 14.2.1 above, another chapter of the Concentration Law concerns limitations and considerations that a regulator is required to consider when seeking to allot a right in the area of vital infrastructure, as specified in the schedule to the law. The Committee for the Reduction of Concentration will release a list of centralistic entities, for the purpose of whose participation in a tender for the allotment of such right in vital infrastructure, duty will apply to take into account economy-wide concentration considerations, in consultation with the Committee. It is noted that the extension or renewal of a right are deemed as an allotment of a right, if the entity holding the right holds it for a period exceeding 10 years (either in a single period or in the aggregate) and the previous allotment or extension were not examined under the Concentration Law in the 10 years preceding the extension. On December 11, 2014, the Concentration Committee released the list of centralistic entities in the market. Azrieli Group and Granite Hacarmel Group are included in the aforesaid list. As of the Report Date, the Company is looking into the applicability of the provisions of the law as aforesaid, including the implications thereof, if any, in connection with participation of the companies of Granite Hacarmel Group in tenders for vital infrastructures, to the extent that on the applicable dates as aforesaid, the Company shall be included in the list of centralistic entities that shall be published, and to the extent that it shall hold such company.

It is noted that in the last update of the list of centralistic entities published on December 25, 2017, Azrieli Group and Granite Hacarmel continued to be included in the list of centralistic entities in the economy.

For further details about the Concentration Law and the restrictions imposed on the Group thereunder, see the "Concentration Law" in Section 14.2.1 above, under "Investment in Leumi Card".

Privacy Protection Regulations (Information Security), 5777-2017

On May 8, 2017, the Privacy Protection Regulations (Information Security), 5777-2017 were approved by the Constitution, Law and Justice Committee. The purpose of the Regulations is, *inter alia*, to define information security principles related to the management and use of information in databases, based on information security standards that are generally accepted around the world, all with the purpose of providing protection for the rights of the subjects of the information in the database from abuse of the information about them. The Regulations prescribe several provisions in relation to the definition and periodic update of risks, the setting of information security procedures according to the database's sensitivity, and also address the physical aspects of safeguarding the database and the need to secure it.

23.1.3. Senior housing

Restrictions on and supervision of the senior housing operating segment

Operations in the senior housing segment are mostly regulated by the provisions of the Senior Housing Law, which prescribes, *inter alia*, the duty to receive an operation license for the management and operation of a senior home, provisions in respect of the requirements and conditions for the receipt of a senior home operation license, the contractual relationship between the operator and the tenant, the duty to enter into a written engagement agreement, the provision of collateral to secure the repayment of the funds of the tenants' deposits, and more.

Below are additional provisions of law applicable to the senior housing segment, as prescribed by the Senior Housing Regulations which took effect in proximity to the filing date of this Report:

The Senior Housing Law

The Senior Housing Law prescribes, *inter alia*, that the operation of senior homes requires the receipt of an operation license on behalf of the Commissioner of Senior Homes at the Ministry of Social Affairs and Social Services and compliance with several conditions prescribed by the said law, including the applicant for the license being the owner or long-term leaseholder of the land of the senior home in respect of which the license is requested, there being no conviction of the license applicant and the senior home manager of certain offences, proof of the financial stability of the license applicant to ensure the proper operation of the senior home and so forth. The operation of a senior home without an operation license or other than according to the conditions of the license constitutes an offence that carries various fines and incarceration penalties.

Furthermore, the Senior Housing Law regulates additional matters, including the following: (1) The duty to make a written engagement agreement between the holder of the senior home operation license (the "**Operator**") and the person seeking to be a tenant of the senior home; (2) The specification of basic mandatory services the Operator is obligated to provide the tenants; (3) The duty to set up an LTC unit for senior homes consisting of at least 250 residential units45; (4) Limitation on arbitrary increases of the management fees and any other payment, which the tenant does not have the actual ability to waive; (5) The right of the tenants to set up a tenants' representative body at the senior home, and more.

In addition, the Senior Housing Law prescribes that in any case in which the tenant is required to deposit sums on account of the Deposit[46], which exceed a rate of 7% of the sum of the deposit or NIS 70,000, whichever is lower,

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[45] It is noted that the provisions of the Senior Housing Law concerning the setting up of an LTC unit took effect at the lapse of five years as of the date on which the law took effect, i.e., on December 3, 2017.

[46] "Deposit" – A payment made by a tenant to an operation license holder under an engagement agreement, including as collateral for compliance with the terms and conditions of the engagement agreement, which, under the terms and conditions of the

the Operator will be required to provide the tenant collateral to secure the funds of the Deposit, according to the Operator's choice and pursuant to the following alternatives: (1) Bank guarantee; (2) Insurance of the tenant with an insurer and specification of the tenant as an irrevocable beneficiary in the insurance contract, provided that the insurance fees are paid in advance; (3) Transfer of 40% of the amount of the Deposit to a trustee under a trusteeship contract in which the tenant is specified as a beneficiary; or (4) Registration of a first-ranking mortgage on the real property in favor of the tenant. It is noted that the tenant may waive the receipt of such collateral, provided that the waiver is given in writing. Furthermore, the Operator is obligated to bear 20% of the cost of provision of the collateral, with the balance of the cost, at the rate of 80% as aforesaid, being borne by the tenant. The Senior Housing Law lists causes for enforcement of the collateral by the tenant, including the insolvency of the Operator, an order for stay of proceedings, an order for receipt of assets, a liquidation order, an order for appointment of a receiver, or circumstances wherein an absolute impediment to the repayment of the funds of the deposit is created.

Bill for amendment of the Senior Housing Law

On July 25, 2017, the Senior Housing Bill (Amendment) (Securing the Funds of the Deposit), 5777-2017 (the "**Bill**") passed first reading at the Knesset; the Bill concerns the amendment of the provisions pertaining to the collateral serving to secure the funds of the tenants' deposits. According to the Bill, the provisions of the Senior Housing Law shall be amended as follows: (1) Imposition of a duty on the Operator to provide collateral to secure the full amount of the deposit deposited by the tenant (i.e., "from the first Shekel"), such that the Operator may not receive from a tenant a sum exceeding seven percent of the deposit or NIS 70,000, whichever is lower, unless he registers a first-ranking mortgage in the name of the tenant or, alternatively, subject to the provision of a bank guarantee; (2) The Operator will bear all of the costs involved in the provision of the aforesaid collaterals (as opposed to the duty to bear 20% of such costs under the present provisions of the Senior Housing Law); (3) Cancellation of the second and third alternatives listed in the Senior Housing Law (which pertain to Insurance of the tenant with an insurer, while specifying his name as an irrevocable beneficiary in the insurance contract, and a deposit with a trustee) with two exclusive alternatives left as financial collateral: (a) registration of a mortgage; or (b) provision of a Bank guarantee; (4) Denial of a tenant's right to waive such collateral, such that the provision of collateral will be mandatory.

Furthermore, pursuant to the provisions of the Bill, an irregularities committee shall be established at the Ministry of Welfare, which shall be permitted to exempt an Operator, upon his request, whether fully or partially, from the provision of collaterals under the Senior Housing Law, and set forth the conditions for such an exemption, or, alternatively, order the provision of an alternative collateral.

The Bill further stipulates that the representatives of the tenants shall appoint on their behalf, and with the Operator's consent, an accountant that will examine the financial stability of the senior home, with the Operator and the tenants equally bearing all costs involved therein.

It is clarified that the Bill has only passed first reading, and that the final language of the law, if and insofar as approved in the second and third readings, may incorporate changes to the language described above, as well as the addition of appropriate transitional provisions. In the Company's estimation, the aforesaid Bill, if adopted in its current language, does not materially affect the Company or its profits.

The Senior Housing Regulations

In proximity to the Report Date, the following regulations took effect:

Senior Housing Regulations (Apartment Specifications Form), 5778-2017 – published on December 3, 2017, and took effect on January 17, 2018. In summary, these regulations obligate the Operator to attach to every engagement agreement with tenants (pertaining to the occupancy of an apartment in a senior home) a detailed

engagement agreement the operation license holder must repay the tenant, in whole or in part, when the engagement comes to an end, after deduction of any sum deducted from such payment under the provisions of the engagement agreement and the law.

and accurate specification, which addresses all of the details and information as specified in the said Regulations. Furthermore, the Regulations stipulate that in respect of contracts between senior homes and tenants regarding the occupancy of senior homes in planning stages or under construction, which construction is yet unfinished, a plan of the future apartment, including exact measurements, must be annexed to such contracts in addition to the specifications form of the future apartment;

Senior Housing Regulations (Tenants' Committee), 5778-2017 – were published and took effect on December 3, 2017. In summary, these regulations pertain to the right of tenants in senior homes to appoint a representative body on their behalf, and prescribe procedures for the selection of such representative body, its powers, the manner to convene its meetings, its voting manner, its term of office and so forth.

Senior Housing Regulations (Provisions regarding Experience, Professional Training and Seniority of Senior Homes Managers), 5778-2017 – were published and took effect on December 14, 2017. These regulations set forth the preliminary conditions and the experience and professional training requirements of a manager of a senior home, which include, *inter alia*, a duty imposed on a senior home manager to participate in a course and training according to various criteria prescribed by the Regulations, as well as a requirement of having at least three years' experience. Furthermore, these regulations obligate the owners of senior homes to ensure the enforcement and the implementation of these Regulations. The Regulations further anchor the prohibition on senior home managers to act in conflict of interests in the context of their position.

With the exclusion of the above specified regulations, as of the Report Date, additional regulations applicable to the senior housing segment did not yet take effect. To the Company's best knowledge, at this point there are additional regulations which pertain to the senior housing segment and which legislation is yet incomplete, as follows:

Draft Senior Housing Regulations (Application for a Senior Home Operation License), which specify the conditions and the documents required for submitting an application for the grant or renewal of a senior home operation license.

Draft Senior Housing Regulations (Disclosure Document), which address the disclosure document the Operator is obligated to present to the tenant a reasonable time prior to their entering into an engagement agreement.

Invalids and the mentally frail – The People's Health Ordinance and Regulations

The People's Health Ordinance, 1940, the People's Health Regulations (Registration of Hospitals), 5726-1966, and the People's Health Regulations (Nursing Staff in Clinics), 5741-1981, prescribe that the operation of hospitals, including units for invalids and the mentally frail, requires receipt of a permit from the Ministry of Health and is subject to supervision thereby. Such regulations include provisions with respect to the physical structure, the condition of the equipment, the manner of management, the rights of hospitalized patients and manpower capacities and training.

Labor law

Palace has employees in the senior housing operations and has also engaged with manpower agencies and manpower contractors for the receipt of various services in the senior homes, including cleaning, protection and security. Palace is therefore subject to the labor law and particularly to the law applicable to engagement of contractor employees, including the Employment of Workers by Manpower Contractors Law, 5756-1966, the regulations promulgated thereunder, and the Enhancement of Labor Law Enforcement Law, 5772-2011.

Planning and building laws, work safety and accessibility and consumer legislation

In the context of the planning, development and construction processes of senior homes, Palace is subject, *inter alia*, to the planning and building laws, including the decisions of local authorities and the various zoning committees, and is also subject to the Equal Rights for Persons with Disabilities Law, 5758-1998 and the secondary legislation thereunder, and to the work safety laws. Furthermore, the operation of senior homes is subject to consumer laws, such as: the Consumer Protection Law, 5741-1981 and the Control of Products and Services Law, 5718-1957.

23.1.4. Business Licensing

In the framework of the operations of the Group's companies, some of the Group's companies are required to obtain a business license pursuant to the Business Licensing Law, 5728-1968. To the best of the Company's knowledge, as of the Report Date, all of the Company's properties have a valid business license or are in the midst of proceedings for the renewal or issuance of a business license (including such which had expired), as required under the Business Licensing Law, 5728-1968. In addition, in the lease agreements in which the Group engages with the various lessees, the lessee is required to hold a business license as required by law for the operation of its business in the property.

23.1.5. Antitrust

In the framework of expansion of the Group's operations, *inter alia*, by acquiring shares in companies owning the rights in real properties, by the Group and the Group's companies may require, under certain circumstances, to approve the merger pursuant to the Restrictive Trade Practices Law, 5748-1988.

For details regarding restrictions and supervision in the Granite Segment, see Sections 12.2.2 and 12.15 of Chapter A of the Report.

23.2. Outside Israel

The Group's operations in the U.S. and in England are subject to the laws and regulations in the said countries and *inter alia* in the field of land, planning and building and lease, the environment and laws on the municipal level and in connection with land taxation.

24. Material Agreements and Collaboration Agreements

The Group is a party to collaboration agreements with third parties with respect to some of the projects within the Group's activities.

Excluding agreements which were specified in this Chapter, in the Additional Details Chapter (Chapter D of the Report) and in the Notes to the Financial Statements, the Company is not a part of any material agreements which are not in the ordinary course of business or which were not described in Chapter A of the Report.

25. Legal Proceedings

As of the Report Date, the Company and/or the Group companies are not a party to pending material legal proceedings, except as specified in this Report and in Note 32 to the Financial Statements. In addition, as of the date of this Report, the Company and/or the Group companies are conducting various proceedings, as determined by law, *inter alia*, for the resolution of demands received from the various local authorities in respect of mandatory payments and levies, in a total amount that is immaterial to the Company. In respect of part of the proceedings, the Company included provisions in the Financial Statements on the basis of the opinion of the Company's outside advisors, under the circumstances of each matter.

26. Goals and Business Strategy

As a leading company in its segments of activity, the Company focuses on the income-producing real estate sector, mainly in Israel. The Company focuses, on a current basis, on improving the Group's existing properties, and acts to optimize the utilization of its commercial space and create a suitable tenant mix according to the changing demand needs, increase the number of visitors while maintaining and even improving the attractiveness of its malls and retail centers, increasing the tenants' revenues, and continuing to offer management services to its properties through the Group's management teams, maintaining the level of its tenants and renewing the lease agreements therewith for additional long-term periods.

The Group's business strategy is mainly to continue to invest in expanding its widespread activity in retail centers and malls (including power centers) and office and other space for lease in Israel and overseas, through the purchase of lands for development and construction of assets and/or the purchase of additional assets. In addition, the Company emphasizes the betterment of existing assets, the advancement of building plans and expansions for optimal use of the rights in its assets. The Company insists on maintaining its high financial soundness and a relatively low level of leverage.

One of the Company's goals is investment of not more than approx. 15% of the value of the Company's investment property in Western countries (mainly the U.S.) with a high investment rating, subject to the right timing and appropriate cost.

The Company estimates that its main growth engines are, *inter alia*, the projects undergoing planning and construction, development and construction of new assets through the identification of lands for purchase while taking into account areas of demand, large population centers, central transportation junctions and high accessibility to public transportation.

Furthermore, the Company examines from time to time additional options to expand its segments of activity in other fields of business which are synergetic or tangential to the Company's business as additional growth engines, while taking advantage of market conditions and/or crisis conditions in leading, cash generating target companies. In the Report Period, the Company continued to develop the senior housing operations, following its purchase of land plots in 2014 with respect to which it has commenced the senior home development plans, and the purchase of the longstanding senior home "Palace Tel Aviv" in 2015, and the purchase of Palace Ra'anana (formerly Ahuzat Bayit Ra'anana) in 2016, and it is examining additional sites. The Company aspires to continue developing the senior housing business and to create a significant portfolio with national presence and a 4-5 star finishing standard. In the Report Period, the Company continued to examine various ventures for the construction of new senior homes, identification of suitable land and purchase of existing senior homes, aiming to be a leading player in the senior housing market, both in terms of the amount of residential units offered to tenants and in terms of the standard of the provided services.

As reported thereby, the Company regularly reviews the holdings which are not at the core of its business in the real estate sector. For details on a transaction that was closed for the sale of Sonol, see Section 13 above.

The Company's goals as of the Report Release Date are based on the management's estimates in connection with the market conditions as of such date, and there is no certainty that the aforesaid will indeed materialize. For further details, see the Board of Directors' Report.

27. Forecast for Development

As the Company reported in the past, during the Report Period until the Report Release Date, the Group has continued exploring business opportunities, in Israel and overseas, in connection with the expansion of its business, mainly in the real estate sector, including related real estate sectors such as storage and logistics and the development of the senior housing business. These opportunities are examined both through the purchase of land reserves and the development of properties, and by way of purchase of properties and/or operations from third parties and/or the betterment of the existing properties owned by the Group, some of which have materialized as stated in the Company's reports. The Company is regularly engaged in identifying opportunities for expanding retail and office space in its existing properties as an addition to existing projects and is pursuing the promotion of the betterment of such properties and is expected to continue pursuing such activity also in 2018. In addition, following the sale of Sonol, the Company continues to regularly look into the other holdings which are not in its core business of income-producing real estate, including the sale of its holdings in Granite Hacarmel (as a whole or its various parts) and/or its financial holdings, all according to its discretion as to the timing, structure and consideration of the transaction. As of the Report Date, there are no short-term plans which deviate from the Company’s ordinary course of business and which may have a material influence on the Company’s business and results.

28. Discussion of Risk Factors

In the Company’s estimation, the Group is exposed to several fundamental risk factors deriving from the economic environment and the Group’s unique characteristics.

The information concerning risk factors to which the Group is exposed is forward-looking information as defined in the Securities Law. The Company’s expectations with respect to this issue are based on past experience, the Group’s familiarity with the markets in which it is active and its estimations in relation to its economic and business development. However, the Group’s estimations regarding the following risk factors, including the scope of their effect on the Group's business, is forward-looking information as defined in the Securities Law, which is based on the Group's existing information as of the Report Date and it further includes estimations and analysis of the Group. The effect of the realization of any particular risk factor may vary from the Group's estimations, *inter alia* due to external factors that may be beyond the Group’s control. Furthermore, in view of the Group's continued examination of the expansion of its business, in particular in the real estate segment, the Group may by exposed in the future to additional risk factors, and the effect of any risk factor, if realized, may vary from the Group's estimations. Notwithstanding the aforesaid, it is noted that the Group’s operations are characterized by a large number of tenants, numerous segments and geographic dispersal. These characteristics allow the Group to reduce its exposure to changes in a specific operating segment and to reduce its exposure to the business of a specific tenant.

28.1. Macro-economic and financial risks

28.1.1. The growth and consumption rates in Israel

The Company's activity is dependent, *inter alia*, on the growth of the Israeli economy and the per capita consumption rates, which affect the demand for the Company's income-producing properties and the soundness of material tenants of the Group's properties and their ability to fulfill their undertakings thereto.

28.1.2. A change in the building inputs index

An increase in the building inputs may affect the price of the Company's engagement with sub-contractors. While construction costs are usually linked to the building inputs index, income is usually linked to the consumer price index. Therefore, the Company may be exposed to negative effects in the event of changes in these indexes.

28.1.3. Changes in the economy’s interest rates

A majority of the Group’s undertakings and Group’s development plans are affected by changes in the economy’s interest rates and the banking corporations' conditions for provision of bank credit. A long-term increase in the market interest rates may affect the Group’s financing costs in relation to each project, the yield from the properties, the value of the income-producing properties and the Group’s profitability.

28.1.4. Security situation

Changes in and aggravation of the security and political situation may affect the Company's activity and business results, both from the perspective of the public's readiness to visits the Group's shopping centers and malls, in high-stress areas and in general, as well as from the perspective of demand for lease spaces, shortage in manpower in the construction industry, building cost appreciation, etc.

28.1.5. Regulatory changes in the Company's business environment

The Group's activity is exposed to various regulatory limitations, including in accordance with the antitrust law, the securities law, corporate law and the supervision on banks law. Stricter regulation in areas pertaining to the Company, as well as possible implications of further regulatory changes might reduce and/or limit the Company's activity through, *inter alia*, organizational changes and the imposition of conditions on the Company's business activity and financial holdings.

28.1.6. Changes in the value of financial investments available for sale

In view of the condition of the capital market in Israel, the Company is exposed, to a certain extent, to adverse changes in the value of the companies in which it has invested as a financial asset available for sale. Impairment of these companies may adversely affect the comprehensive income of the Company and its equity.

28.2. Industry-specific risks

28.2.1. A decline in the demand for rental space

A decline in the demand for rental space and/or renewal of existing lease agreements may lead to a decline in occupancy rates in the Group's properties and a decline in income from rent and in asset value and will necessarily harm the Company's business results.

28.2.2. A decline in the rent prices

A decline in the demand for rental space together with competition becoming fiercer in the industry may lead to erosion of the Company's rent, a decline in asset value, and harm its financial results.

28.2.3. Strength of main tenants

Damage to the financial strength of tenants, and particularly main tenants, may lead to an increase in provisions for doubtful debts or alternatively, termination of lease agreements and/or eviction of tenants from the Group's properties, and therefore to a decrease in the Group's income from rent and necessarily harm the Company's business results.

28.2.4. Competition

The income-producing commercial property segment in Israel is subject to significant competition. For details regarding the effect of the Group's competitors on its business results, see Sections 8.4 and 9.3 of the Report.

28.2.5. Approvals from the authorities

Activity in the income-producing property segment is characterized by the need to obtain permits from various entities at the different authorities, particularly in the area of usage and rights confirmations (zoning plans), obtaining building permits, business licenses etc. A delay in obtaining any permit or failure to obtain a permit could harm the profitability of the project or entail various financial expenses for the purpose of compliance with the requirements of the authorities for receipt of the approvals.

28.2.6. Legal and regulatory requirements, including with respect to environmental protection

The Group's companies are subject to legal and regulatory requirements from various aspects and, *inter alia* on issues pertaining to the environment (nuisance, underground and above ground pollution, toxic waste etc.), and they are required to bear the costs involved in meeting the same, such that it may have an adverse effect on their results. A toughening of such regulatory requirements may force the Group to allocate additional financial resources to this issue.

28.2.7. Changes in the tax burden

The Group's companies are subject to the tax laws in the jurisdictions in which they operate. Changes in the present or future tax rates, or other changes in tax laws that affect the tax liability of the companies, will cause a change in the Company's financial results.

28.3. Company-specific risks

28.3.1. Fluctuations in the Consumer Price Index

The Group has loans and bonds and deposits from senior housing residents that are linked to the Consumer Price Index and therefore the Group is exposed to fluctuations in the Consumer Price Index. However, most of the Group's revenues from rent in the commercial centers and malls segment and the office and other rental space segment are linked to the Consumer Price Index, while a rise in the Consumer Price Index may lead to an increase in the revenue from rent and reduce the exposure in relation to this risk.

28.3.2. Foreign Currency Risks

The Company has assets and liabilities that are stated in various foreign currencies. In view of the fact that the total foreign currency liabilities are not always equal in value to the total foreign currency assets, the Company is exposed to possible changes in the exchange rate of the foreign currencies versus the NIS. However, the Group's revenues from rent in the income-producing property in the USA segment are stated in foreign currency, while a rise in the exchange rate of the foreign currency may lead to growth in revenues from rent and to reduction of the exposure due to this risk.

28.3.3. Dependency on Financing Sources

The Company's activity is also financed by external sources and an adverse change in the conditions for provision of credit and/or renewal of existing credit may materially harm the Company's results.

28.3.4. Debt raising costs

Changes in the market interest rates may affect the cost of debt raising by the Company as well as the financing expenses.

28.4. Senior-housing specific risks:

Regulation in the senior housing business

The senior housing sector has developed significantly in recent years, along with the regulation of the sector. For details regarding the Senior Housing Law which provides, *inter alia*, the conditions for receipt of a senior home operation license see Section 23.1.3 of Part A of the Report. In July 2017, a bill was approved in a first reading at the Knesset, seeking to make a significant change in the regulation of securing the deposit funds of tenants in senior housing. If and insofar as the said bill will be approved in the proposed form, senior homes will be obligated to provide one of the following financial collaterals: (a) a first ranking mortgage in the name of the tenant on the land of the senior home; or (b) a financial collateral (bank guarantee) in a manner that may increase the Company's financing expenses. The Bill further stipulates that the holder of the license shall bear the cost of providing one of the aforesaid collaterals, and that the tenant may not waive it. As of the Report Release Date, the said Bill is being prepared for second and third readings.

Set forth below are the main risk factors described above that were ranked, in accordance with the Company's estimate, according to the extent of the effect that they may have on the Company's business:

	The Extent of the Effect of the Risk Factor on the Company		
	Large Effect	Medium Effect	Small Effect
Macro-Economic Risks			
Growth and consumption rates in Israel	X		
The security condition in Israel	X		
Changes in the interest rates in the economy		X	
Changes in the Building Input Index			X
Regulatory changes		X	
Changes in the value of available for sale financial investments			X
Industry-Specific Risks			
Decline in the demand for rental space	X		
Decline in rent prices	X		
Strength of main tenants			X
Competitive environment	X		
Approvals from authorities			X
Environment and regulatory requirements		X	
Changes in tax burden		X	
Specific Risks			
Fluctuations in the CPI		X	
Foreign currency risks			X
Dependency on financing sources		X	
Debt raising costs		X	
Senior housing-specific risks			X

Danna Azrieli,

Chairman of the Board

Eyal Henkin,

CEO

Report Date: March 20, 2018

AZRIELI GROUP

Board Report

Part B

DEAR SHAREHOLDERS,

2017 was another successful year for the Azrieli Group. Over the year, we witnessed growth in all of our operating sectors. In the shopping mall sector we experienced a year of change in global retail trends. Despite the many changes that occurred in this sector, the Azrieli Group's malls continue to demonstrate strength and stability due to our strong geographical positioning, our accessible locations, proximity to public transportation, and of course our tenant mix and services that we provide to our customers. The office sector has also continued to present impressive growth figures and during the year we signed lease contracts with some of the largest and best-known companies in the world, including Amazon, Facebook and others. The senior housing sector, through our Palace brand, recorded another year of growth and the continued successful operation and management of the two senior homes we acquired in prime locations, as well as our development and construction of three additional senior homes in the center and south of the country. We expect to start welcoming tenants to the senior home in Palace Modi'in, during 2018. The US office portfolio proved its stability and strength throughout the year, even during a period of unforeseeable challenges as we experienced in August of 2017.

We continue to focus on our core business of developing and managing income-producing properties and we are always looking ahead with a long-term strategic perspective. Our main objective is to continue to build, manage and operate a portfolio of income producing properties of quality, while creating value for all the Company's shareholders. The Azrieli Group has an extraordinary pipeline of projects under development, totaling hundreds of thousands of square meters that are expected to contribute significantly to the Group's future growth. In addition, we constantly invest in the preservation of the quality and value of our current property portfolio so we remain up to date on the latest trends. Our portfolio is comprised of properties that are characterized by a central location, convenient accessibility, and proximity to public transportation routes, enabling value preservation even in a changing economic environment.

2017 was a year characterized by wide-ranging real estate activity, during the course of which we invested some NIS 1.2 billion in the existing portfolio of properties and in the initiation and acquisition of new properties. We increased our commercial office, shopping mall and senior housing portfolio by approximately 195 thousand square meters (sqm) with completion of the Azrieli Sarona project and the Azrieli Rishonim Center. These figures are tangible evidence of the strength of Azrieli Group, and of our entrepreneurial management and our vision and ability to recognize opportunities in the Israeli market. In 2018, we are expected to continue our extensive operations, which continue to be a strong base for the Company's growth.

Alongside the Group's impressive activities and the many investments in property betterment, we maintain strict and exceptional financial discipline with exceedingly low leverage. This year we wisely took advantage of the low global interest rates to recycle debt, by raising debt via issuing bonds at the lowest interest rates ever achieved by the company. Our debt recycling initiatives are also expected to contribute to our continued growth and the creation of value for our shareholders.

We continue to pioneer the integration between the physical and digital worlds of e-commerce in Israel. We understand that e-commerce has become an inseparable part of retail, in Israel and worldwide and understanding the industry and creating value for our customer is part of our vision to enhance our growth alongside our traditional retail business. We see e-commerce as being supplementary to mall activity, and that both approaches toward the customer will retain our positioning and leadership in the market. The Azrieli Group is constantly working to adapt ourselves to the changing trends and needs of the market and we believe in our ability to harness developing technologies which will strengthen the activity of our shopping mall portfolio.

Even as we encounter shifting retail trends throughout the retail industry, we believe that the Azrieli Group has three main characteristics that differentiate it from other real estate companies: 1) Our retail properties are located in prime locations that have shown their resilience through times of change; 2) Our future-facing vision, which led to the correctly timed integration of the digital world into our mall activity, while strengthening consumer experience and adapting it to contemporary trends; 3) The broad diversification in the Company's wide-ranging portfolio, which incorporates our growing office sector and our new senior housing sector activity, contributes to reducing the scale of exposure to fluctuations in the market. As a consequence of these attributes, our overall portfolio is exhibiting strength and growth.

I would like to congratulate Mr. Eyal Henkin, CEO of the Company, who took office in January 2018. I believe that Eyal has all the capabilities and the tools to lead Azrieli Group forward while preserving the Group's values, heritage and history, that have made Azrieli a leading group in its fields.

Yours,

Danna Azrieli,
Chairman of the Board

Azrieli Group
BUSINESS CARD

Azrieli Group is focused on the income-producing real estate sector and is Israel's largest real estate company.

In the shopping mall sector, the Group holds several leading malls, including Azrieli Jerusalem mall, Azrieli Ayalon mall and Azrieli Tel Aviv mall. The Company also holds and manages office properties, including some of the most prominent in Israel, such as the Azrieli Tel Aviv Center that dominates the Tel Aviv skyline and the recently completed Azrieli Sarona tower. The Company also operates in the senior housing sector and manages two active senior homes. In the United States, the Company holds several office buildings, mainly in Houston, Texas.

Azrieli Group has an extraordinary pipeline of hundreds of thousands of square meters of office, retail and senior housing space in projects under development or in planning stages, which will contribute significantly to the Group's future growth. In addition, we constantly invest in the preservation of the quality and value of our current property portfolio.

In addition to its real estate business, the Group has other holdings and activities: The Azrieli.com e-commerce platform; Supergas gas company which markets alternative energy sources; and GES: water, wastewater treatment and chemicals company (through the wholly-owned subsidiary Granite Hacarmel). The Company also has financial holdings in Bank Leumi (3.5% equity interest) and Leumi Card (20% equity interest).

Azrieli Group's financial strength puts it in a class of its own among real estate companies. The Company operates at a net debt leverage ratio of a mere 27% to balance sheet. We target the best locations for our properties, to provide good transportation access over time and form a significant part of their urban environment. The location and quality of the properties are planned to serve as the best platform for our malls' tenants and visitors. As Israel's leading and strongest real estate group, Azrieli Group intends to continue its real estate work, and lead the development and management of high-quality, modern and innovative income-producing properties in Israel and overseas.

We will act together in continuing to focus on the Group's core business, while investing in new growth engines and application of advanced technologies.

Established in 1983

NIS 2.7 billion dividend
Since the IPO

More than 1.1 million sqm of leasable area
Over 0.6 million sqm of development pipeline

The biggest real estate company in Israel
NIS 29.7 billion total balance sheet

99% occupancy rate*
on average in Israel

* Net of properties under lease-up

17 MALLS

332 thousand sqm | 98% Occupancy

13 OFFICE BUILDINGS

541 thousand sqm | 99% Occupancy*

2 SENIOR HOMES

49 thousand sqm | 560 residential units
99% Occupancy

7 OFFICE BUILDINGS OVERSEAS

223 thousand sqm | 84% Occupancy

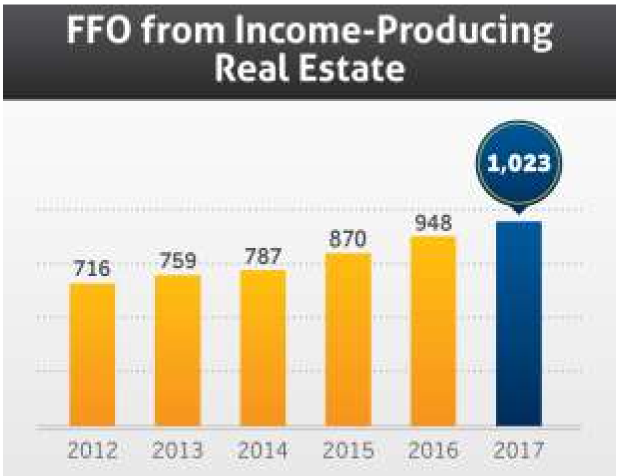
DEVELOPMENT PIPELINE

9 properties | 644 thousand sqm

PERFORMANCE SUMMARY AND FINANCIAL HIGHLIGHTS FOR 2017

Rise of approx. 6.5% in NOI (approx. NIS 1,385 million), compared with the same period last year (approx. NIS 1,301 million)

Rise of approx. 2% in same-property NOI in Israel, compared with the same period last year



Increase of approx. 9% in the FFO attributed to the income-producing real estate business, excluding the contribution of senior housing, and **increase of approx. 8%** for the entire income-producing real estate business

Increase of approx. 20% in adjusted net profit* (which totaled approx. NIS 1,034 million in 2017, compared with approx. NIS 864 million in the same period last year)

* net profit excluding the effect of real estate revaluations net of tax, and the effect of the tax rate change

1 | THE BOARD OF DIRECTORS' EXPLANATIONS ON THE STATE OF THE CORPORATION'S BUSINESS

1.1. General

The board of directors of Azrieli Group Ltd. (the "**Company**"; the Company jointly with all corporations directly and/or indirectly held thereby shall hereinafter be referred to as the "**Group**" or the "**Azrieli Group**") is proud to present this board of directors' report for the year ended December 31, 2017 and for the three-month period ended December 31, 2017 (the "**Report Period**"), in accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "**Regulations**").

The information in the board of directors' report is based on the consolidated financial statements as of December 31, 2017[1]. The Company's financials and results of operations are affected by the financials and results of operations of the companies held thereby. In some cases, we present details of events that occurred subsequently to the date of the financial statements and shortly before the date of release of the report (the "Report Release Date"), while indicating the same, or additional figures and details that are strictly at Company-level. The materiality of the information included in this report has been examined from the Company's perspective. In some cases, an additional and detailed description is provided in order to provide a comprehensive picture of the described issue, which the Company believes to be material for the purposes of this report.

1.2. Key Figures from the Description of the Corporation's Business

1.2.1. Summary of Operating Segments for 2017

In 2017, the Azrieli Group continued to focus its business operations on various real estate sectors, primarily on the retail centers and malls in Israel segment and the leasable office (and other) space in Israel segment, as well as on the income-producing property overseas segment (mostly in the U.S.). The Company has also been active in the senior housing segment, the Granite segment (which mainly consists of the marketing of alternative energy sources and the treatment of water, wastewater and chemicals), as well as e-commerce. In addition, the Company holds minority interests in financial corporations. The Group's primary growth engine is the development of income-producing real estate projects: malls, offices and senior housing. As of the date of the Report, the Company has nine projects under various development stages in Israel, the planned area of which is approx. 644 thousand sqm, as well as land for development. A brief description of the Group's five reported operating segments, as well as its additional activities ("**Others**") follows:

1. **Retail centers and malls in Israel –** The Group has 17 malls and retail centers in Israel;
2. **Leasable office and other space in Israel** – The Group has 13 income-producing office properties in Israel;
3. **Income-producing properties in the U.S.** – The Group has 7 office properties overseas, mainly in the U.S.;
4. **Senior housing** – The Group has 2 active senior homes in Israel;
5. **Granite** – The Group holds a business for alternative energy sources marketing and a business of water, wastewater and chemicals treatment[2].

[1] The attached financial statements are prepared according to the International Financial Reporting Standards ("IFRS"). For further details, see Note 2A to the financial statements as of December 31, 2017.

[2] The Group, through Granite Hacarmel Investments Ltd. ("**Granite**" or "**Granite Hacarmel**"), holds 100% of the rights in Supergas Israeli Gas Distribution Company Ltd. ("**Supergas**"), which markets alternative energy sources; and 100% of G.E.S. Global Environmental Solutions Ltd. ("**GES**"), which treats water, wastewater and chemicals

Additional activities – The Group holds an e-commerce business through the Azrieli.com website, as well as interests in financial corporations: approx. 3.5% of the shares of Bank Leumi LeIsrael Ltd. and 20% of the shares of Leumi Card Ltd.

Development – The Group has nine income-producing real estate projects in Israel in the malls, offices and senior housing segments, the planned area of which is approx. 644 thousand sqm, as well as land for development.

1.2.2. Breakdown of Asset Value by Operating Segment

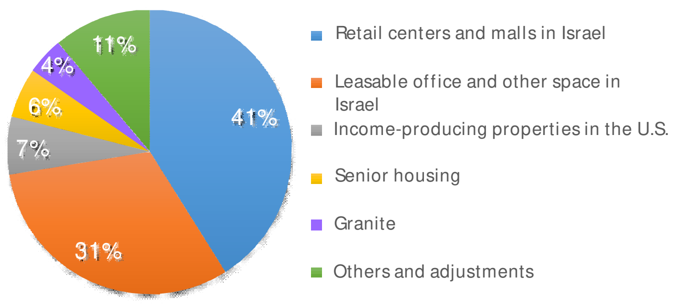
The following chart presents a breakdown of the total balance sheet assets by operating segment[3]:

Breakdown of Total Balance Sheet Assets by Operating Segment

Comparison of Segment Assets to Prior Year		
As of	**31.12.2017**	**31.12.2016**
Retail centers and malls in Israel	**12,368**	12,074
Leasable office and other space in Israel	**9,462**	8,219
Income-producing properties in the U.S.	**1,983**	2,176
Senior housing	**1,725**	1,495
Granite	**1,265**	1,298
Others and adjustments	**3,340**	3,321
Total	**30,143**	**28,583**

Percentage of Segment Assets out of Total Assets

31.12.2017



Figures are presented in millions of NIS.

The retail centers and malls segment constitutes approx. 41% of the total balance sheet assets. The other income-producing real estate segments, in the aggregate, also come close to approx. 44% of the total balance sheet assets. In the Company's estimation, the relative share of retail centers and malls is expected to decrease over time, in view of the Group predominantly focusing its development efforts in the coming years on the office and senior housing segments.

1.2.3. Summary of the Main Developments during and after the Report Period

1.2.3.1. Agreement for the purchase of land in Petach Tikva

In November 2017, the Group closed a transaction for the purchase of land spanning approx. 19,000 sqm in Petach Tikva in consideration for NIS 91 million. The land is situated in the eastern part of the Kiryat Aryeh Industrial Zone in Petach Tikva, close to an office project owned by the Group. The land includes building rights for approx.53,000 sqm and underground parking. The Group intends to build an office project on the land.

[3] The Company applied IFRS 8 – Operating Segments in its financial statements.

1.2.3.2. Purchase of co-owner's share in some of the U.S. properties

At the end of 2017, the Group purchased 33.33% and 25% of Riverway 1 and Riverway 3, respectively – the share of one of the co-owner s in these projects, in consideration for the injection of capital in the amount of approx. 2.4 million dollars and assumption of the share of the said co-owner, in loans in the sum of approx. U.S. $38.7 million, such that its share in the ownership of these properties increased to 66.66% and 70%, respectively.

1.2.3.3. Start of lease-up of the Azrieli Sarona office tower

During Q2/2017, the Azrieli Sarona project in Tel Aviv received a habitation certificate (for the office tower). The Azrieli Sarona project includes an office tower with a gross leasable area (GLA) of approx. 118,000 sqm, construction of which was completed in Q2/2017, and a "boutique" mall characterized by an innovative commercial concept, of approx. 10,500 sqm, construction of which is expected to be completed in Q3/2018. As of the Report Release Date, the office tower is in advanced lease-up stages. Contracts have been signed with respect to approx. 95% of the leasable office space, some of which include options for the lease of additional space.

1.2.3.4. Azrieli Rishonim

In 2017, the Company completed the construction of the Azrieli Rishonim mall and office tower in the city of Rishon LeZion. The mall was opened to the public in March 2017. The project is located near Road 431 and the Rishonim Railway Station, making it highly accessible. As of the Report Release Date, lease agreements have been signed in respect of 98% of the office space.

1.2.3.5. Land in Modi'in

In January 2018, the Group won a tender held by the Israel Land Authority for the purchase of long-term lease rights in a lot located in the CBD of Modi'in-Maccabim-Reut, on an area of approx. 5,300 sqm, designated for the construction of 80 residential units, 50 hotel rooms, offices and retail space, in consideration for approx. NIS 101.5 million. The Group will examine a possibility to initiate an increase of the building rights on the lot.

1.2.3.6. Financing transactions[4]

During the Report Period and Q1/2018, the Company expanded the B-D Bond Series. For details on the said bond series expansion, see Section 19.5 of Chapter A herein.

[4] According to shelf offering reports released on March 29, 2017 (Ref.: 2017-01-032703) and on January 31, 2018 (Ref.: 2018-01-010993) released under the Company's shelf prospectus of May 11, 2016 (Ref.: 2016-01-063049) ("**Shelf Prospectus**"). The said reports are included herein by way of reference. For further details with respect to the bonds (Series B-D), see Note 20 to the Financial Statements.

1.2.3.7. Appointment of a new CEO for the Company

Mr. Eyal Henkin was appointed as the Company's CEO of and his office commenced on January 1, 2018[5]. Prior to his appointment to this office, he served as the CEO of Supergas.

1.2.3.8. Litigation

For an update with respect to the legal proceedings to which any of the Group's companies is a party, see Note 32 to the Company's financial statements for 2017, Part C herein.

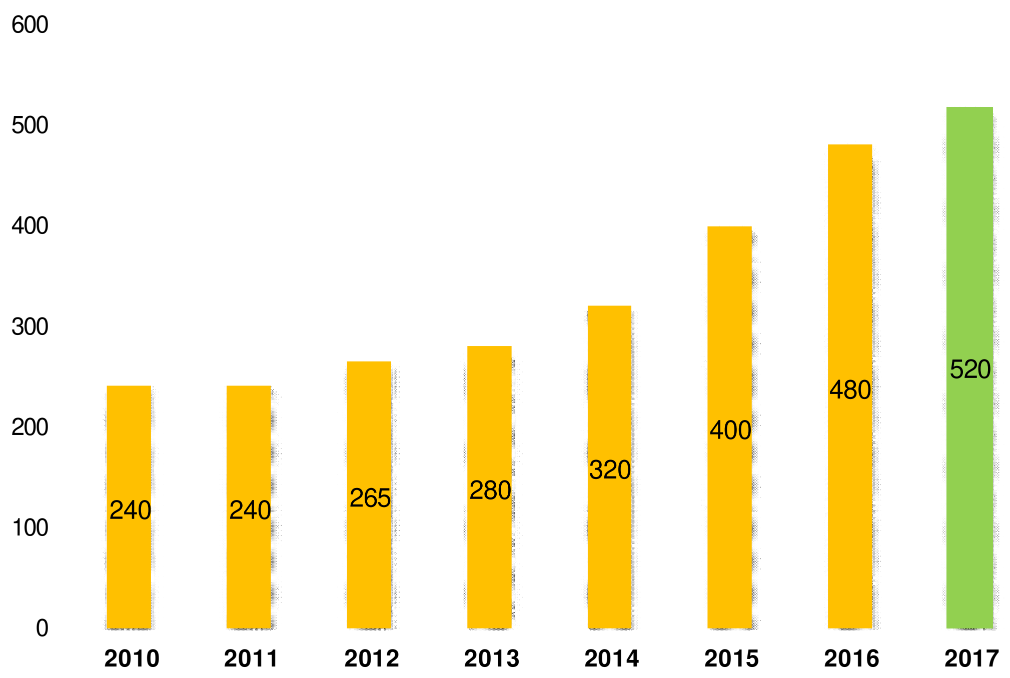
1.2.3.9. Tax assessments

See Section 1.3.5 of Chapter A and Note 29F to the financial statements.

1.2.4. Dividends

Since its public offering, the Company has distributed annual dividends in increasing amounts. The amount of the annual dividend has increased by 117% in the past seven years. The total aggregate amount distributed by the Company since the listing of its shares in 2010 is approx. NIS 2.75 billion, including a dividend for 2017, which has been declared, but not yet paid. The following chart specifies the amounts of the dividends distributed in recent years:

Dividends Distributed by the Company since Listing its Shares on TASE



Figures are presented in millions of NIS.
The years noted represent the years for which dividends were distributed. Dividends were actually paid in March of the following year.
The dividend for 2017 has been declared but not yet paid..

[5] For the terms of Mr. Henkin's office and employment, see Note 36C(6) to the Financial Statements.

2 | INCOME-PRODUCING REAL ESTATE

2.1. Business Environment

In the estimation of the Company's management, there has been no material change in the business environment in which it operates, as described in last year's board of directors' report (as of December 31, 2016). Following are macroeconomic indicators that are relevant to all of the operations in Israel, based on the publications of the Central Bureau of Statistics[6]:

- Indicators of the market's activity in Q1/2018 show that the Israeli market continues to grow. In 2017 the real growth rate was approx. 3.4%.
- As of the beginning of 2018, Israel's population slightly exceeds 8.5 million. The population growth rate is among the highest in OECD countries at approx. 1.9% per year (thanks to the high birth rate and an increase in life expectancy). According to population growth forecasts, in the middle of the next decade Israel's population will total approx. 10 million, and in 2035 Israel will have more than 12 million residents.
- The workforce unemployment rate is low at approx. 3.7%, as of January 2018.
- The (known) Consumer Price Index (CPI) increased by approx. 0.3% in 2017. The Bank of Israel interest rate remained unchanged at 0.1% throughout the entire year.
- The Prime interest rate remained unchanged at 1.6%.
- As set forth in detail below, the income-producing real estate sector in Israel maintained stability in 2017 both in terms of demand and in terms of rent levels and occupancy rates, continuing the trend that characterized 2016.

The Company's management estimates that various factors in the Group's strategy contribute to a reduction of the exposure of the Group's business to a significant crisis or to instability resulting from the materialization of any of the Company's risk factors:

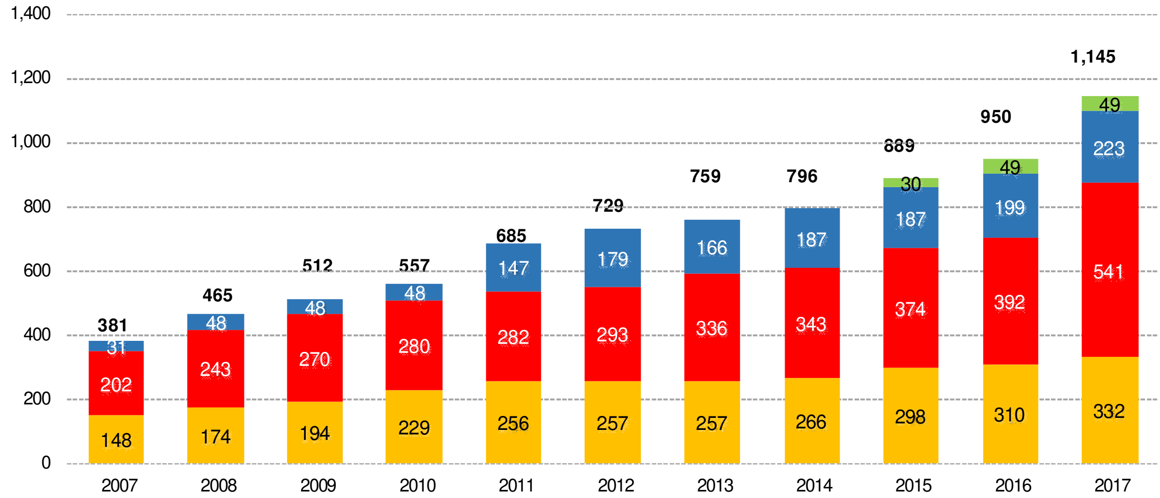
- The broad dispersion of the Group's real estate portfolio, both geographically and among its various operating segments.
- The portfolio features numerous properties located in areas of demand, which are built and maintained to very high standards.
- The high business positioning of the properties and the Company's investments in the betterment of its properties to maintain this advantage.
- The high occupancy rates, which result from the aforementioned factors.
- The diversity of businesses in the Group's malls and retail centers, which reduce the Group's exposure to such or other sector.
- The right mix of businesses, which characterizes the tenants at the retail centers and in the offices.
- Finally, the Company's stable capital structure and its financial conservativeness allow it to more easily survive fluctuations in business turnovers and profitability.

*The Group's aforesaid estimations with regards to the changes in the income-producing real estate sector in Israel and their effect on the Group's results are merely subjective estimations and constitute forward-looking information, within the definition of this term in the Securities Law, 5728-1968 (the "**Securities Law**"). Actual results and effects may materially differ from the aforesaid estimations and what they imply, for various reasons, including the further intensification of competition, a decline in demand and a deterioration of the Israeli economy.*

[6] Central Bureau of Statistics www.cbs.gov.il

2.2. Consolidated GLA Data

GLA Breakdown as of the End of 2017



▪ Malls and retail space – Israel ▪ Offices and others – Israel ▪ Income-producing real estate overseas (mainly the U.S.) ▪ Senior housing

Figures present thousands of sqm.

2.3. Average Occupancy Rates in the Income-Producing Properties

Following are the average occupancy rates in the Group's income-producing properties by operating segment:

- Retail centers and malls in Israel – approx. 98%;
- Leasable office and other space in Israel – approx. 99% [7];
- Income-producing properties in the U.S. – approx. 84%;
- Senior housing in Israel – approx. 99%.

2.4. NOI of the Properties

Net Operating Income (NOI) is a measure that presents the net operating income of the properties: income after the deduction of the property's operating expenses and prior to the deduction of taxes and interest. It serves as one of the important parameters in the valuation of income-producing real estate companies, as its division by the appropriate cap rate for the properties provides an indication for the determination of the value of the income-producing properties[8]. In addition, after deduction of the current maintenance expenses incurred to preserve the property's condition, NOI is used to measure the free and available cash flow for the service of financial debt undertaken for the purpose of funding the purchase of the property.

We wish to emphasize that these parameters do not present cash flows from current operations according to generally accepted accounting principles, nor do they reflect cash available for the funding of all of the Group's cash flows (including its ability to make distributions), and they are not meant to be deemed as a substitute for net profit in the evaluation of the results of the Group's operations.

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[7] Excluding the two buildings in stage B at the Azrieli Holon Center that were opened at the end of 2015 and at the end of Q1/2016 and are undergoing occupancy, and the offices at Rishonim and Sarona that were opened during the Report Period.

[8] Additional indications are, for example: The market value of similar properties in the same area and the sale prices of similar properties in recent transactions.

2.4.1. NOI Data

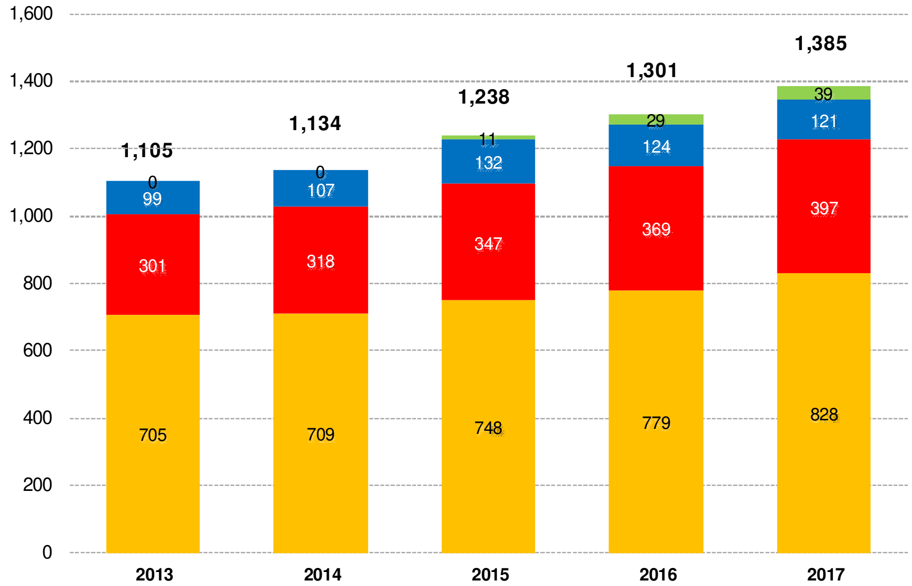
For the purpose of calculating the NOI, on the revenues side – all proceeds from tenants are taken into account (including rent, management fees and other payments), and for the purpose of calculating the costs – all operating expenses in respect of the properties are taken into account (including management, maintenance and other costs)[9].

During the years 2007-2017, the Group recorded constant growth **at an average annual rate of 9.7%**, and an overall **increase in the years 2007-2017 of approx. 152%** in actual NOI figures in all of its income-producing real estate segments, in both Israel and abroad.

The NOI figures for the income-producing real estate portfolio are as follows[10]:

NOI

Annual Data



Retail centers and malls in Israel ▪ Leasable office and other space in Israel ▪ Income-producing properties in the U.S. ▪ Senior housing

Figures are presented in millions of NIS.

For explanations with respect to the change in NOI, see Sections 2.10.2, 2.11.2, 2.12.2 and 2.13.2 below.

2.4.2. Same-Property NOI Data

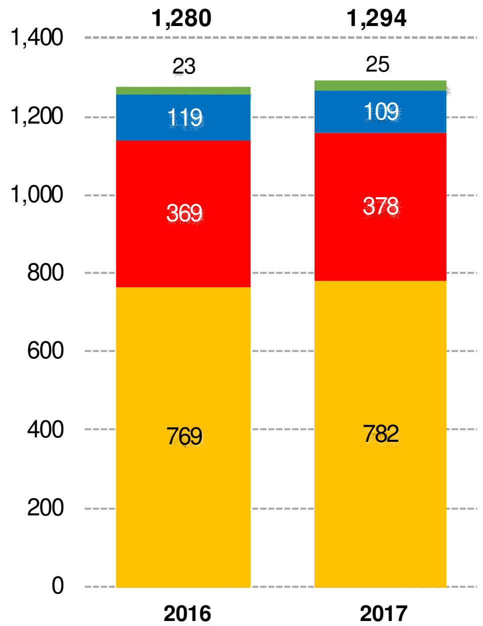
The NOI indicator is affected by changes in the portfolio. That is to say, the sale of a property or the addition of a new property to the Company's portfolio is reflected in a change in the NOI. Contrarily, the Same-Property NOI indicator discounts such changes and allows for an examination of changes in the profitability of the same portfolio of the Group over time. For the purpose of calculation thereof, only properties that were part of the Group's portfolio throughout the analysis period are taken into account. In the years 2016-2017, this measure was as follows:

[9] The Group prepares its financial statements based on international standardization, and consequently, in the calculation of the cost of leasing and operating the properties classified as investment properties, depreciation was not taken into account. Furthermore, for the purpose of calculating the aforesaid parameters, profit from the revaluation of properties was not taken into account.

[10] Including properties from the segments: retail centers and malls in Israel; leasable office and other space in Israel; income-producing properties in the U.S.; and senior housing.

Same-Property NOI

Annual Data



▪ Retail centers and malls in Israel ▪ Leasable office and other space in Israel ▪ Income-producing properties in the U.S. ▪ Senior housing

Figures are presented in millions of NIS.
Same-property NOI includes Azrieli Holon Center, which has been under lease-up throughout all periods and is not yet fully occupied.

Same-Property NOI rose by approx. 1% between the years 2016 and 2017. Such rise derived from an increase of approx. 2% in the retail centers and malls segment, an increase of approx. 2% in the leasable office and other space segment and an increase of approx. 9% in the senior housing segment, offset by a decrease of approx. 8% in the income-producing properties in the U.S. segment. The difference between the NOI and Same-Property NOI mainly derives from the opening of the Rishonim project in March 2017, the acquisition of Palace Ra'anana in May 2016, the opening of the offices in Sarona in July 2017 and the purchase of the office building in Austin, Texas, U.S.A. in August 2016.

2.5. Extended Standalone Statement – the Income-Producing Properties Business

The Company's management acknowledges the importance of transparency to investors, shareholders, bondholders and analysts, and views all of them as its partners. The Company has thus decided to adopt a policy, whereby the board of directors' report will include disclosure of a summary of the Company's extended standalone financial statements, i.e., a summary of the Company's consolidated balance sheets and income statements presented according to the IFRS rules, excluding the Company's investments in Granite Hacarmel and Azrieli E-Commerce Ltd. ("**Azrieli E-Commerce**")[11], which are presented based on the equity method *in lieu* of consolidation of their statements with the Company's statements (the other investments are presented with no change to the statement presented according to the IFRS rules). The Company's management believes that this statement adds extensive information, which assists in the understanding of the real estate business's vast contribution to the Company's total profit, while discounting material items in the consolidated financial statements that stem from the consolidation of Granite Hacarmel and Azrieli E-Commerce, such as trade receivables, inventory, sales and more.

[11] The company formerly known as Netex New Media Ltd., which was acquired by the Company in a transaction for the acquisition of an e-commerce business. For details see Section 14.1 of Chapter A of the Report.

The extended standalone statement is attached hereto as Annex C. Such statement is neither audited nor reviewed by the Company's accountants.

2.6. Weighted Cap Rate

The following table shows the calculation of the weighted cap rate derived from all of the Group's income-producing real estate, excluding senior housing[12], for 2017:

Calculation of the Weighted Cap Rate for 2017	
Total investment properties in the "Extended Standalone" statement (1)	25,317
Net of value attributed to investment properties under construction	(1,895)
Net of value attributed to land reserves	(531)
Net of value attributed to income-producing senior housing	(1,162)
Total value of income-producing investment properties (including the fair value of vacant space)	21,729
Actual NOI in the quarter ended December 31, 2017 (**excluding senior housing**)	351
Additional future quarterly NOI (2)	51
Total standardized NOI	402
Proforma annual NOI based on the standardized NOI (excluding senior housing)	1,608
Weighted cap rate derived from income-producing investment properties (including vacant space) (3)	**7.4%**

Financials are presented in millions of NIS.

(1) Extended Standalone Statement – See Annex C. According to valuations which were received for December 31, 2017. The figure includes receivables that appear under the balance sheet item "Loans and Receivables" for averaging attributed to real estate.

(2) The figure includes adjustment to NOI as included in the valuation as of December 31, 2017 and therefore includes, *inter alia*, the additional NOI for vacant spaces which are not yet fully occupied and spaces that were occupied over the course of 2017 under a whole-year lease.

(3) Standardized annual NOI rate out of total income-producing investment properties (including vacant space).For the test of sensitivity to changes in the cap rate interest of investment properties, see Annex A to this chapter.
This figure does not constitute the Company's NOI forecast for 2018 and its entire purpose is to reflect the NOI assuming full occupancy for a whole year of all income-producing properties.

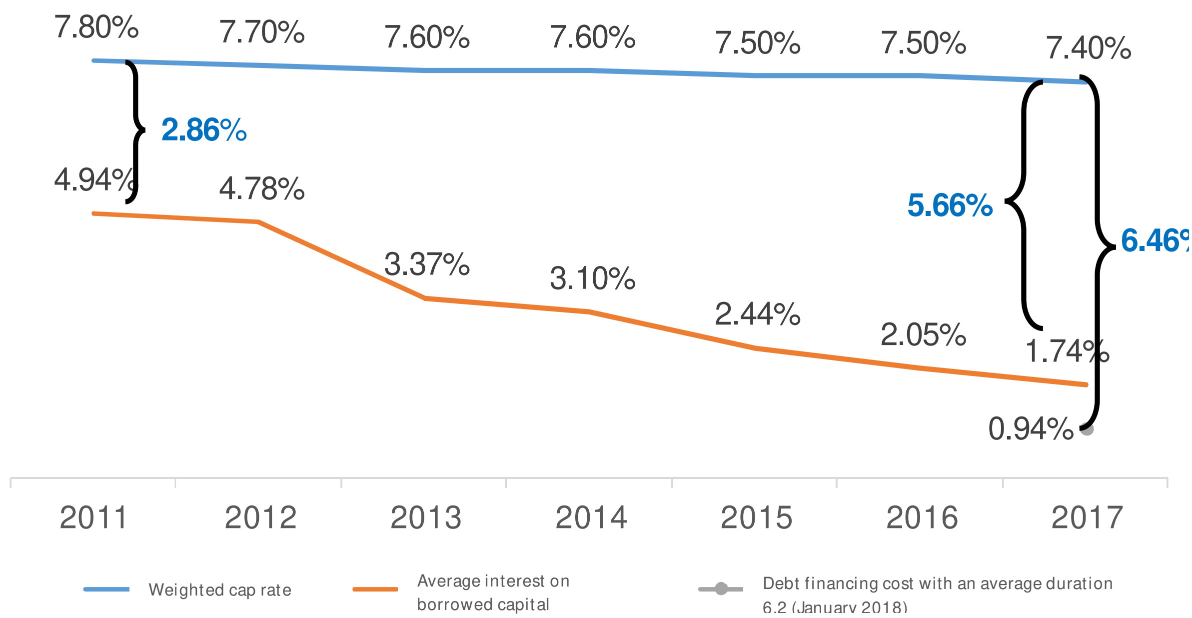
The Company's estimations in this Section include forward-looking information, within the definition of this term in the Securities Law. This information is uncertain and it is based, inter alia, on information pertaining to contractual engagement with tenants as of the Report Date, parameters in the calculation of fair value and the Company's estimations regarding space occupancy. Actual results may materially differ from the aforesaid estimations and what they imply, for various reasons, including immediate cancelation of lease agreements or a business crisis of any one of the tenants, or a change in the fair value parameters or failure to meet the development or occupancy goals.

In recent years, the weighted cap rate of the Group's properties has only slightly decreased, despite the considerable decrease in the market interest rate in recent years. On the other hand, consistently with such decrease of the market interest rate, the Group's financing costs have significantly dropped in recent years.

[12] Since the value of senior housing properties is derived from the FFO indicator, rather than the NOI indicator, such properties were not included in this calculation. The weighted senior housing cap rate as of the date of the Report is 8.75%.

Therefore, recent years have seen major gaps between the weighted cap rate of the Group's properties and the financing costs, as depicted in the following chart:

Gap between the Weighted Cap Rate and the Average Interest Rate of the Debt



Figures are accurate as of the end of each year.

2.7. Real Estate Business FFO

Funds from Operations (FFO) is a measure that presents the cash flow from the real estate business. It is commonly used worldwide and provides a proper basis for the comparison of income-producing real estate companies. This indicator reflects income from net profit, discounting revenues and expenses of a capital nature and adding the Company's share in real estate depreciation and other amortizations.

This report presents the FFO indicator in respect of the Group's income-producing real estate business.

It should be stressed that the FFO indicator does not reflect cash flow from current operations according to generally accepted accounting principles, nor does it reflect cash held by the Company and its ability to distribute the same, and it is not a substitute for the reported net profit. It is further clarified that this indicator is not a figure audited by the Company's accountants.

FFO from the Income-Producing Real Estate Business

	31.12.2017	31.12.2016	31.12.2015
Net profit for the period attributable to shareholders	**1,456**	1,810	821
Net of the loss (profit),net, from Granite Hacarmel and Azrieli E-Commerce attributable to the shareholders (including a deduction of excess cost)	**(20)**	(10)	78
Profit adjustments (1):			
Increase in the value of investment properties	**(510)**	(716)	(179)
Depreciation and amortizations	**7**	9	6
Net financing and other non-cash flow (revenues)	**(169)**	(80)	(56)
Tax expenses (revenues)	**253**	(117)	171
Adjustments in respect of associates	**-**	-	1
Plus benefit in respect of employee option plan	**-**	-	2
Net of a dividend received from financial assets available for sale	**(33)**	(10)	(10)
Cash flow from the receipt of residents' deposits net of deposits returned to residents(2)	**47**	59	15
Net of revenues from the forfeiture of residents' deposits	**(21)**	(17)	(6)
Total profit adjustments	**(426)**	**(872)**	**(56)**
Plus interest paid for real investments(3)	**13**	20	27
Total FFO attributed to the income-producing real estate business(4)(5)	**1,023**	**948**	**870**
Total cash flow of financing of properties under development(6)	**38**	**56**	**40**
Total FFO attributed to the income-producing real estate business, excluding the cash flow of financing of properties under development	**1,061**	**1,004**	**910**

Financials are presented in millions of NIS.

(1) The below profit adjustments do not include adjustments in respect of Granite Hacarmel and Azrieli E-Commerce, as their results have been fully discounted.

(2) Senior housing residents' deposits are deemed received or returned on the date on which the agreement is signed or terminated, as applicable.

(3) Calculated according to the Group's weighted interest for the real investments, which include: Granite Hacarmel, Azrieli E-Commerce, Bank Leumi and Leumi Card, for 65% of the cost of the investments.

(4) Attributable to shareholders only.

(5) Including FFO from the senior housing segment in the sum of approx. NIS 45 million in 2017, and in the sum of approx. NIS 54 million in 2016.

(6) Calculated on the basis of credit costs which were capitalized to qualified assets and investment property under construction in the Financial Statements.

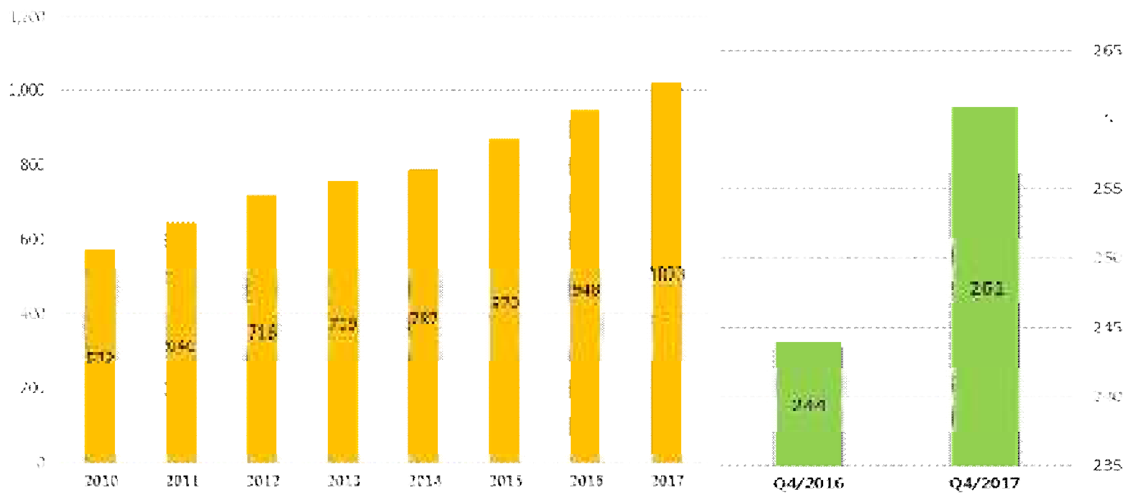
FFO calculation also include cash flow costs with respect to projects under construction.

In the Report Period the figure was adversely affected by the fact that the raising of debt to be used for debt refinancing in the coming months, was made ahead of schedule.

In recent years, the Azrieli Group's FFO has been on a constant rise, growing from year to year. In seven years, the FFO of the income-producing real estate business rose by approx. 79% : From NIS 573 million in 2010 to NIS 1,023 million in 2017. The following chart depicts the development of the FFO of the Group's income-producing real estate business in recent years.

FFO from the Income-Producing Real Estate Business in Recent Years

Annual Data **Quarterly Data**



Figures are presented in millions of NIS.

2.8. The EPRA (European Public Real Estate Association) Measures

The Azrieli Group is the only Israeli real estate company included in the EPRA Indexes. EPRA is an organization that brings together the public income-producing real estate companies in Europe. Being listed in the EPRA Indexes, provides the Azrieli Group greater exposure to international investors, according to its weight in the index.

In view thereof, the Group has decided to adopt the position paper published by EPRA with the purpose of improving the transparency, uniformity and comparability of financial information reported by real estate companies listed in the index. A report regarding two financial measures calculated according to such position paper follows.

It is emphasized that the following measures exclude the component of expected profit from projects under construction not yet recorded in the financial statements.

These figures do not constitute a valuation of the Group, are not audited by the Group's accountants and are not a substitute for the figures contained in the financial statements.

2.8.1. EPRA NAV

The EPRA NAV (Net Asset Value) is a measure that reflects the Group's net asset value on an ongoing, long-term basis, assuming no disposal of real estate, and thus requires certain adjustments, such as presentation according to the fair value of assets that are not so presented in the financial statements and the exclusion of deferred taxes resulting from the revaluation of investment properties.

It is noted that all development properties are included at their present value, i.e., based on historic cost including investments in the properties, and no value is attributed to future revenues from such properties when occupied and producing income.

EPRA NAV		
	31.12.2017	**31.12.2016**
Equity attributable to the Company's shareholders in the financial statements	**16,281**	15,273
Plus a tax reserve in respect of the revaluation of investment properties to fair value (net of minority interests)	**3,044**	2,826
EPRA NAV	**19,325**	**18,099**
EPRA NAV per share (NIS)	**159**	**149**

Figures are presented in millions of NIS, unless otherwise noted.

2.8.2. EPRA NNNAV

The EPRA NNNAV is a measure that reflects the Company's net asset value assuming the immediate disposal ("Spot") of the real estate business, and thus requires certain adjustments, such as presentation according to the fair value of assets and liabilities that are not so presented in the financial statements and adjustments to deferred taxes.

EPRA NNNAV		
	31.12.2017	**31.12.2016**
EPRA NAV	**19,325**	18,099
Adjustment of assets to fair value (excluding minority interests)	**19**	13
Adjustment of financial liabilities to fair value (excluding minority interests)	**(324)**	-
Net of a tax reserve in respect of the revaluation of investment properties to fair value (net of minority interests)	**(3,044)**	(2,826)
EPRA NAV	**15,976**	**15,286**
EPRA NNNNAV per share (NIS)	**132**	**126**

Figures are presented in millions of NIS, unless otherwise noted.

AZRIELI GROUP'S INCOME PRODUCING REAL ESTATE*

MALLS & SHOPPING CENTERS

Ayalon Mall
Hod Hasharon Mall
Herzliya Outlet
Givatayim Mall
Jerusalem Mall
Modi'in Mall
Azrieli Mall
Azrieli Holon Center
Holon Mall
Ramla Mall
Azrieli Ra'anana
Haifa Mall
Akko Mall
Kiryat Ata Mall
Or Yehuda Outlet
Hanegev Mall
Rishonim Mall

OFFICES & OTHERS

Azrieli Towers
Azrieli Sarona
Azrieli Holon Center
Caesarea
Herzliya
Modi'in
Modi'in Residential
Petach Tikva
Jerusalem
Givatayim
Kiryat Ata
Hanegev
Rishonim

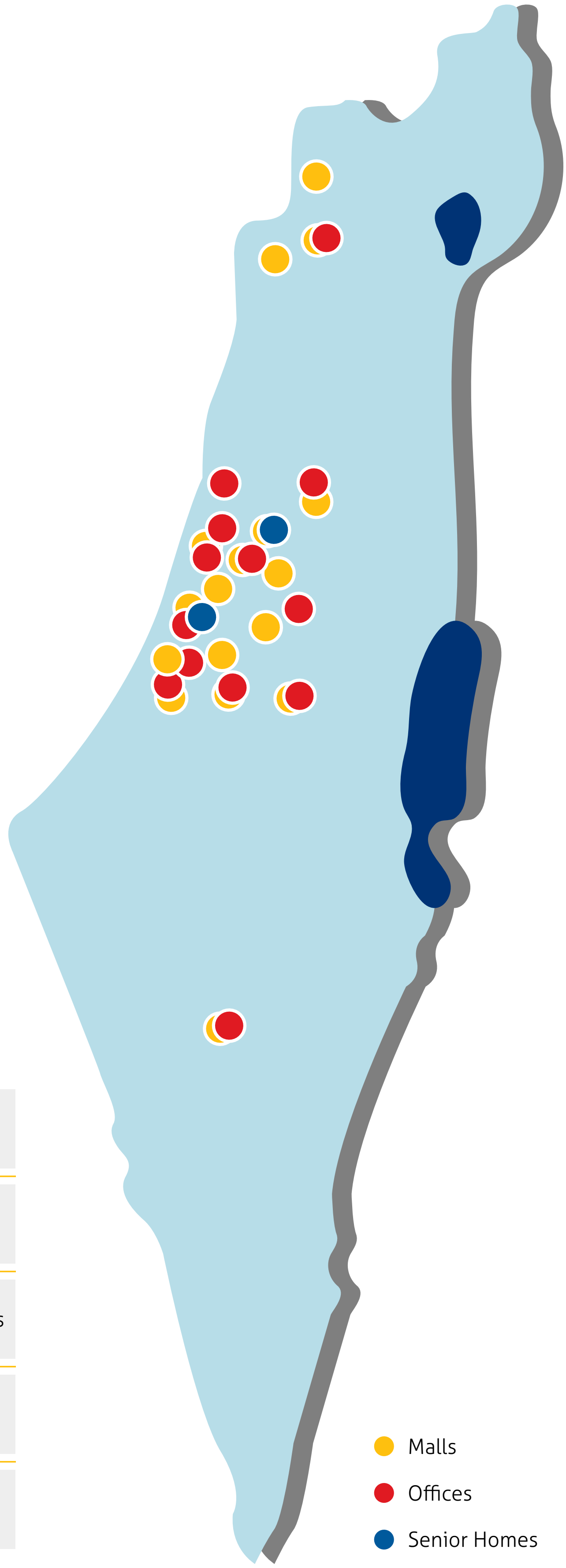
OVERSEAS

GALLERIA
PLAZA
8 WEST
3 Riverway
1 Riverway
LEEDS
Aspen Lake II

SENIOR HOMES

Palace Tel Aviv
Palace Ra'anana

17 malls	332,000 sqm
13 office properties	541,000 sqm
2 senior homes	49,000 sqm 560 residential units
7 office properties overseas	223,000 sqm
Total	1,145,000 sqm



* As of December 31, 2017

2.10. Retail Centers and Malls in Israel Segment

2.10.1. Description of the Retail Centers and Malls in Israel Segment

Retail centers are, and will continue to be, a significant part of the retail market in Israel. Malls and large retail centers in Israel provide customers with a more diverse shopping experience and a vast mix, including, *inter alia*, fashion chains and various attractions for the whole family, restaurants and cafés – all gathered under one roof, in accessible locations close to public transportation and with convenient car parking, unlike other types of retail areas, which lack some of the aforesaid features.

Private consumption in Israel, as well as the business activity in malls, is expected to continue growing, on the background of fast growth of the population and the household expenditure and despite the increase in online shopping and the "open skies" policy which reduced the prices of international flights[1].

According to data from the Central Bureau of Statistics (CBS), Israel's populations is quickly growing at an annual rate of approx. 1.9% per year (approx. 50 thousand new households in Israel each year)[2], a rate which far exceeds the population growth rate in developed countries. In addition, private consumption in Israel has demonstrated a fast growth rate in recent years of approx. 3.3% in 2017 and approx. 6.1% in 2016, in real terms[3]. As part of the growth in private consumption the household annual expense for consumption also grew, including the expense on clothing and footwear, and on entertainment[4].

It is emphasized that the ratio of retail space per capita in Israel is approx. 1.1 sqm per capita, smaller than the same ratio in many developed countries (such as the U.S., wherein the ratio is approx. 5 sqm per capita)[5].

The Azrieli Group owns and manages a portfolio of high-quality malls and retail centers with a national spread, which are located in the center of cities, with good transportation access and in many cases in proximity to train stations. The Company is views its properties from a long-term perspective, from the location of land, trough development and construction of properties, and until their holding, management and betterment along the years.

The Group's malls are mostly characterized by the following:

- **Diverse and changing mix** – the malls segment has a dynamic retail mix that is renewed according to the market needs and public preferences. For example, malls were once characterized by significant presence of supermarkets or electronics stores, whereas today the tenant mix in malls has changed. In fashion it is evident that new brands periodically take the place of those which have become less relevant, with international fashion chains becoming more dominant in the market than local brands. The high-quality property portfolio, and the management thereof, grant the Company an advantage which enables it to get leading international fashion brands to open their flag stores in the Group's malls.
- **A trend of increased store space** – increased retail space is recently demanded by international brands, followed by domestic ones, which seek to combine complementing brands in one store in order to expand the product mix and create an improved customer experience, while increasing the sales.
- **Malls as entertainment venues** – the Company acts to improve the entertainment and dining experience in the mall, through a selection of restaurants and cafés in the malls and renovation of the fast food courts, modern design and added crowd-attracting entertainment options such as the "Zappa" club. The Group

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1 Geocartography, figures from a comprehensive research for the Azrieli Group on the retail sector in Israel, March 2018
2 CBS – population data http://cbs.gov.il/publications18/yarhon0218/pdf/b1.pdf
3 Israel's national accounts for 2017, CBS, published on March 11, 2018 http://cbs.gov.il/reader/newhodaot/hodaa_template.html?hodaa=201808069
4 Geocartography analyses of the surveys on household expenditures in israel http://cbs.gov.il/webpub/pub/text_page.html?publ=25&CYear=2015&CMonth=1
5 Geocartography, figures from a comprehensive research for the Azrieli Group on the retail sector in Israel, March 2018

further acts to create family entertainment spaces in its malls, including play areas, diaper changing and nursing rooms.

- **Innovation** – in recent years the Company has been implementing technological improvements into the shopping experience and striving for leadership and innovation in the mall segment, including by way of creating a unique application which grant exclusive discounts to mall attendants and enables direct marketing based on customer preferences. The goal of technological innovation is to enhance customer experience in the mall while combining both digital and physical worlds.

The retail space in the malls and retail centers of Azrieli Group are leased to some 1,900 different tenants.

E-commerce operations – another layer of the Group's operations in e-commerce is the Azrieli.com website, which provides a platform for e-commerce that will integrate into and enhance the operations of malls and retail centers through online operations, by way of combined sales.

2.10.2.Performance of the Retail Centers and Malls in Israel Segment and changes in Value

The Azrieli Group owns 17 malls and retail centers in Israel, in a total GLA of approx. 332 thousand sqm.

Balance of the properties of the retail centers and malls in Israel segment – in 2017, the balance of investment property in this segment increased by approx. NIS **294** million. The balance totaled approx. NIS 12.4 billion as of December 31, 2017, compared with approx. NIS 12.1 billion on December 31, 2016. The change mainly derives from investments in the segment's properties.

Change due to adjustment of the fair value of the segment's investment properties and investment properties under construction – The loss from such adjustment in the Report Period totaled approx. NIS 25 million, compared with a profit of approx. NIS 220 million in the same period last year. The properties are presented according to valuations prepared by an independent appraiser as of December 31, 2017. **The loss from adjustment of the fair value during the Report Period resulted mainly from investments in properties – both made and expected to be made, net of a slight reduction in the cap rate**.

Below is a summary of the business results of the retail centers and malls in Israel segment:

Summary of the Business Results of the Retail Centers and Malls in Israel Segment						
	For the Three Months Ended			For the Year Ended		
	Rate of change	December 31, 2017	December 31, 2016	Rate of change	December 31, 2017	December 31, 2016
Revenues	**3%**	**259**	251	**6%**	**1,032**	974
NOI	**5%**	**210**	200	**6%**	**828**	779

Figures are presented in millions of NIS.

The NOI increase chiefly results from the opening of the Azrieli Rishonim Mall in Q1/2017.

Below is the NOI development of the segment:

NOI Development of the Retail Centers and Malls in Israel Segment				
	For the Three Months Ended		For the Year Ended	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
For segment properties owned by the Company on the beginning of the period	197	197	782	769
For properties purchased or construction of which was finished in 2016	-	-	7	3
For properties which operation was discontinued in 2016	-	-	-	-
For properties purchased or construction of which was finished in 2017	11	-	31	-
For properties which operation was discontinued in 2017*	2	3	8	7
Total NOI from all properties	210	200	828	779

*vacation of space in the Lodzia construction site, as part of the preparations for excavation work
Figures are presented in millions of NIS.

Same-Property NOI in the retail centers and malls in Israel segment was primarily positively affected by a real increase in rent when renewing contracts for the various properties (due to the exercise of options by tenants and/or the execution of new contracts) and was negatively affected by areas that were unoccupied during periods of tenant replacements in some of the malls and by an increase in security and cleaning costs.

2.11. The Office Segment

2.11.1.Description of the Office Segment

Israel's economy has continually grown in the past 15 years, and in 2017 the GDP increased by approx. 3%. Growth in 2017 encompassed all product components, export of good is expanded again, for the first time in two years, and inflation remained low. The decline in unemployment rates continued, and the rate of participation in the employment market continued to grow. Alongside this growth, Israeli Governments initiated steps to encourage domestic employment. Among other things, the Finance Committee reduced the rate of company tax from 25% to 23% in two stages in order to encourage the entry of foreign companies to Israel and raise the economy's growth.

Average occupancy rate in the office market continued to be high in 2017 throughout the country, with a slight increase in rent. Office spaces spanning approx. 500 thousand sqm were built in the past year in the center of Israel, of which approx. 320 thousand sqm are in Tel Aviv. Despite the construction momentum of the recent year, the office market maintains high occupancy rates throughout Israel, and the price level remains stable[6].

Tel Aviv is Israel's business district, and presents the highest demand for leasable offices in the country. The Group has a number of leasable office properties in the city of Tel Aviv, the Azrieli Tel Aviv project, Azrieli Sarona and projects under development and construction, Azrieli Town and the expansion of the Azrieli Center. One of the changes in the office sector in 2017 was the considerable expansion of international mega high-tech companies which launched or expanded their business in Israel, especially in the center.

The Company's property portfolio for the lease of office spaces comprises mostly on office towers classified as class A properties, which are located mostly in CBDs, in proximity to major transportation arteries in the heart of the city. The location, quality and positioning of the office spaces enable the Company to maintain high occupancy rates, and over time increase the rent. The Company develops and builds office projects in significant

6 From the yearbook of M.A.N Properties for 2017, of the CBRE Group.

scopes, which meet the international standards of employment centers in the world's largest cities, in all aspects pertaining to the management of the property and the quality thereof.

Furthermore, the Company has office leasable areas which are a part of malls, in which small tenants offer services to the public (e.g. medical institutes, health maintenance organizations and independent service providers). The combination of offices and retail increases customers flow in these properties.

The Company's leasable office space properties are mostly characterized by the following:

- **Positioning** – among the Company's properties are projects which are considered to be leading and very significant in the field of leasable office spaces in Israel, and are an icon in Israeli landscape in general, and in Tel Aviv in particular, such as the Azrieli Tel Aviv Center and the Azrieli Sarona Tower.
- **Location** – the Company engages in the development of leasable office spaces and acts to locate and build its properties in this segment in areas which enjoy a high demand for offices. The Company's projects are mostly located in the heart of Israel's CBDs and in proximity to city centers and are characterized by convenient access by both private and public transportation. For example, the Company has several projects in Tel Aviv's northern CBD with both income-producing projects and projects under development and construction.
- **Large floors** – the Company's property portfolio includes a number of projects that can offer large floor spaces. These projects can meet the growing demand by large companies that are interested in creating one central site for employees, and their spread over a smaller number of floors. The planning of the Azrieli Sarona project and the Azrieli Holon center, for example, enables tenant to unite several sites which were previously spread across the country.
- **Building standard** – the Group persistently applies high building standards to all of its properties, as expressed in the architectural design, the properties' functionality and the meticulous attention to high building qualities as well as to details such as new and fast elevators, advanced lighting and more. This is rooted in the long-term vision of properties that will be owned and managed by the Group for many years to come.
- **Operational efficiency** - The size of the Company's properties leads to operational efficiency which is expressed, *inter alia*, in the ability to implement technological and infrastructural improvements including the installation of complex communication networks and Leed Certificate which enable large multinational which require compliance with strict standardization to lease spaces at the Company's properties.
- **Management** – all of the Group's leasable office spaces are managed by management companies which are subsidiaries of the Company and are committed to high service standard.

Azrieli's office spaces in Israel are leased to some 600 different tenants. In each one of the Group's properties, there is a mix of tenants coming from various sectors. Some of the Company's office tenants are domestic or international mega-companies.

2.11.2.Performance of the Leasable Office and Other Space in Israel Segment and Changes in Value

The Group has 13 income-producing properties in this segment in Israel, with a total GLA of approx. 541,000 sqm.

Balance of the Group's investment properties in the leasable office and other space in Israel Segment – in 2017, the balance of investment property in this segment increased by approx. NIS 1,243 million. The balance totaled approx. NIS 9.5 billion as of December 31, 2017, compared with approx. NIS 8.2 billion on December 31, 2016. The change mainly derives from an increase in the fair value, as stated below, and from investments in the segment's properties.

Change due to adjustment of the fair value of the segment's investment properties and investment properties under construction – The profit from such adjustment in the Report Period totaled approx. NIS 630 million, compared with approx. NIS 517 million in the same period last year. The profit in the Report Period mostly derives from the revaluation of the Sarona office tower and Azrieli Towers in Tel Aviv. The properties are presented according to valuations prepared by an independent appraiser as of December 31, 2017.

Below is a summary of the business results of the leasable office and other space in Israel segment:

Summary of the Business Results of the Leasable office and other space in Israel Segment						
	For the Three Months Ended			For the Year Ended		
	Rate of change	31.12.2017	31.12.2016	Rate of change	31.12.2017	31.12.2016
Revenues	19%	134	113	9%	489	447
NOI	17%	111	95	8%	397	369

Figures are presented in millions of NIS.

The increase in revenues and in NOI chiefly results from an increase in the revenues from existing leasable office space (primarily the continued lease-up of the offices at Azrieli Holon Center) and the opening of the offices at Sarona and Rishonim.

Below is a table presenting NOI development in the segment:

NOI Development of the Leasable Office and Other Space in Israel Segment				
	For the Three Months Ended		For the Year Ended	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
For segment properties owned by the Company on January 1, 2016	96	95	378	369
For properties purchased or construction of which was finished in 2016	-	-	-	-
For properties which operation was discontinued in 2016	-	-	-	-
For properties purchased or construction of which was finished in 2017	15	-	19	-
Total NOI from all properties	111	95	397	369

Figures are presented in millions of NIS.

Same-Property NOI in the leasable office and other space in Israel segment was primarily positively affected by a real increase in rent when renewing contracts for the various properties (due to the exercise of options by tenants and/or the execution of new contracts) and the continued lease-up of Azrieli Holon Center, and was negatively affected by an increase in security and cleaning costs.

2.12. Senior Housing Segment

2.12.1.Description of the Senior Housing Segment

Private senior housing in Israel most often appeals to senior Israelis from medium-high socio-economic background, offering housing services together with a multitude of complementary services aimed to enable residents to maintain an independent and satisfying lifestyle. The senior housing sector is growing as a result of the increase in life expectancy and the improved quality of life. We view constant growth in demand for housing solutions for seniors throughout the world. In Israel, this field is relatively underdeveloped, as compared to western countries in the world.

The Company considers the senior housing segment to be synergistic with its operations, using, *inter alia*, the years-long accumulated knowledge of the Group's managerial headquarters in respect of its operations in the field of income-producing properties. In all aspects pertaining to the senior housing segment, the Group benefits from its strengths in the location of lands, in purchase, development and efficient building and in the management of statutory processes including land use intensification. Economies of scale are also beneficial in terms of maintenance and operation of our existing senior homes. Finally, senior housing is also synergistic with retail: senior homes seek proximity to retail centers that will serve the residents of the complex.

The acquisition of land in Modi'in in 2014 marked the Group's entry into the senior housing segment, which was followed by the purchase of an existing senior home – Palace Tel Aviv, one of the most luxurious homes in Israel. Since the purchase of Palace Tel Aviv, the Group is acting under the brand "Palace" to continue the successful operation and to improve both existing homes – Palace Tel Aviv and Palace Ra'anana (formerly "Ahuzat Bait"), and to develop three additional projects, which are under various stages of development and construction in Modi'in, Lehavim and Rishon LeZion. In Q3/2018, the Company is expected to complete the construction of the senior home in Modi'in.

2.12.2.Performance of the Senior Housing Segment and Changes in Value

The Group has 2 active senior homes with aboveground built-up areas of approx. 49 thousand sqm (excluding areas which are attributed to the LTC unit and to retail areas), which include approx. 560 senior housing units as well as 3 projects under development and construction in which approx. 840 residential units in a total area of approx. 86 thousand sqm (excluding areas which are attributed to the LTC unit and to retail areas) will be built.

Balance of the Group's segment properties in the senior housing segment – in 2017, the balance of the segment's properties in the senior housing segment increased by approx. NIS 230 million. This balance totaled approx. NIS 1.7 billion as of December 31, 2017, compared with approx. NIS 1.5 billion on December 31, 2016. The change mainly derives from investments in properties under construction and from an increase in fair value.

Change due to adjustment of the fair value of the segment's investment properties and investment properties under construction – The profit from such adjustment in the Report Period totaled approx. NIS 81 million, compared with approx. NIS 56 million in the same period last year. The properties are presented according to valuations prepared by an independent appraiser as of December 31, 2017.

Below is a summary of the business results of the senior housing segment:

Summary of the Business Results of the Senior Housing Segment

	For the Three Months Ended			For the Year Ended		
	Rate of change	31.12.2017	31.12.2016	Rate of change	31.12.2017	31.12.2016
Revenues	-	31	31	33%	126	95
NOI	(10%)	9	10	34%	39	29

Figures are presented in millions of NIS.

The increase in revenues and in NOI in 2017 chiefly results from the acquisition of Palace Ra'anana during 2016.

Below is a table presenting NOI Development in the senior housing segment:

NOI Development of the Senior Housing Segment

	For the Three Months Ended		For the Year Ended	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
For segment properties owned by the Company on January 1, 2016	9	10	25	23
For properties purchased or construction of which was finished in 2016	-	-	14	6
For properties which operation was discontinued in 2016	-	-	-	-
For properties purchased or construction of which was finished in 2017	-	-	-	-
For properties which operation was discontinued in 2017	9	10	39	29
Total NOI from all properties				

Figures are presented in millions of NIS.

In 2017, the Same-Property NOI in the Senior Housing segment was primarily positively affected by the increased occupancy in the LTC and recovery units.

2.13. The Income-Producing Property in the USA Segment

2.13.1. Description of the Income-Producing Property in the USA Segment

2001 marked the beginning of the Azrieli Group diversification of its investments with income-producing properties overseas. In recent years we have expanded our activity significantly through the acquisition of office buildings in Houston and in Austin, Texas.

The Azrieli Group aspires to increase the portfolio of income-producing properties overseas to approx. 15% of its total real estate properties. We focus on the purchase of existing, high-quality Class A properties, with a minimum value of approx. 40 million dollars. The United States is still a major target market, however the Company will consider other western countries from time to time. Most of the Group's properties overseas are focused in strong metropolis areas with a population of at least 2 million people. The Group is focused on offices but is also considering other related fields such as logistics and data centers.

Some of the Group's properties overseas are held in partnership with local partners. However, a majority of the interests and control of all of the Group's overseas properties are held thereby. We manage the properties through local management companies, with control of the Azrieli Group headquarters.

Some of the Group's properties have recently undergone significant renovation of the buildings, including the public spaces, in order to deal with the market competition.

The existing properties in the U.S. are financed separately from the corporate financing, through non-recourse dollar loans, other than irregular cases which are defined in the loan agreement and are considered common practice in the U.S. market.

In 2017, significant lease contracts were executed for the "Gallery" project, in respect of more than 150 thousand sq. ft., but there is a time gap between the execution of contracts and actual occupancy. As of the end of 2017, occupancy rate in the said project is approx. 76%. At the end of 2017 the Group bought out one of our co-owners in the One Riverway and Three Riverway projects (33.33% of One Riverway and 25% of Three Riverway), in consideration for a capital injection in the amount of approx. U.S. $2.4 million and assumption of the share of the said co-owner, in loans in the sum of approx. U.S. $38.7 million, such that its share in the ownership of these properties grew to 66.66% and 70%, respectively.

2.13.2. Performance of the Income-Producing Properties in the U.S. Segment and changes in Value

The Group has 7 income-producing properties in this segment, mostly in the U.S. with a total GLA of approx. 223 thousand sqm (on a consolidated basis) and approx. 213 thousand sqm (the Company's share) leased to some 170 tenants.[7]

Balance of the Group's investment properties in the income-producing properties in the U.S. segment – This balance totaled approx. NIS 2.0 billion as of December 31, 2017, compared with approx. NIS 2.2 billion on December 31, 2016. The change mainly derives from the decrease in the dollar exchange rate as of December 31, 2017 compared with December 31, 2016, and a decrease in the fair value as stated below, net of the purchase of the co-owner's share in the two aforementioned properties.

Change due to adjustment of the fair value of the segment's investment properties – The loss from such adjustment in the Report Period totaled approx. NIS 186 million, compared with a loss of approx. NIS 82 million in the same period last year. Most of the loss in the Report Period derived from investments that were and are expected to be made in properties as well as from the Company's provisions for the repair of the damage caused by Hurricane "Harvey" in some of the Company's properties in Houston, USA as well as from an increase in the cap rates in some of the properties. The Company recorded other income of approx. NIS 64 million for other receivables insurance indemnity against the aforesaid damage.

Below is a summary of the income-producing properties in the U.S. segment:

Summary of the Business Results of the income-producing properties in the U.S. Segment

	For the Three Months Ended			For the Year Ended		
	Rate of change	31.12.2017	31.12.2016	Rate of Change	31.12.2017	31.12.2016
Revenues	(6%)	15	16	(2%)	61	60
NOI	-	9	9	(6%)	34	32

Figures are presented in millions of U.S. Dollars.

Summary of the Business Results of the income-producing properties in the U.S. Segment

	For the Three Months Ended			For the Year Ended		
	Rate of change	31.12.2017	31.12.2016	Rate of Change	31.12.2017	31.12.2016
Revenues	(15%)	53	62	(3%)	221	229
NOI	(9%)	30	33	(2%)	121	124

Figures are presented in millions of NIS.

The decrease in revenues and in NOI chiefly results from the effect of the decrease in the U.S. dollar exchange rate, offset by an increase in NOI in 2017 due to the acquisition of an office building in Austin, Texas, U.S in August 2016.

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[7] The "Company's share" – net of minority interests in certain companies.

Below is a table presenting the segment's NOI Development:

NOI Development of the income-producing properties in the U.S. Segment				
	For the Three Months Ended		For the Year Ended	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
For segment properties owned by the Company as of the beginning of the period	**30**	**33**	**109**	**119**
For properties purchased or construction of which was finished in 2016	**-**	**-**	**12**	**5**
For properties which operation was discontinued in 2016	**-**	**-**	**-**	**-**
For properties purchased or construction of which was finished in 2017	**-**	**-**	**-**	**-**
Total NOI from all properties	**30**	**33**	**121**	**124**

Figures are presented in millions of NIS.

Same-Property NOI in the income-producing properties in the U.S. segment was primarily negatively affected by the decrease in the average exchange rate of the U.S. dollar, which was approx. 6% lower in the Report Period than in the same period last year.

3.10. Granite Segment

The Azrieli Group, through Granite Hacarmel, holds 100% of the rights in Supergas Israeli Gas Distribution Company Ltd. ("**Supergas**"), which markets alternative energy sources; and 100% of the rights in G.E.S. Global Environmental Solutions Ltd. ("**GES**"), the business of which is water, wastewater and chemicals treatment.

A summary of the business results of the Granite segment follows:

Summary of the Business Results of the Granite Segment

	For the Three Months Ended			For the Year Ended		
	Rate of Change	**31.12.2017**	**31.12.2016**	**Rate of Change**	**31.12.2017**	**31.12.2016**
Net revenues	**(6%)**	**170**	180	**8%**	**705**	653
Segment profit	**35%**	**23**	17	**25%**	**104**	83

Figures are presented in millions of NIS.

The increase in revenues and in profit in the Report Period chiefly derives from the results of Supergas.

Profit from discontinued operations (Sonol) – In July 2016, Granite closed the sale of its entire holding (100%) in Sonol. According to the provisions of IFRS 5, Sonol's results are presented as discontinued operations in the comparative figures to the income statement.

3.11. Additional Activities

3.11.1. Investments in Financial Corporations

The Group has holdings in the financial sector, with investments in Bank Leumi LeIsrael Ltd. and in Leumi Card Ltd.[8] A summary of changes in the investments in 2017 follows:

Changes in Investments in Financial Companies			
	Bank Leumi (1)	**Leumi Card (2)**	**Total**
Investment value in the financial statements as of December 31, 2016	1,040	562	1,602
Divestment proceeds	(203)	-	(203)
Total investment as of December 31, 2017(3)	837	562	1,399
Fair value of the investment as presented in the financial statements	1,132	536	1,668
Change in fair value during the Report Period	295	(26)	269
Dividend received in 2017(4)	23	10	33

Figures are presented in millions of NIS.
(1) The fair value of the investment in Bank Leumi LeIsrael was determined according to the value of the share at the Tel Aviv Stock Exchange (TASE) as of December 31, 2017.
(2) The fair value of the investment in Leumi Card was determined by an independent valuator, according to the valuation as of December 31, 2017. For the consideration received from the sale of Visa Europe, see Note 11(2) to the financial statements
(3) Before adjustment to changes in fair value during the Report Period
(4) With respect to the dividend declared by Bank Leumi and Leumi Card after the date of the financial statement, see Section 14.2 of Chapter A.

As of the Report Date the Company's holding rate in Leumi Card is 20%. For details on the Promotion of Competition and Reduction of Concentration Law, 5774-2013 (the “**Concentration Law**”), see Section 14.2.1 of Chapter A herein.

3.11.2. E-Commerce Platform – Azrieli.com

For details on the Group's e-commerce activity, see Section 14.1 of Chapter A herein.

[8] The Company has also made negligible investments in a start-up company and investment funds, as specified in Section 14.2.3 of Chapter A of the Report.

4.10. Review of the Business Development Operations

4.10.1.Development of Income-Producing Properties

The Group's primary growth engine is expertise in development and unique architectural design of income-producing property project: malls, offices and senior housing. As of the date of the Report, the Company has nine projects at various development stages in Israel.

Summary of Information about Properties Under Development

Name of Property	Use	Marketable Sqm	Estimated Completion	Book Value of Project (1)	Cost Invested (2)	Estimated Construction Cost including Land
Azrieli Sarona Tel Aviv	Retail	10,500	Q3/2018	269	318	330-340
Palace Modi'in Senior Home	Senior housing	35,000	Q3/2018	303	269	380-390
Palace Lehavim Senior Home	Senior housing	Phase A: 32,000 Phase B: 12,000	Phase A: 2019 Phase B: To be determined	60	57	380-390
Azrieli Town Tel Aviv (3)	Retail, offices and residence	75,000	Retail and offices: 2020 Residence: To be determined	538	347	1,060-1,110
HaManor Holon	Retail and offices	28,000	2020	41	42	220-240
Expansion of Azrieli Tel Aviv Center (4)	Retail, offices and residence	150,000	To be determined	708	428	2,300-2,500
Holon 3 – Holon Industrial Zone (5)	Retail and offices	220,000	To be determined	329	349	To be determined
Senior housing land Rishon LeZion	Senior housing and retail	28,750	To be determined	52	51	310-320
Petach Tikva land	Offices	53,000	To be determined	91	97	To be determined
Total		**644,250**		**2,391**	**1,958**	

Cost figures are presented in millions of NIS.
Holding rate is 100% for all properties.

(1) As of December 31, 2017.

(2) Without capitalizations and tenant fit-outs, as of December 31, 2017.

(3) The figures presented refer to the current zoning plan in respect of the land. As of the Report Release Date, the Group is promoting a zoning plan for additional office and residential rights.

(4) In October 2017, the District Committee's approval was received for the publication of a plan to validate an increase of rights for the construction of the fourth tower and the expansion of the mall, in a total area of approx. 150,000 sqm, which represents an increase of approx. 80,000 sqm in building rights.

(5) Includes additional land (approx. 27,000 sqm of marketable space) originally purchased in the framework of an ILA tender, which was part of the Holon HaManor land.

During the Report Period, the Company proceeded with the work of development and construction of its aforesaid properties and with the obtainment of the approvals required for the purpose of their continued development on schedule and without significant delays. Furthermore, there has been progress in the negotiations on the lease of areas under construction totaling dozens of thousands of sqm. For further details, see Section 7.7-7.8 of Chapter A of this Report, Description of the Corporation's Business.

Description of Properties under Construction

Azrieli Sarona, Tel Aviv – The land, area of which is approx. 9,400 sqm, was purchased in May 2011 and construction commenced in May 2012. Construction of the office tower, with a GLA of approx. 118,000 sqm, was completed in Q2/2017. The Azrieli Sarona Mall, stretching over approx. 10,500 sqm, will be located at the base of the Sarona office tower. The location of the mall in proximity to the Sarona preservation complex will integrate an indoor air-conditioned shopping experience with an experience of the venue's restaurants and cafés. The mall's construction is scheduled for completion in Q3/2018. The office tower is in advanced marketing stages. Contracts have been signed in respect of approx. 95% of the leasable office space, some of which include options for the lease of additional space.

Palace Modi'in Senior Home – The land, area of which is approx. 10,500 sqm, was purchased in 2014, and construction commenced in April 2015. This is the first senior housing project in the city of Modi'in. The project will include approx. 239 senior housing units, and approx. 136 LTC beds (of which 34 are recovery units), on a built-up area of approx. 35 thousand sqm (main and services). The project is characterized by high building standards, and is expected to include, among other things, a swimming pool, spa, gym, lounges, restaurant, event hall, synagogue, infirmary, library and more. In addition, the project comprises approx. 800 sqm of retail space, including stores, restaurants and cafés, which will service the residents of the complex and visitors. The Company built a "Senior Citizen Day Center" in proximity to the project, which will be available to the city's elderly residents.

Palace Lehavim Senior Home – The land, area of which is approx. 28,300 sqm, was purchased in December 2014 and construction commenced in August 2016. The plan is to build a retirement village to high and innovative standards. The project is expected to comprise approx. 350 residential units and an LTC unit, with related facilities, such as a swimming pool, sports center and retail areas of up to approx. 1,500 sqm.

Azrieli Town, Tel Aviv – The land, area of which is approx. 10,000 sqm, was purchased in October 2012 and construction commenced in September 2016. The project is expected to consist of a retail center of approx. 4,000 sqm and two towers: an office tower with a GLA of approx. 50,000 sqm and a residential tower consisting of approx. 210 apartments for lease. The project is located in proximity to the train stations in central Tel Aviv and to the light rail station in the future, and the Emek Bracha Bridge, which is planned to be built in the area, will connect the eastern side of the city with the city center through the project. The Group is promoting a change of the zoning plan to increase the building rights in the complex. As of the Report Release Date, the Group has signed lease contracts in respect of approx. 26,000 sqm of the project's office space, which represent more than 50% of its leasable office space.

HaManor, Holon – Land, which is situated near the Azrieli Holon Center and is around 6,200 sqm, was purchased in February 2015. Construction of the project began in August 2017. The plan is to build approx. 28,000 sqm of office and retail. Completion of the project is scheduled for 2020.

Expansion of Azrieli Tel Aviv Center – The land, area of which is approx. 8,400 sqm, was purchased in May 2013 and construction commenced in September 2016. The land, which is adjacent to the Azrieli Tel Aviv Center will enable the construction of the fourth tower and the expansion of Azrieli Tel Aviv mall. The Company is promoting a change of the zoning plan, and in April 2016, the deposit was approved (subject to conditions set by the District Committee) of the zoning plan with an urban-mixed designation, which allows uses of retail, offices, hotels, residence and senior housing with aboveground building rights of approx. 147,260 sqm (gross), and, in addition, approx. 3,000 sqm of underground main retail space. In the framework of the committee's decision, the Company has undertaken to allocate from the aforesaid rights in the project up to two public floors to the Municipality of Tel Aviv-Jaffa and has also undertaken to perform various tasks in the vicinity of the project, including in the Azrieli Center. Following discussion at the District Committee regarding objections to the expansion plan, in October 2017 the Company received the approval of the District Committee to publish the said plan for validation. The Company intends to construct retail space that will serve to expand the existing mall and a multi-story tower, subject to receipt of the required statutory approvals.

Holon 3 - Holon Industrial Zone – The land, area of which is approx. 59,200 sqm, was purchased in April 2016. Construction commenced in March 2018. The land is located in proximity to the Azrieli Holon Center, on which it is planned to build a very large employment and commerce project, which will consist of approx. 220,000 sqm of leasable office space and a family-friendly entertainment and shopping complex. The project is in proximity to central traffic arteries.

Palace Rishon LeZion Senior Home – The land, area of which is approx. 3,400 sqm, located at HaRakafot Neighborhood in East Rishon LeZion, was purchased in March 2016 and the project is in planning stages. The Company intends to build on the land a senior home which is planned to consist of approx. 250 residential units and approx. 3,000 sqm of retail. The Company is acting to promote a zoning plan for the increase of the building rights in the project.

Land in Petach Tikva – for details regarding the purchase of land in Petach Tikva, see Section 1.2.3.1 of this Chapter above.

The Company's estimations in Section 4.1.1 herein, with regard to, inter alia, the investment in and expected costs of properties under construction, the financing manner of the projects, the construction completion dates, the receipt of various regulatory approvals which are required for the promotion of the projects under construction or the outcome of administrative and legal proceedings are forward looking information as per the definition thereof in the Securities Law, which is based on the Company's subjective estimations as of the Report Date, and there is no certainty regarding their materialization, in whole or in part, or they may materialize in ways which may differ significantly, inter alia for reasons which are beyond the Company's control, including changes in the market conditions, changes in the Company's plans, the time that will take to have the zoning plans approved for execution and the prices of construction input.

For details on the projects under construction, See Section 7.7 of Chapter A of this Report.

The Company's management is acting to continue leading the income-producing real estate market, through *inter alia* the purchase of land reserves, the expansion of existing properties and purchase of additional similar properties as aforesaid, in order to cause further increase in the Company's future operating cash flow, insofar as the Company's board of directors shall so deem fit, and to further consider the development of related and/or synergistic segments.

Development PIPELINE

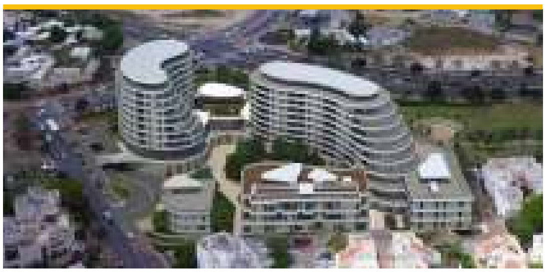
EXPANSION OF AZRIELI TEL AVIV CENTER

Use	Retail, offices and residence
GLA	150,000 sqm
Estimated completion	To be determined
Status	Under Construction

AZRIELI HOLON 3

Use	Retail and offices
GLA	220,000 sqm retail
Estimated completion	To be determined
Status	Planning

PALACE MODI'IN SENIOR HOME



Built-up area	35,000 sqm
No. of residential units	239
Estimated completion	2018
Status	Under Construction

PALACE RISHON LEZION SENIOR HOME

Land area	28,750 sqm
No. of residential units	250
Estimated completion	To be determined
Status	Planning

AZRIELI SARONA (RETAIL)

Use	Retail
GLA	10,500 sqm
Estimated completion	Q3 2018
Status	Under Construction

AZRIELI TOWN

Use	Retail, offices and residence
GLA	75,000 sqm
Estimated completion	2020 (offices and retail) Residential - To be determined
Status	Under Construction

AZRIELI HOLON HAMANOR

Use	Retail and offices
GLA	28,000 sqm
Estimated completion	2020
Status	Under Construction

PALACE LEHAVIM SENIOR HOME

Built-up area	44,000 sqm
No. of residential units	350
Estimated completion	Phase A - 2019 Phase B - To be determined
Status	Under Construction

PETACH TIKVA LAND

Use	Offices
GLA	53,000 sqm
Estimated completion	To be determined
Status	Planning

4.1.2. Betterment of income-producing properties

Another growth engine of the Company is the betterment of its existing properties. The Company further reviews, from time to time, options to promote zoning plans for additional building rights in its properties.

As of the Report Release Date, the Company is acting to improve its properties, as follows:

Azrieli Akko Mall – the Company is acting to obtain a permit for the addition of parking and office floors.

Azrieli Jerusalem Mall – the Company is acting to promote a zoning plan for the expansion of the mall, senior housing and office spaces. After the Report Period, the Company completed the renovation of the mall.

Azrieli Givatayim Mall – the Company is renovating the mall's fast-food court.

Azrieli Tel Aviv – the Company continues the renovation of the fast-food court in the mall and the upgrade of the office elevators and is further acting to renovate the public areas of the project.

Herzliya Business Park – the Company is acting to promote a zoning plan for the addition of floors in the project, and for the addition of retail spaces.

Palace Ra'anana Senior Home – the Company is acting to promote a zoning plan for additional building rights for a senior home and an LTC unit, above the building of the Azrieli Ra'anana Retail Center. Furthermore, the renovation of the buildings of Palace Ra'anana is in advanced stages.

Azrieli Rishonim – the Company is acting to promote a zoning plan for additional office spaces at the office tower of the project.

4.1.3. Location and acquisition of properties in the Companies operating segments

One of the Company's main growth engines is its know-how, expertise and experience in the location and acquisition of attractive properties that will yield a high return, with high demand and an improvement potential. The Company estimates that the success factors in the acquisition of such properties in its operating segment are, *inter alia*, location of worthwhile transactions and identification of opportunities in the market, positive goodwill together with business positioning and financial solidity which enable the acquisition of income-producing properties and a fast response to attractive business opportunities.

As previously reported, the Group examines, from time to time, the expansion of its business including entry to related real estate sectors, through, *inter alia*, the location and acquisition of income-producing properties as aforesaid.

4.1.4. E-Commerce business

Further to the Company's reports, whereby it continues to examine business opportunities related to the expansion of its operations to additional segments that coincide with its business strategy, while becoming part of the world of digital commerce, which has been gathering momentum in Israel and throughout the world and creating an additional growth engine, and aiming to create consumption experience, alongside the development of its core business in traditional retail, the Company has acquired e-commerce operations from Buy2 Networks Ltd.

1 | FUNDING OF THE BUSINESS

5.1. Leverage Ratio of the Group

The following table presents a summary of balance sheet figures out of the consolidated financial statements:

Summary of Balance Sheet Figures out of the Consolidated Statements		
	31.12.2017	**31.12.2016**
Current assets	**1,940**	1,877
Non-current assets	**28,203**	26,706
Current liabilities	**2,829**	3,315
Non-current liabilities	**10,993**	9,952
Equity attributable to the Company's shareholders	**16,281**	15,273
Equity attributable to the Company's shareholders out of total assets (percentage)	**54%**	53%
Net debt to assets (in %)	**27%**	27%

Figures are presented in millions of NIS, unless otherwise noted.

The Group funds its business operations primarily out of its equity, cash and cash equivalents and by means of non-bank credit (mainly bonds and loans from institutional bodies), bank credit (short-term and long-term) and commercial paper. During and after the Report Period, the Company issued Bonds to the public through the expansion of Series B-D bonds, based on a shelf prospectus.

The Group's financial soundness, which is characterized by a low leverage ratio and considerable unencumbered assets, affords the Group available sources for the obtainment of financing on convenient terms[1]. The Group's leverage ratio is low, compared to many of its major competitors. The Group's low leverage ratio, joined with the Company's extensive initiatives in the real estate sector, provide flexibility also at times of crises.

5.2. Composition of Financing Sources

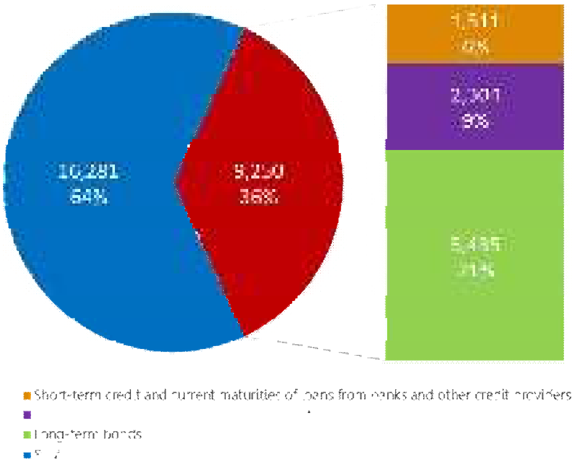
The Group has three principal debt channels: bank debt, private loans from institutional bodies or public bonds. The Group currently enjoys very high accessibility to each of these financing channels.

The following chart presents a breakdown of the rate of borrowed capital in the Company's total capital, as well as a breakdown thereof by type:

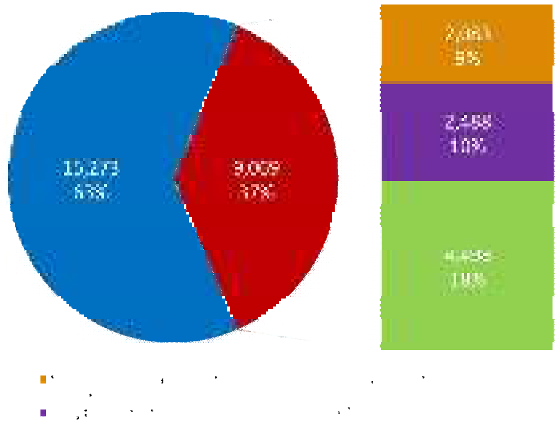
[1] For further details, see Section 19 of Chapter A.

Composition of Capital and Breakdown of Debt of the Group

31.12.2017



31.12.2016



Figures are presented in millions of NIS and as a percentage out of total assets.

The increase in the total debt, in the sum of approx. NIS 181 million in the Report Period mainly stems from the issue of bonds in Q1/2017 net of current maturities of loans and bonds. As of the date of the Report, the Group, on a consolidated basis, has a working capital deficit of approx. NIS 0.9 billion (approx. NIS 0.5 billion in the separate statement), which derives, *inter alia*, from the Company's management's decision, at this stage, to fund its business also by means of short-term credit, in view of the business opportunity arising from the low interest rates on credit of this type.

The Group estimates that if it decides at any time to convert such credit into long-term credit, it will be able to do so in view of its financial soundness and/or the scope of its unencumbered assets. Therefore, in its meeting of March 20, 2018, the Company's board of directors, having examined the Group's cash flow and financing sources, determined that such working capital deficit does not affect its ability to timely repay its liabilities.

The Group's estimations mentioned in this Section 5.2 of the board of directors' report in relation to its liquidity and the availability of its financing sources, particularly as pertains to the possibility of converting the short-term debt into long-term debt, are forward-looking information within the definition of this term in the Securities Law, which is based on the Company's assessments as to market developments, inflation levels and projected cash flows and on the conditions and possibilities of obtaining credit on the date of the Report. Such estimations may not materialize, in whole or in part, or may materialize in a manner that materially differs from the Company's estimations. The primary factors that may affect the above are: changes in the capital market affecting the conditions and possibilities of obtaining credit, changes in the Company's plans, including the use of future available liquid balances in order to seize business opportunities, changes in the advantageousness of the holding of various investment channels or the advantageousness of use of various financing channels, deterioration of the Israeli or U.S. economy and decline into severe recession, and the Company or any of the Group's companies encountering financing or other difficulties, in a manner affecting the Company's cash flow.

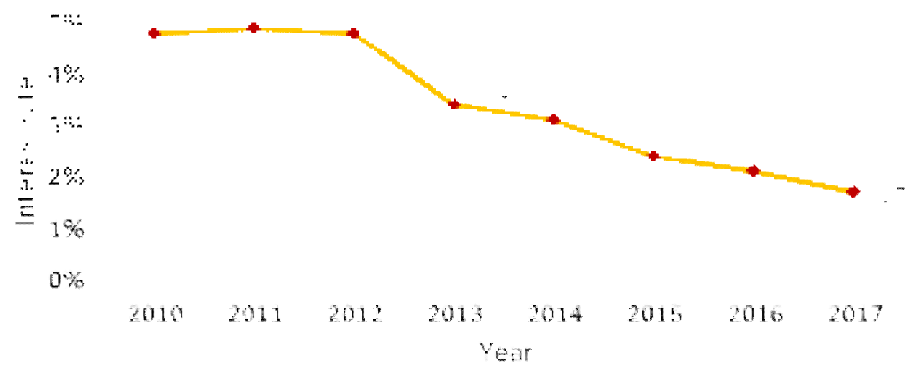
Regarding collateral and liens that were provided against the debt, as well as financial covenants with respect to the debt, see Note 31 to the financial statements.

5.3. Financing Transactions during the Report Period and until the Report Release Date

During the Report Period and in the course of Q1/2018, the Company raised debt at low interest rates, which are typical in the present market conditions, whilst maintaining the Company's high credit rating and extending the loans' debt duration. The decrease in the average interest on the debt will lead to a savings of approx. NIS 35 million in the Company's annual interest expenses.

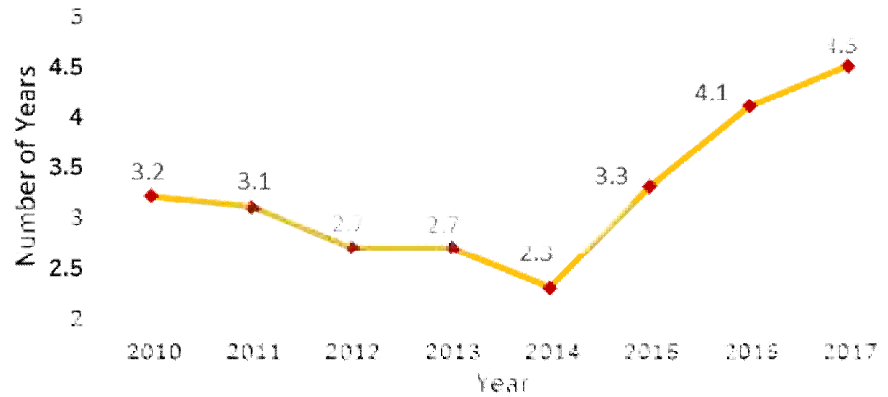
The Company acted during the Report Period and until the Report Release Date to raise debt through the issue of public bonds in the scope of approx. NIS 2.8 billion, with an average duration of approx. 6 years and weighted index-linked interest of approx. 1.2%. For details on the debt raising see Section 19 of Chapter A of this Report.

Reduction of Average Interest over the Years



◆ Interest rate as of the end of the year

Extension of the Average Duration of Debt



◆ Duration as of the end of the year

5.4. Rating

The Company’s credit rating is high and reflects its financial strength, the quality of its assets and its low leverage ratio. As of the end of 2017, the Group’s bonds are rated, as of the Report Date, AA+/Stable/ilA-1+ by Ma’alot and Aa1 by Midroog.

In recent years, Azrieli has maintained a stable credit rating, which has even been upgraded:

- In November 2015, Moody’s Midroog credit rating agency upgraded Azrieli’s credit rating from Aa2 to Aa1. The rating outlook is stable.
- In January 2015, S&P Ma’alot upgraded Azrieli’s credit rating from AA to AA+. The rating outlook is stable.

Various parameters that have had an effect on the Company’s high rating are the low leverage ratio, the high debt repayment capacity (debt to FFO ratio), a broad dispersal of properties and tenants, various and diverse operating segments of income-producing properties, excellent locations of the properties, the considerable scope of unencumbered assets and focusing on the Company's core operations – income-producing properties.

5.5. Liabilities and Financing

Below is a summary of the Group's financial liabilities (excluding Granite Hacarmel and Azrieli E-Commerce):

Breakdown of Financial Liabilities

	Fixed Interest			Variable Interest		Total		Total
	Index-linked	USD-linked	Unlinked	GBP-linked	Unlinked	Fixed Interest	Variable Interest	
Short-term loans	-	-	-	20	582	-	602	602
Long-term loans	6,778	1,169	250	-	34	8,197	34	8,231
Total	6,778	1,169	250	20	616	8,197	636	8,833

Figures are presented in millions of NIS as of December 31, 2017.

As of December 31, 2017, short-term loans represented approx. 7% of the Group's total financial liabilities (excluding Granite Hacarmel and Azrieli E-Commerce). The Company's management estimates that this rate is low and conservative in view of the low leverage ratio and the total unencumbered assets as specified below.

The Company's policy regarding the financing of its business, besides the positive and stable cash flow from current operations and current assets, is implemented primarily by taking long-term index-linked fixed-interest loans, in order to minimize market risks resulting from changes in the market interest rates and to counteract the market risk resulting from changes in the Consumer Price Index (CPI), while taking advantage of the fact that the Company's revenues are, for the most part, index-linked. However, in view of the low interest rates on short-term variable-interest loans, the Company's have decided to finance its operations also by means of short-term loans as specified above.

5.6. Designated Disclosure to Bondholders (of Series B, Series C and Series D)

For details with respect to designated disclosure to the holders of the Company’s Series B, Series C and Series D Bonds, see Annex D to this chapter.

5.7. Maturities of the Group's Financial Liabilities

The following table presents the maturity dates and amounts of financial liabilities (excluding Granite Hacarmel and Azrieli E-Commerce):

Forecast of Maturities of Financial Liabilities			
Year	**Principal**	**Interest**	**Total**
1	**1,443**	**151**	**1,594**
2	**900**	**136**	**1,036**
3	**856**	**118**	**974**
4	**1,217**	**85**	**1,302**
5 forth	**4,417**	**312**	**4,729**
Total	**8,833**	**802**	**9,635**

Figures are presented in millions of NIS as of December 31, 2017.

In the past year, the sources for the funding of the Group's financial liabilities were chiefly the following:

- Positive cash flow from current operations, which totaled approx. NIS 1,219 million in the year ended December 31, 2017, compared with NIS approx. 1,290 million in the same period last year.
- Liquid assets and unencumbered assets.
- The Group has mortgaged income-producing properties, the fair value of which significantly exceeds the loan undertaken therefor.

5.8. Unencumbered Assets Available to Serve as Collateral against the Receipt of Credit

As of December 31, 2017, the aggregate amount of liquid assets (cash and cash equivalents and short-term investments and deposits) held by the Group amounted to approx. NIS 1,209 million. The Company deems its liquid assets, the considerable cash flow from its current operations and its unencumbered assets (in the total value of NIS approx. 21 billion, in addition to the aforesaid approx. NIS 1.2 billion) essential to its financial soundness, its high financial flexibility due to its lack of dependence on the availability of external sources both in terms of debt repayment and in terms of the ability to seize investment opportunities at various times[2]. As pertains to additional possible liquid sources, the Group estimates that it has the ability to obtain financing on convenient terms in the prevailing economic conditions.

Unencumbered Assets Available to Serve as Collateral against the Receipt of Credit	
Assets	**Value of Assets as of 31.12.2017**
Real estate of the retail centers and malls in Israel segment	**10,313**
Real estate of the leasable office and other space in Israel segment	**7,908**
Other real estate (chiefly senior housing)	**471**
The Company's holdings in Azrieli E-Commerce	**55**
The Company's holdings in Leumi Card	**536**
The Company's holdings in Granite Hacarmel	**590**
The Company's holdings in Bank Leumi	**1,132**
Total	**21,005**

Figures are presented as presented in the financial statements and in millions of NIS.
In addition, the Group holds mortgaged income-producing properties, the fair value of which exceeds the amount of the loan undertaken therefor.

[2] For details with respect to additional matters related to the Group's financing activities, see Section 19 of the Description of the Corporation's Business chapter in Chapter A herein.

5.9. Financial Position

Financial Position, Liquidity and Financing Sources		
Item	**31.12.2017**	**31.12.2016**
Total assets (1)	**30,143**	28,583
Current assets (2)	**1,940**	1,877
Investment properties (3)	**25,206**	23,723
Short-term credit(4)	**1,511**	2,083
Loans from banks and other credit providers (5)	**2,304**	2,488
Net bonds (6)	**5,435**	4,498
Equity (7)	**16,321**	15,316

Figures are presented in millions of NIS.

(1) Increase chiefly results from an increase in investment properties and in investment properties under construction, as a result of investments and a rise in the fair value.

(2) Increase chiefly results from the classification of land and investment in shares as an asset held for sale.

(3) Increase results from the progress of the investments in projects under construction and in income-producing properties and from a rise in the fair value.

(4) Decrease results from the repayment of balances classified as current maturities of long-term bonds and loans.

(5) Decrease results from current maturities net of the refinancing of loans repaid and presented on December 31, 2016 as a current maturity.

(6) Increase results from the issue of bonds at the end of Q1/2017, net of current maturities.

(7) Increase chiefly results from the comprehensive income net of a dividend distribution.

2 | BUSINESS RESULTS AT A GLANCE

6.1. Summary of Business Results

The following table presents the consolidated net profit of the Azrieli Group:

Analysis of the Consolidated Net Profit			
As of	**31.12.2017**	**31.12.2016**	**31.12.2015**
Net profit for the period attributable to the shareholders	**1,456**	1,810	821
Net profit attributable to the shareholders and to non-controlling interests	**1,448**	1,808	828
Basic earnings per share (NIS)	**12.01**	14.93	6.77
Basic earnings per share from continuing operations (NIS)	**12.01**	15.00	7.59
Comprehensive income to shareholders and non-controlling interests	**1,476**	1,893	846

Figures are presented in millions of NIS, unless otherwise noted.

Net profit in the Report Period totaled NIS 1,448 million, compared with NIS 1,808 in the same period last year. The profit in the Report Period was affected from an increase of NIS 84 million in the NOI from the real estate business, net of a decrease of NIS 211 million in the profit from the adjustment of the fair value of investment properties (NIS 500 million in the period compared with NIS 711 million in the same period last year). In addition, in the same period last year, the Group recorded tax income in the sum of approx. NIS 394 million, due to a reduction of the tax rate, which did not recur during the Report Period.

6.2. Profit Quality

The Group's net profit mainly consists of and is affected by the following components:

- Profit from the income-producing real estate business – Retail centers and malls in Israel, leasable office and other space in Israel, income-producing properties in the U.S. and senior housing;
- Changes in the fair value of the Group's investment properties;
- The Group's share in the income of the Granite Hacarmel segment;
- The Company's HQ operation, which includes net financing expenses as well as administrative and general and marketing expenses;
- Deferred and current tax expenses;
- The Company's share in the results of Azrieli E-Commerce.

Income from the real estate business is primarily affected by the rent revenues from the various properties, which are mainly affected by supply and demand in the rental market.

The Group's income may be subject to sharp fluctuations between reporting periods, chiefly due to changes in the value of the income-producing real estate as aforesaid, which is affected, *inter alia*, by changes in the cap rates and by a change in the amount of the revenues resulting from changes in market conditions and/or a rise of the CPI. Furthermore, the Group's financing expenses are affected, *inter alia*, by changes in variable interest rates and changes in the CPI.

The Group examines the fair value of the investment properties in Israel at least once every six months and whenever there are indications of material changes in value. The determination of fair value is mainly based on valuations that are mostly prepared by appraisers who are not dependent on the Company. Fair value is measured based on discounted cash flows based on signed contracts and market rent for vacant space as of the date of examination, supported by their comparison to renewals in locations similar to the property's location close to the date of the valuation, as well as use of cap rates that are examined, *inter alia*, by analyzing comparable transactions close to the date of the valuation. The Group considers the need for an update of the value of investment properties every quarter, by examining macroeconomic changes, changes in the properties' environment and in the revenues generated therefrom, and also holds discussions with an independent real estate appraiser for examination of changes in the cap rates. Furthermore, for investment properties under construction, the costs actually invested in the period, the up-to-date forecast of costs for completion and lease contracts signed in the course of the period are taken into account. Insofar as the Company's Management estimates that material changes occurred in the value of the properties, as defined in the Group's procedures, up-to-date valuations of the relevant properties are prepared by the Company or by an appraiser.

Changes in the assumptions used by external experts and/or changes in the estimations of the Group's management, which relies on its accumulated experience, may lead to a change in the fair value recorded in the income statement, thereby affecting the Group's financial position and results of operations. For further details, see Note 35 to the financial statements.

For details with respect to the fair value of investment properties by operating segment, see Section 7.4 of Chapter A of this Report. Also see Notes 13 and 37 to the attached financial statements.

6.3. Comprehensive Income

The Group's capital and comprehensive income are also affected by various capital reserves, chiefly by capital reserves in respect of adjustment to the fair value of investments treated as financial assets available for sale and by reserves for translation differences from foreign operations. The difference between the comprehensive income and the net profit as presented in Section 6.1 above primarily derives from the increase in the fair value of financial assets available for sale net of tax in the amount of approx. NIS 204 million net of approx. NIS 62 million that were carried to the income statement from the disposition of financial assets available for sale, net of tax and net of a decrease due to translation differences from foreign operations in the amount of approx. NIS 114 million.

6.4. Results of Operations

The following table presents the marketing, general and administrative expenses, other revenues, financing expenses and income taxes in Y2017, compared with Y2016:

Results of Operations	Q/4 2017	Q/4 2016	2017	2016
Marketing, general and administrative expenses[(1)]	**88**	84	**306**	276
Net other revenues (expenses) [(2)]	**71**	(3)	**124**	9
Net financing expenses (revenues) [(3)]	**44**	(5)	**90**	110
Income taxes expenses (revenues) [(4)]	**69**	(108)	**408**	49

Figures are presented in millions of NIS.

(1) The increase in expenses in Y2017 and in Q4/2017, compared with the same periods last year, mainly derives from the purchase of the e-commerce activity during 2016.

In 2017, the Company's aggregate donations on a consolidated basis totaled approx. NIS 14 million.

(2) Net other revenues in 2017 chiefly result from other receivables insurance indemnity against damages caused by the hurricane which damaged the Company's properties in Houston, Texas; from dividend from Bank Leumi and Leumi Card and from the proceeds from the sale of Visa Europe as mentioned above (in 2016 mostly dividend from Leumi Card).

(3) The decrease in net financing expenses mainly stems from profit resulting from the sale of Bank Leumi shares in 2017, net of an increase in the linkage expenses on loans, bonds and senior housing residents' deposits, as a result of an increase of approx. 0.3% in the rate of the known index during the Report Period, compared with a decrease of approx. 0.3% in the same period last year. The Group's net financing expenses in the quarter totaled approx. NIS 44 million, compared with net financing revenues of approx. NIS 5 million in the same period last year (a rise of approx. NIS 49 million). The rise in net financing expenses mainly derives from profit from the sale of Bank Leumi shares which was recorded in the same quarter last year and did not recur in the quarter in 2017, and from an increase in the linkage expenses on loans, bonds and senior housing residents' deposits, as a result of an increase of approx. 0.1% in the rate of the known index during the quarter, compared with a decrease of approx. 0.3% in the same period last year.

(4) The increase in tax expenses in the Report Period is primarily attributed to the reduction of the corporate tax rate in the corresponding period in 2016 (which created tax revenues resulting from a decrease in the reserve for deferred taxes in the sum of approx. NIS 394 million), net of a decrease in tax expenses in the present period due to the decrease in the adjustment of the fair value of investment properties and net of a decrease in current tax expenses, resulting from a decrease in the current tax rate. The Group's income tax expenses totaled approx. NIS 69 million in Q4/2017, compared with tax revenues of approx. NIS 108 million in the same quarter last year. The increase in tax expenses in the present quarter is primarily attributed to the reduction of the corporate tax rate in the same period last year (which created tax revenues as a result from a decrease of approx. NIS 234 million in the reserve for deferred taxes).

Cash Flows

The following table shows the cash flows generated by the Group in Y2017 compared with Y2016:

Annual Cash Flows		
Year	**2017**	**2016**
Net cash flows generated by the Group from current operations [1]	**1,219**	1,290
Net cash flows used by the Group for investment activities [2]	**(349)**	2,578
Net cash flows generated (used) by the Group from financing activities [3]	**(506)**	1,070

Figures are presented in millions of NIS.

(1) The cash flow in the period and in the same period last year chiefly resulted from the operating profit of the income-producing real estate in the sum of approx. NIS 1,385 million (approx. NIS 1,301 million in the corresponding period), plus net senior housing deposits and excluding paid income taxes. The corresponding period included current cash flow from the Sonol segment in the amount of approx. NIS 187 million.

(2) Most of the cash flow in the Report Period was used for the purchase of and investment in investment properties and investment properties under construction in the sum of approx. NIS 1,065 million, net of a decrease in short-term deposits and net proceeds from the disposition of Bank Leumi shares. Most of the cash flow in the same period last year was used for the purchase of and investment in investment properties and investment properties under construction in the sum of approx. NIS 2,015 million, for investment in short-term deposits and for the acquisition of companies consolidated for the first time, net of proceeds from the sale of Sonol in the sum of approx. NIS 116 million and the proceeds from the disposition of part of the Company's holdings in Bank Leumi.

(3) Most of the cash flow in the Report Period was used for the distribution of dividend in the sum of approx. NIS 480 million. Most of the decrease relative to the same period last year derives from the issue of bonds and the receipt of net long-term loans in higher amounts during the same period last year.

The following table shows the cash flows generated by the Group in Q4/2017 compared with Q4/2016:

Quarterly Cash Flows		
Quarter	**Q4/2017**	**Q4/2016**
Net cash flows generated by the Group from current operations [1]	**237**	287
Net cash flows used by the Group for investment activities [2]	**(228)**	140
Net cash flows used by the Group from financing activities [3]	**(87)**	384

Figures are presented in millions of NIS.

(1) The cash flow in the quarter and in the same quarter last year chiefly resulted from the operating profit of the income-producing real estate in the sum of approx. NIS 360 million (approx. NIS 338 million in the corresponding period), plus net senior housing deposits and excluding paid income taxes.

(2) Most of the cash flow in Q4/2017 was used for purchase of and investment in investment properties and investment properties under construction in the sum of approx. NIS 393 million, net of a decrease in short-term deposits. Most of the cash flow in the same quarter last year was used for the purchase of and investment in investment properties and investment properties under construction in the sum of approx. NIS 207 million, net of the proceeds from the disposition of a part of the Company's holdings of Bank Leumi.

(3) Most of the decrease relative to the same period last year resulted from the repayment of short-term credit in the sum of approx. NIS 32 million in the quarter compared with repayment of approx. NIS 314 million in the same quarter last year.

3 | EXPOSURE TO AND MANAGEMENT OF MARKET RISKS

7.1. General

It is noted that the Company's financial statements present no separate reportable segment which is a "financial operating segment" and as of December 31, 2017 the Company has no "material financial operations" as stated in Regulation 10(b)(7) of the Regulation.

7.2. Description of Market Risks

For details with respect to the Company's market risks, see Notes 33 and 34 to the financial statements as of December 31, 2017.

7.3. The Company's Policy on Market Risk Management

For details with respect to the Company's market risk management, see Notes 33 and 34 to the financial statements as of December 31, 2017.

7.4. Policy Implementation and Oversight

At least once per quarter, the finance committee and the board of directors discuss the Company's exposure to market risks and the actions taken by the Company's management, and, to the extent necessary, set quantitative criteria and restrictions. The Company's management routinely examines the operation scopes and the risk deriving from the operations.

7.5. Analysis of Sensitivity Tests and Effects on the Fair Value of Hedging Transactions, Exchange Rates, Interest Rates and Financial Instruments

The Group conducts tests of sensitivity to changes in cap rates affecting the fair value of investment properties.

For details, see Annex A to this Chapter.

4 | CORPORATE GOVERNANCE ASPECTS

For details on aspects of the Company's corporate governance, including a corporate governance questionnaire, compensation of senior officers, contributions policy, details regarding the internal auditor, the auditor and an internal enforcement program at the Company, see the "Corporate Governance" chapter attached to Chapter E hereof. For details with respect to the Company's directors, see the "Additional Details" chapter attached as Chapter D hereof.

5 | PROVISIONS ON DISCLOSURE IN RELATION TO THE COMPANY'S FINANCIAL REPORTING

9.1. Report on the Group's Liabilities

A report on the Group's liabilities, in accordance with section 9D of the Regulations is attached in a separate report form concurrently with the release of this Report.

9.2. Litigation

For details with respect to litigation, see Note 32 to the financial statements.

9.3. Disclosure of Highly Material Valuations

A directive of the Israel Securities Authority (ISA)[3] determines that a material valuation is a valuation that fulfills one of the following criteria: (1) The subject-matter of the valuation represents at least 5% of the company's total assets as presented in the consolidated statement of financial position as of the last day of the report period (the "**Balance Sheet Test**") (2) The effect of the change in value that results from the valuation on the net profit or the comprehensive income, as applicable, represents at least 5% of the company's respective total net profit or comprehensive profit in the report period and also represents at least 2.5% of the company's equity as of the end the report period[4] (the "**Consequence Test**"). In addition, the directive specifies that a highly material valuation, which is required to be attached to the financial statements of the reporting corporation, is a valuation of double materiality (10%, rather than 5%; and 5%, rather than 2.5%).

The ISA has also determined that where the valuation satisfies the quantitative tests, but qualitative considerations led to a different decision by the corporation, and it is decided not to attach it, the corporation will disclose its decision, while specifying the results of the quantitative tests and the reasons and considerations that underpinned such decision.

As of the date of the Report, the Company's board of directors has adopted the parameters determined by the ISA, as specified above, with respect to the attachment of a highly material valuation.

As of the date of the Report, and following an examination of the above determination, the highly material valuation with respect to Azrieli Towers in Tel Aviv only (included in the valuation of the entire Azrieli Center, including all components thereof – namely, including Azrieli Mall) is attached as Annex B to this Report.

As of December 31, 2017, the value of the Company's assets whose fair value was determined by a highly material valuation (prepared as of December 31, 2017) totaled approx. NIS 5.2 billion (attributed to both the Azrieli Center Towers and Azrieli Mall), out of a fair value of investment properties in the amount of approx. NIS 25.2 billion (approx. 21% of the Company's investment properties).

9.4. Subsequent Events

See Note 38 to the financial statements.

9.5. Financials attributable to the Company as a Parent Company

In accordance with Section 9C of the Regulations, financials out of the consolidated financial statements attributable to the Company as a parent company are attached with the auditor's opinion, in Chapter C.

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[3] Legal statement no. 105-23 regarding parameters for testing of the materiality of valuations, last updated in July 2014.
[4] Referring to the effect of the subject matter of the valuation after the tax effect, if any, and in absolute values.

9.6. Note on Forward-Looking Information

The Company's intentions mentioned in the introduction to the board of directors' report and the highlights to the board of directors' report, inter alia, in relation to the use of business opportunities and expansion of the operations, liquidity, financing sources and net financing expenses, the pace of progress of projects under construction, the projected costs of their construction, the effects of the economic situation on the Company's operating segments and with respect to the possibility of converting short-term debt into long-term debt and/or obtaining financing, are forward-looking information as defined in the Securities Law, which is based on the Company's plans as of the date of the Report, the Company's estimations with respect to developments in the markets, inflation levels and projected cash flows and on the conditions and possibilities of obtaining credit on the date of the Report.

Such estimations may not materialize, in whole or in part, or materialize in a manner that materially differs from the Company's estimations. The principal factors that may affect the above are: changes in the capital market that will affect the conditions and possibilities of obtaining credit, changes in the Company's plans, including use of future available liquid balances for the purpose of seizing business opportunities, changes in the advantageousness of holding various investment channels or the advantageousness of use of various financing channels, delays in the obtainment of permits or approvals required for the progress of projects under construction, changes in the regulation related to the Company's business, including planning and building regulation, an increase in the prices of construction materials, changes in the CPI, deterioration of the Israeli or U.S. economy and decline into severe recession, and the Company or any of the Group's companies encountering financing or other difficulties, in a manner affecting the Company's cash flow.

The Company's board of directors and management wish to express their high regard for the Company's officers, the managements of the various companies of the Group and their employees, for their welcome contribution to the Group's achievements in 2017.

Danna Azrieli, Chairman of the Board	**Eyal Henkin, CEO**

Date: March 20, 2018

Annex A

Sensitivity Tests
December 31, 2017

Annex A – Sensitivity Tests

Sensitivity to changes in the interest rates of the cap rates of investment property as of December 31, 2017

Change Rate	Loss from changes in market factor			Fair value of asset	Profit from changes in market factor			Value determination method
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
	Absolute 2% Increase	10% Increase	5% Increase		5% Decrease	10% Decrease	Absolute 2% Decrease	
Weighted Cap Rate:								
5.75% - 6.50%	(152)	(57)	(30)	642	33	70	297	DCF method
6.75% - 7.50%	(3,792)	(1,587)	(810)	16,843	885	1,910	6,813	DCF method
7.51% - 8.00%	(888)	(386)	(203)	3,997	223	470	1,517	DCF method
8.01% - 8.5%	(93)	(43)	(23)	382	25	53	153	DCF method
8.51% - 9.5%	(91)	(40)	(16)	1,422	38	69	164	DCF method
Investment property and investment property under construction	(5,016)	(2,113)	(1,082)	23,286	1,204	2,572	8,944	

Annex B

Very Material Valuation
December 31, 2017

Expert Professional Opinion
Comprehensive Land Valuation - "Azrieli Center"
1 Azrieli Center, Tel Aviv

March 20, 2018
Our reference: 3415-18

CANIT HASHALOM INVESTMENTS LTD.
1 Azrieli Center, Tel Aviv

Expert Professional Opinion
Comprehensive Land Valuation - "Azrieli Center"
1 Azrieli Center, Tel Aviv

At your request, which was received by our firm on January 9, 2018, by Irit Sekler-Pilosof, CFO of Azrieli Group Ltd., submitted hereby is a professional opinion for an estimate of the value of the rights of Canit Hashalom Investments Ltd. (the "**Company**") in Azrieli Center, including its components (parking lot, mall and offices) (the "**Property**").

We consent to our Opinion being released in the framework of the financial statements of the Company and/or Azrieli Group Ltd., which shall be publicized.

Over the years we have performed valuations for Azrieli Group Ltd. and companies controlled thereby.
The income from these assignments is not material to our firm and therefore no dependency was thereby created of our firm on the Company and/or Azrieli Group Ltd. For further details see Section 14 of the Opinion.

Our office received a letter of indemnity from Azrieli Group Ltd. that was signed by Menachem Einan and Yuval Bronstein on March 23, 2010.

We accept the limit on the indemnity amount as prescribed in the directive of the Israel Securities Authority dated July 2015.

This Valuation was made according to Standard No. 17.1 of the Real Estate Appraisers Council and according to the International Valuation Standards (IVS), Edition 2007 and especially IVA1 Standard (INTERNATIONAL VALUATION APPLICATION 1).

Expert name:	**Adina Greenberg**
Address:	**65 Yigal Alon, St., Toyota Tower, Tel Aviv.**
Occupation:	**Certified Real Estate Appraiser, certificate No. 237, since 1990.**

Education:

1985-1987	Tel Aviv University - Real Estate Appraisal and Property Management studies.
1975-1979	Technion – Civil Engineering studies in the framework of the academic reserve.
December 2001	Mediation course of the Israel Center for Negotiation & Mediation (ICNM).

Professional Experience:

Since October 1994	Partner at Greenberg Olpiner & Co.
1987-1994	Senior Real Estate Appraiser at an appraisals firm.
1983-1987	Building Engineer at Moshe Ekstein firm.
1979-1983	Building Engineer at the Israel Defense Forces.

Expert name:	**Ronen Katz**
Address:	**65 Yigal Alon St., Toyota Tower, Tel - Aviv.**
Occupation:	**Certified Real Estate Appraiser, certificate No. 616, since 1997.**

Education:

1993-1995	Real Estate Appraisal and Property Management diploma studies, Tel Aviv University.
1990-1993	B.A. in Agricultural Economics and Management at the Faculty of Agriculture of the Hebrew University of Jerusalem.

Professional Experience:

2001 -	Partner at Greenberg Olpiner & Co.
1995-2001	Greenberg Olpiner & Co. A Trainee until 1997 and thereafter as a Real Estate Appraiser.

And this is the question:

The market value estimate of the Company's rights in Azrieli Center and its components (parking lot, mall and offices), in the free market, in the criterion of a willing buyer from a willing seller.

We were informed by the Company, the owner of the Property, that the Property contemplated in the Opinion is defined as an investment property according to International Financial Reporting Standards, IFRS 13.

Market value is defined according to IVS1 International Standard as:

"The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing, wherein the parties had each acted knowledgeably, prudently and without compulsion"

The effective date for the Valuation – December 31, 2017.

Documents and representations received from the Company:

- Underlying agreement between the City of Tel Aviv-Jaffa and the Company.
- Compromise agreement between the City of Tel Aviv-Jaffa and the Company.
- Lease agreements between the City of Tel Aviv-Jaffa and the Company regarding the parking lot, the mall, the Round Tower, the Triangular Tower and the Square Tower.
- Report of the Company's figures for the rent actually received for the years 2015-2017.
- Report of the management companies' figures for the years 2015-2017.
- Forecast for leased areas and forecast for income from rent and management fee for 2018, based on signed contracts.
- Data on the business activity of the parking lot for the years 2015-2017 and income forecast for 2018, based on signed contracts as of the date of the appraisal.
- Document of undertaking to populate the Square Tower dated February 28, 2008.
- The Company's document regarding the cost of building the tunnel and the bridge.
- Disclosure document[1].

[1] See separate chapter in the Opinion.

And hereby is our professional Opinion:

1. Property information

Block:	7106
Parcel:	83
Registered parcel area:	32,830 sqm
Total built-up area:	328,393 sqm (according to building permit application plans)
Rights:	Long-term lease from the City of Tel Aviv-Jaffa

2. Description of the Property and the surroundings

Site visit performed by the undersigned on January 4, 2018.

2.1 Description of the surroundings

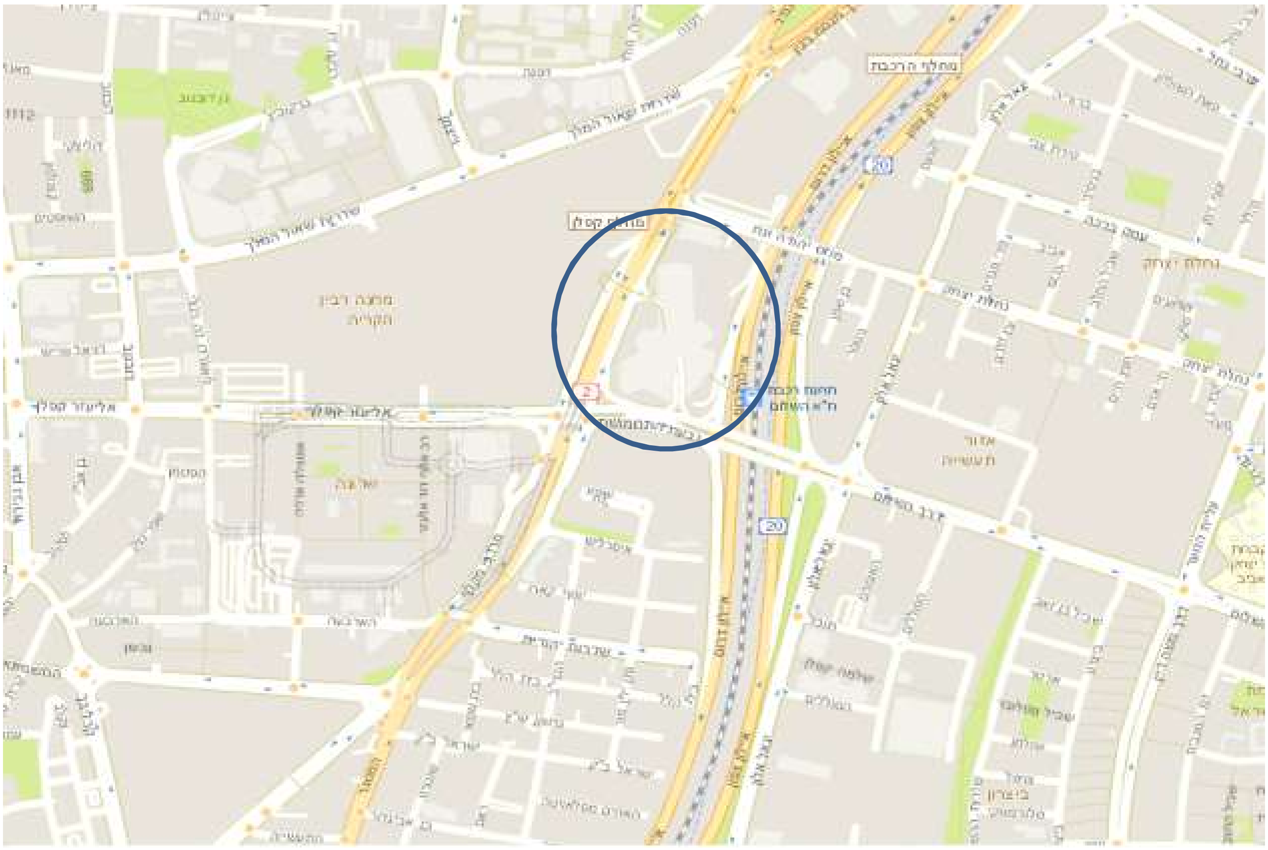
The surroundings are known as the Northern Tel Aviv CBD. Bounded on the west by Menachem Begin Rd., Parashat Derachim St. on the north, Ayalon Highway on the east and Ha'Shalom Rd. on the south. The accessibility is excellent due to its proximity to main traffic roads (Ayalon Highway, Ha'Shalom Rd. and Haifa Rd.). Ha'Shalom railway station, located in Ha'Shalom interchange is adjacent to Azrieli Center, which is the subject matter of the Opinion.

In end of 2015, construction works of the light rail train commenced in the vicinity, creating changes in the traffic arrangements in the surroundings of the Property contemplated hereby. Within several years, upon completion of the light rail train works, access roads and transportation shall improve due to the construction of a light rail train station in proximity to the Property - the King Saul Station on the corner of King Saul Avenue and Menachem Begin Road.

To the north of the Azrieli Project, the “Yedioth Ahronoth” site, where demolition works have begun, and where a project is planned for a 90-floor building for mixed uses of retail (designated to be connected to the Azrieli Mall), hotels, residence, employment, senior housing and public use areas.

At the south-west corner of Menachem Begin Rd. and Ha'Shalom Rd. junction is located the Government Compound Tower, which includes areas used by the governmental offices and areas leased to private entities. Adjacent thereto, the construction of an additional office building, “Azrieli Sarona”, was completed by the Company during 2017.

Area plan:



2.2 The business area

In the last two decades several office towers were built in the area that includes, *inter alia*: the Government Compound Tower, the office towers in HaArba'ah St. (Platinum, Ha'Tichon and Millennium), the HaArba'ah Towers on the intersection of HaArba'ah and Ernie St. (are in occupancy stages by Hagag Group).

In the Max Payne School "Shefa Tal" complex (south of the subject matter of the Opinion), 4 towers for mixed uses of retail, offices and residence are planned (approx. 800 residential units).

As stated, adjacent from the south to the Government Campus Tower, the construction of the "Azrieli Sarona" tower for mixed uses of offices and retail, was completed by the Azrieli company during 2017.

The Tel Aviv City Mall of the Gindi Investments and Blue Square companies, in the area of the HaChashmona'im and Carlebach streets, opened to the general public during 2017.

The Northern CBD - plans were approved over the last few years, in which several projects are planned in the area for offices, high-tech industries, employment and trade, combined with residences on the upper floors up to a building percentage of about 450%.

The existing and planned projects in the surroundings:

- The “Yedioth Ahronoth” complex (owned by the Company – located to the north of the Azrieli Project).
- “WE TLV” (in stages of construction), a combined project of offices and residence.
- The “Kardan House”, Gazit Paz House (an existing building, a building addition is planned on the building’s roof)
- “Midtown” project, which includes retail, office building and residence building, is in construction/occupancy stages.
- "Azrieli Town” (owned by the Company, formerly the Kupat Holim Clalit site) –retail space, a residential tower and an office tower are planned, and work has begun at the site.
- The “Hatzeerim” Tower - in stages of construction, designated for retail and residence.
- Hagag Tower Recital – an office building, in stages of construction.

Another center of employment areas in the vicinity under formation is along Yigal Alon St. (the southern part of the street, south of Ha'Shalom Rd.). On site there are the Toyota Tower and the Electra Tower 2 office towers - the Alon Towers, are in occupancy stages. There are also in the immediate area several large land complexes designated for office towers, such as: "Shmei bar" complex, "Machshirei Tnua" complex, the "Cinerama", the "ACE" complex, etc. The "TOHA" office project performed by the Gav Yam and Amot companies, which is at construction stages, is situated in the vicinity of the intersection of Derech HaShalom and Yigal Alon streets.

Town plan TA/3000 (South Kirya complex) declares the Sarona colony, which is located southwest of the subject matter of the Valuation, as a conservation park in an area of approx. 40 thousand sqm that includes 37 Templar stone houses. The complex was opened to the public in 2014.

To the west and to the south, bordering immediately on the park, 6 residential towers which will include about 650 residential units (as well as retail areas and offices on the lower floors) on a total main area of approx. 90,000 sqm are planned to be built. 3 residential towers have been constructed by Gindi Holdings. On the ground floor of the buildings, the “Sarona Market” food market was opened in 2015. Land designated for the construction of another 3 residential towers, was marketed to an acquisition group in 2016, in the context of a tender of the Israel Land Authority.
At the second row further away from the park, 9 towers for office, retail and hotel uses are planned (the lot, designated for a hotel was marketed over four years ago to Nitsba) on a total main area of approx. 400,000 sqm are planned (some of which have already been built - the Kirya Tower, Platinum, Millennium, Hatichon Tower). One of such lots,

located in the HaArba'ah St., designated for the construction of a tower for mixed uses of retail, offices and residence, was awarded to Africa Israel and Melisron at the end of 2015 in the context of an Israel Land Authority bid.

2.3 Description of the parcel

The subject matter of the Opinion is the "Azrieli Center" project, which is built on parcel 83 in block 7106 on an area of 32,830 sqm (the registration process was completed, parcel 59 in block 7106 and parcel 49 on block 7102 were consolidated and registered as new parcel 83 in block 7106), with a regular rectangular shaped plot, with three fronts, on a level surface.

Plan:

Borders:

South - Front facing the Givat Ha'Tachmoshet St. (which connects Kaplan St. on the west to Ha'Shalom Rd. on the east), constitute a major traffic artery connecting the Tel Ha'Shomer junction (on Route No. 4) on the east with Tel Aviv City Center on the west. The Max Payne School is located across the street.

West - Front facing Menachem Begin Rd., a major traffic artery connecting the Tel Aviv City Center with Jabotinsky Rd. in Ramat Gan until Petach Tikva. The "Camp Rabin" army base is across the street.

East - Southbound Ayalon highway - Road no. 20 (in the mentioned segment between Rakevet Tzafon interchange and Ha'Shalom interchange in the south) constitute a national highway connecting the city of Tel Aviv With the cities of Jerusalem, Rishon LeZion, Holon, Bat Yam, Haifa, etc.

North - The former "Yedioth Ahronoth" House. Most of the building was demolished.

2.4 Description of "Azrieli Center"

2.4.1 General

"Azrieli Center" is the largest business center in Israel. The center was designed as an independent urban unit capable of providing its users and visitors a full range of services that are required for the management of their businesses, the welfare of the employees, and the convenience of the customers.

The center includes a mall and three towers: the "Round" and "Triangular" towers are offices area and the "Square" Tower partially occupied by a hotel and the other part as office space and an underground parking lot for 3,200 vehicles In addition, the center provides complementary services and areas, such as “Holmes Place” fitness center, taxicab stand, etc.

On the roof floor of the Round Tower there is an observatory overlooking the Dan metropolitan and the surrounding cities. The visit to the observatory is accompanied with vocal guidance, telescopes, etc.

The underground parking lot and the mall are operating since April 1998, the Triangular Tower is populated since 1999, the Round Tower was populated in 2000 and the Square Tower was populated in 2008 and 2009.

The project is located at a major transportation crossroads and therefore the accessibility is very good. There are entrances and exits for vehicles from the Northbound and Southbound Ayalon

Highway, from Menachem Begin Rd., from Givat Ha'Tachmoshet St. and from Noah Mozes St. There is a pedestrian bridge that links the Ha'Shalom railway station with the first floor of the mall, and another pedestrian bridge across Menachem Begin Rd. to the first floor of the mall. There is a heliport on top of the Round Tower (unused).

Following are details of the project's construction areas (according to current surveying plans):

Designation	Main area in sqm	Service area in sqm	Total in sqm
Underground parking lot, storerooms, open floor and IEC control station	,2708	,119550	122,258
Bridges (above Petach Tikva Rd., Hashalom railway station)		1,365	1,365
Mall and public areas	32,976	28,134	61,110
Round Tower	40,899	14,924	55,823
Triangular Tower	35,017	12,331	47,348
Square Tower	29,974	,10515	40,489
Total	**141,574**	**186,819**	**328,393**

The construction and finishing standard includes, *inter alia*:

- Mall and the office towers - reinforced concrete structure, a combined marble-covered façade with screen walls.

- The public areas and passages in the mall are spacious, covered with marble flooring, centrally air conditioned, ceilings combined with decorative elements, there are 8 skylights, PA system, fire detection system, etc.

- In the mall's areas and the public floor a fully finishing level, including marble/ ceramic/ parquet/ wood tiled floor, decorative ceiling, immersed lighting, glass display cases, interior plaster/ paint/ decorative wall cover, central air conditioning system, etc.

- The mall's public level includes a terrace paved with precast paving stones, landscape lighting, public benches and transparent environmental sculptures that are used in addition to bring daylight to the mall's space.

- In the offices area a fully finishing level, including marble/ parquet/ wall-to-wall carpets, internal division using plaster partitions, decorative ceiling, immersed fluorescent lighting, central air conditioning system, communication systems and computers.

- At the hotel areas – parquet flooring in the lodging rooms, air conditioning system, fire detection system, work area including a PC. In the bathrooms - a table sink, a bathtub and shower. In the public areas - wall-to-wall carpet/ marble flooring/ parquet, air conditioning system, fire detection system, etc.

- In the parking lot, smooth concrete floor - one half of the parking lot is epoxy color coated, forced ventilation system, fire detection system, PA system, CCTV, in the basement floors -1, -2 and -3, an occupied/free detection system is installed.

2.4.2 The mall and the public areas

A national mall which serves large populations coming from all across the country. Occupancy rate at present and throughout all years of operation is 100%.

The mall includes 3 retail floors and one public floor.

The parking lot levels are linked to the retail center's levels via 11 passenger elevators and 2 escalator systems.

166 businesses operate in the mall in a wide range of stores in the fields of fashion, footwear, jewelry, gifts, communications, electronics and computers, optics, etc.

9 businesses lease relatively large areas: Shufersal, Mango, Superpharm, Renuar, H&M, Zara (in 2016, a larger branch opened on the space that was vacated by Hamashbir Lazarchan), Forever 21 and Bershka. In 2016, a branch of the fashion chain "Urbanica" opened on the ground floor.

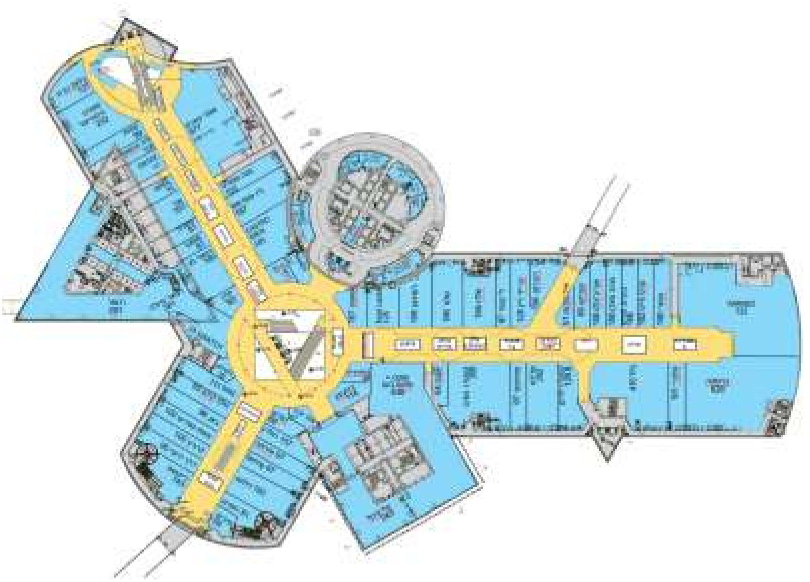
The public floor (the third mall's floor above ground) includes "Holmes Place" and the Wall Street and Kidum schools. The mall's roof area is being used for activities for children and adults.
The total marketable area is approx. **36,400 sqm**. According to the data provided to us, the leasable areas are store area, plus loading of public areas at a variable rate ranging between of 10%-15%.

Representative pictures:

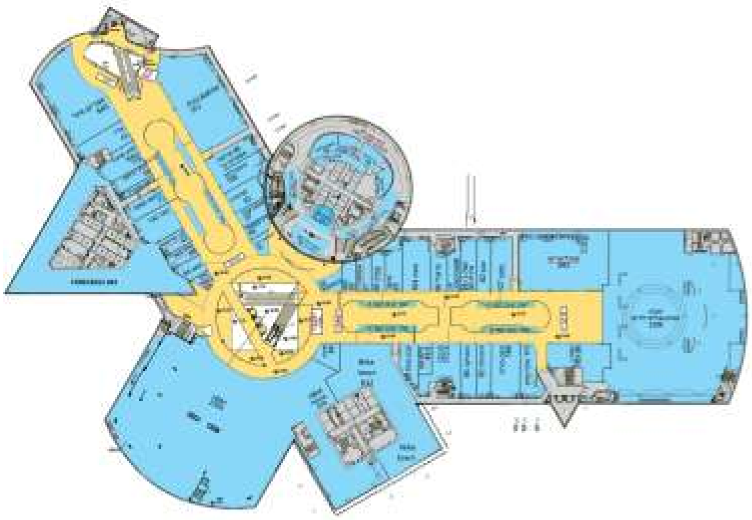
Marketable Floor Plan:

Ground Floor

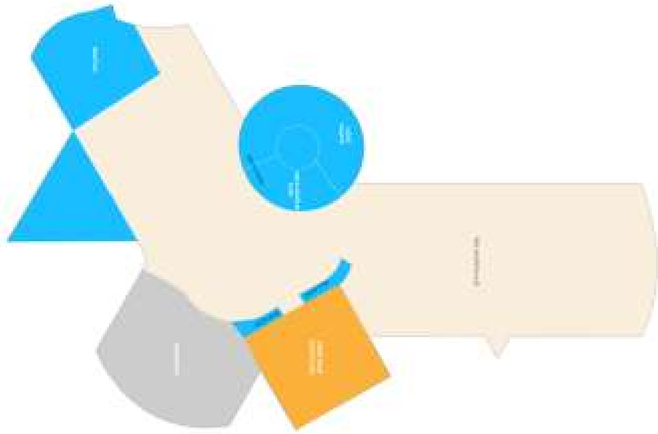
First Floor



Second Floor



Third Floor



2.4.3 The Round Tower

Includes 39 office floors and a roof which is used as a tourist attraction - public-access observatory and restaurant.

The gross total area of the tower is approx. 55,823 sqm.

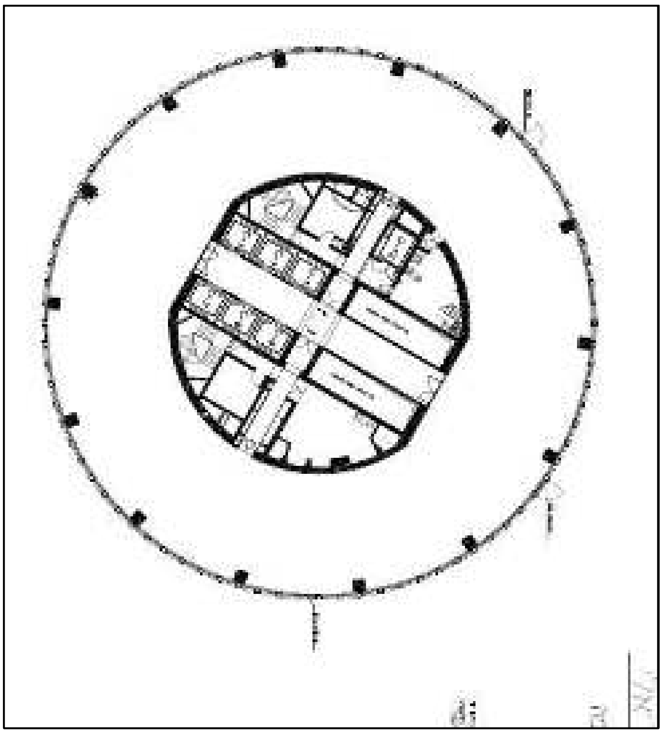
The top office floor on a leasable area of approx. 1,520 sqm and an area of approx. 335 sqm on the 33rd floor are self-used by Azrieli Group Ltd. **The Opinion does not include these areas**.

According to the marketing plans, the average area of a floor is approx. 1,520 sqm. The total leasable area is approx. 57,813 sqm (excluding an area for Azrieli Group's self-use). The occupancy rate in the tower is approx. 99% (there is approx. 595 sqm of available office space).

Main tenants in the tower are lawyers, accountants and other liberal professionals.

There are 12 passenger elevators in the tower.

Typical floor plan:



2.4.4 The Triangular Tower

Includes 35 office floors and 2 service floors. The gross total area of the tower is approx. 47,348 sqm.

According to the marketing plans, the average floor marketable area is approx. 1,430 sqm.

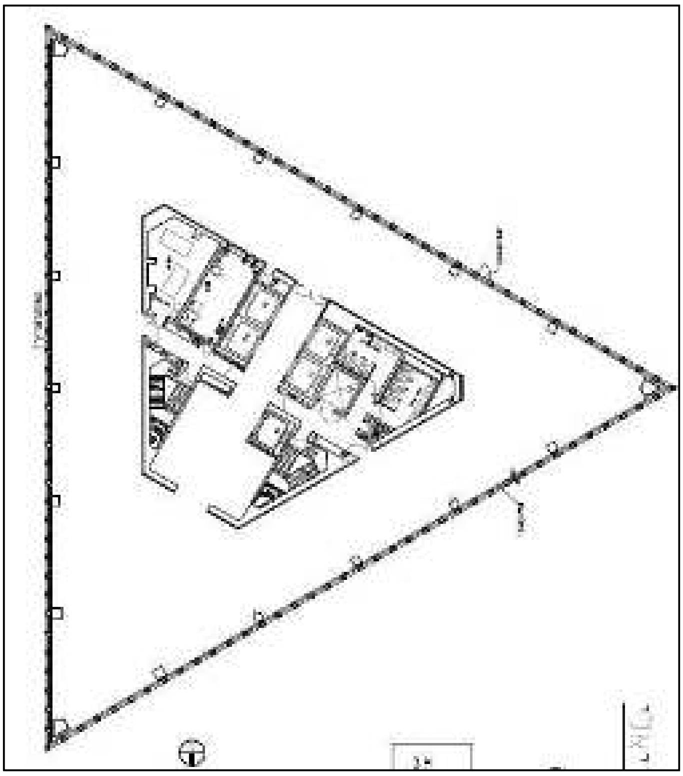
The total marketable area is approx. 48,915 sqm. The occupancy rate in the tower is approx. 98.6%. There is approx. 659 sqm of available office space.

The main tenants in the building are Bezeq that leases an area of approx. 22,300 sqm (about half of the building), the IDB Group, lawyers, accountants and other liberal professionals.

The finishing standard in the areas leased to Bezeq is average. In May 2015, an addendum to the lease agreement with Bezeq was signed, according to which the lease period was extended by an additional 60-month term, ending on October 31, 2020. The Company provided the tenant with a budget for leasehold improvements over a timeframe of several years.

There are 10 passenger elevators in the tower.

A typical floor plan:



2.4.5 The Square Tower

Includes 13 floors leased for use as the "Crown Plaza City Center" hotel and 18 office floors above the hotel's floors. The gross total marketable licensed area of the tower is approx. 43,186 sqm.

Hotel:

The hotel's lobby is located in the ground floor of the tower, in 13 floors, total 273 rooms and public areas with the following internal division: public floor which includes a dining hall, bar, 3 conference rooms, central kitchen and operational areas. Above the public floor there are 8 typical floors that include 24 rooms each (total of 192 rooms). Above them a floor that includes 17 rooms and a business lounge. Above them 3 floors with rooms (total of 64 rooms).

The total leasable area is approx. 18,000 sqm.

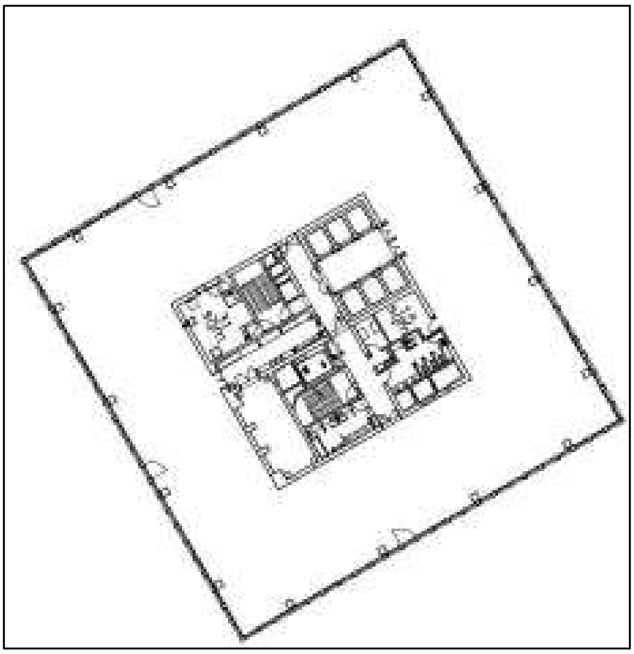
Offices:

18 typical floors – the typical floor leasable area is approx. 1,399 sqm and the total leasable area is approx. 25,186 sqm.

The offices are leased in their entirety to liberal professionals, lawyers, bank managements, IBM offices, etc.

There are 12 passenger elevators in the tower – 6 elevators to the hotel and 6 elevators to the office floors.

A typical floor plan:



2.4.6 The parking lot that serves the Property and its components

According to data provided by the client commissioning the Opinion, the parking lot includes 3,200 parking spaces, with the following breakdown:

Floor	No. of parking spaces
Ground	200
-1	650
-2	750
-3	800
-4	800
Total	**3,200**

Operation of the parking lot:

It transpires from the Company's data that there are currently about 3,100 active subscribers (out of which approx. 750 are Bezeq company subscribers). The total average monthly subscription fee is approx. NIS 830 + VAT. A tower employee's monthly subscription is NIS 1,000 + VAT, a mall employee's subscription is NIS 750 + VAT.

The parking fee for casual parkers:

First hour NIS 15, each additional quarter of an hour NIS 3. In the fourth and fifth hours, each additional quarter of an hour is charged NIS 5 Evenings', weekends' and holidays' rate is NIS 12 with no time limit. Maximal daily rate - NIS 100. The rates include VAT.

Storerooms:

Total storeroom areas according to building permit plans are approx. 2,500 sqm, of which marketable areas are approx. 2,150 sqm. The remaining of the area is used for operation.

Additional revenues:

In accordance with the Company's figures, there are revenues due to management fee from the subscribers, the taxicab stand and the car wash facility.

2.5 Licensing

The built-up areas were built in several construction stages, and according to many building permits.

Main building permits:

Building	Permit No.	Date	Substance
Parking Lot	4-980345	April 6, 1998	Changes in 4 parking levels, versus permit no. 4/950764 dated August 28, 1995 and permit no. 4/970405 dated May 26, 1997.
Mall	4-980991	October 20, 1998	Changes versus permit no. 4/960594 dated July 4, 1996 (the base, retail and public floors) and permit no. 4/980184 dated June 10, 1998 (health club).
	13-0495	October 1, 2013	Changes in the ground floor and the gallery floor in the Square Tower in Azrieli Center. Redesignation from cinema areas to retail space.
	15-0324	April 1, 2015	Additional new store on the ground floor (designated for "Urbanica") with a gallery and internal elevator (for the handicapped) in the eastern-posterior part of the Azrieli Mall complex. An addition of escalators between the ground floor, the gallery and the first retail floor. Regulation of protected spaces (Merhav Mugan Mosadi) on the ground floor of the Square Tower.
	17-0379	June 21, 2017	Internal changes in the division of the areas in the Azrieli Mall, including: the cancellation of a gallery in a store near the Triangular Tower, changing the location of escalators and a wheelchair lift inside the space of a store, regulation of a garbage room on the ground floor instead of restrooms and regulation of restrooms on a gallery floor. Building stairs to ascend to the gallery floor. Regulation of a storeroom for retail space on the gallery floor.
			On the second floor – in the northern corner – changes in the division of retail space among 3 stores, turning a back passageway area into retail space, enlarging a general public passageway between these stores, slight changes in the restrooms.
			In the Square Tower area: cancellation of restaurants and elevator shafts. Turning a restaurant area, a general public passageway area and various stores into the area of 2 stores. In a south-western corner – closing off of open space above the ground floor near the transparent elevators.
	16-0030	May 3, 2016	Deviating use of restaurant and general public passageway areas for a "Forever 21" store, relocating service areas for primary uses by turning general public passageways and back passageways into a retail area for the store. Turning service areas on the second floor into

			storerooms and turning storerooms into services on the first floor. Demolishing an existing gallery. Adding escalators and a connection with a retail area on the second floor. Building permanent stairs and an elevator.
Round	4-980606	June 25,1998	Office floors – Round Tower - changes during construction –variance application. Changes versus permit no. 4/960595 dated July 7, 1996.
	3-220843	November 4, 2002	Changes in the visitors' level.
Triangular	4-980476	May 21, 1998	Floors 5-27 - changes during construction Changes versus permit no. 4/961072 dated December 4, 1996.
	4-970717	August 20, 1997	Triangular Tower, floors 28-40. Floors 28-40 for offices. Floors 39-40 continuation of core only.
	4-980603	June 25, 1998	Changes on all floor levels. Floor 39 – new office floor, changes and technical areas on floor 40.
Square	20060074	January 30,2006	Construction changes and additions on the ground floor of the Square Tower which include – changes and addition of main areas on the ground floor, construction of a gallery, kitchen storeroom and a kitchen service elevator from the parking lot level to the gallery level Redesignation from offices to hotel entrance lobby, synagogue and a kitchen storeroom on the ground floor.
	20060075	January 30, 2006	13 hotel floors, 18 office floors and 2 technical floors in the Square Tower at the Ha'Shalom center, above 4 existing floors and basement floors.
	20060076	January 30, 2006	Changes and building additions in the basement and ground floors.
	12-1108	September 16, 2013	Changes in the Square Tower in Azrieli Center, which include: interior changes in floor 5 to kitchens and dining rooms for a hotel. Interior changes in the hotel rooms (floors 6-17) and in the core. Interior changes in the office floors (floors 18-35) and the restrooms in the core.
	13-1107	October 1, 2013	Approval of existing situation for interior changes in the top basement floor for the hotel in the Square Tower in the Azrieli Center which include regulation of kitchen, dining room, laundry, restrooms and storerooms.

Forms 4 and construction completion certificate:

Building	Form 4	Construction completion certificate
Parking Lot	Issued on March 31, 1998	Issued on November 21, 2002
Mall	Issued on March 30, 1998	See reference in the Square Tower
Round	Issued on December 27, 1999 for floors 29, 36, 37, 38, 39, 42, 43	Issued on November 26, 2002 for a total area of 33,890 sqm

	Issued on August 29, 2001 for floors 5-12, 19-22, 27-28, 30-31, 33-34, 40-41, and parts of floors 13-14, 16-18, 32, and in any case no more than 25,155 sqm	
Triangular	Issued on January 17, 1999 whereby it is possible to populate 21,975 sqm	Issued on May 2, 2002 for Phase A in the Triangular Tower (23,152 sqm) without floors 26-27.
	Issued on August 29, 2001 to the upper part of the Triangular Tower for floors 29-33, 35-39 and parts of floor 28, and in any case no more than 12,574 sqm	Issued on May 2, 2002 for Phase B in the Triangular Tower (area of 12,946 sqm) without floor 34.
Square	Issued on March 20, 2008 for Phase A which includes floors 18-35 for offices and technical floors only, and does not include the hotel floors.	As informed, the Company is working nowadays to receive a construction completion certificate for the mall and the Square Tower.
	Issued for the hotel on May 1, 2008.	

Business License:

The parking lot holds a business license that expires on December 31, 2019.

The mall holds a temporary business license that expires on June 15, 2018.

The amphitheater holds a business license that expires on December 31, 2018.

The hotel has a temporary business license that expires on December 31, 2018.

2.6 The management companies

The mall and the office towers are managed by two separate management companies. The tenants in the mall are paying to the management company management fee based on actual costs + 10%-15%. The tenants in the offices are paying (except for Bezeq) management fee based on actual costs + 15%.

The management expenses include *inter alia*: security, cleaning and maintenance, legal, salaries, advertising, marketing, public electricity etc.

We have reviewed the 2018 expense budget, from which the following data arises:

Item	Azrieli Mall (NIS in thousands)	Azrieli Towers (NIS in thousands)
Actual expenses	22,521	29,697
Revenues to owners	3,323	8,673
Total expenses	**25,844**	**38,367**
Maintenance fees per sqm for marketing per month	**59**	**22**

These costs were found compatible with the standard in similar retail centers and office towers.

The accounting firm Brightman Almagor Zohar & Co. audited the profit and loss figures for the management operations of the Property in 2016. The responsibility for the information lies with the Company.

We were also presented with the management companies' revenue and expenditure figures for 2017, from the Company's trial balance. These figures have not yet been checked nor audited by the auditors.

2.7 Electric power services to tenants

A step down power transformer is installed in the Property. The Company collects from the tenants electric consumption according to low voltage rate and purchases the electricity according to high voltage rates.

The Company engaged in an agreement for the supply of electricity with OPC private power station and commencing from Q3/2013 it purchases the electricity for rates some of which are lower than the rates of the IEC. The agreement is valid for 15 years. According to the Company's figures, the aforesaid rights are transferable to a third party. See the specification of the surplus cash flow below.

3. Description of legal rights

This chapter includes a brief summary of the legal situation that applies to the Property contemplated in the valuation, and it does not constitute, under any circumstances, a substitute for extensive review of the legal documents.

3.1 Information from the Rights Registry

According to information from the Rights Registry dated January 9, 2018, which was produced via the website of the Ministry of Justice, the following details arise:

- Block 7106, parcel 83, of a land area of 32,830 sqm.

- Owner - the City of Tel Aviv-Jaffa.
- Long-term lessees - Canit Hashalom Investments Ltd., for a period of 200 years. Expiration date - February 6, 2195 (restrictions are imposed on transfer and inheritance).
- On July 24, 2016 a mortgage was registered in favor of Harel Insurance Company Ltd., Harel Pension Fund Administration Ltd., Dikla Insurance Co. Ltd., Harel Providence Ltd., Career Army Savings Fund – Provident Fund Management Ltd., Leatid – Pension Fund Management Co. Ltd. and E.M.I. – Ezer Mortgage Insurance Company Ltd. on the lease of Canit Hashalom Investments.
- On July 7, 2015, a caveat was recorded according to Section 126 in favor of Bezeq the Israel Telecommunication Corporation Ltd.[2]
- On July 7, 2015, a caveat was recorded according to Section 126 in favor of Israel Electric Corporation Ltd. on an electric sub-station and an easement on the transported and on the tunnel and basements[3].
- On July 7, 2015, a caveat was recorded according to Section 126 in favor of NTA - Metropolitan Mass Transit System Ltd.
- On July 7, 2015, an easement was registered in favor of the City of Tel Aviv-Jaffa for free public passage through passageways on the ground floor, first floor and second floor.

3.2 Long-term lease agreements

3.2.1 Underlying agreement

On August 18, 1992, an underlying agreement was signed between the City of Tel Aviv-Jaffa and Canit Hashalom Investments Ltd. (an underlying agreement that defines the undertakings of the parties in connection with the Property of the contemplated project).

It transpires from the provisions of the agreement, *inter alia*, that separate lease agreements will be signed for parts of the project, as follows:

- For the first stage – the parking lot, the retail center and one tower with minimum floor area of 20,000 sqm.

- Separate lease contract for every additional tower.

On April 24, 2002, a compromise agreement was signed between the parties in respect of the underlying agreement, following which, in accordance with information provided by the

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[2] Refers to the lease agreement with Bezeq.

[3] An area leased to the IEC which is designated for the building of a sub-station. This area was not taken into account in the calculation of the Valuation which is specified below.

Company, a consideration was paid to the City due to the removal of the marketing limitation for 50,000 sqm of offices designated for vacation that were set forth in detailed Plan No. 2401 (which is specified in Section 5.1 below). Detailed Plan 2401C that was approved in 2005 includes the removal of the limitation as aforesaid (See Section 5.2 below).

3.2.2 Lease agreement no. 1 (parking lot, retail center and Round Tower)

The summary of a lease agreement dated October 23, 1996 between the City of Tel Aviv-Jaffa and Canit Hashalom Investments Ltd.:

- The leased property - The boundaries of the parcel of land and the parcel of the Round Tower. Until the completion of the construction of the shopping center, the Developer will be considered a licensee in the area of the other parcel on which the Company shall build parts of the parking lot and the shopping center.
- The lease period – 200 years commencing on February 7, 1995 and expiring on February 6, 2195.
- Lease fees - Lease fees were paid for the leased area for the entire lease period, and no annual lease fees shall apply.
- Consent fees – In any case where the Developer shall transfer or grant to others any rights under this contract, provided that such transfer or grant are permitted according to the provisions of this agreement, the Developer shall not be required to pay the City any consent fees or similar payment.
- Charge and assignment – If the Developer has fulfilled its undertakings under this agreement for construction of the parking lot and the shopping center, the Developer will be entitled to charge them as it deems fit, provided that it shall be assured that whomever acquires the leased area by virtue of exercise of the charge, will meet the criteria that guided the City in choosing the Developer according to the agreement, and the continued construction of the project and the operation, maintenance and management thereof in accordance with the provisions of the agreement are assured. If the Developer has fulfilled its undertakings under this lease agreement and contract for the building of a tower or towers, the Developer will be entitled to charge the tower or towers as it deems fit.

3.2.3 Lease agreement no. 2 (Triangular Tower)

The summary of a lease agreement dated December 28, 1997 between the City of Tel Aviv-Jaffa and Canit Hashalom Investments Ltd.:

The leased property – The land within the parcel area of the Triangular Tower and anything to be built thereon. The leased property is designed to enable the Developer to build the Triangular Tower.

The lease period – for 200 years commencing on February 7, 1995 and ending on February 6, 2195.

The remaining sections of the agreement are similar to those specified in agreement no. 1 above.

3.2.4 Lease agreement no. 3 (Square Tower)

The summary of a lease agreement dated December 28, 2008 between the City of Tel Aviv (and Canit Hashalom Investments Ltd.:

The leased property – The land within the parcel area of the Square Tower and anything to be built thereon. The leased property is designed to enable the Developer to build the Square Tower.

The lease period – for 200 years commencing on February 7, 1995 and ending on February 6, 2195.

The remaining sections of the agreement are similar to those specified in agreement no. 1 above.

3.3 Undertaking to populate the Square Tower dated February 28, 2008

We were presented with a letter of undertaking dated February 28, 2008 from Canit Hashalom Investments Ltd. to the Local Zoning Committee of Tel Aviv, with the following main principles:

- In view of the fact that on November 3, 2002 a permit was issued for the vehicle tunnel connecting Menachem Begin Rd. with Azrieli Center in the basement parking level +7.40, but the permit was not realized due to the Company's estimate that for reasons of transportation and security there is no need for another entrance, it was agreed, after further discussion with the City that the habitation certificate is granted subject to the Company's statement that a mechanism to exhaust the review of the need for the tunnel will be determined, in accordance with the Municipal Engineer's application to the Ministry of Transport for receipt of its professional position on the necessity of the tunnel.
- After hearing the arguments of Canit Hashalom on this subject and if it is found that building the tunnel is necessary, the

Company shall act in proximity thereto to build the tunnel, whether by itself or by a third party, and in any case no later than two years after receiving the Ministry's position, subject to obtaining the appropriate permits from the competent authorities.

- The Company further undertook to build, at its own expense, the bridge connecting the Azrieli project to the southern side of Ha'Shalom Rd., if it is decided to build a railway station at the site and/or a connection to the Shefa-Tal complex is required, in accordance with the timetables as determined by the Municipal Engineer, and to submit to the City the calculations of the building areas of the construction as actually performed on the basis of measurement plans, within 3 months from the date of signing this undertaking. As notified, it has been agreed between the Company and the City that the planning stage has not matured yet for making a decision.
- The Company has contacted the legal department of the City of Tel Aviv in order to promote the issuance of a construction completion certificate for the Square Tower without the need to submit a building permit application for the building of the tunnel, *inter alia*, since according to a letter on behalf of the Ministry of Transport to the Tel Aviv City Engineer dated February 1, 2012, the Ministry of Transport does not deem the tunnel necessary and the municipality's request to perform the tunnel is not acceptable thereto. The City Engineer insists on his demand that a permit application for the tunnel be submitted as a condition to the construction completion certificate.
- In August 2013, a permit application was submitted for the tunnel. In October 2013, the licensing authority of the City of Tel Aviv approved the application conditionally. The Company is acting to fulfill the conditions for obtaining the permit. The Company's initial estimation for the cost of building the tunnel is approx. NIS 7 million.
- On October 12, 2015, building permit No. 15-0992 was granted, permitting a vehicle tunnel to connect the lowering of Begin Rd. to the Azrieli Center in parking basement level + 7.4.

3.4 Guarantees for developer's undertakings

To secure all of the developer's undertakings, the Company deposited unconditional bank guarantees in the (nominal) amount of approx. NIS 16 million. As of December 31, 2017, the amount is approx. NIS 33 million.

4. Business activity in the Property

4.1 Actual revenues according to the Company's financial statements:

Presented below is a table specifying the actual revenues from rent over the years, as transpires from the Company's financial statements and income forecast for 2018 which is based on signed contracts and subjective estimates of the Company's management, based on past experience and indications received from tenants as of the date of the Valuation, with respect to changes in the terms and conditions of the existing contracts or renewals of contracts which expire during 2018.

Mall:

Item/Year	2015	2016	2017	2018 forecast (1)
Income from rent (NIS)	117,919,000	116,878,000	115,714,000	122,430,000
Income from additional revenue (NIS)	675,000	1,415,000	2,084,000	650,000
Income from temporary stalls (NIS)	2,644,000	3,512,000	4,583,000	4,500,00
Total	**121,238,000**	**121,805,000**	**122,381,000**	**127,580,000**

Towers:

Tower/Year	2015	2016	2017	2018 forecast (1)
Round (2) (NIS)	71,961,000	72,585,000	74,725,000	75,910,000
Triangular (NIS)	51,758,000	53,589,000	54,352,000	53,640,000
Square (NIS)	49,848,000	50,225,000	50,154,000	51,080,000
Total	**173,567,000**	**176,399,000**	**179,231,000**	**180,630,000**

(1) See reference above.
(2) Excluding the area self-used by Azrieli Group Ltd.

4.2 An analysis of the data upon which the Valuation is based

4.2.1 Basis of the data

The data in respect of the rent was received from the Company's collection system in respect of each and every tenant in the Property.

The retail space, approx. 36,400 sqm, is leased to 166 tenants. Occupancy rate is 100%, other than available storerooms on an area of approx. 135 sqm.

The office space and the hotel, approx. 147,241 sqm (excluding an area used by Azrieli Group), are leased to 125 tenants. Occupancy rate is approx. 99%. There is approx. 1,254 sqm of available space.

As of 2010, we have examined all of the contracts.

4.2.2 The lease period

Mall – retail areas

During the coming year, 71 contracts (approx. 8,096 sqm) are scheduled to expire. A considerable part of the tenants have an option to extend the contract. As we have been informed, based on past experience, they are likely to exercise it. With respect to some of the tenants, commercial conditions have been agreed and the contracts have been extended.

The average rent in areas, the contracts for which are expected to expire during 2017, are similar to the average rent in the mall and it is therefore reasonable that, insofar as vacated, also other tenants would pay this rent.

Towers –office space

During the coming year, 37 lease agreements are expected to expire (approx. 28,000 sqm). A majority of the tenants have an option to extend the contract, and as was informed based on past experience, they will probably exercise it. With respect to some of the tenants, the commercial conditions have been agreed and the contracts extended.

4.2.3 Rent

Mall – It transpires from the data that the rent for the retail areas range widely between NIS 15 per sqm per month (storerooms) and approx. 4,070 per sqm per month (stalls), with the average, including large stores, being approx. NIS 282 per sqm per month.

It transpires from an analysis of the gaps that the difference derives, *inter alia*, from the difference in the location of the stores (proximity to entrances and crowd-attracting stores which provide greater exposure, versus rear and lateral location or location on the public floor versus the first and second mall floors), the size of the store, the type of activity and the date of the commencement of the lease (old contracts versus new contracts).

Office towers - Average rent (excluding the area leased to Bezeq) is approx. NIS 113 per sqm per month. This rent was found to be the market rent and to be in keeping with similar/substitute properties.

We made a distinction between 2 types of tenants and leased properties:

- Long-standing and significant contracts – tenants who have been in the Property before 2010 (there are several tenants who have been in the place since the beginning of population thereof, and lease significant areas at rent lower than the average rent at the Property).

- The other contracts.

  Bezeq's areas are leased in consideration for approx. NIS 78 per sqm per month. This rent is significantly lower than the market rent. The agreement with Bezeq is due to expire at the end of 2020. Insofar as Bezeq vacates the Property upon the end of the contract, because the rent paid thereby is significantly lower than the rent paid in the other office space, the aforesaid areas may be rented for higher rent, subject to the performance of adjustments and a reduction of time for marketing.

Hotel - The hotel is leased at an average rent of NIS 66 per sqm per month. The lease period expires in October 2020 (following such period, the tenant has an option to extend the lease period by two periods – one of six years and another of seven years minus one month). The hotel was leased as a shell. The tenant performed all of its finishing and adjustment work at its expense. Since the rent is lower than the market rent, it is highly probable that the tenant will utilize the options granted thereto in the agreement, and in the alternative, there is no impediment for leasing the hotel for a higher rent to a substitute tenant.

4.2.4 Changes that occurred over the past year

Retail:

During the year that preceded the effective date, approx. 9,698 sqm were leased (of which approx. 5,009 sqm were leased and lease agreements were renewed with H&M, H&M Home, Kidum, Fox), for average rent in the amount of NIS 274 per sqm per month.

The Renuar store expanded at the expense of the area of the "Forever 21" store, on the first retail floor. Additionally, comprehensive renovations are being performed in the fast food area, the central lobby on the mall's ground floor is undergoing renovations, the lobbies in the parking lots were renovated and the restrooms were renovated.

Offices:

During the year preceding the effective date, approx. 37,800 sqm of offices were leased for average rent in the amount of approx. NIS 101 per sqm per month.

Renovations have begun on the floor restrooms.

4.2.5 Forecast for the next year

No material changes are expected in the Property during the coming year. Except for the completion of the comprehensive renovations that are being performed throughout the mall (as has been informed, the completion is expected in March 2018) the Company expects that it will successfully lease out a significant part of the vacated office space.

The elevators in the Round Tower are expected to begin undergoing renovations and upgrading.

4.2.6 Parking lot and storerooms that serve the Property and its components

The parking lot's business activity figures (excluding V.A.T), based on signed contracts and subjective estimates of the Company's management based on past experience and indications received from tenants as of the date of the Valuation, with respect to changes in the conditions of existing contracts or renewals of contracts expiring in the coming year.

According to the Company's data it transpires that the segmentation of the revenues from subscribers and casual parkers over the years is similar, and therefore it is possible to assume that this trend will continue also in the future.

Parking lot:

Item/Year	2015	2016	2017	2018 Forecast (1)
Income from subscribers (NIS)	26,949,000	27,381,000	48,880,000	31,100,000
Income from casual parkers (NIS)	20,707,000	20,710,000		20,950,000
Operating costs (NIS)	-14,324,000	-13,559,000	-13,311,000	-14,430,000
Operating profit (NIS)	**33,332,000**	**34,532,000**	**35,569,000**	**37,620,000**

Storerooms:

Item/Year	2015	2016	2017	2018 Forecast (1)

Income – from storerooms and others (NIS)	2,240,000	2,273,000	2,353,000	2,335,000

(1) See reference above.

4.2.7 Surplus from electric services to tenants

As stated above, there is a difference between the cost of the purchase of electricity paid by the Company and the charge to the tenants.

The annual cash flow surplus:

Year	2015	2016	2017	2018 forecast
Annual Surplus	7,169,000	8,552,000	7,868,000	8,230,000

5. Description of planning figures

The planning data is based on the data existing in our firm and data existing on the website of the Ministry of Interior.

5.1 Detailed Plan No. 2401

The plan was published for validation in Official Gazette No. 4265 dated December 4, 1994.

The purpose of the plan, *inter alia*:

- To redesign the area in order to create a Central Business District along the "Ayalon" highway.
- To build a Central Business District on a building area of approx. 150,000 sqm that includes areas of offices, retail, recreation and entertainment. The building rights allow the conversation of up to 15,000 sqm office space to residence and hotel area.
- To determine several basements designated mainly for parking, above which up to four above-ground levels will be allowed covering up to 80% of the lot area. Above them, the construction of 3 high-rise buildings will be permitted.

Lot designation: CBD.

Uses - Offices, industry (causing no nuisance), retail, personal services, entertainment, public uses, as well as residences and hotel accommodation. The office space will be at least 70% of the total construction area. Up to 15,000 sqm of office space may be converted to construction of residential apartments and/or hotels. The conversion of the areas shall be made according to a key of 1 sqm of residences and/or hotels equaling 1 sqm of office space. The residences and/or hotel, if built, will be under the following conditions: residences will be incorporated only in the top floors of the high-rise buildings, no lower than the 20^{th} floor above the Petach Tikva Rd. level. This limitation shall not apply to the hotel. Residence and hotel areas will have a separate entrance, separate elevators and separate parking. Retail, entertainment and personal service areas will be up to 25% of the total built-up area. Public uses, such as conferences halls, museums, halls for sports and cultural activities and similar uses will be at least 4,000 sqm.

The building rights - The total building area will be 100,000 sqm for main uses above the entrance level. In addition, 50,000 sqm will be permitted for main uses above the entrance level for offices designated for vacation, as defined below. The service areas will include the following areas: shelters and restrooms for maintenance on the floors of up to 20 sqm per floor. Machine rooms, electricity, ventilation shafts and piping, elevators, escalators, parking lots, areas and passageways for loading/unloading, etc. The service areas will include the public passageways in accordance with the regulations and the law, except for passageways wider than 3m, where tables and chairs related to the retail uses may be placed. In this case, 10% of the said area will be considered as main area. Lobbies, stairways and entrance halls will be considered as service areas in their entirety, provided that no retail use will be made therein. The total service areas will not exceed 202,500 sqm, 150,000 sqm of which below the entrance level.

Height and land coverage - Construction of up to 5 basement floors for parking will be allowed. Up to 4 levels above ground level will be allowed, each one of which covering no more than 80% of total lot area. A transparent cover above the public space will be allowed on the top floor. Above the aforesaid levels three high-rise buildings will be allowed, covering in total no more than 30% per floor of the total lot area. The building height is as follows: up to 175m from street level (up to 44 floors from street level), up to 158m from street level (up to 40 floors from street level) and up to 140m from street level (up to 36 floors from street level).

Offices for vacation[4] - 50,000 sqm of office space designated for vacation of offices from residential areas. The office towers shall be designed according to such planning and technical specifications enabling 50,000 sqm thereof to be suitable for population by tenants to be vacated from offices designated or vacation. In the first stages, building permits will be issued for areas not exceeding 100,000 sqm. The building permits for building the office buildings on an area of 50,000 sqm designated for the offices, which are designated for vacation will be issued gradually, only for the sold or leased to occupants having vacated offices designated for vacation, who shall have vacated in practice.

Transport - Implementation of the plan will be conditioned upon the

[4] See the amending plan, Section 5.2.

implementation of transport requirements relating to the peripheral roads outside the area of the plan, as marked in the transport annex and in accordance with the stages of construction. It was determined that in construction of over 100,000 sqm will be carried out through an additional entrance from Petach Tikva Rd. from south to north (the tunnel).

5.2 Detailed Plan No. 2401C

The plan was published for validation in Official Gazette No. 5379 dated March 15, 2005.

The purpose of the plan - Redistribution of construction areas in Plan 2401 and change of requirements for the vacation of offices from residential areas in the city, by changing requirements for populating the office space and other changes in the building instructions.

The main points of the plan are as follows:

- Section 8.1.2 in Plan 2401 will be cancelled and replaced by the following language: building a central business district on construction area of 150,000 sqm, which includes office, recreation and entertainment areas. In the framework of the building rights 16,000 sqm of main area may be converted to residence and/or hotel.
- The maximum main area for construction in the CBD will be 150,000 sqm above-ground.
- The transfer of 17,500 sqm of service areas from the levels below the entrance level to levels above the entrance level will be permitted, provided that there will be no deviation from the total service areas permitted for construction in accordance with Plan 2401.
- It is possible to transfer up to 3,000 sqm from the main areas above-ground to underground for all the purposes permitted by Plan 2401, except for residential use.
- An addition of two partial floors above the Petach Tikva Rd. street level (two closed galleries) will be allowed, without changing the building shell as approved in Plan2401, provided that the total main and service areas permitted for construction will not be changed.
- An addition of one floor in the three high-rise buildings (in addition to the 2 partial floors, as aforesaid). In the buildings named the "Triangular and the Round", the roof level may be raised by 3m each relative to Plan 2401. The roof level without the banister and/or technical facilities will not exceed 161m in the Triangular Tower and 178m, in the Round Tower.
- In the Square Tower, the roof level may be raised by 6m relative to Plan 2401. The roof level without the banister and/or technical facilities will not exceed 146 meters.
- In the framework of the service areas that are permitted by virtue of this plan, the City Engineer may permit the inclusion of storerooms in the tower cores and on the technical floor.

5.3 Plan TA/5000 – Outline Plan for the City of Tel Aviv - Jaffa

The plan was published for validation in Official Gazette No. 7407 dated December 22, 2016.

The plan designates the area which is the subject of the Valuation to be a metropolitan employment area adjacent to mass transportation.

- Uses:
  - Main usage clusters: retail, employment, offices.
  - Additional usage cluster: residential and retail and/or employment, provided that these uses shall remain under the effective entrance level or above this level subject to a prior planning examination.
  - The ground floor of any lot which according to its land designation is permitted commercial use, shall be prescribed as a retail façade.
- Maximum built-up areas in a metropolitan employment area adjacent to mass transportation: For a lot of an area that exceeds 3 thousand sqm: basic FAR[5] 4.2. Maximum FAR 12.8.

  The building land coverage shall not exceed 60% of the area of the lot. The FAR is subject to the local committee's discretion, the basic FAR is conditioned upon the fact that the plan shall allocate areas for public needs that derive therefrom. Increasing beyond the basic FAR is conditioned upon additional contribution to the public.

6. Principles of the Valuation

There are 3 main valuation approaches that are customary for the valuation of real estate properties.

6.1 The income capitalization approach

In the income capitalization approach, expression is given to the value of the property according to the cash flow generated by the property during its economic lifetime. The cap rate used to discount the cash flow is determined according to the type of property, the risk level and the uncertainty regarding the receipt of the projected cash flow, the size of the property, etc.

This approach is customary in the valuation of income-producing properties.

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[5] The ratio between the area of the floor and the area of the lot.

A mall and office towers are by definition a property producing a current income.

6.2 The comparison approach

The comparison approach is the best and preferred approach for assessing the value of property.

According to this approach, the value of a property is estimated based on comparison data for similar properties in the vicinity while making the necessary adjustments (for location, size, standard, etc.).

Nevertheless, retail centers, malls and office towers are unique properties. There are purchase transactions of malls but in light of the complexity of the Property and the many adjustments required, the use of this approach could cause a distortion of the results.

6.3 The cost approach

In the cost approach, expression is given to the value of the property as the sum of the value of its components. Property value using this approach includes the value of the land with the added cost of constructing the property, while taking into account physical, planning depreciation with the addition of developer’s profit which is set according to the type of property, its physical state, the state of the market, etc.

In the case subject matter of the Opinion, the cost approach is irrelevant and constitutes an indication to the total investments in the Property.

7. Principles, factors and considerations in the Valuation

The main principle in the valuation of real estate property is the principle of the highest and best use (HBU) of the property. We have examined the Property contemplated in the Valuation according to this principle and have formed the general opinion that the present use is the highest and best use.
In the valuation of malls, retail centers and office towers the following general factors and considerations are taken into account:

Location

One of the most important factors/elements in the valuation of retail property is the location. Transport accessibility and convenient access to public transport, within residential neighborhoods, adjacent to/within areas of employment, on main traffic arteries (arterial roads), and others.

Supply & demand and occupancy rates

It is of great importance to assess the market’s characteristics, whether the real estate market is on a downwards trend in demand or whether is seeing an upswing.

In assessing value using the income capitalization approach, the relevant factors and considerations are:

Leased property

The characteristics of the leased property include the following factors which affect rent value: the size of the leased property; the gross/net ratio; the relative location - floor (especially when this involves a multi-storey structure); the standard of finishing and construction; the property's goodwill; the management.

Rent

In light of the fact that malls/ retail centers/ office towers are income-producing properties, their valuation derives from the future flow of receivables. Therefore, it is required to undertake a comprehensive examination of the rent levels in the past and in the present, which shows whether the rent being obtained from the Property is the market rent. Should the rent be higher than those customary in the vicinity, without good justifications, then there is the possibility that the rent in the future years will get in line with the customary rent in the vicinity. This possibility must be expressed in the income flows for future years, and, as may be required, apply a discount to the rent.

On the other hand, there is a possibility that the present rent are low, in which case one may assume that in future it will be possible to lease the Property at a higher rent that matches the market.

In this context, it is required to mention the importance of the mechanism used to update rent.

Identity of the tenants and the mix

As stated above, as the value of the Property is set mainly on the basis of the flow of income paid by the tenant, it is required to carefully examine the financial strength of the tenants.

It is possible to separate the mix of stores in the retail centers into several categories, such as: store size and type of activity; chain stores compared to local stores, an individual store.

Lease period

A long-term lease reduces the level of uncertainty regarding the ability of the investor to lease the Property in the coming years. The investor is assured, with a high degree of probability, a fixed cash flow for a long period of time. In most retail centers and office towers, the lease period ranges in the vicinity of 5 years with options to the tenant, especially in light of the large investment that the tenants invest in their store/office.

Cap rate

The cap rate reflects the yield required in order to be attractive for capital investment. Therefore, the choice of the suitable rate constitutes a decisive factor.

The customary cap rate in the market is set at a particular point in time, for a particular type of property, and in the context of the interest rates in the economy at that time.

The cap rate may be both empirically inferred from known market data (the value of properties and rent in respect thereof in the free market)[6] and assessed using theoretical methods.

Cap rate components

Risk-free market interest, illiquidity, transaction costs, management and collection, depreciation, inflation and real change, risk and entrepreneurship, land taxation.

These principles apply, with relevant adjustments, also to the valuation of office space and adjacent parking areas, being income-producing properties.

8. Factors and considerations

In assessing the value of the Property, we have taken into account *inter alia*, the following factors and considerations:

- The location of the Property in the Tel Aviv City Center, in vicinity to central traffic arteries and near the Ha'Shalom railway station.
- The project's areas, the finishing standard, segmentation and mix of the tenants and uses.
- The Property's rights are capitalized lease rights from the City of Tel Aviv for a long-term lease period that expires on February 6, 2195.
- The Company's undertaking to build the tunnel and the bridge - in accordance with the Company's estimate, the construction cost of the tunnel is estimated in the range of approx. NIS 7,000,000. We have deducted the entire expected cost from the value of the Property. Since, as aforesaid, the conditions regarding the necessity of the construction of the bridge have not yet materialized, we have not deducted the above amount.
- The actual revenues for previous years and the revenue forecast for 2018 are based on signed contracts and subjective estimates of the Company's management based on past experience and indications received from tenants as of the date of the Valuation, with respect to changes in existing

[6] The basic cap rate used in the value calculation specified below originates from the market, from an analysis of comparison transactions made.

contracts and/or renewals of contracts expiring in 2018.

- Parking and storage areas in the basement:
  - Parking at Azrieli Center is for pay. In addition, storage areas, advertising areas and an area for a car wash facility are leased.
  - The operating profit from the operation of the parking lot, as specified above.
- The Mall:
  - By definition, the mall is an income property, both from rent from the various areas in the mall and from management fee.
  - The retail center has started operating during April 1998 and is fully occupied.
  - The total marketable areas are as specified above.
- The Round, Triangular and Square Towers:
  - As of the effective date, the occupancy rate in the office buildings is approx. 99%. There are approx. 1,254 sqm of marketable offices.
  - A self-used area by Azrieli Group of approx. 1,520 sqm on the top office floor of the Round Tower and approx. 335 sqm on the 33rd floor of the Round Tower is not included in this Opinion.
- According to the lease agreement with Bezeq, the Company has undertaken to provide a fund for renovation of the Bezeq areas. The balance of the payment was depreciated according to the lease agreement.
- Other revenues:

  As aforesaid, the Company has revenues from the management company and from the sale of electricity.
  - Revenues from management and investments in the Property – The Property is, as aforesaid, part of Azrieli Group. Over the years, there are management revenues from this Property and from all of the Group's properties. We have taken into account the management company's profits in this Property, with a higher cap rate to reflect the greater risk of changes in profits. We have deducted projected investments in the Property since they are not budgeted within the management company.
  - Revenues from electricity services – We discounted the operating profit from the sale of electricity at a rate which reflects all the risks involved in operating such systems.

9. Comparison data

9.1 Malls and retail centers

Most of the major income-producing real estate companies in Israel are long-standing companies with properties at a large scope, with high occupancy rates and with high-quality management. Alongside such, insurance companies, mainly Clal, Migdal and Harel and investment funds such as REIT1, Sella Capital and others are also active in the market.

Some of the purchases are done aiming to better and improve the performance of the retail center/mall, and some are done based on a consideration of secured return.

Comparison figures for the purpose of determination of the **cap rate for retail** based on transactions carried out and published by the public companies on the market in the past two years:

- On February 14, 2018, the Chief Governmental Appraiser released a review of the yield rates for the first half of 2017. The average yield rate (the overall cap rate) for the first half of 2017 in retail property was 7.2% (a drop of approx. 0.4% relative to the second half of 2016).

  A clear correlation has been found 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 CBD of the Dan agglomeration) demonstrated a low yield rate, whereas a high yield rate was observed in peripheral properties. The correlation apparently stems from a higher risk factor in the periphery (with respect to factors such as the financial soundness/lack of soundness of tenants, occupancy /vacancy ratio, potential for changes in the environment, etc.).

  In large retail properties, yield rate variance may be identified at the same property, with safer tenants being attributed a lower yield rate, and vice versa.

- On January 24, 2018, the Big Shopping Centers Ltd. company reported that a transaction was signed for the acquisition of 50% of the Bat Yam Mall, which includes retail area in a scope of 21,000 sqm and approx. 1,000 parking spaces, according to a value of NIS 555,000,000 (100%). The mall generates an annual NOI of approx. NIS 39,000,000. According to the report, the transaction reflects a yield rate of approx. 7%.

- On July 18, 2017, it was reported in the press that the Clal Insurance company acquired 75% of the rights in a retail ground floor in a project at 24 Hanagar St. in Hod Hasharon, in consideration for NIS 75,000,000. The project includes a retail ground floor and an office building above parking basements. The construction of an additional office building is planned in the future. It was further published that the ground floor, in an area of approx. 5,000 sqm, is almost fully leased out and that the average rent therein is in the limits of NIS 150 per sqm per month. According to the publication, the transaction reflects a cap rate of approx. 7.35%.

- On May 17, 2017, it was reported in the press that the Meshulam Levinstein Group acquired the entire rights in an employment building, at 5-9 Hanachtom St., Beer Sheva, in consideration for NIS 46,000,000. The complex is built on a lot in an area of approx. 10 thousand sqm, and includes two floors with a built-up area of approx. 12,000 sqm and a parking lot on the roof with 220 parking spaces. The property is fully leased out, with an NOI of approx. NIS 3.25 million. According to the publication, the transaction reflects a yield rate of approx. 7.1%.

- On April 9, 2017, Menivim The New REIT Fund reported the acquisition of 50% of the rights in a commercial and office center that is in advanced construction stages in Rechovot, in consideration for NIS 128,500,000, together with a future payment of NIS 2,000,000 for the future utilization of approx. 2,000 sqm of additional building rights. The center has a built-up area of approx. 28,000 sqm on a lot that has an area of approx. 24 thousand sqm. At the time of the transaction approx. 60% of the marketable area is leased out. According to the company's estimation, the expected NOI at full occupancy is approx. NIS 19m. During the first 18 months Menivim shall be entitled to the first NIS 8m from the rent each year, and the sellers shall be entitled to the rent between NIS 8m and NIS 16m. Rent above this amount shall be divided between the parties in equal parts. Reflects a yield rate of approx. 7.4%.

- On March 30, 2017, the REIT 1 Fund reported the acquisition of all of the rights in a property known as "*Beit Reshatot*" in Rishon LeZion, in consideration for NIS 119,000,000. The property is a building in an area of approx. 17,000 sqm, which is used for storage, offices and retail. The property is leased to approx. 30 tenants. The occupancy rate in the property is 93%. According to the company's estimation, the expected annual NOI at full occupancy is approx. NIS 9m. Reflects a yield rate of approx. 7.5%.

- On January 15, 2017, Levinstein Properties reported the acquisition of rights in the "Heart of the City" ("*Lev Hacity*") complex at 9 Ben Tzvi St., in Beer Sheva, in consideration for NIS 62,000,000. The complex, with a built-up area of approx. 13,000 sqm, includes 2 office floors above a retail ground floor and above 2 parking lot floors. According to the company's estimation, the expected NOI is approx. NIS 5.1m. Reflects a yield rate of approx. 8.2%.

- On September 11, 2016, Sella Capital Real Estate reported the acquisition of all the rights in the “Pisga Mall” in the Pisgat Ze’ev neighborhood in Jerusalem, which is a 3-floor shopping center on a marketable area of approx. 9,000 sqm, and an underground parking lot with approx. 273 parking spaces, in consideration for NIS 224,000,000. The property is leased at an occupancy rate of approx. 92% to 60 tenants. According to the report, the projected annual rent for the property at full occupancy is approx. NIS 16.3 million, which reflects a yield rate of approx. 7.3%.

- On March 24, 2016, the Azrieli Group reported the acquisition of all the rights in the "Ahuzat Bayit" senior home and the "Park Mall" shopping center on the corner of Ahuza St. and Jerusalem Rd. in Raanana.

  Ahuzat Bayit includes 335 marketable apartments. The retail center on an area of approx. 4,500 sqm, including a movie theatre of approx. 1,000 sqm in the basement, is leased to 20 tenants. The average rent without the movie theatre is in the range of NIS 120 per sqm per month.

  Azrieli paid NIS 55,000,000. The cap rates in the transaction, according to the report are 8.5%-8.75% for the senior housing and 7.8% for the retail areas.

- In March 2016, Bonai Hatichon Civil Engineering and Infrastructure Ltd. reported to the ISA that it sold one half of its rights in the B Bayeruka shopping center in the green Kfar Saba neighborhood, with a marketable area of approx. 8,000 sqm, for NIS 67,500,000 to Y.H. Dimri Building and Development Ltd.

  Dimri will receive guaranteed yield for 3 years of 8% of the consideration.

  Bonei Hatichon reports that following the transaction it will record a loss of approx. NIS 19 million. From supplementary data we collected, it transpires that the transaction yield rate is 8.5% (the property was opened to the public in Q4/2015 and approx. 25% of the area in the property is not yet occupied).

9.2 Data for cap rate for office space

Comparison data for purposes of determining the cap rates for office space based on transactions made and announced by the public companies in Israel during the past two years:

- On February 14, 2018, the Chief Governmental Appraiser released a review of the yield rates for the first half of 2017. The average yield rate (the overall cap rate) for the first half of 2017 for office properties was 7.6% (a drop of approx. 0.2% relative to the second half of 2016).

  A clear correlation has been found 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 (CBD of the Dan agglomeration) demonstrated a low yield rate, whereas in peripheral properties a high yield rate was observed. The correlation apparently stems from a higher risk factor in the periphery (with respect to factors such as the financial soundness/lack of soundness of the tenants, occupancy/vacancy ratio, potential for changes in the environment, etc.).

- On February 1, 2018, Menivim - The New REIT Fund reported the acquisition of rights in an employment building in the Ramla Industrial Area, in consideration for NIS 78,500,000. The building, the construction of which ended in the early 2000's, has 3 above-ground floors in an area of approx. 12,000 sqm, above a basement floor in an area of approx. 2,400 sqm, which is used for parking, as of the date of the transaction, the building is fully leased out, the majority of which to the State of Israel. According to the company's notice, the net operating income from the building is approx. NIS 5,400,000 per year. The transaction reflects a cap rate of approx. 6.9%.

- On December 14, 2017, Menivim The New REIT Fund reported the acquisition of rights in an office and retail building in the Kfar Saba industrial area, in consideration for NIS 60,800,000. The building has 7 office floors in an area of approx. 5,700 sqm above a retail floor and parking basements which include 135 parking spaces. As of the date of the transaction, 90% of the aboveground areas in the office building and approx. 80% of the parking spaces are leased out. The expected annual NOI for the company from the sold asset, upon the complete leasing thereof, is estimated at approx. NIS 4.5m. Reflects a cap rate of approx. 7.4%.

- On June 1, 2017, the Sella Capital company reported the acquisition of an income producing property in Ramat Gan that includes 8 office floors in the Moshe Aviv Tower in Ramat Gan (the Mizrachi Tfachot Bank Wing), approx. 650 sqm of retail areas, storage areas and 148 parking spaces, in consideration for NIS 278,000,000. Concurrently with the sale agreement, Mizrachi Tfachot Bank undertook to rent the property for a minimal period of 8 years, with an option to extend the lease for up to 24 years, in consideration for annual rent in an amount of NIS 17,000,000. Reflects an NOI at a rate of 6.1%.

- On April 9, 2017, Menivim The New REIT Fund reported the acquisition of 50% of the rights in a retail and office center that is in advanced construction stages in Rechovot, in consideration for NIS 128,500,000, together with a future payment of NIS 2,000,000 for the future utilization of approx. 2,000 sqm of additional building rights. The center has a built-up area of approx. 28,000 sqm on a lot that has an area of approx. 24 thousand sqm. At the time of the transaction approx. 60% of the marketable area is leased out. According to the company's estimation, the expected NOI at full occupancy is approx. NIS 19m. During the first 18 months Menivim shall be entitled to the first NIS 8m from the rent each year, and the sellers shall be entitled to the rent between NIS 8m and NIS 16m. Rent above this amount shall be divided between the parties in equal parts. Reflects a yield rate of approx. 7.4%.

- On March 30, 2017, the "REIT1" company reported the acquisition of all of the rights in "*Beit Reshatot*" in Rishon LeZion industrial area (parcels 7-8 in block 3924), in consideration for NIS 119,000,000. The structure, in an area of approx. 17,000 sqm, is used for storage, offices and retail. The property is leased out to 30 tenants, the occupancy rate is approx. 93%. The expected annual NOI at full occupancy is NIS 9m and reflects a yield rate of approx. 7.5%.

- On November 29, 2016, Amot reported the purchase of an office and commercial building located at 30 Habarzel St., Ramat Hachayal, Tel Aviv, in consideration for NIS 250 million, in a building of approx. 13,400 sqm of above-ground leasable area, including a retail ground floor, and 7 office floors above it, and an underground parking lot with 312 parking spaces. As of the purchase date, over 60% of the space was already leased for periods of 5 years and more. In accordance with the report, in addition to the purchase cost, the company is expected to invest an additional amount of NIS 20-30 million, for finishing work for tenants. According to the Company's estimation, the expected NOI from the property at full occupancy is NIS 19-21 million per year. According to our understanding, the transaction reflects a yield rate of approx. 7%-7.5%.

- On July 10, 2016, Shlomo Real Estate, of the Shlomo Group, gave notice of the purchase of an office building located in the southern industrial area ("Terminal Park") at 3 Einstein St. in Or Yehuda, for consideration of NIS 36,500,000. The building has 4 floors on a total above-ground area of 5,000 sqm and an underground parking lot with 110 parking spaces. The property has building rights for an additional floor on an area of 1,100 sqm. The building is leased for 10 years for annual rent of approx. NIS 3,100,000. According to an analysis we carried out, the transaction reflects a yield rate of approx. 8.2%.

- On April 19, 2016, Malam Team reported the sale of all the rights in "Beit Malam" on Am V'olamo St. in Jerusalem to the Menivim REIT Fund, for consideration of approx. NIS 95,000,000. The building has marketable area of approx. 9,050 sqm and 172 parking spaces. According to the report, approx. 38% of the property is leased to third parties and approx. 62% is leased to Malam for a period of 5-10 years. According to the reports, the property is expected to generate an annual yield at a rate of approx. 7.4%.

- On March 1, 2016, REIT 1 (50%) reported that it engaged together with Sella Capital (50%) in a transaction to purchase all of the rights in the “Global Park” complex in Lod, for an amount of approx. NIS 195,800,000. The complex includes 2 office buildings on an area of approx. 21,400 sqm and 660 parking spaces. According to the report, the property is leased at an occupancy rate of approx. 97% and is expected to generate an annual yield at a rate of approx. 7.4%.

9.3 Office space

- According to a land valuation attached to a periodic report for Q2/2017 of Amot Investments, Amot’s space in the “Amot Atrium Tower” in the diamond exchange complex in Ramat Gan, it transpires that approx. 52,227 sqm of office space is leased in consideration for average rent of NIS 116 sqm per month. 480 parking spaces are marketed for NIS 1,000 per space per month. The rent from the office space was capitalized at a cap rate of 7.25%.

- According to the Q3/2017 financial statements of Kardan Real Estate, in “Beit Kardan” at 154 Menachem Begin Rd. in Tel Aviv, the average rent is approx. NIS 86 per sqm per month.

- According to a land valuation attached to a periodic and annual report for 2016 of Levinstein Properties Ltd., at the "Levinstein Tower" on Menachem Begin Street in Tel Aviv, average rent is approx. NIS 115 per sqm per month for office space and approx. NIS 1,165 per month per parking space. The value of a parking space was appraised at approx. NIS 140,000. According to the company’s Q3/2017 financial statements, the average rent for office space is approx. NIS 115 per sqm per month.

- According to a land valuation attached to a periodic and annual report for 2016 of Levinstein Properties Ltd., the areas of the Levinstein company at the "Discount Tower" on the corner of Yehuda HaLevi Street and Herzl Street, totaling 8,419 sqm on Floors 19-23 and 28-30, 97 parking spaces and 94 sqm of storerooms, are leased for monthly rent totaling NIS 1,105,000, reflecting approx. NIS 130 per sqm per month for offices (as of the effective date there is a tenant for whom the rent that is paid thereby has been reduced due to works in the area of the leased property) and NIS 1,216 per month per parking space. According the company's Q3/2017 financial statement, the average rent for office space is approx. NIS 137 per sqm per month.

- According to reports in the press in February 2017, the "We-Work" company leased 3 floors in the Midtown Tower on Menachem Begin Rd., in an area of approx. 5,000 sqm, in consideration for rent of approx. NIS 94 per sqm per month.

9.4 Parking lots and parking spaces

- According to reports in the press, an agreement for the sale of the public parking lot in the Sarona Project (the Broadcast Authority Complex) has been signed between the "United Sarona" Purchase Group and the Melisron and Africa Israel companies, in consideration for NIS 51,000,000. The parking lot shall include 268 parking spaces in basement floors (-2) and (-3). The price of the transaction reflects approx. NIS 190,000 per parking space.

- In the "Recital" Tower, which is in construction stages, which is located north of the above-referenced property, approx. 98 parking spaces were marketed (to individual purchasers, 1-5 parking spaces per purchaser), in consideration for an average price of approx. NIS 170,000 per parking space.

- On January 3, 2017, the Hagag Group Real Estate Entrepreneurship Ltd. (the "**Company**") gave notice of the sale of approx. 100 parking spaces in the southern building of the HaArba'ah Towers project in Tel Aviv, to a third party which has business ties with the controlling shareholders of the Company, in consideration for approx. NIS 25,000,000. The price of the transaction reflects approx. NIS 250,000 per parking space plus VAT.

- On January 1, 2015, Electra Investments announced the sale of 25% of the "Electra Tower" in consideration for NIS 302,500,000. On October 1, 2014, Electra Real Estate Ltd. reported the sale of 25% of the rights in "Electra Tower" on Yigal Alon Street, Tel Aviv, in consideration for NIS 300,000,000. The property has a marketable area of 58,917 sqm, and is fully leased out to various companies. According to supplementary information we have collected, the transaction reflects a yield rate of approx. 7.5%. According to supplementary information we have collected, the transaction reflects a value of approx. NIS 17,000 per sqm of office space and a value of approx. NIS 160,000 per parking space.

9.5 Hotels

- According to a press release of June 2015, Dan Hotels leased the Amidar building at 39 Shaul Hamelech St. in Tel Aviv for the purpose of converting it into a hotel, for approx. NIS 4,000,000 per year. The building is on a built-up area of approx. 4,000 sqm and 77 parking spaces. It reflects approx. NIS 74 per sqm per month for the built-up areas and approx. NIS 800 per month per parking space.

- In April 2014, Fattal Hotels published its leasing of spaces in the office building on 22 Rothschild Boulevard, Tel Aviv, in order to fit-out the same into a hotel. The information at our office indicates that these are various areas in the building, mainly between Floors 2-10. Rent at envelope level is approx. NIS 85 per sqm per month.

- According to a report on the Maya website on February 2, 2014, Amot signed a lease agreement with Fattal Hotels Ltd., whereby Fattal shall lease from the company for hotel management purposes all of the areas of Building C and related areas in the Amot Insurance project which is located at 46-48 Menachem Begin Rd. in Tel Aviv, on a total gross area of approx. 9,200 sqm. The agreement is for a 20-year term, commencing at the end of the period of adjusting the building for purpose of the lease, that will last about one year. The average annual projected rent income to the company is approx. NIS 8,700,000. The lease agreement reflects approx. NIS 79 per sqm per month. The report stated that Amot will contribute to part of the work of fitting-out the property as a hotel (the amount was not stated).

- According to a report on the Maya website on March 6, 2013. Ashdar and a partner have engaged in an agreement with a third party for the sale of all of their rights in the Suites Hotel "Isrotel Tower" at the Migdalot Tower on 78 HaYarkon Street, Tel Aviv, in consideration for approx. NIS 146,500,000. The hotel is located on Floors 7-15 of the building and includes 90 suites. The price reflects approx. NIS 1,600,000 per hotel suite. As part of the transaction, Isrotel, which operates the hotel, was granted a right of first refusal to purchase the property on the same terms and conditions within 14 days. According to information held at our office, Isrotel exercised such right and purchased the asset.

- According to a report on the Maya website on August 8, 2013, Electra Real Estate sold its rights (50%) in a hotel consisting of 228 rooms and a public parking lot that consists of 123 parking spaces, as well as all of the rights in 2 residential apartments at the "Sea One" Project on Herbert Samuel Street, Tel Aviv, for an amount not to fall under NIS 209,000,000. According to supplementary information we have collected, the consideration for the Company's rights in the hotel (Royal Beach) approximates NIS 186,000,000. The transaction reflects a value of approx. NIS 1,560,000 per room and a value of approx. NIS 130,000 per parking space. According to information held at our office, the hotel, which includes 228 rooms, a spa and related areas, is leased out to the Isrotel Chain for rent in the amount of NIS 15,400,000 per year (this rent is minimal. The agreement contains an addition of revenues as a function of the business activity). The property was handed over to Isrotel at full finishing level, including the equipping and furnishing of the rooms and the public and related areas. The transaction reflects a minimum rent of approx. NIS 5,600 per month per room (with the spa and the related areas grossed-up).

- In April 2013, it was reported that the Prima Chain acquired the Tel

Aviv City Hotel from the Atlas Chain in consideration for NIS 75,000,000. The hotel consists of 96 rooms and conference halls. The transaction reflects a value of approx. NIS 781,000 per room.

10. The calculation of the Valuation

We estimated the Property's value using the income capitalization approach.

The rent:

The information base is the rent as of the effective date, and an expected rise of the rent is not taken into account. The calculation of the total rent was provided to us by the Company. We made no modifications to these figures.

The Cap Rate:

The cap rate for retail space is unchanged relative to the cap rate used in the last opinion, i.e. 6.75% for the retail space with more than 600 sqm leased for low rent, and 7% for the other areas (the basic cap rate).

The cap rate in respect of income from revenue and casuals in the retail space was taken in the rate reflecting the risk, an addition of 1% to the basic cap rate.

The cap rate for office space was set at a rate of 6.75% for the longstanding and significant contracts and the agreement with Bezeq (in light of a lower risk component) and a rate of 7.25% for the other contracts.

The cap rate for the hotel areas was set at a rate of 7% (in light of the risk component, substantially low rent relative to rent in the benchmark transactions specified above).

The cap rate for the parking lot – remains unchanged relative to the previous opinion.

The cap rate for the storerooms – 7.75%.

Income from electricity and management services – the net income from electricity and management was capitalized using a cap rate 2% higher than the weighted cap rate of the Property, which reflects all of the risks deriving from this activity.

Item	Marketable area in sqm	Annual Income (NIS)	Cap Rate	Value (NIS)
Mall rent - large spaces	18,737	35,580,000	6.75%	527,110,000
Mall rent - other spaces	17,663	86,850,000	7.00%	1,240,710,000
Mall – additional income from revenues and temporary stalls		5,150,000	8.00%	64,370,000
Rent from offices - longstanding contracts, including Bezeq	91,285	111,700,000	6.75%	1,654,800,000
Rent from offices - other	38,716	54,930,000	7.25%	757,600,000

contracts				
Rent from the hotel	18,000	14,000,000	7.00%	200,000,000
Additional revenues from the hotel		767,000	8.00%	9,500,000
Rent from leased storerooms		2,340,000	7.75%	30,100,000
Market rent of available office spaces	1,254	1,630,000	7.75%	21,000,000
Net income from parking lot		37,620,000	7.25%	518,800,000
Total		**350,567,000**		**5,023,990,000**
Net income from electricity and management		20,640,000	9.0%	229,900,000
Investments in the Property, including leasehold improvements				-77,000,000
Deduction of transportation task				-7,000,000
Total, rounded off				**5,169,900,000**

The total value indicates an average retail space value of approx. NIS 48,600 per sqm, an average office value of approx. NIS 18,700 per sqm and a parking space value of approx. NIS 162,000. These figures are consistent with the market figures.

Sensitivity analysis

Analysis of sensitivity to changes in the cap rate:

	6.50%	**7.00%**	**7.50%**
Value of the Property (NIS)	5,527,300,000	5,169,900,000	4,860,300,000

Analysis of sensitivity to changes in the rent of the regular retail spaces:

	+5%	**Current rent**	**-5%**
(NIS)	91,190,000	86,850,000	82,510,000
Value of the Property (NIS)	5,231,900,000	5,169,900,000	5,107,900,000

11. The Valuation

In light of the aforesaid, our assessment of market value of the Company's rights in the Property (excluding the area self-used by Azrieli Group) in the free market, in the criterion of a willing buyer from a willing seller, free of any debt, charge, mortgage, including third-party rights (unless expressly specified above), is in the range of **NIS 5,169,900,000**.

12. General

- The value does not include V.A.T.
- We have not related to taxation that may apply, insofar as shall apply, at

the time of selling the Property.

- In our Opinion we referred to such forward-looking information that was provided to us by the Company's management, with respect to the 2018 forecast and income forecast, and is based on information available as of the date of the Valuation and subjective estimates of the management, materialization of which is uncertain due to reasons beyond the Company's management control.
- We have evaluated the Property in the past for the purpose of its inclusion in the Company's annual financial statements[7]:

Effective date	Value of the Company's Rights
December 31, 2014	NIS 4,841,200,000
December 31, 2015	NIS 4,971,400,000
December 31, 2016	NIS 5,058,000,000
June 30, 2017	NIS 5,145,700,000

13. Disclosure Document

According to Standard 17.1 we requested from the Company a disclosure document pertaining to several issues.

On March 4, 2018, our firm received a disclosure document from the Company for the purpose of valuation of Azrieli Center, 1 Azrieli Center, Tel Aviv, as of December 31, 2017. A summary of the document:

- There are no protected tenants in the Property pursuant to the Tenant Protection Law, 5732-1972.
- There are no holders in the Property without a valid lease agreement.
- There are no holders in the Property who are interested parties of the corporation, such as: a subsidiary[8], affiliates[9], etc., excluding the offices of the Group and the offices of the management company.
- There is no third party agreement with respect to the Property in question, including a construction agreement, an agreement or an undertaking given to the municipality.
- There is no liability for compensation in respect of damage caused by the Property to third party land.
- There is no other material liability related to the land which affects the value of the Property and is not specified in the sections above.

14. Declarations

- We declare 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 conditions specified above.

[7] In addition, median revaluations were performed.
[8] A company in which another company holds 50% or more of its issued share capital or the voting rights.
[9] A company which is owned or controlled, indirectly, by the owner of the Property.

- We declare that the legal information presented in this document is the legal information on which the Valuation is based.
- Our firm has no dependency (as defined in the directive of the Israel Securities Authority dated July 2015) on the Company and/or Azrieli Group and/or its owners and/or affiliates thereof, and that we have no business or personal connection with such parties other than valuations that we have performed over the years for Azrieli Group Ltd. and companies controlled thereby. The income from these assignments is not material to our firm. In addition, we do not have a personal interest in shares of the Company and/or of Azrieli Group, and our fees are not contingent on the results of our Opinion.
- 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 declare that we have the necessary knowledge for making this Valuation.
- The Valuation was performed by the undersigned, without assistance.

Sincerely,

Annex C

Financial Statements (Extended Standalone) December 31, 2017

Azrieli Group Ltd.

Extended Standalone Financial Statements

December 31, 2017

Annex C

Azrieli Group Ltd.

Extended Standalone Financial Statements

Annex C

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 investments in Granite and Azrieli E-Commerce, which are 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 December 31	
	2017	2016
	NIS in millions	NIS in millions
Assets		
Current Assets		
Cash and cash equivalents	1,022	667
Short-term deposits and investments	105	614
Trade accounts receivable	59	70
Other receivables	195	104
Current tax assets	20	7
	1,401	1,462
Held for sale assets	40	-
Total Current Assets	1,441	1,462
Non-Current Assets		
Investment in investee companies	792	779
Loans and receivables	283	224
Financial assets	1,685	1,625
Investment property and investment property under construction	25,206	23,723
Fixed assets	171	128
Intangible assets	85	86
Deferred tax assets	1	1
Total Non-Current Assets	28,223	26,566
Total Assets	29,664	28,028

Azrieli Group Ltd.

Extended Standalone Financial Statements

Annex C

Balance Sheet - Contd.

	As of December 31	
	2017	2016
	NIS in millions	NIS in millions
Liabilities and Capital		
Current Liabilities		
Current maturities and credit from banks and other credit providers	1,443	2,026
Trade payables	218	155
Payables and other current liabilities	364	304
Deposits from senior housing tenants	689	659
Current tax liabilities	4	22
Total Current Liabilities	2,718	3,166
Non-Current Liabilities		
Loans from banks and other credit providers	2,268	2,451
Bonds	5,122	4,150
Other liabilities	49	45
Employee benefits	3	5
Deferred tax liabilities	3,187	2,898
Total Non-Current Liabilities	10,629	9,549
Capital		
Ordinary share capital	18	18
Share premium	2,518	2,518
Capital reserves	531	499
Retained earnings	13,214	12,238
Total equity attributable to the shareholders of the parent company	16,281	15,273
Non-controlling interests	36	40
Total Capital	16,317	15,313
Total Liabilities and Capital	29,664	28,028

Azrieli Group Ltd.

Extended Standalone Financial Statements

Annex C

Income Statement:

	For the year ended December 31	
	2017	2016
	NIS in millions	NIS in millions
Revenues:		
From rent, management and maintenance fees	1,875	1,755
Net profit from adjustment of fair value of investment property and investment property under construction	500	711
Financing	81	39
Share in results of associates, net of tax	21	22
Other	127	10
Total Revenues	2,604	2,537
Costs and Expenses		
Cost of revenues from rent, management and maintenance fees	484	446
Sales and Marketing	44	40
General and Administrative	70	64
Financing	161	135
Others	4	
Total Costs and Expenses	763	685
Income before income taxes	1,841	1,852
Taxes on income	(393)	(35)
Income from continuing operations per year, including the minority	1,448	1,817
Loss from discontinued operations per year, including the minority	-	(9)
Net Profit for the year, including the minority	1,448	1,808

Annex D

Designated Disclosure to the Bondholders

Annex D - Designated Disclosure to the Bondholders

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

Series	Date of the Issue	Par Value on the Date of the Issue	Par Value on the Report Date	Par Value on the Report Date, including Linkage	Amount of Interest Accrued by the Report Date	Value in the Financial Statements	Market Cap (**)	Type of Interest	Interest Rate	Principal Payment Dates	Interest Payment Dates	Linkage Terms	Details regarding the Trustee
	NIS in millions												
Series B	February 10, 2015	623.3	1,207.7	1,207.7	2.0	1,192.6	1,211.5	Fixed	0.65	April 1 in the years 2016 to 2025 (inclusive)	From October 1, 2015 and subsequently April 1st and October 1st in the years 2016 to 2025 (inclusive).	Linkage (principal and interest) to the rise in the CPI for December 2014*	Name of the trust company: Hermetic Trust (1975) Ltd.; Address: 113 Hayarkon St., Tel Aviv Tel: 03-5544553; Fax: 03-5271039; E-mail address: hermetic@hermetic.co.il Contact person at the trustee: Dan Avnon or Idan Knobel.
	June 23, 2015	600.3											
	March 30, 2017	228.8											
Series C	Sept. 6, 2015	1,005.1	1,184.1	1,184.1	9.7	1,177.9	1,247.6	Fixed	1.64	July 1 in the years 2018 to 2027 (inclusive)	From July 1, 2016, twice a year, on January 1st and July 1st in each of the years 2016 to 2027 (inclusive).	Linkage (principal and interest) to the rise in the CPI for July 2015*	
	March 30, 2017	179.0											
Series D	July 7, 2016	2,194.1	3,177.7	3,190.5	21.0	3,142.3	3,286.2	Fixed	1.34	From July 5, 2018 twice a year on January 5 and July 5 of each of the years 2018 through 2030	From January 2017 twice a year on January 5 and July 5 of each of the years 2017 through 2030	Linkage (principal and interest) to the rise in the CPI for May 2016*	
	March 30, 2017	983.6											
	February 1, 2018	1,367.0											
Total		7,181.2	5,569.5	5,582.3	32.7	5,512.8	5,745.3						

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

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

1. The Series B Bonds, the Series C Bonds and the Series D Bond of the Company are material to the Company and are not secured by any collateral.

2. The Company will be entitled, at its sole discretion, to perform (partial or full) early redemption of the Series B Bonds, the Series C Bonds and the Series D Bonds. For details, see Section 9.2 of the terms and conditions overleaf in the indenture for the Series B Bonds (the "**Indenture for the Series B Bonds**"), which was attached to the shelf offering report that was published by the Company on February 8, 2015 (ref.: 2015-01-027136) and Section 9.2 of the terms and conditions overleaf in the indenture for the Series C Bonds (the "**Indenture for the Series C Bonds**"), which was attached to the shelf offering report that was published by the Company on September 3, 2015 (ref.: 2015-01-112788), and Section 9.2 of the Terms and Conditions Overleaf of the indenture for the Series D Bonds (the "**Indenture for the Series D Bonds**"), which was attached to the shelf offering report released by the Company on July 5, 2016 (ref.: 2016-01-075079), which are included (the aforesaid sections) herein by way of reference.

3. At the end of and during the Reporting Period, the Company has fulfilled all of the terms and conditions and undertakings according to the Indenture for the Series B Bonds, the Indenture for the Series C Bonds and the Indenture for the Series D Bonds, and no conditions establishing grounds for acceleration of the Series B, Series C Bonds and Series D Bonds have been fulfilled.

4. For details regarding an undertaking that the Company assumed in the framework of the Series B Bonds, the Series C Bonds and the Series D Bonds of the Company, see Sections 5.2-5.6 of the Indenture for the Series B Bonds, the Indenture for the Series C Bonds and the Indenture for the Series D Bonds.

5. For further details regarding the terms and conditions of the Series B Bonds, the Series C Bonds and the Series D Bond of the Company, including an undertaking for meeting financial criteria and limitations with respect to the distribution of a dividend, see Note 20B to Chapter C hereof.

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

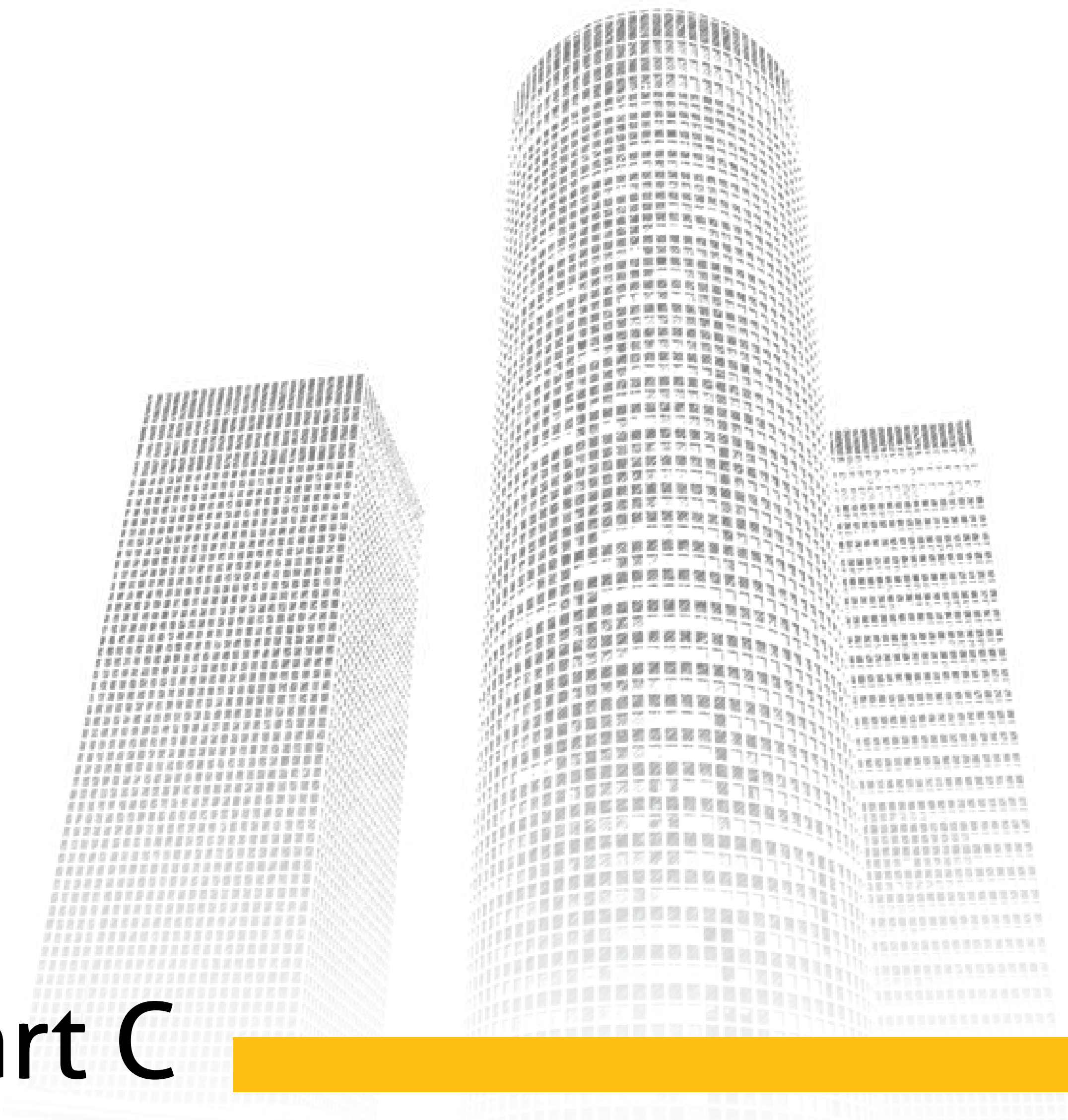
Series	Name of Rating Company	Rating Set on the Date of the Issue	Rating Set as of the Report Release Date	Date of Issuance of the Current Rating	Additional Ratings Set between the Date of the Issue and the Report Date	
					Rating	Date of Rating
Series B	Ma'alot	AA+ stable	AA+ stable	March 28, 2017(*)	AA+ stable AA+ stable	June 21, 2015 March 27, 2017
Series C	Ma'alot	AA+ stable	AA+ stable	March 28, 2017(*)	AA+ stable	September 3, 2015
Series D	Midroog	Aa1/stable outlook	Aa1/stable outlook	January 31, 2018(**)	Aa1/stable outlook Aa1/stable outlook Aa1/stable outlook Aa1/stable outlook Aa1/stable outlook	July 20, 2016 March 27, 2017 March 28, 2017 December 31, 2017 January 28, 2018

* For Ma'alot's rating report on the Company's Series B and C Bonds, see the Company's immediate report of March 28, 2017 (Ref.: 2017-01-030966), which is included herein by way of reference.
** For Midroog's rating report on the Company's Series D Bonds, see the Company's immediate report of January 31, 2018 (Ref.: 2018-15-010795), which is included herein by way of reference.

AZRIELIGROUP

Consolidated Financial Statements

Dated 31 December 2017



Part C

Azrieli Group Ltd.

Consolidated Financial Statements For the Year 2017

Azrieli Group Ltd.

Consolidated Financial Statements
For the Year 2017

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Independent Auditors' Report to the Shareholders of

Azrieli Group Ltd.

Regarding Audit of Components of Internal Control over Financial Reporting pursuant to Section 9B(c) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

We have audited components of internal control over financial reporting of **Azrieli Group Ltd. and subsidiaries** (jointly, the "**Company**") as of December 31, 2017. These components of control were determined as explained in the following paragraph. The Company's Board of Directors ("**Board**") and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of the components of internal control over financial reporting, attached to the periodic report as of the above date. Our responsibility is to express an opinion on the components of internal control over financial reporting of the Company, based on our audit.

The components of the internal control over financial reporting that were audited were determined pursuant to Audit Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of Components of Internal Control over Financial Reporting", including the amendments thereto ("**Audit Standard 104**"). These Components are: (1) Entity-level controls, including controls over the financial reporting and closing process and ITGCs; (2) Controls over investment property; (3) Controls over rent revenues from investment property; (4) Controls over revenues from gas customers of Supergas - Israeli Gas Distribution Company Ltd.; (all referred to hereafter jointly as the "**Audited Components of Control**").

We conducted our audit pursuant to Audit Standard 104. This Standard requires that we plan and perform the audit with the purpose of identifying the Audited Components of Control, and to obtain reasonable assurance about whether these components of control were effectively maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the Audited Components of Control, assessing the risk that a material weakness exists in the Audited Components of Control, and testing and evaluating the design and operating effectiveness of such components of control, based on the assessed risk. Our audit of such components of control also included performing such other procedures as we considered necessary in the circumstances. Our audit only referred to the Audited Components of Control, as opposed to internal control over all of the material processes in connection with the financial reporting, and therefore our opinion refers only to the Audited Components of Control. In addition, our audit did not address mutual effects between the Audited Components of Control and non-audited controls, and therefore, our opinion does not take into consideration such possible effects. We believe that our audit provides a reasonable basis for our opinion in the context described above.

Because of its inherent limitations, internal control over financial reporting in general and components thereof in particular, may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, based on our audit, the Company effectively maintained, in all material respects, the Audited Components of Control as of December 31, 2017.

We have also audited, based on Generally Accepted Auditing Standards in Israel, the Consolidated Financial Statements of the Company as of December 31, 2017 and 2016, and for each of the three years in the period ended December 31, 2017, and our report as of March 20, 2018, included an unqualified opinion on those financial statements based on our audit and on the other auditors' reports.

Brightman Almagor Zohar & Co.
Certified Public Accountants (Israel)
Member of Deloitte Touche Tohmatsu Limited

Tel Aviv, March 20, 2018

Independent Auditors' Report to the Shareholders of

Azrieli Group Ltd.

We have audited the accompanying Consolidated Statements of Financial Position of **Azrieli Group Ltd.** (the "**Company**") as of December 31, 2017 and 2016 and the Consolidated Statements of Comprehensive Income, of Changes in Capital, and of Cash Flows for each of the years in the three-year period ended December 31, 2017. The Company's Board and Management are responsible for these Financial Statements. Our responsibility is to express an opinion on these Financial Statements based on our audit.

We did not audit the financial statements of consolidated companies, whose consolidated assets constitute approx. 3% and approx. 5% of the total consolidated assets as of December 31, 2017 and 2016, and whose consolidated income from continuing operations constitute approx. 22%, approx. 22% and approx. 31% of the total consolidated income for the years ended December 31, 2017, 2016 and 2015, respectively. In addition, we did not audit the Group's share in the results of the discontinued operations of formerly consolidated companies, the results of operations of which amounted to a loss of approx. NIS 9 million and approx. NIS 99 million for the years ended December 31, 2016 and 2015, respectively. The financial statements of such companies were audited by other auditors whose reports were provided to us, and our opinion, insofar as it relates to amounts that have been included in respect of such companies, is based on the reports of the other auditors.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Israel, including standards set in the Accountants Regulations (Mode of Operation of Accountants) 5733-1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board and Management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of other auditors, the Financial Statements referred to above present fairly, in all material respects, the financial position of the Company and of its subsidiaries as of December 31, 2017 and 2016 and the results of their operations, the changes in their equity and their cash flows for each of the years in the three-year period ended December 31, 2017 in accordance with International Financial Reporting Standards (IFRS) and the provisions of the Securities Regulations (Annual Financial Statements), 5770-2010.

We have also audited, pursuant to Audit Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of Components of Internal Control over Financial Reporting", components of the Company's internal control over financial reporting as of December 31, 2017 and our report as of March 20, 2018 included an unqualified opinion on the effective maintenance of such components.

Brightman Almagor Zohar & Co.
Certified Public Accountants (Israel)
Member of Deloitte Touche Tohmatsu Limited

Tel Aviv, March 20, 2018

Azrieli Group Ltd.
Consolidated Statements of Financial Position

	Note	As of December 31 2017 NIS in millions	2016 NIS in millions
ASSETS			
Current assets			
Cash and cash equivalents	4	1,064	715
Short-term deposits and investments	4	145	658
Trade accounts receivable	5	285	288
Other receivables	6	226	137
Inventory	7	64	61
Current tax assets	29	29	17
		1,813	1,876
Assets held for sale and assets of disposal group held for sale	11(3)	127	1
Total current assets		1,940	1,877
Non-current assets			
Investments and loans to associates	9	86	79
Investments, loans and other receivables	10	346	340
Financial assets	11	1,685	1,713
Long-term receivables in respect of franchise arrangements	12	50	53
Investment property and investment property under construction	13	25,206	23,723
Fixed assets	14	500	445
Intangible assets	15	310	333
Deferred tax assets	29	20	20
Total non-current assets		28,203	26,706
Total assets		30,143	28,583

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

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

	Note	As of December 31 2017 NIS in millions	2016 NIS in millions
LIABILITIES AND CAPITAL			
Current liabilities			
Current maturities and credit from banks and other credit providers	20	1,511	2,083
Trade payables	17	296	219
Other payables	18	201	200
Deposits from customers	19	792	764
Provisions		13	12
Current tax liabilities	29	16	37
Total current liabilities		2,829	3,315
Non-current liabilities			
Loans from banks and other credit providers	20	2,304	2,488
Bonds	20	5,435	4,498
Employee benefits	21	6	8
Other liabilities		49	45
Deferred tax liabilities	29	3,199	2,913
Total Non-Current Liabilities		10,993	9,952
Capital	22		
Ordinary share capital		18	18
Share premium		2,518	2,518
Capital reserves		531	499
Retained earnings		13,214	12,238
Total equity attributable to the shareholders of the company		16,281	15,273
Non-controlling interests		40	43
Total Capital		16,321	15,316
Total Liabilities and Capital		30,143	28,583

March 20, 2018			
Date of approval of the Financial Statements	**Danna Azrieli Chairman of the Board**	**Eyal Henkin CEO**	**Irit Sekler-Pilosof CFO**

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

Azrieli Group Ltd.
Consolidated Statements of Income or Other Comprehensive Loss and Profit

		As of the year ended December 31		
		2017	2016	2015
	Note	NIS in millions	NIS in millions	NIS in millions
Revenues				
From rent, management and maintenance fees		1,868	1,745	1,623
From sales, labor and services	23	724	660	732
Net profit from adjustment to fair value of investment property and investment property under construction	13	500	711	179
Financing	28	94	49	18
Other	27	129	14	16
Total revenues		3,315	3,179	2,568
Costs and Expenses				
Costs of revenues from rent, management and maintenance fees	24	484	445	385
Costs of revenues from sales, labor and services	24	474	420	481
Sales and marketing	25	192	172	156
General and administrative	26	114	104	101
Share in results of associates, net of tax		6	8	9
Financing	28	184	159	145
Other	27	5	5	9
Total costs and expenses		1,459	1,313	1,286
Income before income taxes		1,856	1,866	1,282
Taxes on income	29	(408)	(49)	(355)
Income from continued operations		1,448	1,817	927
Loss from discontinued operations, net of tax	8	-	(9)	(99)
Net profit for the year		1,448	1,808	828
Other comprehensive income:				
Amounts that will not be carried in the future to the income statement, net of tax:				
Actuarial loss due to defined benefit plan, net of tax		-	-	(1)
Amounts that were carried will be carried in the future to the income statement, net of tax:				
Amounts that were carried to the income statement from disposition of financial assets available for sale, net of tax		(62)	(20)	-
Change in fair value of financial assets available for sale, net of tax		204	116	18
Translation differences from foreign operations		(114)	(11)	1
Total		28	85	19
Other comprehensive income for the year, net of tax		28	85	18
Total comprehensive income for the year		1,476	1,893	846

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

Azrieli Group Ltd.

Consolidated Statements of Income or Other Comprehensive Loss and Profit

(Continued)

	As of the year ended December 31		
	2017	**2016**	**2015**
	NIS in millions	**NIS in millions**	**NIS in millions**
Net profit for the year attributable to:			
Shareholders of the company	1,456	1,810	821
Non-controlling interests	(8)	(2)	7
	1,448	1,808	828
Total comprehensive income for the year attributable to:			
Shareholders of the company	1,488	1,895	839
Non-controlling interests	(12)	(2)	7
	1,476	1,893	846
	NIS	**NIS**	**NIS**
Basic and diluted earnings (in NIS) per one ordinary share of par value NIS 0.1 each attributable to shareholders of the company:			
Continued operations	12.01	15.00	7.59
Discontinued operations	-	(0.07)	(0.82)
	12.01	14.93	6.77
Average weighted share capital used in calculating the basic and diluted earnings per share	121,272,760	121,272,760	121,272,760

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

Azrieli Group Ltd.
Consolidated Statements of Changes in Capital

	For the year ended December 31, 2017										
	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 transactions with non-controlling interests in a consolidated company	Other capital reserves	Retained earnings	Total attributable to share-holders of the company	Non-controlling interests	Total
	NIS in millions										
Balance as of January 1, 2017	18	2,518	487	19	(31)	26	(2)	12,238	15,273	43	15,316
Net profit for year	-	-	-	-	-	-	-	1,456	1,456	(8)	1,448
Change in fair value of financial assets available for sale, net of tax	-	-	204	-	-	-	-	-	204	-	204
Amounts that were carried to the income statement from disposition of financial assets available for sale, net of tax	-	-	(62)	-	-	-	-	-	(62)	-	(62)
Translation differences from foreign operations	-	-	-	(110)	-	-	-	-	(110)	(4)	(114)
Total comprehensive income for the year	-	-	142	(110)	-	-	-	1,456	1,488	(12)	1,476
Dividend to the shareholders of the Company	-	-	-	-	-	-	-	(480)	(480)	-	(480)
Investment of non-controlling interests in a subsidiary	-	-	-	-	-	-	-	-	-	9	9
Total transactions with shareholders of the Company	-	-	-	-	-	-	-	(480)	(480)	9	(471)
Balance as of December 31, 2017	18	2,518	629	(91)	(31)	26	(2)	13,214	16,281	40	16,321

The notes to the Financial Statements form an integral part thereof.

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

	For the year ended December 31, 2016										
	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 transactions with non-controlling interests in a consolidated company	Other capital reserves	Retained earnings	Total attributable to share-holders of the company	Non-controlling interests	Total
	NIS in millions										
Balance as of January 1, 2016	18	2,518	391	30	(31)	19	(2)	10,828	13,771	99	13,870
Net profit for year	-	-	-	-	-	-	-	1,810	1,810	(2)	1,808
Change in fair value of financial assets available for sale, net of tax	-	-	116	-	-	-	-	-	116	-	116
Amounts that were carried to the income statement from disposition of financial assets available for sale, net of tax	-	-	(20)	-	-	-	-	-	(20)	-	(20)
Translation differences from foreign operations	-	-	-	(11)	-	-	-	-	(11)	-	(11)
Total comprehensive income for the year	-	-	96	(11)	-	-	-	1,810	1,895	(2)	1,893
Dividend to the shareholders of the Company	-	-	-	-	-	-	-	(400)	(400)	-	(400)
Investment of non-controlling interests in a subsidiary	-	-	-	-	-	-	-	-	-	4	4
Acquisition of non-controlling interest in a subsidiary	-	-	-	-	-	7	-	-	7	(58)	(51)
Total transactions with shareholders of the Company	-	-	-	-	-	7	-	(400)	(393)	(54)	(447)
Balance as of December 31, 2016	18	2,518	487	19	(31)	26	(2)	12,238	15,273	43	15,316

The notes to the Financial Statements form an integral part thereof.

The notes to the Financial Statements form an integral part thereof.

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

	For the year ended December 31, 2015										
	Share Capital	Share premium	Revaluation fund for financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve for transactions with related parties	Capital reserve from transaction with non-controlling interests in a consolidated company	Other capital reserves	Retained earnings	Total attributable to shareholders of the company	Non-controlling interests	Total
	NIS in millions										
Balance as of January 1, 2015	18	2,518	373	29	(31)	19	(2)	10,328	13,252	97	13,349
Net profit for year	-	-	-	-	-	-	-	821	821	7	828
Change in fair value of financial assets available for sale, net of tax	-	-	18	-	-	-	-	-	18	-	18
Actuarial loss due to defined benefit plan, net of tax	-	-	-	-	-	-	-	(1)	(1)	-	(1)
Translation differences from foreign operations	-	-	-	1	-	-	-	-	1	-	1
Total comprehensive income for the year	-	-	18	1	-	-	-	820	839	7	846
Dividend to the shareholders of the Company	-	-	-	-	-	-	-	(320)	(320)	-	(320)
Write-off of non-controlling interests due to disposition of subsidiaries	-	-	-	-	-	-	-	-	-	(5)	(5)
Total transactions with shareholders of the Company	-	-	-	-	-	-	-	(320)	(320)	(5)	(325)
Balance as of December 31, 2015	18	2,518	391	30	(31)	19	(2)	10,828	13,771	99	13,870

The notes to the Financial Statements form an integral part thereof.

Azrieli Group Ltd.
Consolidated Statements of Cash Flows

	As of the year ended December 31		
	2017	2016	2015
	NIS in millions	NIS in millions	NIS in millions
Cash Flows - Current Operations			
Net profit for the year	1,448	1,808	828
Depreciation and amortization	64	88	103
Impairment of intangible assets	-	32	103
Forfeiture of senior housing tenants' deposits	(21)	(17)	(6)
Net profit from adjustment to fair value of investment property and investment property under construction	(500)	(711)	(179)
Financing and other expenses (income), net	(46)	116	140
Profit from the sale of fixed assets, investment property and intangible assets, net	-	(1)	(2)
Share in losses of associates accounted for by the equity method	6	8	9
Change in recording of benefit in respect of share-based payment and employee benefits	-	-	2
Tax expenses recognized in the income statement	408	58	365
Loss from disposition of investment in a subsidiary (Annex A)	-	6	9
Income taxes paid, net	(186)	(242)	(198)
Revaluation of financial assets designated at fair value through profit and loss	4	(4)	(3)
Change in inventory	(3)	(2)	68
Change in trade and other receivables	(48)	(4)	138
Change in receivables in respect of franchise arrangement	2	(11)	7
Change in trade and other payables	24	93	(155)
Receipt of deposits from senior housing tenants	112	101	26
Return of deposits from senior housing tenants	(45)	(28)	(7)
Change in provisions and employee benefits	-	-	13
Net cash – current operations	1,219	1,290	1,261

Azrieli Group Ltd.
Consolidated Statements of Cash Flows
(Continued)

	As of the year ended December 31		
	2017	**2016**	**2015**
	NIS in millions	**NIS in millions**	**NIS in millions**
Cash Flows - Investment Activities			
Proceeds from the disposition of fixed assets and intangible assets	2	3	7
Proceeds from the disposition of investment property	-	5	3
Downpayments on account of disposition of investment property	8	-	-
Downpayments paid on account of investment property	-	-	(5)
Purchase and investment in investment property and investment property under construction	(1,052)	(2,008)	(1,016)
Purchase of fixed assets and intangible assets	(86)	(118)	(119)
Investment in and provision of loans to associates	(15)	(17)	(3)
Change in short-term deposits	514	(618)	10
Change in restricted investments	3	-	15
Income (payment) for the disposition of derivative financial instruments, net	-	1	(5)
Investment in financial assets designated at fair value through profit and loss, net	3	5	2
Change in marketable securities, net	-	-	15
Provision of long-term loans	(1)	(3)	(45)
Collection of long-term loans	6	16	16
Interest and dividend received	38	28	46
Proceeds from disposition of financial assets available for sale, net	233	80	-
Acquisition of companies consolidated for the first time (Annex B)	6	(61)	(255)
Proceeds from disposition of investments in investee companies, net (Annex A)	22	116	416
Taxes paid for financial assets	(17)	-	-
Institutions in respect of the purchase of real estate	(13)	(7)	-
Proceeds from sale of investments	-	-	115
Tax paid for sale of companies	-	-	(23)
Net cash - investment activities	(349)	(2,578)	(826)

The notes to the Financial Statements form an integral part thereof.

Azrieli Group Ltd.
Consolidated Statements of Cash Flows
(Continued)

	As of the year ended December 31		
	2017	2016	2015
	NIS in millions	NIS in millions	NIS in millions
Cash Flows - Financing Activities			
Acquisition of non-controlling interests	-	(51)	-
Distribution of dividend to shareholders	(480)	(400)	(320)
Repayment of bonds	(645)	(410)	(407)
Issuance of bonds net of issue expenses	1,354	2,177	2,209
Receipt of long-term loans from banks and others	244	1,140	112
Repayment of long-term loans from banks and others	(742)	(885)	(876)
Short-term credit from banks and others, net	(66)	(309)	(203)
Repayment of deposits from customers	(7)	(4)	(6)
Deposits from customers that were received	10	6	9
Investment of non-controlling interests in a subsidiary	5	4	-
Interest paid	(179)	(199)	(232)
Net cash - financing activities	(506)	1,069	286
Increase (decrease) in cash and cash equivalents	364	(219)	721
Cash and cash equivalents at the beginning of the year	715	935	164
Change in net cash classified to disposal group held for sale	-	1	50
Effect of the changes in exchange rates on balances of cash held in foreign currency	(15)	(2)	-
Cash and cash equivalents at the end of the year	1,064	715	935

(*) Non-cash transactions include a change in other payables in respect of acquisitions on credit of non-current assets in 2017 in the sum of NIS 39 million. In 2016, the non-cash transactions included a change in receivables due to the sale of an investment in an investee in the sum of NIS 125 million.

(**) With respect to cash flows from discontinued operations, see Note 8.

The notes to the Financial Statements form an integral part thereof.

Azrieli Group Ltd.
Consolidated Statements of Cash Flows
(Continued)

	As of the year ended December 31		
	2017	2016	2015
	NIS in millions	NIS in millions	NIS in millions
Annex A -			
Proceeds from sale of investment in previously-consolidated Sonol Israel Ltd. (see Note 8):			
Working capital (excluding cash and cash equivalents)	-	(181)	-
Investments and loans	-	73	-
Fixed and intangible assets, net	-	684	-
Prepaid long-term lease payments	-	37	-
Investment property	-	12	-
Deferred tax assets	-	7	-
Employee benefits and provisions	-	(72)	-
Long-term liabilities including current maturities	-	(312)	-
Loan provided (repaid) due to sale of the investment	22	(98)	-
Receivables due to sale of the investment	-	(28)	-
Loss from liquidation of investment in subsidiary	-	(6)	-
	22	116	-
Proceeds from sale of investment in previously-consolidated Green Anchors Ltd.:			
Working capital (excluding cash and cash equivalents)	-	-	(3)
Investment property	-	-	24
Long-term liabilities including current maturities	-	-	(7)
Deferred tax liabilities, net	-	-	(4)
Non-controlling interests	-	-	(5)
	-	-	5
Proceeds from sale of investment in previously-consolidated Via Maris Desalination (Holdings) Ltd.:			
Working capital (excluding cash and cash equivalents)	-	-	79
Investments and loans	-	-	4
Receivables in respect of franchise arrangement	-	-	823
Fixed and intangible assets, net	-	-	126
Long-term liabilities, net	-	-	(697)
Deferred tax liabilities, net	-	-	(23)
Restricted investments	-	-	61
Loss from liquidation of investment in subsidiary	-	-	(9)
	-	-	364
Receivables due to the sale of an investment in a consolidated company	-	-	47
	-	-	47
Total Consideration from the Sale of Investments, net	22	116	416

The notes to the Financial Statements form an integral part thereof.

Azrieli Group Ltd.
Consolidated Statements of Cash Flows
(Continued)

	As of the year ended December 31		
	2017	**2016**	**2015**
	NIS in millions	**NIS in millions**	**NIS in millions**
Annex B -			
Increase of our share in the partnerships in the USA (see Note 13H(3)):	(1)	-	-
Working capital (excluding cash and cash equivalents)	(124)	-	-
Investment property	(3)	-	-
Fixed and intangible assets, net	134	-	-
Long-term liabilities including current maturities	6	-	-
Purchase of a company consolidated for the first time – Ahuzat Bayit Raanana – Retirement Home Ltd. (see Note 13I(2)):			
Working capital (excluding cash and cash equivalents and short-term deposits)	-	(31)	-
Liabilities in respect of deposits from customers	-	328	-
Fixed and intangible assets, net	-	(13)	-
Investment property	-	(531)	-
Long-term liabilities including current maturities	-	212	-
	-	(35)	-
Purchase of a company consolidated for the first time – Azrieli E-Commerce Ltd. (formerly Netex New Media Ltd.) (see Note 9E):			
Working capital (excluding cash and cash equivalents)	-	5	-
Fixed and intangible assets, net	-	(80)	-
Long-term liabilities including current maturities	-	38	-
Payables due to purchase of an investment	-	11	
	-	(26)	-
Purchase of a company consolidated for the first time – Bio Clean Air Innovation Ltd.:			
Working capital (excluding cash and cash equivalents)	-	6	-
Fixed and intangible assets, net	-	(7)	-
Reserve for deferred taxes, net	-	1	-
	-	-	-
Purchase of a company consolidated for the first time – Palace America Senior Housing Ltd.:			
Working capital (excluding cash and cash equivalents and short-term deposits)	-	-	10
Liabilities due to short-term deposits	-	-	285
Fixed and intangible assets, net	-	-	(142)
Investment property	-	-	(552)
Long-term liabilities including current maturities	-	-	54
Reserve for deferred taxes, net	-	-	90
	-	-	(255)
Total purchase of companies consolidated for the first time	6	(61)	(255)

The notes to the Financial Statements form an integral part thereof.

Note 1 - General

A. General description of the Company and its operations:

Azrieli Group Ltd. (the "**Company**") is a company domiciled and incorporated in Israel and whose registered address is 1 Azrieli Center, Tel Aviv. The Company is traded on the TASE and is included in the Tel Aviv 35 Index. The Company has bonds (Series B, Series C and Series D) that were issued to the public. The Group's Consolidated Financial Statements as of December 31, 2017 include those of the Company and of its subsidiaries (jointly, the "**Group**"), as well as the Group's rights in associates and in jointly-controlled entities.

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

As the Company was informed, on April 13, 2015, shares of Mr. David Azrieli OBM in Azrieli Holdings and in a Canadian holding corporation controlled by him ("**David Holding Corporation**") were distributed from his estate. Following such distribution, each one of Sharon Azrieli, Naomi Azrieli and Danna Azrieli, holds, directly and through David Holding Corporation, approx. 27.24% of the capital rights in Azrieli Holdings and approx. 33.13% of the voting rights in Azrieli Holdings, and they jointly hold approx. 81.73% of the capital rights in Azrieli Holdings and approx. 99.39% of the voting rights therein. The remainder of Azrieli Holdings' shares are mainly held by the Azrieli Foundation of Canada (an interested party of the Company), which following the distribution of the estate holds (indirectly, through a holding of shares of David Holding Corporation) approx. 15.93% of Azrieli Holdings' shares, with no voting rights (which constitutes, indirectly, a holding of approx. 8.86% of the capital rights of the Company), in addition to and separately from its direct holding of approx. 8.55% of the capital and voting rights in the Company.

As the Company was informed, on March 20, 2017, a shareholders' agreement (the "**2017 Agreement**") was signed between Sharon Azrieli, Naomi Azrieli and Danna Azrieli (by themselves and through companies controlled by them), the indirect controlling shareholders of the Company and directors thereof (the "**Controlling Shareholders**"). Additional parties to the 2017 Agreement are Azrieli Holdings, Nadav Investments and David Holding Corporation (the three "**Holding Corporations**"). The 2017 Agreement replaces and substitutes the former shareholders agreement made by the parties in November 2012 (the "**2012 Agreement**"), and it regulates the relations between the Controlling Shareholders, by themselves, and through the Holding Corporations, in respect of their rights in the Company. Similarly to the 2012 Agreement, the terms of the 2017 Agreement include agreements regarding the sale and transfer of shares in the Company and in the Holding Corporations, including a lock-up period, right of first refusal, right of first offer, co-sale right and an exclusion in connection with certain sales of shares (drip) on TASE. The 2017 Agreement further prescribes that the manner of use of the voting rights in the Company will be determined by the Controlling Shareholders (by a majority vote), provided however, that in respect of resolutions to appoint directors of the Company, each one of the Controlling Shareholders shall have the right to use the voting rights to appoint one director who will be determined by her, whereas the manner of use of the voting rights in the Company regarding resolutions to appoint additional directors, will be adopted by a majority vote. It is clarified, that the 2017 Agreement does not change the identity of the Company's controlling shareholders (including of Azrieli Holdings) nor their percentage holdings in the capital and in the voting rights in the Company, and that as of the Report Date, Sharon Azrieli, Naomi Azrieli and Danna Azrieli are the Company's controlling shareholders

Note 1 – General (Cont.)

A. General description of the Company and its operations: (Cont.)

The Company engages (both directly and through investee companies in which it invests and which it develops) primarily in the following operating segments:

(1) In development, acquisition, management and lease in the retail centers and malls in Israel segment.
(2) In development, acquisition, management and lease in the office and other space for lease in Israel segment.
(3) In acquisition, management and lease in income-producing property in the USA segment.
(4) In development, acquisition and operation of senior housing.
(5) In activities of alternative energy sources, water and wastewater through its holding in Granite Hacarmel Investments Ltd.

For details regarding additional business activities of the Company, see Note 37A.

B. Definitions:

Interested Parties	-	As defined in the Securities Law, 5728-1968, and regulations thereunder.
Controlling Shareholder	-	As defined in the Securities Regulations (Annual Financial Statements), 5770-2010.
Canit Hashalom	-	Canit Hashalom Investments Ltd.
Granite	-	Granite Hacarmel Investments Ltd.
GES	-	GES Global Environmental Solutions Ltd.
Supergas	-	Supergas - Israeli Gas Distribution Company Ltd.

Note 2 - Significant accounting policies

A. Declaration in respect of the application of the International Financial Reporting Standards (IFRS):

The Group's Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards (the "**IFRS Standards**") and the interpretations thereto, which have been published by the International Accounting Standards Board (IASB). The significant accounting policies that are detailed further on in this report have been applied in a consistent manner for all of the reporting periods that are presented in these Consolidated Financial Statements, except for changes in the accounting policies, which derived from the application of standards, amendments to standards and interpretation, which took effect or early adopted as of the date of the Financial Statements, as detailed in Note 2FF.

The consolidated Financial Statements were approved for publication by the Company's Board on March 20, 2018.

B. The Financial Statements include the disclosure requirements in accordance with the Securities Regulations (Annual Financial Statements), 5770-2010 (the "**Financial Statements Regulations**").

C. The operating cycle period:

The Group's operating cycle does not exceed 12 months.

D. The format for the analysis of the expenses that have been recognized in the Statement of Comprehensive Income:

The Company's expenses in the Statement of Comprehensive Income are presented in accordance with a method of classification based on the nature of the activity to which the expense relates.

E. Foreign currency:

(1) The functional currency and the presentation currency

The financial statements of each of the companies in the Group have been prepared in the currency of the main economic environment in which they operate, mainly NIS (the "**Functional Currency**"). For the purposes of the consolidation of the Financial Statements, the results and the financial position of each of the companies in the Group are presented in New Israeli Shekels (NIS), which is the Company's functional currency. The Company's Consolidated Financial Statements are presented in NIS in millions. On exchange rates and the changes therein in the course of the periods that are presented, see Note 2DD.

Note 2 - Significant accounting policies (Cont.)

E. Foreign currency: (Cont.)

(2) The translation of transactions other than in the functional currency

In the preparation of the financial statements of each of the companies in the Group, transactions that were executed in currencies that are different from the Company's functional currency ("**Foreign Currency**") have been recorded in accordance with the exchange rates that were in force at the time of the transactions. At the end of each reporting period, monetary items that are stated in foreign currency are translated in accordance with the exchange rates in force as of that time. Non-monetary items that are measured at fair value and stated in foreign currency are translated in accordance with the exchange rate at the time at which the fair value was determined; non-monetary items that are measured in historical cost terms are translated in accordance with the exchange rates that were in force at the time of the execution of the transaction in respect of the non-monetary item.

(3) The manner in which exchange differences are recorded

Exchange differences are recognized in the income statement in the period in which they arise, except for the following cases:

- Exchange differences in respect of transactions that were designated for the hedging of certain foreign currency risks.
- Exchange differences in respect of financial items receivable or payable from foreign operations, whose settlement is not planned or expected to occur and accordingly they constitute part of the net investment in foreign operations, are recognized in the statement of other comprehensive income under the 'exchange differences in respect of foreign operations' item, and are carried to profit and loss at the time of the disposition of the net investment in foreign operations and upon partial disposition of the net investment in foreign business entailing loss of control.

(4) The translation of the financial statements of foreign operations whose functional currency is different from the Shekel (the Group's functional currency) and is mainly U.S. dollars

For the purposes of the presentation of the Consolidated Financial statements, the assets and the liabilities of foreign operations are presented in accordance with the exchange rate in force at the end of the reporting period. Income and expense items are translated in accordance with the average exchange rate for the reporting period unless there shall have been significant fluctuations in the exchange rates in the course of the period. In such a case, the translation of these items is done using the exchange rates at the time of the execution of the transactions, the exchange differences are recognized in the statement of comprehensive income under "translation differences from foreign operations". These translation differences are carried to the income statement on the disposition of the foreign business in respect of which they were created and upon partial disposition of foreign business entailing loss of control.

F. Consolidated Financial Statements:

The Group's Consolidated Financial Statements include the financial statements of the Company and of entities that are directly or indirectly controlled by the Company. An investing company is controlling an investee company when it is exposed or has rights to variable yields deriving from its holding in the investee company and when it has the ability to have an effect on such yields through exercise of power on the investee company. This principle applies to all investee companies.

Note 2 - Significant accounting policies (Cont.)

F. Consolidated Financial Statements: (Cont.)

Financial statements of the consolidated companies that were prepared other than in accordance with the Group's accounting policies were adjusted, prior to their consolidation, to the accounting policies that have been implemented by the Group.

For the purposes of the consolidation, all inter-company transactions, balances, income and expenses have been eliminated in full.

G. Non-controlling interests:

Non-controlling interests are the capital in a subsidiary which cannot be attributed, either directly or indirectly, to the parent company.

Transactions with non-controlling interests, while retaining control (see Note 9C) - Transactions with non-controlling interests while retaining control are treated as equity transactions. Any difference between the consideration paid or received and the change in the non-controlling interests is carried to the share of the holders of the Company directly to a capital reserve from transactions with non-controlling interests in a consolidated company.

H. Business combinations:

The acquisition of activities and consolidated companies which constitute a business are presented while using the acquisition method. The cost of the business combination is presented as the aggregate fair value (as of the exchange date) of granted assets, incurred liabilities.

Transaction costs, which are directly related to the business combination are carried to the profit or loss when incurred.

The identified assets and liabilities of the purchased business, which meet the conditions for recognition under the (amended) IFRS 3 "Business Combinations", are recognized according to their fair value on the purchase date, other than a number of types of assets which are presented according to the provisions of the relevant standards.

Goodwill resulting from business combination is presented at the sum of the excess of the cost of the purchase over the Company's share in the net fair value of the identified assets, liabilities and contingent liabilities of the consolidated company that were recognized on the purchase date. If, after revaluation, the Group's rights in the net fair value of the identified assets, liabilities and contingent liabilities that were recognized, in total, exceed the cost of the business combination, the excess is immediately recognized in the profit or loss.

Non-controlling interest in the acquired entity are presented for the first time on the date of the business combination at the rate of their share in the fair value of the assets, liabilities and contingent liabilities of the acquired entity, excluding their share in goodwill.

I. Joint arrangements:

"Joint arrangement" is a contractual agreement whereby the Group and other parties perform financial activity that is subject to joint control. Joint control is in place where the contractual arrangement includes a requirement whereby decisions pertaining to the transaction's financial and operational strategy, must be adopted unanimously by the parties which jointly control the joint transaction.

Note 2 - Significant accounting policies (Cont.)

I. Joint arrangements: (Cont.)

Joint operation:

A joint operation is a joint arrangement wherein the parties thereto have interests in the assets, and commitments with regards to the liabilities that are attributed to the arrangement.

In joint arrangements that constitute joint operations, the Group recognizes in the Group's Statement of Financial Position its pro-rata share in the joint operation's assets and liabilities, including assets that are held and liabilities that were formed jointly. The income statement includes the Group's pro-rata share in the income and expenses of the joint operation, including income derived and expenses incurred jointly.

J. Goodwill:

Goodwill that derives from the acquisition of a consolidated company is presented in the framework of intangible assets and is measured at the level of the surplus of the cost of the acquisition over the Company's share in the net fair value of the identified assets, liabilities and contingent liabilities of the consolidated company, which were recognized at the time of the acquisition.

Goodwill is initially recognized as an asset at cost and is measured in following periods as cost net of accumulated losses from impairment.

For the purposes of the testing for impairment, goodwill is allocated to each of the Group's cash generating units, which derive benefits from the synergies from the business combination. Cash generating units to which Goodwill has been allocated are tested for impairment each year or more frequently, where signs exist, which evidence a possible impairment of the unit, as aforesaid. Where the recoverable amount of a cash generating unit is lower than the carrying value of that unit, the loss from impairment is allocated firstly to the writing down of the carrying value of any goodwill whatsoever in respect of the cash generating unit. Thereafter, the balance of the impairment loss, if any remains, is allocated to the other assets making up the cash generating unit, in proportion to their book value. A loss from impairment of goodwill is not cancelled in following periods.

Upon a disposition of a consolidated company, the amount of the goodwill that is attributed to it is included in the determination of the profit or loss on the disposition.

K. Non-current assets and disposal group held for sale:

Non-current assets or disposal groups which are classified as held for sale, with the exception of investment property which is presented by fair value, are measured by the lower of their book value and their fair value net of disposal costs.

In subsequent periods, depreciable assets that are classified as held for sale, are not depreciated periodically.

Note 2 - Significant accounting policies (Cont.)

L. Discontinued Operations

Operations that were realized or are classified as held for sale, constitute discontinued operations when representing a business operating segment or an operations' geographic region which is significant and separate, or when they constitute part of a single and adjusted planning for the disposal of a business operating segment or of an operations' geographic region which is significant and separate. Revenues and expenses which belong to discontinued operations are presented in the Statements of Profit or Loss and Other Comprehensive Income, Net, net of taxes on income during all of the periods presented as part of the "Income from discontinued operations (net of tax)" item. The cash flows from discontinued operations are jointly presented in the Discontinued Operations Note in all of the report periods presented, according to the classification of current operations, investment activity and financing activity.

The comparison figures in Statements of Profit or Loss and Other Comprehensive Income from the results of the discontinued operations, are retroactively adjusted.

M. Loss of Control

Upon loss of control, the Group writes-off the assets and liabilities of the subsidiary, any non-controlling interest and other capital components attributable to the subsidiary. The difference between the consideration and the fair value of the investment balance and between the balances written-off, is recognized in profit and loss under the “Other income” item. The amounts recognized in equity through other comprehensive income in reference to such subsidiary are reclassified as profit or loss or as retained earnings, as would have been required had the subsidiary disposed of the relevant assets or liabilities itself.

N. Financial instruments:

(1) Financial assets

General

Financial assets are recognized in the Statement of Financial Position when the Group becomes a party to the contractual provisions of the instruments.

Investments in financial assets are initially recognized at their fair value, plus transaction costs, other than such financial assets that are classified at fair value through profit or loss, that are initially recognized at their fair value.

Financial assets are written off when the Group’s contractual rights to cash flow deriving from the financial asset expire, or when the Group transfers the rights to receive the cash flow deriving from the financial asset in a transaction in which all the risks and benefits from the ownership of the financial asset are transferred in practice.

General (Cont.)

Financial assets are classified into the following categories. The classification to these categories depends on the nature and the purpose of the holding of the financial asset that is held, and it is determined on the initial recognition date of the financial asset, or on consecutive reporting periods if it is possible to reclassify the financial assets to another category:

- Financial assets designated at fair value through profit and loss;
- Loans and other receivables; and
- Financial assets available for sale.

On the publication of the final version of IFRS 9 “Financial Instruments”, see Note 2FF.

Note 2 - Significant accounting policies (Cont.)

N. Financial instruments: (Cont.)

(1) Financial assets (Cont.)

Loans and receivables

Trade accounts receivable, short-term deposits and investments and other receivables with fixed or determinable payments that are not quoted in an active market, are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, net of impairment, if any. Interest income is recognized by applying the effective interest method, other than short-term receivables when the interest amounts to be recognized are insignificant.

Cash and cash equivalents

Cash and cash equivalents include cash balances available for immediate use and deposits upon demand. Cash equivalents include short-term investments the duration of which from the original deposit date until the payment date is up to 3 months, at a high liquidity level, easily convertible into known amounts of cash and which are exposed to an insignificant risk of value changes.

Financial assets available for sale

Investments in marketable and non-marketable capital instruments (see Note 11), which are not derivative financial instruments, which have not been classified as financial assets at fair value through profit and loss or as loans and receivables, are classified as financial assets available for sale. Investment in capital instruments that are traded in an active market are presented at fair value. Profits or losses deriving from changes in the fair value are carried directly to the other comprehensive income under the ‘change in fair value of financial assets available for sale’ item, except for losses from impairment, which in certain circumstances are carried to the income statement.

Income from dividends due to investment in capital instruments available for sale is recognized in the income statement when the Group's entitlement to receive payments in respect thereof is created.

On the matter of determining the fair value of financial assets available for sale that are not traded in the active market, see Note 3B(4).

In the matter of the publication of final standard IFRS 9 “Financial Instrument”, see Note 2FF.

Note 2 - Significant accounting policies (Cont.)

N. Financial instruments (Cont.)

(2) Financial liabilities

The Group recognizes for the first time, debt instruments issued on the date of their creation. The remaining financial liabilities are first recognized on the trade date on which the Group becomes a party to the contractual terms of the instrument.

Financial liabilities are initially recognized at fair value with the addition of all of the attributable transaction costs. Following the initial recognition, the financial liabilities are measured at amortized cost in accordance with the effective interest method.

Financial liabilities are written-off when the Group's commitment, as specified in the agreement, expires, or when it had been settled or terminated.

The non-derivative financial liabilities include: bank overdrafts, loans and credit from banks and other credit providers, bonds, deposits from customers and trade and other payables.

Financial assets and financial liabilities are setoff and the amounts are presented net in the Statement of Financial Position, where the Group has a current, enforceable legal right to offset the amounts that have been recognized and it intends to clear the asset and the liability on a net basis or to dispose of the asset and to clear the liability simultaneously.

(3) Index-linked assets and liabilities that are not measured at fair value

The value of index-linked financial assets and liabilities, which are not measured at fair value, is revaluated in each period in accordance with the actual rise / fall in the index.

(4) Share capital

Additional costs, which relate directly to the issuance of ordinary shares and options for shares, are presented as a deduction from capital.

(5) Deposits from customers

Within the context of its operations, Supergas receives deposits from its customers in respect of containers and other equipment that are borrowed. The deposit will be returned in accordance with the prices of the deposit that the consolidated company collects from its customers, which is linked to the index from the day of the latest update. In accordance with IAS 39, the fair value of financial liabilities with a demand characteristic is not to be lower than the amount that is to be paid on demand, discounted from the first time at which it will be possible to demand the amount. Accordingly, the deposits are presented at their full value. Moreover, since Supergas has no irrevocable right to defer the clearance of the liabilities in respect of the deposits for a period of at least 12 months after the Report Date, and since the customers of the consolidated company are entitled to demand repayment of the deposit at any time, the deposits are presented as current liabilities, on the basis of their full value.

The senior housing tenants’ deposits are a financial liability with a requirement characteristic and are therefore presented according at the fair value which is identical to the value of the liability as of the balance sheet date.

Note 2 - Significant accounting policies (Cont.)

O. Fixed assets:

(1) Recognition and measurement

Fixed asset items are measured at cost net of accumulated depreciation and accumulated losses from impairment.

The cost includes expenses that are directly attributable to the acquisition of the asset. The cost of assets that were self-built includes the cost of the materials and the direct labor, as well as any additional cost that is directly attributable to bringing the asset to the location and condition that are required in order for it to operate in the manner intended by management, as well as capitalized credit costs. The cost of purchased software, which constitutes an integral part of the operation of the related equipment, is recognized as part of the cost of such equipment.

Spare parts, servicing equipment and standby equipment are classified as fixed assets when complying with the definition of fixed assets according to IAS 16. Otherwise, they are classified as inventory.

Where significant components of the fixed assets (including significant periodic inspection costs) have a different lifetime, they are accounted as separate items (significant components) of the fixed assets.

A profit or loss from the write-off of a fixed asset item is determined by a comparison of the net consideration from write-off of the asset to the book value, and is recognized in the income statement as other income or other expenses, as the case may be.

(2) Subsequent costs

The costs of the replacement of a part of a fixed asset item and other subsequent costs, are recognized as part of the book value of such item, if the Group is expected to gain the future economic benefit inherent therein and if its cost can be reliably measured. The book value of the replaced part is written-off. The cost of ongoing maintenance of fixed asset items are carried to the profit and loss as incurred.

(3) Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over the length of its useful lifetime. The depreciable amount is the cost of the asset, or some other amount that replaces the cost, net of the residual value of the asset.

A depreciated asset, when usable, namely when in the location and condition required in order for it to operate in the manner intended by Management.

Depreciation is carried to the income statement in accordance with the straight line method in accordance with an estimate of the useful lifetime of each part of the fixed asset items, since this method reflects the manner of the forecast consumption of the future economic benefits that are inherent in an asset in the best way. Assets leased under finance leases, including lands, are amortized over the shorter of the lease period and the period in which the assets are used, unless it is reasonably expected that the Group shall acquire ownership over the asset at the end of the lease period. Lands under ownership are not amortized.

Note 2 - Significant accounting policies (Cont.)

O. Fixed assets: (Cont.)

(3) (Cont.)

The estimated useful lifetime for the current period and for the comparative periods are as follows:

	Useful lifetime in years	Depreciation rate %
Buildings	10-50 (primarily 25-50)	2-10 (primarily 2-4)
Plant and equipment	3-30 (primarily 6-10)	3-33 (primarily 10-15)
Office furniture and equipment	3-17	6-33
Motor vehicles	5-6	15-20
Computers	3-5	20-33
Leasehold installments and improvements	Throughout the lease period, which does not exceed the economic lifetime of the asset.	

The estimates regarding the depreciation method, useful life and the residual value are reexamined at least in the end of each year and are adjusted when necessary.

On the cessation of the depreciation of fixed assets items which are classified as held for sale, see Section K above.

Note 2 - Significant accounting policies (Cont.)

P. Investment property:

Investment property is property (land or a building – or part of a building - or both of them), which is held by the Group for the purpose of the production of rent or for the purposes of a capital gain or both, and not for the purposes of use in the production or supply of goods or services or for administrative purposes or for sale in the ordinary course of business. Investment property, as aforesaid, also includes investment property that is under construction or development.

The Group's investment property includes buildings and land that is owned or held under finance lease, as well as rights in real estate that are held by the Group under operating leasing where otherwise the definition of investment property would be complied with. Investment property is initially measured at cost, which includes transaction costs. In periods following the initial recognition, investment property is measured at fair value. Gains or losses deriving from changes in the fair value of investment property, and with respect to a specific property also those that originate from changes in exchange rates, are recorded in the income statement in the period in which they were generated, under the 'net profit from adjustment to fair value of investment property and investment property under construction' item.

Investment property, as aforesaid, also includes investment property that is under construction or development. Investment property under construction is measured at fair value when the value thereof can be reliably measured. Costs of credit are capitalized to investment property under construction. When the fair value cannot be reliably measured, investment property under construction is measured according to cost in the construction period until the earlier of the date of completion of the construction and the date on which the fair value can be reliably measured.

The direct costs of the disposition of investment property are carried to the income statement at the time at which the asset is sold and are setoff against the gain on disposition. The difference between the consideration that is received on the disposition of investment property and the fair value, is the capital gain (loss) on disposition, which is carried to the income statement at the time of the completion of the disposition transaction under "net profit from adjustment to fair value of investment property and investment property under construction".

Q. Costs of credit:

Specific credit costs and non-specific credit costs are capitalized to qualifying assets and investment property under construction in the course of the period that is required for the completion and for the construction up to the time at which they are ready for their designated use. Non-specific credit costs are capitalized in the same manner for the same investment in qualifying assets and investment property under construction or to the part of it that is not financed by specific credit, using a rate which is a weighted average of the rates of the cost in respect of the sources of credit whose cost has not been capitalized in a specific manner.

All other credit costs are carried to the income statement as incurred.

In the cash flow statement the Group classifies cash flows for interest payments which are capitalized on qualified assets as cash flows used for financing activity, in a manner that is consistent with the Group's policy regarding interest payments in the cash flow statement, as stated in Note 2CC.

Note 2 - Significant accounting policies (Cont.)

R. Intangible assets, except for goodwill:

Intangible assets are non-financial assets that are not identifiable and which lack a physical presence. Intangible assets having an indefinite useful lifetime are not amortized and are tested for impairment once a year, or at any time at which a sign exists, which indicates the possibility that an impairment has occurred in accordance with the provisions of IAS 36. The estimate of the useful lifetimes of intangible assets having an indefinite lifetime is tested at the end of each reporting year. A change in the estimated useful lifetime of an intangible asset, which turns from being indefinite to being defined is treated by way of "prospective application".

Intangible assets having a defined useful lifetime are amortized on a straight line over the length of their estimated useful lives, subject to testing for impairment. A change in an estimate of the useful lifetime of an intangible asset with a defined lifetime is treated by way of "prospective application".

On the accounting treatment of goodwill - see Note 2J.

The useful lifetime that have been used in the amortization of intangible assets having a defined lifetime are as follows:

Distribution rights	-	20 years or in accordance with the period of the agreement.
Software	-	3-6 years.
Franchise arrangement		Over the period of the franchise.
Others	-	Over the period of the benefit.

Intangible assets that were acquired in business combinations

Intangible assets that were acquired in business combinations are recognized separately from goodwill, where they meet the definition of an asset and identifiable. Intangible assets are identifiable when they are separable or deriving from contractual or other legal rights. Such intangible assets will be recognized at the time of the business combination at their fair value.

In the periods following the initial recognition, intangible assets that have been acquired within the framework of business combinations are presented in accordance with their cost, net of amortization and accumulated losses from impairment. The amortization of intangible assets, having a defined lifetime, is calculated on the straight line basis over the length of their estimated useful lifetimes. The estimate of the useful lifetime and the method of amortization are tested at the end of each reporting year, where the effect of a change in them is treated by way of "prospective application".

Note 2 - Significant accounting policies (Cont.)

S. Leased assets:

(1) Leases, including leases of land from the Israel Land Administration or from other third parties where the Group bears significantly all of the risks and the yields that derive from the asset, are classified as finance leases. On initial recognition, the leased assets are measured, and a liability recognized, in an amount that is equivalent to the lower of the fair value and the present value of the minimum future lease payments. In the measurement of the liability for the lease of land in a non-capitalized lease from the Israel Land Authority ("**ILA**"), the minimum future lease payments were capitalized at a real interest rate of 5% based on capitalization interest that was used by the ILA on the date of the engagement in the lease. Future payments for exercise of the option to extend the lease period vis-à-vis the Israel Land Administration are not recognized as part of the relevant asset and liability, since they constitute conditioned long-term rent, which derives from the fair value of the land on the future dates of renewal of the lease agreement. Following the initial recognition, the asset is treated in accordance with the accounting policy that is customary in respect of that asset.

The other leases are classified as operating leases, except for leases of real estate that is classified as an investment property, where the leased assets are not recognized in the Group's Statement of Financial Position. Real properties under operating lease, which have been classified by the Group as an investment property, are recognized in the Group's Statement of Financial Position at their fair value, and the lease is accounted as finance lease.

The lease period and the amounts of the amortization take into account any option to extend the lease period, in the event that at the time of the commitment under the lease it is reasonably certain that the option will be exercised.

In a lease of land and buildings the components of the land and the buildings are examined separately for lease classification purposes, with a significant consideration in the classification of the components of the land being the fact that land usually has an indefinite lifetime.

(2) Lease payments

Payments in the framework of an operational lease are carried to the income statement using the straight line method throughout the lease period.

Minimum lease payments which are paid in the framework of a financial lease are divided between the financing expenses and reduction of the liability balance. The financing expenditure is allocated to each lease period, so as to obtain a fixed periodic interest rate on the outstanding balance of the liability. The minimum lease payments are updated in respect of conditioned long-term rent, when the condition transpires.

In the matter of publication of a new standard on leases, IFRS 16 "Leases" – see Note 2FF.

Note 2 - Significant accounting policies (Cont.)

T. Inventory:

Inventory is an asset held for the purpose of sale in the ordinary course of business, in a production process for the purpose of sale or materials to be consumed during the production process or during the delivery of the services.

(1) Inventory of gas

Inventory is presented at the lower of its cost and net realizable value. The cost of the inventory of gas is calculated on the basis of "first in first out" (FIFO), and it includes the costs of the acquisition of the inventory and of bringing it to its current location and condition. The net realizable value is the estimated selling price in the ordinary course of business, net of an estimate of the costs required to carry out the sale.

(2) Azrieli E-commerce product inventory

Inventory is presented at the lower of its cost and net realizable value. The cost of inventory includes all acquisition costs.

Net realizable value represents the estimated selling price in the ordinary course of business, net of an estimate of the costs for completion and an estimate of the costs required to carry out the sale.

The cost is calculated on the basis of "first in first out" (FIFO).

(3) Other inventory

Is presented at the lower of its cost and net realizable value. The cost of inventory is determined primarily on the "moving average" basis.

Note 2 - Significant accounting policies (Cont.)

U. Impairment of non-derivative financial assets:

Impairment of a financial asset that is not presented at fair value through profit and loss is tested where there is objective evidence that a loss event has occurred after the time of the initial recognition of the asset and that this loss event has had a negative impact on the estimated future cash flows from the asset, which can be measured in a reliable manner.

Objective evidence that an impairment of financial assets has occurred may include the breach of a contract by a debtor, the re-organization of an amount that is due to the Group based on terms that the Group would not have considered in other cases, the existence of indications that a debtor or debt issuer will become bankrupt, negative changes in the status of the payments of borrowers, changes in the economic environment which attest to insolvency of debt issuers or the absence of an active market for a security. Projected information which indicates that there is a measurable decline in the projected cash flow from a group of financial assets.

In the testing for impairment of financial assets available for sale, which are capital instruments, the Group also tests the difference between the fair value of the asset and its original cost, for the length of time in which the fair value of the asset is lower than its original cost and for changes in the technological, economic or legal environment or in the environment in the market in which the company that issued the instruments operates. In general, an impairment of 30% of the original cost will be considered to be material, where the impairment is over the face of a year. This policy was determined in according to the nature of two of the company's most significant investments, see Note 11(1)-(2).

The Group examines evidence of impairment in respect of loans, trade and other receivables both at the level of the individual asset and also on a Group-wide level. The balances of trade accounts receivable, loans and other receivables that are significant individually are tested specifically for impairment. The balances of trade accounts receivable, loans and other receivables, in respect of which no specific impairment has been identified, are grouped together and are tested on a Group-wide basis for impairment, with the objective of identifying any impairment that has occurred and has not yet been identified. In respect of the balances of the trade accounts receivable, loans and other receivables that are not individually significant, the Group-wide testing for impairment is carried out by grouping them together on the basis of similar risk characteristics.

In the Group-wide testing for impairment the Group makes use of historical trends of the probability of a breach, the timing of the receipt of the repayment and the total actual loss, in accordance with management's judgment in respect of the question of whether the actual losses are expected to be larger or smaller by comparison with the losses that arise from the historical trends, in the light of the economic situation and the existing credit terms.

A loss from the impairment of a financial asset, which is measured at amortized cost, is calculated as the difference between the book value of the asset and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate. Losses are carried to the income statement and are presented as a provision for a loss against the balances of the trade accounts receivable, the other receivables and the loans. Interest income in respect of assets whose value has been impaired is recognized by means of the use of the interest rate used to discount the future cash flows for the purposes of measuring the loss from impairment.

Note 2 - Significant accounting policies (Cont.)

U. Impairment of non-derivative financial assets (Cont.):

Losses from impairment due to financial assets available for sale, are recognized by carrying the cumulative loss that was recorded under a capital reserve due to assets available for sale, to the income statement. The cumulative loss that is carried from the other comprehensive income to the income statement is the difference between the acquisition cost and the current fair value, net of impairments that were recognized in the past in the income statement.

A loss from impairment is cancelled where it can be objectively attributed to an event that occurred after the recognition of the loss from the impairment. A cancellation of a loss from impairment due to financial assets, which are measured at depreciated cost, is carried to the income statement. A cancellation of a loss from impairment due to financial assets that are classified as available for sale, which are capital instruments, is carried directly to the other comprehensive income.

In the matter of the publication of final standard IFRS 9 “Financial Instrument”, see Note 2FF.

V. Impairment of non-financial assets:

At the end of each reporting period, the Group tests whether any signs whatsoever exist, which evidence an impairment of its tangible and intangible assets, other than inventory. In the event that signs exist, as aforesaid, an estimate is made of the recoverable amount of the asset, with the objective of determining the amount of the loss from impairment that has arisen, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Common assets are also allocated to the individual cash generating units in the event that it is possible to identify a reasonable and consistent basis for such an allocation.. In the event that it is not possible to allocate the common assets to the individual cash generating units on the said basis, the common assets are allocated to the smallest cash generating units in respect of which it is possible to identify a reasonable and consistent basis for the allocation.

A recoverable amount is the higher of the fair value of an asset net of sale costs and its value in use. In the evaluation of the value in use, estimated future cash flows are discounted to their present value, using a pre-tax discount rate, which reflects the market's present evaluation in respect of the time value of the money, and the specific risks that relate to the asset, in respect of which the estimated future cash flows have not been adjusted.

Where the recoverable amount of an asset (or of a cash generating unit) is estimated to be lower that the carrying value, the book value of the asset (or of the cash generating unit) is written down to its recoverable amount. A loss from impairment is recognized immediately as an expense in the income statement, unless the relevant asset is measured in accordance with the revaluation model. In that case, the loss from impairment is treated as a reduction of the revaluation reserve, until it is reduced to zero, and the balance of the reduction, if there is one, is recognized in the income statement.

Where a loss from impairment that has been recognized in previous periods is cancelled, the book value of the asset (or of the cash generating unit) is increased back to the updated estimated recoverable amount, but not more than the book value of the asset (or of the cash generating unit) that would have been set if it were not for the recognition of a loss from impairment in respect of its in previous periods. The cancellation of a loss from impairment is recognized immediately in the profit and loss.

Note 2 - Significant accounting policies (Cont.)

W. Provisions:

A provision is recognized where the Group has a current commitment, whether legal or implicit, as the result of an event that has taken place in the past, which can be reliably measured, and where it is expected that economic resources will be required in order to clear the commitment.

(1) Legal claims

A provision for claims is recognized where the Group has a present legal commitment or an implicit commitment as the result of an event that has taken place in the past, it being more likely than not that the Group will be required to use economic resources to settle the commitment and it may be reliably estimated. Where the impact of the time value is material, the provision is measured in accordance with its present value.

(2) Warranty

A provision for warranty is recognized when the products or the services for which the liability is provided, are sold. The provision is based on historic data and also on assessments of the management and the weighting all the possible outcomes by their probabilities.

X. Revenues:

(1) The sale of products

The Group recognizes income where there is convincing evidence (usually performance of a sale agreement) that the significant risks and benefits of the ownership of the product are transferred to the purchaser, the receipt of the consideration is expected, the possibility exists of reliably estimating the possibility that the goods will be returned, the costs that have been incurred, or which will be incurred in respect of the transaction may be reliably estimated, where the management has no continuing involvement with the goods, and also where the income can be reliably estimated. If it is expected that a discount will be provided and its amount can be reliably measured, the discount is deducted from the revenues from the sale of the products.

In the sale of the Group's products in Israel, the transfer of the risks and the yields generally takes place on the date of delivery of the product to the customer. In respect of the sale of the Group's products outside Israel, in general, the transfer of risks and yields exists on the date of loading the products on the transporter's means of transportation.

Income from the sale of products in the ordinary course of business is measured at the fair value of the consideration that is received or which is to be received, net of trade discounts and quantity discounts.

(2) Rent income

Rent income in respect of investment property is recognized on the straight line basis over the length of the relevant rent period.

(3) Income from management and maintenance fees and net income from the use of electricity

Income from management and maintenance fees and net income from the use of electricity is reflected pro-rata over the length of the period in which the relevant services are provided.

Note 2 - Significant accounting policies (Cont.)

X. Revenues: (Cont.)

(4) Dividend income

Dividend income in respect of investments is recognized at the time at which the shareholders' entitlement to receive the income is created.

(5) Senior housing revenues

(1) The revenues from management and maintenance fees are recorded in the income statement upon performance of the service.

(2) The revenues from forfeiture of deposits are recorded in the income statement as incurred.

(3) Financing revenues and expenses in respect of revaluation of the deposit balance are recorded in the income statement as incurred.

(6) Revenues from provision of senior housing services

The revenues from provision of services are recorded proportionately over the term of the agreement or upon provision of the service if the likelihood of the flow of the economic benefits attributed to provision of the service is certain.

Y. Franchise arrangements for provision of services:

Franchise arrangements for provision of services are arrangement in which the State (or the franchise issuer) engages in a contract with an entity from the private sector in which such operator undertakes to plan, build and finance some property or infrastructure for service to the public and in consideration for construction of such property, the operator receives a franchise from the State to operate the property for a defined period, and also to provide other services related to the property. Below are the Group's main franchise arrangements:

The Group, via GES Environmental Solutions Ltd., with authorities from the public sector, to provide BOT (Build, Operate, Transfer) services for construction of facilities, wastewater treatment, and improvement of wells.

In accordance with IFRIC 12, the infrastructure constructed is not recognized as a fixed asset in the financial statements of the Group. Some of the Group's franchise arrangements are treated according to a financial asset model and other part of the franchise arrangements are treated as according to an integrated model which includes both a financial asset and intangible asset. The period of the arrangement is divided into two periods: a construction period and an operation period which began upon completion of construction of the infrastructure. The Group's rights pertaining to the franchise are recognized in part as a financial asset, receivables in respect of franchise arrangement, under the application of IAS 39 (loans and receivables), since the Group has an unconditional right to receive from the entity granting the franchise guaranteed proceeds in consideration for the services. The asset is recognized during the construction period in respect of the construction costs, plus the accepted contractor margin according to the Group's estimation, and is repaid through the proceeds during the operation period. After initial recognition, interest income is recognized along the arrangement period according to the effective interest method.

Note 2 - Significant accounting policies (Cont.)

Y. Franchise arrangements for provision of services: (Cont.)

The Group's rights for the franchises are recognized partly as an intangible asset, in respect of franchise arrangement, which reflect the right available to the Company to collect payment, which is not guaranteed by the franchisor, in accordance with the extent of the use by the public using the infrastructure. The intangible asset is recognized through the construction period and its cost is determined in reference to the construction costs plus the gross margin in the Company's estimation.

Z. Financing income and expenses:

Financing income includes interest income on amounts invested (including financial assets from franchise agreements), income from dividend on marketable shares, changes in the fair value of financial assets which are presented at fair value through profit or loss and profits from hedging instruments recognized in the profit or loss. Interest income is recognized upon its accrual through the effective interest method.

Income from dividends on marketable shares which is recognized as income on the X-date. Changes in the fair value of the financial assets which are presented at fair value through profit or loss also include income from dividends and interest.

Financing expenses include interest expenses and losses from hedge instruments recognized in the profit or loss on loans received, bonds issued, and changes to the fair value of financial assets presented at fair value through profit or loss. The credit costs, which are not discounted on qualifying assets are carried to the income statement according to the effective interest method.

Profits or losses from exchange rate differences on financial assets and liabilities are reported net as financing income or financing expenses, depending on the exchange rate fluctuations, and depending on the their position (net profit or loss).

AA. Taxes on income:

(1) General

Tax expenses (income) on income include the sum of the current tax as well as the change in the deferred tax balances, except in respect of deferred taxes that derive from transactions that are reflected directly under shareholders' equity.

Note 2 - Significant accounting policies (Cont.)

AA. Taxes on income: (Cont.)

(2) Current taxes

The current tax on income expenses is calculated based on the Company and the consolidated companies' chargeable income for tax purposes, during the course of the reporting period. The chargeable income is different from the income before taxes on income, as the result of the inclusion or the non-inclusion of income and expense items that are chargeable to taxation or which are allowable as a deduction in different reporting periods, or which are not chargeable to tax or allowable as a deduction. Current tax assets and liabilities have been calculated on the basis of the tax rates and the tax laws that have been legislated or whose legislation has been effectively completed as of the date of the Statement of Financial Position.

A provision for uncertain tax positions including additional tax and interest expenses, is recognized when it is more likely than not that the Group will resort to its financial resources to settle the liability.

Current tax assets and liabilities are presented as offset, where the entity has an enforceable legal right to offset the amounts recognized as well as an intention to settle on a net basis, or to realize the asset and settle the liability at the same time.

(3) Deferred taxes

The companies in the Group record deferred taxes in respect of timing differences between the values of assets and liabilities for tax purposes and their values in the Financial Statements. Deferred tax balances (assets or liabilities) are calculated in accordance with the tax rates that are expected to apply at the time that they are realized, based on the tax rates and the tax laws that have been legislated or whose legislation has been effectively completed as of the date of the Statement of Financial Position. Deferred tax liabilities are generally recognized in respect of all of the temporary differences between the value of assets and liabilities for tax purposes and their values in the Financial Statements. Deferred tax assets are recognized in respect of temporary differences that can be deducted up to the amount of the chargeable income against which it is expected that the deductible temporary differences can be exploited. The deferred taxes in respect of the structure component of investment property are calculated in accordance with a business model whose purpose is significant consumption over time of all of the economic benefits incorporated therein.

The calculation of the deferred taxes does not take into account the taxes that would have applied in the event of the disposition of the investments in investee companies, since in the Group's management estimate, the temporary differences which are the subject matter of such deferred taxes are under the control of the Group and are not expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are presented as offset, where the entity has an enforceable legal right to offset current tax asset against current tax liabilities, and where they refer to income taxes that are imposed by such tax authority, and the Group intends to settle the current tax assets and liabilities on a net basis.

BB. Earnings per share:

The Company calculates the amounts of the basic earnings per share in respect of the profit or loss that is attributable to the shareholders in the Company by dividing the profit or loss that is attributable to the shareholders in the Company by the weighted average number of ordinary shares in circulation during the course of the reporting period.

Note 2 - Significant accounting policies (Cont.)

CC. Classification of interest paid, dividends paid, interest and dividends received and income taxes paid, net, in cash flow statement:

The Group classifies cash flows due to interest and dividends received thereby as cash flows from investment activity, as well as cash flows due to interest that was paid as cash flows used for the financing activity. Cash flows due to income taxes are classified in general as cash flows used for operating activities, other than cash flows that are easily identifiable with cash flows used for investment or financing activity. Dividends paid by the Group are classified as cash flows from financing activity.

DD. Exchange rates and linkage base:

(1) Balances that are stated in foreign currency or which are linked thereto are recorded in the Financial Statements in accordance with the representative exchange rates that were published by the Bank of Israel and which were in force as of the date of the Statement of Financial Position.

(2) Balances that are linked to the CPI are presented in accordance with the last known index as of the date of the Statement of Financial Position (the index for the month preceding the date of the Financial Statements), or in accordance with the index in respect of the last month of the reporting period (the index for the month in which the date of the Financial Statements lies), in accordance with the terms of the transaction.

(3) **The following are details in respect of the exchange rates and Index:**

	Representative exchange rate of		Index in Israel	
	Euro NIS to 1 Euro	Dollar NIS to 1 Dollar	Index for Basis 1993	Known index Basis 1993
The date of the Financial Statements:				
as of December 31, 2017	4.153	3.467	221.57	221.35
as of December 31, 2016	4.044	3.845	220.68	220.68
as of December 31, 2015	4.247	3.902	221.13	221.35
	%	%	%	%
Rates of the change:				
For the year ended:				
December 31, 2017	2.69	(9.83)	0.40	0.30
December 31, 2016	(4.78)	(1.46)	(0.20)	(0.30)
December 31, 2015	(10.11)	0.33	(1.00)	(0.90)

Note 2 - Significant accounting policies (Cont.)

EE. Amendments to standards that affect the current period and/or previous reporting periods

- **Amendment IAS 7 "Statement of Cash Flows" (regarding disclosures of changes in liabilities arising from financing activities)**:

  The amendment stipulates that disclosure is required of information that will enable users of the financial statements to estimate the changes in liabilities arising from financing activities, both changes that involve cash flows and changes which do not involve cash flows.

  !The amendment is implemented by prospective application for annual reporting periods beginning on January 1, 2017 or thereafter. On the date of the first implementation of the amendment, no comparison figures are required to be presented (see Note 20E "Changes in liabilities arising from financing activities" on the required disclosure).

FF. Standards, interpretation and amendments to standards that were released and are not invalid, and were not pre-adopted by the Group, that have or may have an effect on future periods:

- **IFRS 9 "Financial Instruments":**

  General:

  IFRS 9 (2014) "Financial Instruments" (the "**Standard**") is the final standard of the financial instruments project. The Standard cancels the previous stages of IFRS 9 which were published in 2009, 2010 and 2013. This final Standard includes the provisions for classification and measurement of financial assets, as published at the first stage in 2009 and amended in this version, and also includes the provisions for classification and measurement of financial liabilities, as published at the second stage in 2010, offers a more updated and principal-based model regarding hedge accounting and presents a new model for assessment of projected loss from impairment as specified below. In addition, the Standard cancels the IFRIC Interpretation 9 "Reassessment of Embedded Derivatives".

  Financial assets:

  The Standard determines that the financial assets be recognized and measured as follows:

  - Debt instruments will be classified and measured after initial recognition under one of the following alternatives: at depreciated cost, fair value through profit or loss or fair value through other comprehensive income. The measurement model will be determined in consideration of the business model of the entity regarding the management of financial assets, and according to the characteristics of the contractual cash flows deriving from the same financial assets.

  - A debt instrument which, according to the tests, is measured at depreciated cost or at fair value through other comprehensive income, may be designated at fair value through profit or loss only when the designation cancels out an accounting mismatch in recognition and measurement that would have been created had the asset been measured at depreciated cost or at fair value through other comprehensive income.

  - As a rule, capital instruments will be measured at fair value through profit or loss.

  - At the time of initial recognition, capital instruments may be designated at fair value through other comprehensive income. Instruments so designated will no longer be subject to impairment tests, and profit or loss thereon will not be carried to profit and loss, including upon disposal.

Note 2 - Significant accounting policies (Cont.)

FF. Standards, interpretation and amendments to standards that were released and are not invalid, and were not pre-adopted by the Group, that have or may have an effect on future periods: (Cont.)

- **IFRS 9 "Financial Instruments": (Cont.)**
  Financial assets: (Cont.)

  - Embedded derivatives will not be separated from a host contract which is within the Standard's applicability. Instead, hybrid contracts will be measured in their entirety at depreciated cost or at fair value, according to the business model and contractual cash flow tests.

  - Debt instruments will be reclassified only when the entity changes its business model to financial assets management.

  - Investments in capital instruments having no quoted price in an active market, including derivatives of such instruments, will be measured at fair value. The alternative to measuring at cost in certain circumstances was eliminated. However, the Standard provides that in certain circumstances, cost may be an appropriate approximation of fair value.

  Financial liabilities:

  - The Standard also sets forth the following provisions regarding financial liabilities:

  - The change in the fair value of a financial liability which was designated upon initial recognition as fair value through profit or loss, and which is attributable to changes in the credit risk of the liability, will be carried directly to other comprehensive income, unless doing so creates or increases an accounting mismatch.

  - When the financial liability is repaid or discharged, amounts carried to other comprehensive income will not be classified to profit or loss.

  - All of the derivatives, whether assets or liabilities, will be measured at fair value through profit or loss, including a derivative financial instrument which constitutes a liability and is related to an unquoted capital instrument, whose fair value cannot be reliably measured.

  Hedging:

  The Standard sets forth new hedging provisions and provides the option to choose, as an accounting policy, whether to apply the new hedging provisions, which will be briefly specified below, or alternatively, the existing provisions under IAS 39. When the hedging project is completed in the future, the said policy choice option will be reexamined by the IASB.

  The Standard retains the three types of hedge accounting: Cash flow hedging, fair value and net investment in foreign operations. However, material changes were made regarding the types of transactions eligible for hedge accounting, particularly expansion of the risks eligible for hedge accounting of non-financial items. In addition, changes occurred in the manner in which forward contracts and derivative options will be treated, when they constitute hedging instruments.

  In addition, some of the hedge effectiveness tests have been replaced with a more fundamental test which is based on "economic relations". Retroactive estimation of the hedge effectiveness will no longer be required.

  The disclosure requirements in relation to the risk management activity of the Company have been expanded in the new Standard.

Note 2 - Significant accounting policies (Cont.)

FF. Standards, interpretation and amendments to standards that were released and are not invalid, and were not pre-adopted by the Group, that have or may have an effect on future periods: (Cont.)

- **IFRS 9 "Financial Instruments": (Cont.)**

Impairment:

The new impairment model, which is based on expected credit losses, will be implemented for debt instruments which are measured at depreciated cost or at fair value through other comprehensive income, receivables for lease, contract assets recognized according to IFRS 15 and written obligations to provide loans and financial guaranty contracts.

The provision for impairment will be in respect of projected losses according to the probability of insolvency in the coming 12 months (in the coming year), or according to the probability of insolvency over the lifetime of the instrument. Examination throughout the instrument's lifetime is required if the credit risk significantly increased since the date of first recognition of the asset. Another approach applies if the financial asset was created or purchased credit-impaired.

The Standard adds presentation and disclosure requirements in connection with impairment of financial instruments.

Commencement date and early adoption possibilities:

The Standard will take binding effect in respect of annual reporting periods commencing on or after January 1, 2018. Early application is possible.

In general, the provisions of the Standard regarding financial assets and financial liabilities will be applied retroactively, except for certain exceptions which were set forth in the Standard's transition provisions. It was further determined, that despite the retroactive application, companies applying the Standard for the first time, are not required to amend their comparison figures for previous periods. Companies may restate the comparison figures only when their amendment as aforesaid does not make hindsight use of information. Provisions referring to hedging will be applied, as a general rule, by way of prospective application, with limited retroactive application.

It is stated that the Group assigned the capital investments (in the shares of Bank Leumi Le-Israel and Leumi Card) to fair value through other comprehensive income.

The Group has studied the implications of the standard's application, and in the Group's estimation no material effect on its financial statements is expected from the standard's application.

Note 2 - Significant accounting policies (Cont.)

EE. Standards, interpretation and amendments to standards that were released and are not invalid, and were not pre-adopted by the Group, that have or may have an effect on future periods: (Cont.)

- **IFRS 15 "Revenue from Contracts with Customers":**

The new standard determines a comprehensive and uniform mechanism which regulates the accounting treatment of revenue deriving from contracts with customers. The standard cancels IAS 18 "Revenue" and IAS 11 "Construction Contracts" and their related interpretations. The core principle of the standard is that recognition of revenue shall depict the transfer of goods or services to customers in an amount that reflects the economic benefits that the entity expects to receive in consideration therefor. To this end, the standard determines that revenue be recognized when the entity transfers to the customer the goods and/or services listed in the contract therewith such that the customer obtains control of such goods or services.

The standard determines a five-step model for application of this principle:

1. Identify the contract(s) with the customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to each performance obligation.
5. Recognize revenue when a performance obligation is satisfied.

Implementation of the model is dependent on the facts and circumstances specific to the contract and sometimes requires the exercise of broad discretion.

In addition, the standard determines extensive disclosure requirements with respect to contracts with customers, the significant estimates and the changes thereto which were used at the time of application of the provisions of the standard, in order to enable users of the Financial Statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from the contracts with the customers.

Application of the standard is mandatory for annual reporting periods commencing on or after January 1, 2018. Early application is possible. As a rule, the standard will be applied retroactively, although entities will be entitled to choose certain adjustments in the framework of the standard's transition provisions regarding its application to previous reporting periods.

The Group has studied the implications of the standard's application, and in the Group's estimation no material effect on its financial statements is expected from the standard's application.

Note 2 - Significant accounting policies (Cont.)

EE. Standards, interpretation and amendments to standards that were released and are not invalid, and were not pre-adopted by the Group, that have or may have an effect on future periods: (Cont.)

- **IFRS 16 "Leases":**

The new standard which was published in January 2016 cancels IAS17 "Leases" and the commentaries related thereto, and sets forth the rules for recognition, measurement, presentation, and disclosure of leases with regards to both of the parties to the transaction, i.e. the customer ("**Lessee**") and the supplier ("**Lessor**").

The new standard cancels the currently existing distinction relating to a Lessee, between finance leases operating leases and determines a uniform accounting model with regards to all types of leases. In accordance with the new model, for any leased asset, the lessee is required on the one hand to recognize an asset for the right of use and on the other hand, a financial liability for the lease payment.

The directives on the recognition of an asset and liability, as aforesaid, shall not apply to assets which are leased for a term of up to only 12 month, and with regards to leases of low value assets (such as personal computers).

The standard does not change the currently existing accounting treatment in the Lessor's books.

The standard takes binding effect for the annual reporting periods which commence on January 1, 2019, or thereafter. Early implementation is possible, on condition that IFRS 15 "income from contracts with customers" is also implemented. As a rule, the standard will be implemented retroactively, however entities may choose certain adjustments in the framework of the transitional provisions of the standard for the purpose of its implementation for earlier reporting periods.

The Company has not yet examined the effect of the standard on contracts for the lease of assets in its possession.

Note 3 - Critical estimates and the determination of the fair value

A. General:

In the implementation of the Group's accounting policy, which is described in Note 2 above, the managements of the companies in the Group are required to exercise broad accounting judgment in respect of estimates and assumptions, in connection with the carrying values of assets and liabilities, which cannot necessarily be found in other sources. The estimates and the related assumption are based on past experience and on other factors, which are considered to be relevant. The actual results may well be different from those estimates.

The estimates and assumptions that they are based on are reviewed routinely by the management of the companies in the Group. Changes in the accounting estimates are recognized only in the period in which the change is made in the estimates in the event that a change affects only one period or they are recognized in the said period and also in future periods in cases where the change affect both the current period and also the future periods.

B. Critical estimates:

The following is information in respect of critical estimates, which have been prepared whilst implementing the accounting policies, and which have a significant impact on the Financial |Statements:

(1) The revaluation of investment property and investment property under construction – (see Notes 3C(1), 13 and 35) in accordance with the IFRS and in accordance with the Company's selection, the Group presents investment property and investment property under construction in accordance with the fair value, based mainly on an evaluation by independent external appraisers, possessing the appropriate professional skills.

The fair value is examined at least once a year and at any time at which indications exist that there has been a significant change in value. Even in the case where the indications do not exist, the Company's management may, per its discretion, choose to perform valuations. In each case where the Company's management decides to update the fair value of all or part of the assets, as the case may be, the BOD report for such quarter shall include the Board's explanations in respect of the valuation that it made itself, as required by law.

Changes in the fair value are carried to the income statement and accordingly they may have a material effect on the Company's results.

(2) Contingent liabilities (see Note 32) – in the evaluation of the chances of the legal claims that have been filed against the Company, its consolidated companies and associates, the companies have relied on the opinions of their legal counsel as well as on estimates made by their managements. These evaluations by the legal counsel and the managements are based on their best professional judgment, taking into account the stage at which the proceedings are to be found, and also on the legal experience that has accumulated on various subjects. Since the results of the claims will be determined in the courts, those results may be different from those evaluations.

Note 3 - Critical estimates and the determination of the fair value (Cont.)

B. Critical estimates (Cont.)

(3) Impairment of assets (excluding goodwill) (see Note 15) – at each balance sheet date the Group tests if events have occurred or if changes have taken place in the circumstances that indicate that an impairment has occurred in the value of one or more of the non-monetary assets. If signs of impairment exist, a test is conducted as to whether the amount at which the investment in the asset is presented can be recovered out of the discounted cash flow that are expected from that asset, and in the event that it is necessary, a provision for impairment is recorded up to the level of the amount that is recoverable. The discount cash flows is calculated in accordance with a post-tax cap rate, which reflects the market's estimate in respect of the time value of the money and the specific risks that relate to that asset. The determination of the estimates of the cash flows is based on past experience with the asset or similar assets, and on the Company's best estimate in respect of the economic conditions that will be extant during the course of the balance of the useful life of the asset. In the determination of the net selling price of some of the assets use was made of evaluations by a valuator.

In respect of real properties, the estimates also take into account the market conditions in the area in which the asset is located.

In respect of impairment of goodwill, see Note 2J.

Changes in the Group's estimates, as aforesaid, may lead to significant changes in the book value of the assets and in the operating results.

(4) Fair value of financial assets available for sale (see Note 11) – the fair value of financial instruments that are not traded on an active market (for example: investments in non-marketable instruments) is determined using evaluation techniques. The Group exercises judgment in the determination of the appropriate methodology and in the determination of the assumptions, based on generally accepted practice and the current conditions in the market and also based on calculations of fair value performed by appropriate independent external appraisers. Changes in the assumptions may lead to the recognition of impairment or losses in future periods.

(5) Income taxes (see Note 29) – the Group is subject to the tax laws. Broad judgment is required in order to determine the current tax liability for each of the companies in the Group.

The Group has many transactions, whose tax results are uncertain. The Group recognized liabilities in respect of the tax results of those transactions, based on management's estimates, which place reliance on professional advisors, in respect of the timing and the level of the tax liability that derives from those transactions. Where the tax results of those transactions is different from management's estimates, the tax expenses and the current tax liabilities will be reduced or increased at the time that the final assessments are determined.

(6) Distinction between investment property and business:

In every transaction for acquisition of an investment property, the Group examines whether the acquisition of an investment property constitutes an acquisition of an asset/group of assets or a business combination transaction. The Group's discretion is based on the number of the acquired assets, the existence of associated services in a significant scope (maintenance, cleaning, security, bookkeeping, etc.) that are related to the operation of the asset and the complexity of the management of the asset.

Note 3 - Critical estimates and the determination of the fair value (Cont.)

C. Determination of fair value:

As part of the accounting principles and the disclosure requirements, the Group is required to determine the fair value of non-financial and financial assets and liabilities. The fair values have been determined for the purposes of measurement and/or disclosure on the basis of the methods that are described below. Additional information in respect of the assumptions that have been used in the determination of the fair value is provided in the noted that relate to this asset or liability.

(1) Investment property and investment property under construction – As aforesaid in Note 2P, the Group's investment property is presented at fair value, where changes in the fair value are carried to the income statement as income or as expenses.

For the purpose of the determination of the fair value of investment property, the Company's management bases itself, primarily, on evaluations that are performed once a year by independent appraisers of land, having the required knowledge, experience and expertise. The Company's management is in the habit of determining the fair value in accordance with generally accepted evaluation methods of real properties, primarily discounted cash flow and comparison with selling prices of similar assets and land and the Group's assets in the near environment. Where use has been made of the discounted cash flow method, the interest rate used in the discounting of the net cash flows that are expected from the asset can have a significant impact on the fair value.

In the determination of the fair value of investment property, the following are taken into account, *inter alia* and insofar as is relevant: the location of the property and its physical state, the cap rates, the occupancy rates, the tenant turnover rates, selling prices, the quality of the tenants and their stability, the rent period, the rent prices in similar properties, the adjustments that are required to the existing rent prices, the actual and forecast occupancy levels for the property and the costs of operating it. In the determination of the fair value of investment property under construction, the following are taken into account, *inter alia* and insofar as is relevant: the duration of the construction of the project, the selling prices, the amount of the rent, the additional cost required for construction thereof until the current operation thereof and the interest rate, the project's risk premium, deduction of developer profit and the required cap rate. In the determination of the fair value of land, the construction of which has not yet commenced by the Company, the following are taken into account, *inter alia*: the location of the land, the rights and comparison transactions of similar properties, while making the required adjustments. A change in the value of any of these components, or all of them, could have a significant impact on the fair value of the property as estimated by the Company's management.

The Group strives to determine as objective a fair value as possible, but at the same time, the process of estimating the fair value of investment property also includes subjective elements, which are sources, *inter alia*, in the past experience of the Company's management and its understanding of what is expected to take place in the investment property market at the time at which the estimate of the fair value is determined. In the light of what is stated in the previous paragraph, the determination of the fair value of the Group's investment property mandates the exercise of judgment. Changes in the assumptions that were used in the determination of the fair value could have a significant effect on the Group's state of affairs and the results of its activities.

The Company reviews in its quarterly reports the need to update the value of the investment property by examining macro-economic changes that may have a material effect on the fair value of the properties and/or upon the occurrence of a material event in an asset that was defined as a material or a very material asset in the Company's statements, due to population, material change in rent, etc. Also, with regard to investment property under construction, the following are taken into account: the costs actually invested during the period, the updated forecast of costs for completion and lease agreements signed during the period. Upon initial classification of a property that was under construction as investment property, and insofar as no valuation was received therefor in the six months preceding the classification date, an external valuation will be performed therefor, as of the end of the quarter in which it was first classified as investment property.

Note 3 - Critical estimates and the determination of the fair value (Cont.)

C. Determination of fair value (Cont.)

(2) Impairment of goodwill – in order to determine whether an impairment has taken place in the value of goodwill, the Company's management prepares an estimate of the value in use of the cash generating units to which the goodwill has been allocated, for the purpose of the calculation of the value in use, the Group calculates an estimate of the future cash flows that are expected to derive from each of the cash generating units as well as the appropriate discount rate in order to calculate the present value.

(3) Investments in shares – the fair value, net of sale costs, of financial assets that are classified as available for sale (mainly investments in Bank Leumi and in Leumi Card) is determined whilst relating to their average quoted closing bid prices at the reporting date. In the absence of quoted prices, the evaluations are carried out using the discounted cash flow method under "going concern" assumption and/or the net asset value method.

(4) Loans and receivables including trade and other receivables – the fair value of loans and receivables including trade and other receivables, except for construction works in progress, but including receivables in respect of franchise arrangements, is determined on the basis of the current value of the future cash flow, discounted at the market interest rate, which takes into account, inter alia, the risk of the borrower as of the measurement date. Short term trade and other receivables without a stated interest rate, are measured at the original invoice amount, if the discounting effect is immaterial. The fair value of loans and receivables is determined on the initial recognition date. In the periods following the initial recognition date, the fair value is calculated solely for the purposes of providing disclosure.

(5) Financial liabilities which are not derivatives – the fair value, which is determined for the purpose of providing disclosure, is calculated on the basis of the current value of the future cash flows for the principal and interest component, which are discounted at the market interest rate as of the reporting date.

Note 4 - Cash and cash equivalents and short-term deposits and investments

A. Composition of cash and cash equivalents:

	As of December 31	
	2017	2016
	NIS in millions	NIS in millions
Balances with banks	210	211
Short-term deposits – in NIS unlinked	778	481
Short-term deposits – in dollars	27	23
Financial funds	49	-
Total cash and cash equivalents	1,064	715

B. Short-term deposits and investments:

As of December 31, 2017, the item includes short-term deposits exceeding 3 months and a deposit in the sum of approx. NIS 37 million which is deposited in a special account as stated in Note 20B(5), at an interest at the range of 0.01%-1.2%.

Note 5 - Trade accounts receivable

The composition:

	As of December 31	
	2017	2016
	NIS in millions	NIS in millions
Open debts	267	270
Income receivable	31	29
	298	299
Net of – provision for doubtful debts	(13)	(11)
	285	288

For details regarding balances in respect of related and interested parties – see Note 36C.
For details regarding the credit risk management by the Group – see Note 33B.

Note 6 - Other receivables

The composition:

	As of December 31	
	2017	2016
	NIS in millions	NIS in millions
Institutions	35	43
Pre-paid expenses	23	21
Deposits in trust	54	35
Downpayment to suppliers	2	2
Current maturities of receivables in respect of franchise arrangement	5	5
Receivables for work in progress	8	5
Accounts receivable	10	5
Insurance indemnity receivable (*)	68	-
Other receivables	21	21
	226	137

(*) See Note 13H(2).
For details regarding balances in respect of related and interested parties – see Note 36C.

Note 7 - Inventory

The composition:

	As of December 31	
	2017	2016
	NIS in millions	NIS in millions
Raw materials	3	4
Work in progress	9	9
Finished works	43	40
Servicing material, spare parts and installations	9	8
	64	61

Note 8 – Discontinued operations

On April 14, 2016, Granite Hacarmel entered into an agreement with Israel Oil Gas Fund L.P., a limited partnership incorporated in Israel the general partner of which controlled by Mr. David Weissman (the "**Buyer**") for the sale of all of Granite Hacarmel's holdings (100%) in Sonol Israel Ltd. (the "**Agreement**" and "**Sonol**", respectively). On July 24, 2016, the transaction was closed.

The total consideration amounts to NIS 363.5 million, of which NIS 187.5 million was paid in cash upon the closing of the transaction (subject to certain adjustments determined in the Agreement); a sum of NIS 21 million of the consideration was paid in cash within 18 months of the closing date; a sum of NIS 52.5 million was deducted from the consideration against dividends that were distributed by Sonol up to the closing of the transaction, and a sum of NIS 5 million will be paid against the repayment of certain debts of Sonol's debtors.

Of the consideration, a sum of NIS 97.5 million was paid at the closing date through the assumption of a liability of the Buyer to repay a loan that is secured by a charge on all of the sold shares. The loan will bear an annual interest comprising Prime interest + 1% and shall be paid on a quarterly basis (the "**Loan**"). The principal of the Loan shall be paid in one installment within 60 months of the transaction closing date. To secure the repayment of the Loan, the Buyer undertook (1) not to effect distributions, as defined in the Companies Law, until the full repayment of the Loan (principal and interest), unless certain cumulative conditions agreed by the parties shall have been fulfilled; and (2) compliance with limitations on changes of control in the Buyer.

The transaction does not include Pi Glilot's lands and the shares of Pi Glilot Oil and Pipe Terminals Co. Ltd. For additional details see Note 11(3).

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

Note 8 – Discontinued operations (Cont.)

Set forth below are the results attributed to the discontinued operations:

	As of the year ended December 31		
	2017	2016	2015
	NIS in millions	NIS in millions	NIS in millions
Results of the discontinued operations			
Revenues	-	1,596	3,740
Expenses	-	1,590	3,830
Income (loss) before income taxes	-	6	(90)
Income taxes	-	9	9
Loss after income taxes	-	(3)	(99)
Sale costs and expenses	-	(5)	-
Loss from sale of discontinued operations, net of tax	-	(1)	-
Loss per year	-	(9)	(99)
Cash flows from discontinued operations			
Net cash which derived from current operations	-	186	268
Net cash (used for operations) which derived from investment activity	22	131	(39)
Net cash used for financing activity	-	(64)	(106)
Net cash which derived from discontinued operations	22	253	123

Note 9 - Investments in and loans to investee companies

A. Material partnerships and consolidated companies that are held by the Company:

	State of incorporation	Operating Segment	Rates of Ownership and Control of the Holding Company as of December 31, 2017
			%
Consolidated companies:			
Canit Hashalom Investments Ltd. (C)	Israel	Income-producing property	100.00
Gemel Tesua Investments Ltd.	Israel	Income-producing property	100.00
Otzma & Co. Investments Maccabim Ltd.	Israel	Income-producing property	100.00
Palace America Senior Housing Ltd.	Israel	Senior housing	100.00
Ahuzat Bayit Raanana – Retirement Home Ltd. (D)	Israel	Senior housing	100.00
Otzem Enterprise and Investments (1991) Ltd.	Israel	Income-producing property	100.00
AG Plaza at Enclave Inc.	U.S.	Income-producing property	100.00
Granite Hacarmel Investments Ltd. (B)	Israel	Holdings	100.00
GES Global Environmental Solutions Ltd.	Israel	Treatment of water, wastewater and chemicals	100.00
Supergas Israel Gas Distribution Company Ltd.	Israel	Marketing of energy alternatives	100.00
Azrieli E-Commerce Ltd. (E)	Israel	e-commerce	100.00
Partnership – held by the Company, AG Galleria office buildings, LP	U.S.	Income-producing property	90.00
Assisted Living Modi'in Ltd.	Israel	Senior housing	100.00
AG Two Aspen, LP	U.S.	Income-producing property	100.00

Note 9 - Investments in and loans to investee companies (Cont.)

B. Restrictions applicable to Granite Hacarmel Investments Ltd. ("**Granite**") with respect to its subsidiaries:

(1) The ability of Granite's subsidiaries to distribute dividends to Granite is contingent upon their compliance with financial covenants which they undertook with respect to credit received from banks or upon obtaining the banks' consent or upon the provisions of the law.

(2) In tenders which companies in the Granite Group had won and/or in relation to agreements for the receipt of credit, restrictions were imposed on Granite with respect to the transfer of control and/or ownership, whereby the transfer of control and/or ownership shall be subject to the approval of the financing bodies or relevant governmental authorities, as the case may be.

(3) With respect to the sale of all of Granite Hacarmel's holdings in Sonol in 2016, see Note 8 on discontinued operations.

C. On March 6, 2016, after receipt of the Audit Committee's approval, followed by the Company's Board on the same date, the Company's general meeting approved the Company's engagement in an agreement for the purchase of one share of Canit Hashalom, a subsidiary in which the Company held approx. 99.1%, from Azrieli Foundation (Israel) (R.A.), in consideration for NIS 51 million. Following the purchase, the Company holds 100% of the issued share capital of Canit Hashalom.

The transaction had no effect on the Company's income statement.

D. For details on the purchase of Ahuzat Bayit Raanana – Retirement Home Ltd. in 2016 – see Note 13I(2).

E. On May 2, 2016, the Company entered into an agreement (the "**Agreement**") with Buy2 Networks Ltd., a public company whose shares are listed on TASE (the "**Seller**"), for the purchase of the Seller's business in the field of eCommerce (the "**Operating Segment**"), as specified below:

The purchased business – according to the agreement, the Company purchased 100% of the shares of Netex New Media Ltd. (whose name was changed on July 14, 2016 to "Azrieli E-Commerce Ltd."), a private company wholly owned by the Seller that is engaged in the Operating Segment (whose trade name is "Buy2"), as well as all of the rights in the assets (tangible and intangible) in the Operating Segment which are directly held by the Seller.

The consideration – in consideration for the shares and the purchased business, the Company paid the Seller a sum of NIS 70 million, subject to adjustments. The net consideration, as of the Report Date, is approx. NIS 62 million.

In addition, a sum of approx. NIS 5 million per year is paid for management services in the Operating Segment that is provided by the Seller to the Buyer during a 24-month period from the closing date of the transaction, payable on a calendar quarter basis throughout the period of the services. It was further agreed that from the closing date of the transaction and for a 4-year period, the Seller shall not compete with the Operating Segment.

On May 18, 2016 the approval of the Antitrust Commissioner was received, and on June 2, 2016, the transaction was closed.

Note 10 – Long term investments, loans and receivables

A. The composition:

	As of December 31	
	2017	2016
	NIS in millions	NIS in millions
Loans provided (see B below)	115	116
Net of current maturities	(1)	(1)
	114	115
Outstanding checks	1	2
Prepaid expenses	1	2
Authorities (see C below)	73	70
Assets in respect of employee benefits	2	2
Receivables in respect of the averaging of income from rent	110	90
Restricted investments (see D below)	19	22
Other receivables	26	37
	346	340

B. Additional information:

(1) For details with respect to a loan to the purchaser of Sonol, see Note 8 on discontinued operations.

(2) Unlinked loans in the sum of NIS 106 million were extended at an interest at the range of 0%-2% (in 2016 – approx. NIS 102 million).

In addition, index-linked loans in the sum of NIS 2 million were extended at an interest at the range of 0%-4% and NIS 7 million at an interest at the range of 4%-8% (in 2016 - an amount of NIS 3 million and NIS 11 million, respectively).

C. A sum of NIS 70 million is a part of an assessment of a betterment levy that the Company paid under protest. An appeal from the assessment was filed and a hearing with a deciding appraiser was scheduled.

D. As collateral for the payment of bonds issued by a consolidated company of Supergas (see Note 20B(5)), the consolidated company provided for the benefit of the bond trustee an index-linked deposit in the amount of the highest quarterly payment (principal and interest) due according to the bond's payment schedule, until the repayment thereof.

Note 11 - Financial assets

The composition:

	As of December 31	
	2017	2016
	NIS in millions	NIS in millions
Financial assets available for sale	1,668	1,690
Financial assets designated at fair value through profit and loss	17	23
	1,685	1,713

Financial assets available for sale:

(1) Investment in Bank Leumi Le'Israel Ltd. ("Bank Leumi")

On April 30, 2009 the Company acquired approx. 4.8% of the shares in Bank Leumi (approx. 71 million shares) for a consideration that was equivalent to NIS 742 million. In 2017 the Company sold approx. 11.7 million shares in consideration for a sum of approx. NIS 203 million (in 2016 the Company sold approx. 5 million shares in consideration for a sum of approx. NIS 80 million), such that as of December 31, 2017, the Company holds approx. 3.5% of Bank Leumi's shares. As a result of the sale of the shares, financing income in the sum of approx. NIS 81 million was recorded in 2017 (financing income in the sum of approx. NIS 26 million was recorded in 2016).

As of the date of the Statement of Financial Position, the balance of the Company's investment in Bank Leumi's shares is approx. NIS 1,132 million (as of December 31, 2016 – NIS 1,040 million) according to the value of Bank Leumi's shares on TASE.

In 2017, the Company received a dividend in the sum of approx. NIS 23 million. After the date of the Financial Statements, on March 5, 2018, it was decided at Bank Leumi to distribute a dividend that would be paid on March 28, 2018, with the Company's share in the dividend being approx. NIS 12 million.

(2) Investment in Leumi Card Ltd. ("Leumi Card")

As of the Report Date, the Company holds 20% of the issued and paid-up capital of Leumi Card and 18% of the voting rights therein.

Leumi Financial Holdings Ltd. ("**Leumi Holdings**") has the right of first refusal on the sale of the shares that are held by the Company to a third party which is not a permitted transferee of the Company, as defined in the agreement.

Commencing from May 26, 2008, Mr. Menachem Einan has served as the Company's representative on the board of directors of Leumi Card.

As of date of the Statement of Financial Position, Leumi Card's board of directors is made up of 8 directors (of whom 3 are external directors).

In the light of the number of directors and the control structure in Leumi Card, the Company has reached the conclusion that it does not have material effect in Leumi Card and therefore the investment is presented as a "financial asset available for sale".

In April 2015, the Antitrust Commissioner released a list of the significant financial bodies under the Competition Promotion and Concentration Reduction Law, 5774-2013, and also listed Leumi Card thereon. Insofar as the Group continues to be deemed a significant real corporation, and insofar as Leumi Card continues to be deemed a significant financial body, by December 11, 2019, the

Group shall be required to reduce its holdings of Leumi Card shares to below a holding rate of 10%.

Note 11 - Financial assets (Cont.)

Financial assets available for sale: (Cont.)

(2) Investment in Leumi Card Ltd. ("Leumi Card") (Cont.)

As of date of the Statement of Financial Position, the Company's investment balance in Leumi Card totaled at an amount of approx. NIS 536 million (as of December 31, 2016 – approx. NIS 562 million).

The fair value has been determined by an independent external appraiser, where the evaluation is based on the discounted cash flow method (DCF), based on the net profit as extrapolated from the future forecast, adjustments to the profit and net of investments. In the determination of the recoverable amount of the investment on the basis of cash flows, a weighted average cost of capital (WACC) of 8.5% has been taken into account and the long-term growth rate has been set at 2.5%.

In accordance with immediate reports released by Bank Leumi Le-Israel Ltd. ("**Bank Leumi**") on November 3, 2015 and December 23, 2015, Bank Leumi received notice from the companies Visa Inc. ("**Visa**") and Visa Europe Ltd. ("**Visa Europe**") regarding their engagement in an agreement, whereby Visa would acquire Visa Europe, and that the total consideration to be paid in the context of the transaction is estimated at up to approx. €21.2 billion, comprising payment in cash and in shares. Bank Leumi further updated in its various reports that the closing of the transaction was expected to take place in 2016.

It was further stated in the reports of Bank Leumi that Bank Leumi is a member of Visa Europe, and that according to the manner of distribution of the consideration between the members of Visa Europe, Bank Leumi reported the recording of the receipt of cash consideration for the acquisition transaction in the sum of approx. €69 million (approx. NIS 300 million), as well as the recording of revenues of approx. NIS 78 million for the right to future payments in cash and convertible shares in favor or Bank Leumi only. The Company, as the holder of 20% of the shares of Leumi Card, disputed Bank Leumi's claims on the matter, and approached Bank Leumi and its representatives in Leumi Card, clarifying that the monies received by Bank Leumi following the transaction for the acquisition of Visa Europe by Visa, originate from the business of Leumi Card vis-à-vis Visa Europe, and therefore, Bank Leumi is required to transfer the consideration received thereby as aforesaid, to Leumi Card.

In April 2017, the parties agreed that Bank Leumi shall transfer to the Company, in respect of the Visa Europe transaction, a total amount of approx. NIS 32 million which were recognized as other income in the 2017 statements. Most of the amount was transferred to the Company in 2017.

In 2017, the Company received a dividend in the sum of approx. NIS 10 million from Leumi Card (in 2016 – approx. NIS 10 million). After the date of the Financial Statements, on March 4, 2018, the Company received an additional dividend in the sum of approx. NIS 10 million from Leumi Card.

(3) On May 10, 2016, the Company engaged, directly and indirectly through companies controlled thereby, in sale agreements for the sale of all of the Company's holdings in the Pi Glilot lands and the shares of Pi Glilot Oil and Pipe Terminals Co. Ltd. (which is the owner of a leasehold with respect to land in the Pi Glilot site), to third parties, for a total consideration of approx. NIS 130 million.

After the date of the Statement of Financial Position, the transactions were closed.

Note 12 - Long-term receivables in respect of a franchise arrangements

A. A franchise arrangement for the planning, construction and operation of a wastewater treatment plant:

GES has franchise arrangements with local authorities which are defined according to IFRIC 12 as a financial asset – receivables in respect of franchise arrangements. Regarding one of the facilities, an agreement was signed in 2000 between a subsidiary of GES and a local authority for the planning, financing, building and maintenance of a wastewater treatment plant ("**WTP**"). Within the agreement, the Company undertook to build and operate the WTP for a term of 30 years, and in return the Company shall be entitled to an agreed payment per cubic meter, which is linked to the CPI. During 2012, an addendum to the agreement was signed, whereby the Company shall expand the existing WTP. In 2015, expansion of the WTP has been completed.

GES treats the expansion of the plant and its operation throughout its useful life, as a combined model which includes a financial asset - receivables in respect of a franchise arrangement and an intangible asset. GES recognizes income throughout the construction period in accordance with IAS11 and in respect of the services it provides in accordance with IAS18.

B. A franchise arrangement for the planning, construction and operation of a wastewater treatment facility for the recycling of water in production processes:

On April 2, 2015, an agreement was signed between the consolidated company GES Facility Operations Ltd. and a third party (the "**Customer**") for the rehabilitation, upgrade and operation of a facility for the recycling of wastewater.

In the agreement, after the completion of the construction, the Company undertook to operate the facility for a period of 10 years with an option for an extension of another 3 additional years.

GES Facility Operations Ltd. engages in rehabilitation, upgrade of the facility and the operation thereof throughout its useful life as a financial asset - receivables in respect of a franchise arrangement. GES Facility Operations recognizes income throughout the construction period pursuant to IAS 11 and for the services it provides pursuant to IAS I8.

The upgrading of the facility has been completed and operation thereof has begun in April 2017.

C. The collection dates of the balances for the receivables in respect of franchise arrangements after the date of the Financial Statements are as follows:

	As of December 31, 2017					
	First year	Second year	Third year	Fourth year	Above five years	Total
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Receivables in respect of a franchise arrangement	5	5	4	4	37	55

	As of December 31, 2016					
	First year	Second year	Third year	Fourth year	Above five years	Total
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Receivables in respect of a franchise arrangement	5	5	5	4	39	58

Note 13 - Investment property and investment property under construction

A. Movements and composition:

	As of December 31, 2017			As of December 31, 2016		
	Land, buildings and leasable retail areas	Investment property under construction	Total	Land, buildings and leasable retail areas	Investment property under construction	Total
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Balance as at the beginning of the year	20,003	3,720	23,723	18,395	1,876	20,271
Additions during the year:						
Investments	391	732	1,123	827	1,177	2,004
Adjustments to fair value	47	453	500	165	546	711
Net translation differences deriving from the translation of the financial statements of foreign operations	(206)	-	(206)	(28)	-	(28)
Entry into consolidation (*)	124	-	124	531	-	531
Transfer from downpayments on account of investment property	-	-	-	-	257	257
Transfer from investment property under construction, net	3,000	(3,000)	-	136	(136)	-
Total additions	3,356	(1,815)	1,541	1,631	1,844	3,475
Write-offs during the year:						
Classification to fixed assets	-	18	18	11	-	11
Classification to assets held for sale (**)	40	-	40	-	-	-
Exit from consolidation	-	-	-	12	-	12
Total dispositions	40	18	58	23	-	23
Balance at the end of the year	23,319	1,887	25,206	20,003	3,720	23,723

(*) See Notes 13H(3) and 13I(2).
(**) See Note 11(3).

B. Additional information:

(1) Canit Hashalom is leasing the land on which the "Azrieli Center" was built from the City of Tel Aviv-Jaffa under a capitalized lease for a period of 200 years. The lease period is until February 6, 2195. Mortgages apply to Canit Hashalom's leasehold in part of the lobby floor, the roof floor and floors 11-49 of the Round Tower, which constitutes part of Azrieli Center in Tel Aviv, in favor of an institutional body which provided the Company with a loan.

(2) From December 24, 2003, Canit Hashalom has been leasing the land on which the “Azrieli Modi'in" mall was built from the Israel Lands Authority (ILA) under a capitalized lease for a period of 98 years in respect of residential units and for a period of 49 years in respects of units with other designations (the mall and offices) with an option for additional periods of 98 years and of 49 years, respectively. As of the date of the approval of the Financial Statements, the lease agreement has not yet been actually signed.

Note 13 - Investment property and investment property under construction (Cont.)

B. Additional information: (Cont.)

(3) The Company is leasing the land on which the "Azrieli Jerusalem (Malha)" mall was built from the ILA under a capitalized lease for a period of 49 years, ending on August 15, 2039, with an option for an additional period of 49 years.

(4) The Company is leasing the land on which the "Azrieli Ayalon" mall was built from the ILA under a capitalized lease for a period of 49 years, ending on August 1, 2031, with an option for an additional period of 49 years.

(5) The Company is leasing the land on which the Azrieli Or Yehuda Outlet Mall was built from the ILA under a capitalized lease for a period of 49 years, ending on March 24, 2040, with an option for an additional period of 49 years.

(6) The Company is leasing the land on which the Azrieli Givatayim Mall was built from the ILA under a capitalized lease for periods of 49 years, ending on September 5, 2053 and February 9, 2051.

(7) The Company is leasing the land on which the Azrieli Haifa Mall was built from the ILA under a capitalized lease for periods of 49 years ending October 31, 2042 and March 2, 2035 with an option for an additional period of 49 years. The rights in the property are subject to pledges in favor of a bank that extended loans to the Company.

(8) The Company is leasing the land on which the industrial buildings in Caesarea Industrial Park were built from the Caesarea Edmond Benjamin de Rothschild Development Corporation Ltd. under a capitalized lease for a period of 49 years, ending on July 7, 2053 and March 12, 2049, with an option for an additional period of 49 years.

(9) The Group is leasing the land on which the Ramla Azrieli Mall was built from the ILA under a capitalized lease until January 14, 2050. As of the date of approval of the Financial Statements, the lease agreement has not yet been signed. The rights in the land are subject to pledges in favor of an institutional body which provided the Company with a loan.

(10) Canit Hashalom is leasing parts of the land on which the Azrieli Holon Center was built from the City of Holon under a capitalized lease, in accordance with its share in the transaction for a period of 99 years, with an option for another 99 years for payment.

On the Group’s engagement with the City of Holon through Canit Hashalom, see Note 30B(8).

(11) The Company is leasing the land on which the Sarona Tower was built and Sarona Mall is under construction from the ILA under a capitalized lease for a period of 49 years, ending on May 29, 2060 with an option for an additional period of 49 years from the end of the lease period.

(12) The Group is entitled to be registered as the owner of a sub-leasehold in the framework of a set of agreements with a third party, in Palace Tel Aviv Senior Housing, until 2097.

(13) The rights in the properties in the Azrieli Rishonim Center are subject to pledges in favor of an institutional body which provided the Company with a loan.

(14) The remaining income-producing properties are owned by the Group’s companies.

(15) In respect of additional charges and guarantees, see Note 31.

Note 13 - Investment property and investment property under construction (Cont.)

B. Additional information: (Cont.)

(16) The Group has several additional development projects in the retail centers and malls segment and in the office and other space for lease segment and in the senior housing segment:

- **Azrieli Town project (see Note 13C)** – in Tel Aviv on an area of approx. 10,000 sqm. The land on which the project is built is partially owned and partially leased in a capitalized lease from the ILA for 49 years, ending on May 8, 2061 with an option for an additional period of 49 years.

- **Expansion of Azrieli Center Tel Aviv (see Note 13D)** – in Tel Aviv, on an area of approx. 8,400 sqm, under ownership. In October 2017, the Company received approval from the District Committee for publication of a plan for validation for additional rights for commerce, offices, hospitality, residences and senior housing, such that the total building rights on the project land will amount to approx. 150 thousand sqm.

- **Lodzia (see Note 13E)** – in Holon on an area of approx. 53,000 sqm, under ownership.

- **HaManor Holon** – in Holon on an area of 12,400 sqm, under ownership.

- **A lot in Akko** – on an area of approx. 4,000 sqm, leased in a capitalized lease from the City of Akko for a period ending on October 11, 2114.

- **Petah Tikva** – on September 17, 2017, the Company entered into an agreement, through an (indirect) wholly-owned subsidiary (the "**Purchaser**"), with unrelated third parties for the acquisition of land in Petah Tikva (the "**Land**") in consideration for NIS 91 million. The Land is on an area of about 19 thousand sqm located in the Eastern part of the Kiryat Aryeh industrial zone in Petah Tikva, close to an office project owned by the Purchaser. The Land includes rights for the construction of approx. 53,000 sqm. as well as parking basements. The Company intends to build an office project on the Land in accordance with the usages permitted under the zoning plan applicable to the Land.

- **Palace Modi'in Senior Housing** – in Modi'in, on an area of 10,500 sqm. The land on which the project is built is leased under a capitalized lease from the ILA for 49 years, ending on January 25, 2063, with an option for another period of 49 years.

- **Palace Lehavim Senior Housing** – in Lehavim, on an area of 28,000 sqm, leased under a capitalized lease from the ILA for 49 years, ending on November 30, 2063, with an option for another period of 49 years.

- **Palace Rishon LeZion Senior Housing** – in Rishon LeZion on an area of approx. 3,400 sqm leased in a capitalized lease from the ILA for 49 years, ending on March 12, 2065 with an option for an additional period of 49 years.

(17) Some of the assets of consolidated companies are registered in their names in the Lands Registry. Another part has not yet been registered for technical reasons, the main reason for the non-registration deriving from the proceedings of the land arrangements and the reparcellation arrangements of the land have not yet been settled.

(18) With respect to techniques for the fair value estimation of the Group's investment property, see Note 35B(3). In addition, the fair value of the investment property is presented in the Company's books, with reconciliations for receivables in respect of the averaging of income from rent (see Note 10).

Note 13 - Investment property and investment property under construction (Cont.)

B. Additional information: (Cont.)

(19) The amounts recognized in the income statement:

	As of the year ended December 31		
	2017	2016	2015
	NIS in millions	NIS in millions	NIS in millions
Rental, management and maintenance income	1,868	1,745	1,623
Direct operating expenses deriving from rent, management and maintenance	484	445	385

C. In December 2012, an agreement was signed with Clalit Health Services ("**Clalit**") whereby the Company purchased Clalit's rights in a lot of an area of approx. 10,000 sqm located at 146 Menachem Begin Road, in the Northern Tel Aviv Central Business District, in consideration for the sum of NIS 240 million (excluding V.A.T.). The purchased lot is designated for the construction of the Azrieli Town project of approx. 75 thousand sqm.

On August 31, 2016, the transaction was closed and the property was revaluated in the financial statements and recorded at its fair value.

D. 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, of an area of approx. 8,400 sqm, at the intersection of Menachem Begin Road and Noah Moses St. 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 March 31, 2016, the Company paid the sum of NIS 302 million plus VAT, which constitutes the balance of the consideration. On such date, the possession of the lot was handed over to the Company. The property was revaluated in the financial statements and recorded at its fair value.

E. On April 13, 2016, the Company closed a transaction, that was signed on March 2, 2016, between the Company and Lodzia-Rotex Investment Ltd. (the "**Seller**"), after the Antitrust Commissioner's approval was received, which constituted a condition precedent to the transaction, in connection with the acquisition of all of the ownership rights of the Seller in a property of a registered area of approx. 53,000 sqm, situated in the Holon industrial zone, with a built-up area of approx. 14,300 sqm of workshops and commercial buildings thereon, which are leased to various tenants. In consideration for the property, the Company paid approx. NIS 280 million plus V.A.T. The designation of the land according to the valid zoning plan is a special employment area with a commercial front and it includes building rights for approx. 193 thousand sqm above-ground and as well as parking basements.

In addition, the Seller was entitled to all the revenues net of expenses for the management of the property (NOI) in the 12 months from the execution date of the agreement, in the estimated amount of NIS 10 million.

F. With respect to an engagement in agreements for the sale of lands in Pi Glilot – see Note 11(3).

Note 13 - Investment property and investment property under construction (Cont.)

G. On January 11, 2018, after the date of the Statement of Financial Position, a wholly-owned consolidated company had won a tender held by the ILA for the purchase of a leasehold in a lot located in Modi'in-Maccabim-Reut CBD, on an area of approx. 5,300 sqm, designated for the construction of 80 residential units, 50 hotel rooms, offices and commerce, in consideration for approx. NIS 101.5 million. The Company will examine the possibility of taking action to increase the building rights in the lot.

H. Income-producing property in the USA:

(1) In August 2016, a consolidated company purchased an office building (the construction of which was completed in August 2015), located in Austin, Texas, U.S.A., for U.S. $40.5 million. The size of the property is 128,990 sq ft (11,984 sqm) and it is occupied by a single tenant with a lease until 2028, with no option for early exit.

For the purpose of the purchase of the property, the consolidated company took a loan in the amount of U.S. $22 million for a period of 7 years, bearing fixed dollar interest of 3.65%. As collateral, the purchaser's rights in the property were pledged and guarantees and indemnifications by the Company were provided in respect of exceptional events only, per the standard practice in transactions of this type.

(2) In August 2017, the city of Houston in the USA was hit by the tropical storm Harvey, that caused significant flooding, mainly in residential buildings in the city. a consolidated company holds parts of two office properties in Houston that incurred water damage during the storm. These assets are covered by insurance policies. The deductibles under such insurance policies amount to the total of approx. $10.6 million. The consolidated company's share in the deductible as of the date of the Statement of Financial Position is approx. $7.2 million (for details regarding income from indemnification from the insurance company, see Note 27).

(3) In December 2017, a consolidated company acquired the share of one of the partners at the rates of 33.33% and 25% in two office properties in Houston, Texas, known as One Riverway and Three Riverway, respectively, such that after the closing of the said acquisitions the Group holds 66.66% and 70% of such properties, respectively, in consideration for a capital injection in the sum of approx. $2.4 million and assumption of the said partner's share in loans in the sum of approx. $38.7 million.

I. Senior housing:

(1) On March 13, 2016, a consolidated company of the Company's won a tender issued by the ILA for the purchase of a leasehold in a lot of 3,400 sqm, designated for senior housing, at HaRakafot neighborhood in Rishon LeZion East, designated for the construction of at least 250 senior housing units and approx. 3,000 sqm of retail spaces, in consideration for approx. NIS 26 million. According to the terms of the tender, the consolidated company paid development expenses in the sum of approx. NIS 22 million.

(2) On May 25, 2016, a consolidated company (the "**Buyer**") closed a transaction with unrelated third parties (the "**Sellers**"), for the purchase of 100% of the shares of a private company that as of the purchase date was a reporting corporation, as defined in the Securities Law, 5728-1968, which holds and manages the "Ahuzat Bayit" senior home and the "Park Mall" retail center in Ra'anana (the "**Purchased Company**").

Note 13 - Investment property and investment property under construction (Cont.)

I. Senior Housing: (Cont.)

(2) (Cont.)

Below are the main details of the transaction:

- The property – "Ahuzat Bayit" is an active senior home located at Ahuza Street in Ra'anana, in proximity of the route of Road 531, which included at the time of the engagement approx. 328 senior housing units and a long-term care unit.

  "Park Mall" is an active retail center located near the senior home, with approx. 20 tenants in an area of approx. 4,500 sqm.

- The consideration – in consideration for the shares of the Purchased Company, the Buyer has paid a total consideration of NIS 55 million. The full consideration amount was paid at the closing date of the Transaction.

- Indemnification – in the context of the engagement, the Buyer undertook that it, jointly with others, will be liable to indemnify the Purchased Company and/or the Company for past activity of the Purchased Company that is unrelated to the senior home and the retail center.

On June 29, 2016, the Purchased Company ceased to be a reporting corporation, as defined in the Securities Law, 5728-1968, following the early redemption by the Purchased Company of the Series A Bonds it issued to the public. For details see Note 20B(6) below.

J. Projected revenues due to signed lease contracts:

Set forth below are the minimal lease payments due to be received due to lease contracts for the agreement periods (including revenues from rent, management fee and parking and excluding extension options):

The revenue recognition period	Revenues from fixed components	
	2017	2016
	NIS in millions	NIS in millions
Up to one year	1,677	1,234
From one to four years	3,488	2,445
Over four years	1,933	1,692
	7,098	5,371

Note 14 - Fixed assets

A. The movement and composition:

	Land and buildings at cost	Machines and equipment	Furniture, equipment and computers	Vehicles	Installations and leasehold improve-ments	Total
	NIS in millions					
Cost:						
Balance as of January 1, 2016	1,017	949	194	83	12	2,255
Additions	16	31	7	11	1	66
Write-offs	-	(1)	-	(7)	-	(8)
Classified from investment property	11	-	-	-	-	11
Entry into consolidation	-	-	1	-	-	1
Exit from consolidation (2)	(866)	(308)	(91)	(37)	-	(1,302)
Balance as of December 31, 2016	178	671	111	50	13	1,023
Additions	28	35	6	12	2	83
Write-offs	-	(2)	-	(3)	-	(5)
Classified from investment property	18	-	-	-	-	18
Effect of changes in exchange rates	(3)	(2)	-	-	-	(5)
Balance as of December 31, 2017	221	702	117	59	15	1,114
Accumulated depreciation and loss from impairment:						
Balance as of January 1, 2016	385	623	140	38	10	1,196
Depreciation for the year (1)	14	35	8	6	1	64
Write-offs	-	(1)	-	(5)	-	(6)
Entry into consolidation	-	-	1	-	-	1
Exit from consolidation (2)	(367)	(214)	(74)	(22)	-	(677)
Balance as of December 31, 2016	32	443	75	17	11	578
Depreciation for the year	4	25	4	5	1	39
Write-offs	-	(1)	-	(2)	-	(3)
Balance as of December 31, 2017	36	467	79	20	12	614
Depreciated Cost:						
As of December 31, 2017	185	235	38	39	3	500
As of December 31, 2016	146	228	36	33	2	445

(1) The depreciation expenses for 2016 include expenses in the sum of NIS 25 million from discontinued operations (see also Note 8).

(2) Sale of Sonol Israel Ltd. – for further details see Note 8.

Note 14 - Fixed assets (Cont.)

B. In the matter of charges - see Note 31.

C. Details in respect of interests in land used by the Group as fixed assets

(1) Consolidated companies in the Granite Group have buildings on lands held under capitalized lease from the ILA for various periods until 2059. The depreciated cost of the buildings on leased lands and the leased lands, as of December 31, 2017 is NIS 55 million (December 31, 2016 - NIS 59 million).

(2) With respect to the land rights of the senior homes' LTC units, see Notes 13B(12) and 13B(16).

Note 15 - Intangible assets

A. The movement and composition:

	Goodwill	Customer relations	Rights to supply and distribution rights to oil distillates and others	Franchise arrangements	Software	Others (a)	Total
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Cost:							
Balance as of January 1, 2016	296	135	107	19	64	56	677
Additions	-	-	-	1	2	3	6
Entry into consolidation (c)	43	8	-	-	41	9	101
Exit from consolidation (b)	(169)	(28)	18	-	(37)	(37)	(253)
Balance as of December 31, 2016	170	115	125	20	70	31	531
Additions	-	-	-	-	2	-	2
Balance as of December 31, 2017	170	115	125	20	72	31	533

(a) The ‘Others’ item includes primarily amounts in respect of a brand, trademarks and licenses and rights for the supply of natural gas.
(b) For further details - see Note 8 on discontinued operations.
(c) For further details - see Notes 13I(2) and 9E.

Note 15 - Intangible assets (Cont.)

A. The movement and composition (Cont.):

	Goodwill	Customer relations	Rights to supply and distribution rights to oil distillates and others	Franchise arrange-ments	Software	Others	Total
	NIS in Millions	NIS in Millions	NIS in Millions	NIS in Millions	NIS in Millions	NIS in Millions	NIS in Millions
Amortizations and losses from impairment:							
Balance as of January 1, 2016	120	102	24	2	57	28	333
Amortization for the year (1)	-	5	5	1	7	6	24
Entry into consolidation (2)	-	1	-	-	1	1	3
Exit from consolidation (3)	(145)	(22)	33	-	(34)	(26)	(194)
Impairment	29	-	-	-	-	3	32
Balance as of December 31, 2016	4	86	62	3	31	12	198
Amortization for the year	-	4	5	1	10	5	25
Balance as of December 31, 2017	4	90	67	4	41	17	223
Book value:							
As of December 31, 2017	166	25	58	16	31	14	310
As of December 31, 2016	166	29	63	17	39	19	333

(1) The amortization expenses for 2016 include expenses in the sum of NIS 3 million due to discontinued operations (see also Note 8).
(2) For further details – see Notes 13I(2) and 9E.
(3) For further details – see Note 8 on discontinued operations.

Original Amount of Goodwill:	NIS in Millions
As of December 31, 2015	292

As of December 31, 2016	178
As of December 31, 2017	178

Note 15 - Intangible assets (Cont.)

B. Allocation of goodwill to cash generating units:

The goodwill has been allocated to cash generating units for the purposes of the testing for impairment, as follows:

	As of December 31		
	2017	2016	2015
	NIS in millions	NIS in millions	NIS in millions
Activity A – Fuels (1)	-	-	49
Activity B – Gas (2)	63	63	63
Activity C – Senior Housing	77	77	64
Activity D – eCommerce (3)	26	26	-
	166	166	176

Key assumptions used to calculate a recoverable amount:

(1) For details on the sale of Sonol Israel Ltd. – see Note 8.

(2) The testing for impairment of goodwill was determined based on the discounting of the future cash flows to be generated from the continuous use of the units, and based on the following assumptions:

(a) The cash flow is estimated based primarily on the actual results of activity and on a business plan for the coming five years.

(b) The main projected annual growth rate that is included in the cash flow forecast in the representative year is 2.3% (last year – 2.5%), in accordance with management's evaluation. This growth rate is based on the long-term growth rate of the GDP, the rate of population growth in Israel, business trends in operations in each sector and on the expected increase in competition for the various products.

(c) For the purpose of estimation of the cost of capital for the activity, an estimate was made of the pre-tax weighted average cost of capital (WACC), while using the CAPM model for the calculation of the cost of capital and additional assumptions in respect of the price of debt and its appropriate debt structure. In determination of the recoverable amount of the units, a cap rate of 13.80% (2016 – 14%) was used. The estimate of the cap rate was made in reliance, *inter alia*, on the cost of capital for each activity (including the taking into consideration of the risk free interest rate, the market premium and the beta), the price of debt and comparison to similar public companies and other competing companies, as the case may be.

(3) The testing for impairment of goodwill was determined based on the discounting of the future cash flows to be generated from the continuous use of the unit, and based on the following assumptions:

(a) The cash flow is estimated based on forecasts for the coming nine years, which take into account that the Company is in the process of penetrating the Israeli eCommerce market.

(b) The main projected annual growth rate that is included in the cash flow forecast in the representative year is 8%, which represents the projected growth of the eCommerce market in Israel.

Note 15 - Intangible assets (Cont.)

B. Allocation of goodwill to cash generating units (Cont.):

Key assumptions used to calculate a recoverable amount: (Cont.)

(c) For the purpose of estimation of the cost of capital for the activity, an estimate was made of the pre-tax weighted average cost of capital (WACC), while using the CAPM model for the calculation of the cost of capital and additional assumptions. In determination of the recoverable amount of the units, a cap rate of 15.96% was used.

The evaluations and the assumptions were determined in accordance with the estimations of the managements in the Group in respect of future trends in the sector, and they are based on both external and internal sources (historical data) and in accordance with economic evaluations by independent appraisers.

Note 16 – Pre-paid long-term lease payments

Leases in which the Group is the lessee:

A consolidated company has lease agreements for approx. 3 years. For details regarding the sale of Sonol – see Note 8.

The following are details of the lease payments and income from sub-lease that were carried to the income statement:

	For the year ended December 31		
	2017	**2016**	**2015**
	NIS in millions	**NIS in millions**	**NIS in millions**
Minimal lease payments recognized as an expense	3	2	179
Conditioned lease payments recognized as an expense	-	1	21
Income in respect of sub-lease	-	-	(7)
	3	3	193

Note 17 - Trade payables

The composition:

	As of December 31	
	2017	**2016**
	NIS in millions	**NIS in millions**
Open debts	211	150
Checks payable	85	69
	296	219

Note 18 - Other payables

The composition:

	As of December 31	
	2017	2016
	NIS in millions	NIS in millions
Downpayments from customers and income in advance	43	44
Liabilities for the completion of work in progress	8	14
Liabilities to employees and other liabilities in respect of salaries and wages	37	31
Interest and expenses payable	70	77
Institutions	27	27
Downpayment on account of sale of investment property	8	-
Others	8	7
	201	200

For further information regarding payables that constitute related and interested parties, see Note 36C.

Note 19 - Deposits from customers

A. Supergas collects from its customers a deposit for ensuring the recovery of the equipment provided to them at the time of the engagement therewith, which it is required to return upon the end of the engagement and the recovery of the equipment, in accordance with the Products and Services Price Control Order (Determination of the Level of Control and Maximum Deposit Prices for Gas Equipment) 5776-2015.

B. Liability due to senior housing deposits and liabilities due to apartment keeping deposits

The Group has liabilities due to Shekel deposits received from tenants with whom contracts were signed in senior housing projects, which are operated by the Group. The liabilities due to the Shekel deposits are linked to the CPI and are presented after erosion pursuant to the agreements signed by the Group’s companies with tenants.

According to agreements with some of the tenants, a certain percentage of the balance of the deposits is used as an advance payment for the tenant’s rights of usage of the property and is not repaid to the tenant. The “income received in advance” component is included as part of the liability due to the deposits and is carried to the income statement as an income from usage fees throughout the term of the agreement.

Furthermore, there are liabilities due to apartment keeping deposits.

Note 20 - Loans from banks and other credit providers

A. Current liabilities:

	As of December 31	
	2017	2016
	NIS in millions	NIS in millions
Credit from banks		
Overdrafts	-	1
Short-term loans	47	38
	47	39
Credit from other credit providers		
Commercial paper (*)	582	655
Short-term loans	1	2
	583	657
Current maturities of long-term liabilities		
Current maturities of loans from banks	90	392
Current maturities of loans from others	362	352
Current maturities of bonds	429	643
	881	1,387
Total current liabilities	1,511	2,083

(*) On June 23, 2014, the Company issued a (rated) series of commercial paper for investors listed in the First Schedule to the Securities Law, 5728-1968, with a total par value of NIS 480 million. The commercial paper principal bears variable NIS interest comprising Prime interest less 1.2%, payable after the earlier of twenty 90-day terms or at maturity or at an exit point. The commercial paper will not be listed on TASE.

The commercial paper received an "ilA-1+" rating from Ma'alot.

Since then the Company has paid par value of approx. NIS 89 million out of this series, and the balance of the rated commercial paper series as of December 31, 2017 is par value of approx. NIS 391 million.

In March 2015, the Company issued a new un-rated series of commercial paper with a total par value of NIS 116 million. In June 2015 and March 2016, the Company expanded this series to a total par value of approx. NIS 190 million. The commercial paper principal bears variable NIS interest comprising Prime interest less 1.2%, and shall be paid after the earlier of twenty 90-day terms or at maturity or at an exit point.

Note 20 - Loans from banks and other credit providers (Cont.)

B. Non-current liabilities:

	As of December 31	
	2017	2016
	NIS in Millions	NIS in Millions
Bonds		
Bonds (1), (2), (3), (4), (5)	5,864	5,141
Loans from banks	244	602
Other long-term liabilities		
Long-term loans from others	2,512	2,630
	8,620	8,373
Net of current maturities	(881)	(1,387)
Total non-current liabilities	7,739	6,986
Presented under the following items:		
Loans from banks and other credit providers	2,304	2,488
Bonds	5,435	4,498
	7,739	6,986

(1) In 2007, the Company performed a private placement to institutional investors of Series A bonds, with a par value of 740 million bonds of par value NIS 1 each. The bonds were linked to the CPI (principal and interest) and bore interest at a rate of 4.8% a year. The Company repaid an amount equivalent to 5% of the amount of the principal (NIS 37 million) in the month of March in each of the years 2008 to 2016 and in March 2017 an amount that is equivalent to 55% of the amount of the principal (NIS 407 million). The interest payments were made once every three months.

In March 2017, the last payment of the Series A bonds occurred (the balance thereof as of December 31, 2016 was NIS 488 million).

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

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

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

Note 20 - Loans from banks and other credit providers (Cont.)

B. Non-current liabilities: (Cont.)

(2) (Cont.)

On January 20, 2015, Ma'alot rated the Series B Bonds as ilAA+ (stable outlook).

The bonds are not secured by any collateral.

At the time of the offering, the Company undertook to meet financial covenants and undertakings, the main ones being:

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

(b) Maintaining minimal equity (equity attributable to the Company's shareholders, excluding minority rights) of at least NIS 5 billion for two or more consecutive calendar quarters, according to its last consolidated financial statements.

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

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

(c) The Company shall not perform a Distribution (as defined in the Companies Law) to its shareholders, if: (1) the Company's equity (equity attributable to the Company's shareholders, excluding minority rights) according to its last published consolidated financial statements, net of the amount of the Distribution, is less than NIS 6 billion; (2) the Company's net financial debt to net assets ratio (as defined in the Indenture), net of the amount of the Distribution, exceeds 50%; (3) there are grounds for acceleration according to the definitions in the Indenture of the Series B Bonds on the date of the decision to perform the Distribution or as a result thereof.

As of the balance sheet date, the Company meets the financial covenants, while the Company's equity as of the balance sheet date is approx. NIS 16.3 billion and the net financial debt to net assets ratio is approx. 27%.

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

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

Note 20 - Loans from banks and other credit providers (Cont.)

B. Non-current liabilities: (Cont.)

(2) (Cont.)

In June 2015, the Company made another public offering of approx. NIS 600.3 million par value by way of expansion of the Series B Bond series, at a price of 100.24 Agorot per NIS 1 par value (discounting at a rate of 0.44% relative to their adjusted value) based on a shelf prospectus of the Company. The gross issue proceeds amounted to approx. NIS 599.1 million, and the net proceeds net of the issue expenses amounted to approx. NIS 593.6 million.

In March 2017, the Company made another public offering of NIS 228.8 million par value of Series B Bonds, at a price of 97.45 Agorot per NIS 1 par value (discounting at a rate of approx. 2.55% relative to their adjusted value), by way of expansion of the bond series, based on a shelf prospectus of the Company. The gross issue proceeds amounted to NIS 223 million, and the net proceeds net of the issue expenses amounted to approx. NIS 221.2 million.

The balance of the Series B Bonds, principal and linkage differentials (net of issue expenses and discounting) as of December 31, 2017 is NIS 1,193 million (as of December 31, 2016 – NIS 1,092 million).

(3) In September 2015, the Company made a public offering of approx. NIS 1,005.1 million par value registered Series C Bonds based on a shelf prospectus of the Company. The bonds are linked (principal and interest) to the CPI and bear fixed interest at a rate of 1.64% per annum.

The principal payments will be made in 10 equal annual installments on July 1 of each one of the years 2018-2027 (each installment will be 10% of the principal's par value). The interest will be paid in semi-annual installments from July 1, 2016 and on January 1 and July 1 of each one of the years 2017-2027. The bonds were issued without any discount.

The issue proceeds totaled approx. NIS 1,005.1 million, and net of the issue expenses, the net proceeds amounted to approx. NIS 996.9 million. The effective interest rate in respect of the bonds is 1.78% per annum.

On September 3, 2015, Ma'alot rated the Series C Bonds as ilAA+.

The bonds are not secured by any collateral.

At the time of the offering, the Company undertook to meet financial covenants and undertakings, similar to the financial covenants to which it committed in respect of the Series B Bonds (for a description of the terms and conditions and the meeting of the financial covenants, see Section 2 above).

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

In addition, the Series C Bonds shall be accelerated upon fulfillment of certain conditions, similar to the terms that were determined in respect of the Series B Bonds (for a description of the terms and conditions, see Section 2 above).

Note 20 - Loans from banks and other credit providers (Cont.)

B. Non-current liabilities: (Cont.)

(3) (Cont.)

In March 2017, the Company made another public offering of NIS 179 million par value of Series C bonds, at a price of 101.4 Agorot per NIS 1 par value (premium at a rate of approx. 1% relative to their adjusted value), by way of expansion of the bond series, based on a shelf prospectus of the Company. The gross issue proceeds amounted to NIS 181.5 million, and the net proceeds net of the issue expenses amounted to approx. NIS 180.8 million.

The balance of the Series C Bonds, principal and linkage differentials (net of issue expenses) as of December 31, 2017 is NIS 1,178 million (as of December 31, 2016 - NIS 998 million).

(4) In July 2016, the Company issued approx. NIS 2,194.1 million par value registered Series D bonds to the public, on the basis of a shelf prospectus of the Company. The bonds are linked (principal and interest) to the CPI and bear fixed interest at the rate of 1.34% per annum.

The principal payments shall be made in 25 equal semi-annual installments on January 5 and July 5 of each of the years 2018 to 2030 (each payment being at the rate of 4% of the par value of the principal from July 5, 2018). The interest will be paid in semi-annual payments from January 5, 2017 of each of the years 2017 to 2030. The bonds were issued without a discount.

The issue proceeds amounted to approx. NIS 2,194 million, and net of the issue expenses, the net proceeds amounted to approx. NIS 2,177 million. The effective interest rate on the bonds is 1.45% per annum.

On July 5, 2016, Midroog assigned the Series D bonds a stable Aa1 rating, and on July 20, 2016, Midroog ratified this rating.

The bonds are not secured by any collateral.

At the time of the offering, the Company undertook to meet financial covenants and undertakings similar to the financial covenants undertakings to which it committed in respect of the Series B and C Bonds (for a description of the terms and conditions – see Section 2 above).

It was further determined that in the event that the rating of the Company's Series D Bonds falls below Midroog's Aa2 rating, or a corresponding rating that is determined by another company that rates the bonds, the annual interest rate borne by the unpaid balance of the bond principal shall rise, in which case, the annual interest rate that shall be added to the annual interest in respect of the bonds will range between 0.25% and 1%, according to the bonds' rating.

In addition, the Series D Bonds shall be accelerated upon fulfillment of certain conditions, similar to the conditions that were determined in respect of the Series B and C Bonds (for a description of the terms and conditions and the meeting of the financial covenants – see Section 2 above).

In March 2017, the Company made another public offering of NIS 983.6 million par value of Series D Bonds, at a price of 97.6 Agorot per NIS 1 par value (discounting at a rate of approx. 2.7% relative to their adjusted value), by way of expansion of the bond series, based on a shelf prospectus of the Company. The gross issue proceeds amounted to NIS 960 million, and the net proceeds net of the issue expenses amounted to approx. NIS 955.3 million.

The balance of the Series D Bonds, principal and linkage differentials (net of issue expenses) as of December 31, 2017 is NIS 3,142 million (as of December 31, 2016 - NIS 2,179 million).

Note 20 - Loans from banks and other credit providers (Cont.)

B. Non-current liabilities: (Cont.)

(4) (Cont.)

In February 2018, after the date of the Statement of Financial Position, the Company made another public offering of NIS 1,367 million par value of Series D Bonds by way of expansion of the bonds series, at a price of 103.1 Agorot per NIS 1 par value (issued at their adjusted value, without discount), based on a shelf prospectus of the Company. The gross issue proceeds amounted to NIS 1,409 million, and the net proceeds net of the issue expenses amounted to approx. NIS 1,400 million.

(5) In July 2007, a consolidated company of Supergas which was established for the purpose of the issuance, and to which, primarily, the domestic gas operations were transferred, executed an issue of bonds to institutional investors through a private placement, with a total par value of NIS 600 million. The bonds, which are rated with a rating of Aa1 by Midroog Ltd., are for a period of 18 years, and are repaid in quarterly installments of the principal from 2010. The bonds are linked to the CPI (principal and interest) and bear interest at a rate of 4.9% a year, which is paid once every calendar quarter. The balance of the bonds is presented net of issue expenses. The effective rate of interest for the bonds is 5.26% a year.

In addition, in accordance with the terms and conditions of the bonds, all of the income received from Supergas household customers are deposited into a special account, the signatory rights in which are given to the Company and the trustee for the bonds. After the making of the quarterly payment to the bondholders, and provided that the debt coverage ratio is at least 126.5%, the surplus income is transferred to the Company.

In June 2014, the consolidated company of Supergas completed a process to modify the bonds, which includes prepayment of certain principal payments (which constitute approx. 11.5% of the bond balance), which, according to the original terms of the issuance, were due to be paid over the coming five years, and in fixed quarterly principal payments such that they will be uniform and equal. Accordingly, the consolidated company of Supergas paid 51,829,380 par value in total of approx. NIS 75 million, which includes the sum of approx. NIS 12.3 million that was paid due to the prepayment. In addition, it was determined that in the event that Canit Hashalom ceases to be a controlling shareholder of the Company, then Granite shall make an offer to the bondholders to purchase the bonds at a scope of no less than 45 million par value.

The bonds are secured by a first-ranking floating charge, in an unlimited amount, on all of the assets of the consolidated company of Supergas, in addition, Supergas charged by a first ranking fixed charge in an unlimited amount all of the shares of the consolidated company owned and held thereby, including the rights deriving from such shares.

In accordance with the terms and conditions of the bonds, the consolidated company of Supergas is required to meet financial covenants. Any deviation from the financial covenants will allow the bondholders to demand acceleration of the payment or prepayment, as described below.

Acceleration of payments:

(a) If the ratio between the average quarterly free cash flows from the domestic gas operations (the cash flow of the receipts from the domestic operations net of actual purchases of gas and expenses in respect of the services agreement in respect of the domestic gas operations), for the past year and the quarterly installment (principal and interest) which are expected to be paid to the bondholders at the time of the next expected payment (the "**Debt Coverage Ratio**") falls below 111%.

Note 20 - Loans from banks and other credit providers (Cont.)

B. Non-current liabilities: (Cont.)

(5) (Cont.)

(b) If the rate of the margin on the commercial gas operations in containers falls below 12% (as of the date of the Financial Statements, the rate of the margin is approx. 70%).

Acceleration and realization of collateral:

1. If the Debt Coverage Ratio falls below 103%.
2. In the event of insolvency.
3. The non-payment of a payment of principal or interest.
4. A decision for dissolution or receivership of Supergas' consolidated company.
5. The imposition of an attachment or execution of the entire or material assets of Supergas' consolidated company.
6. A fundamental breach of the terms of the bonds.
7. In the event that Supergas' consolidated company loses the gas license.
8. In the event of a change in control such that Granite ceases, under certain conditions, to control Supergas.
9. The lowering of the rating of the bonds rating below Baa1 or if the rating is not monitored.

In addition, there are grounds for the replacement of Supergas as a provider of services in the transaction, the main ones being: if the Debt Coverage Ratio falls below 106%; events in which Supergas becomes insolvent or if it loses its gas supplier license.

As of the date of the Financial Statements, Supergas's consolidated company meets the covenants while the Debt Coverage Ratio as of the Report Date is 370%.

The balance of the bonds, net of issue expenses as of December 31, 2017 is NIS 351 million (as of December 31, 2016 - NIS 384 million).

(6) On June 7, 2016, the board of directors of consolidated company Ahuzat Bayit Raanana – Retirement Home Ltd. resolved to perform full early redemption of its Series A bonds. The total amount paid to the bondholders is in the sum of approx. NIS 210 million.

Payment of the early redemption was made on June 29, 2016 for the entire balance of the principal of the bonds in circulation. The early redemption of the bonds had a marginal effect on the Group's results.

For details regarding the acquisition of Ahuzat Bayit Raanana – Retirement Home Ltd. in 2016 – see Note 13I(2).

(7) On May 21, 2014, the Company entered into a loan agreement with several companies in an institutional body group affiliated neither with the Company nor with its controlling shareholders, to receive a loan of NIS 300 million, linked to the CPI, bearing annual interest at the rate of 0.74%. The loan (principal and interest) will be repaid in 36 equal quarterly installments linked to the rate of increase in the Index from the end of three months from the date of provision of the loan. To secure repayment of the loan, a consolidated company has pledged, in favor of the lender, its rights in the land on which the Azrieli Ramla Mall is being built, including its rights to receive rent from tenants in the Mall, and the Company's rights by virtue of the insurance policy in connection with the Mall will also be pledged. The lender will be entitled to accelerate the loan on accepted grounds that are set forth in the loan agreement, including, *inter alia*, upon the occurrence of a change of control, the acceleration of a debt of the Company to other financial institutions, or the imposition of an attachment in the amounts and under the conditions as are defined in the loan agreement, and also if after the population of the Mall and the opening thereof to the public, the LTV is higher than the ratio set forth in the loan agreement and no other or supplementary collateral was provided. It was further determined that if the Company grants a floating charge to another entity in the future, it shall grant the lender, on the same date, a floating charge of identical ranking and scope (*pari* *passu*).

Note 20 - Loans from banks and other credit providers (Cont.)

B. Non-current liabilities: (Cont.)

(7) (Cont.)

As of December 31, 2017, the Company meets the financial covenants, with the LTV ratio required in accordance with the agreement on this date being 60%, and amounting, in practice, to 38%.

(8) On May 24, 2016, a loan was provided to the Company in the sum of NIS 550 million from an institutional body affiliated neither with the Company nor with its controlling shareholders, linked to the CPI, at annual interest at the rate of 1.5%.The repayment of the loan's principal shall commence from the second anniversary of the date of provision of the loan and shall be made in 40 equal quarterly installments (the last principal payment shall be made 12 years after the date of provision of the loan). The interest on the loan shall be paid on a quarterly basis, until the final repayment date. The Company is entitled to prepay the loan (in whole or in part) against a prepayment fee according to a mechanism defined in the agreement.

To secure repayment of the loan, Canit Hashalom, a subsidiary wholly owned by the Company, pledged in favor of the lender, by way of a first-ranking fixed pledge unlimited in amount, the Azrieli Rishonim Center in Rishon LeZion, including its rights to receive rent from the property's tenants and its rights under the insurance policies in connection with the property.

In the context of the loan agreement, the Company undertook to meet the financial covenants that were set forth in the indentures of the Company's Series B and C bonds (the "**Bonds**"), i.e. a net debt to assets ratio that shall not exceed 60% and equity of no less than NIS 5 billion (the "**Financial Covenants**"), and it further undertook to maintain an LTV ratio that shall not exceed 80%, commencing from April 1, 2018. In addition, the agreement includes limitations on the distribution of a dividend that correspond with the undertaking set forth in the Bonds' indentures (i.e. that no distributions shall be made if, as a consequence thereof, the equity shall be less than NIS 6 billion and the debt to assets ratio shall exceed 50%). In addition, the Company undertook not to create a floating charge on all or part of the Company's assets, to any entity, unless it shall create in favor of the lender, on the same date, a floating charge of identical ranking and scope (*pari passu*) (such an undertaking also exists in the Bonds' indentures). The causes for acceleration are as customary in agreements of this type and in the Bonds' indentures, including a cause pertaining to the acceleration of another substantial debt of the Company.

As of the date of the Financial Statements, the Company meets the contractual limitations determined, with the Company's equity being approx. NIS 16.3 billion and the net financial debt to net assets ratio being approx. 27%.

(9) In July and August 2016, the Group prepaid loans in the sum of approx. NIS 900 million, some of which were secured by collateral, approx. NIS 300 million of which short-term loans and the balance is mostly long-term loans that were due in March 2017.

Note 20 - Loans from banks and other credit providers (Cont.)

C. Details in respect of interest and linkage:

	Currency	As of December 31 2017 Nominal interest	As of December 31 2017 Par value	2017 Book value	2016 Par value	2016 Book value
		%		NIS in millions		NIS in millions
Overdrafts from banks	Unlinked			-		1
Short-term loans from banks (*)	Unlinked	2.10-2.85		28		18
Short-term loans from banks	Foreign currency	1.88		19		20
Short-term loans from other credit providers	Index	4.00		1		2
Commercial paper	Unlinked	Bank of Israel + 0.3		582		655
Bonds that are not convertible into shares	Index	0.65-4.90	5,869	5,864	5,037	5,141
Long-term loans from banks	Index	3.77-5.80		210		562
Long-term loans from banks (*)	Unlinked	2.12-2.70		34		40
Long-term loans from others	Index	0.74-1.50		1,092		1,213
Long-term loans from others (*)	Unlinked	1.35		250		250
Long-term loans from others	Linked to the Dollar	3.16-5.998		1,170		1,167
Total loans and credit from banks and other credit providers			5,869	9,250	5,037	9,069

(*) Some of the Shekel loans bear variable interest which is dependent on the Prime interest. The Prime interest rate as of December 31, 2017 and 2016 is 1.6%.

For details on loans that are secured by charges – see Note 31.

Note 20 - Loans from banks and other credit providers (Cont.)

D. Contractual restrictions and financial covenants in the Company:

If certain conditions exist, as detailed in the loan agreements (primarily at the time of a change in the structure and the control in the Company, arrears in payments, receivership and a reduction in the value of the collateral), the loan providers are entitled to accelerate the loans. The total sum of credit for which the Company committed for the aforesaid terms amounted as of December 31, 2017 to approx. NIS 1,516 million. As of the date of the Financial Statements, the Company is in compliance with the contractual restrictions that have been set.

In addition, for a loan whose balance, as of the date of the Financial Statements, is in the sum of NIS 355 million, in accordance with the agreement the LTV ratio is required to be lower than 50%. As of the date of the Financial Statements, the Company meets the contractual restriction that was determined, with the LTV ratio being, in practice, 28%, and for an additional loan whose balance, as of the date of the Financial Statements, is in the sum of NIS 250 million. There is a commitment to meet financial covenants and undertakings that are similar to those prescribed in respect of the Series B bonds (for a description of the conditions and compliance with the financial covenants – see Section B(2) above).

E. Changes in liabilities arising from financing activities:

The table below specifies the changes in the Group's liabilities arising from financing activities, including both changes that arise from cash flows and non-cash changes. Liabilities arising from financing activities are liabilities in respect of which cash flows have been classified, or future cash flows will be classified, in the Statement of Cash Flows, as cash flows from financing activities.

			Non-cash changes			
	Balance as of January 1, 2017	Cash flows from financing activities (a)	Business combin-ations	Linkage and rate differ-ences	Other changes (b)	Balance as of December 31, 2017
	NIS in millions					
Short-term credit from banks and other credit providers	696	(66)	-	-	-	630
Long-term loans from banks and other credit providers	3,232	(498)	133 (c)	(112)	1	2,756
Bonds	5,141	709	-	10	4	5,864
	9,069	145	133	(102)	5	9,250

(a) Cash flows from financing activities include the net cash flows presented in the Consolidated Statements of Cash Flows as cash flows that derive from financing activities.

(b) Including interest accrued and interest paid.

(c) See Note 13H(3).

Note 21 - Employee benefits

Employee benefits include post-employment benefits, other long-term benefits, benefits upon the termination of employment, short-term benefits, including due to wages and salary.

In respect of post-employment employee benefits, the Group has defined benefits plans, in respect of which it deposits amounts in appropriate severance pay funds and insurance policies. Moreover, the Group has a defined deposit plan in respect of some of its employees, with regard to whom Section 14 of the Severance Pay Law, 5723-1963 applies.

Note 22 - Capital

A. The share capital and share rights as of December 31, 2017 and 2016:

	Authorized		Issued and paid-up	
	As of December 31		As of December 31	
	2017	2016	2017	2016
	NIS	NIS	NIS	NIS
Ordinary shares of par value NIS 0.1	12,750,150	12,750,150	12,127,276	12,127,276

Each fully paid-up ordinary share of par value NIS 0.1 grants the right to participate and vote at general meetings. Each shareholder will have one vote for every fully paid-up share he owns. All the shares have equal rights relating to the amounts of capital paid or credited as paid on their par value, and everything connected with distribution of dividend, bonus shares and any other distribution, repayment of capital and participation in the distribution of the Company's surplus assets upon liquidation.

B. Dividend:

The Company’s Board discusses the issue of the distribution of a dividend at the Company (following the recommendation of the Finance Committee) on an annual basis. In such context, the desire and intention of the Company to share the Company’s profits with its shareholders, versus the Company’s being a development company on a significant scale and its investment needs in view of its existing activity and its future plans, were examined, while taking into account the gamut of business considerations.

In this framework, the Company’s Board and the Finance Committee examine whether the dividend distribution meets the profit test and the solvency test set forth in Section 302 of the Companies Law. In addition, restrictions on distribution within the Company are examined, including the Company’s undertaking to the trustee which includes restrictions on a distribution at the Company, in connection with the indentures for the Company’s Series B, Series C and Series D Bonds, see Notes 20B(2), (3) and (4), and in relation to some of the long-term loans, see Note 20B(8).

C. On March 22, 2016, the Company’s Board decided upon the distribution of a NIS 400 million dividend (which reflects NIS 3.30 per share) for 2015, which was paid on May 4, 2016.

On March 21, 2017, the Company’s Board decided upon the distribution of a NIS 480 million dividend (which reflects NIS 3.96 per share) for 2016, which was paid on May 10, 2017.

With respect to the decision of the Company’s Board regarding the distribution of a dividend for 2017 in the sum of NIS 520 million after the date of the Statement of Financial Position, see Note 38A.

D. The retained earnings available for distribution as of December 31, 2017 is NIS 13,843 million (this retained earnings also include the revaluation fund for financial assets available for sale and revaluation of real property profits).

Note 23 - Income

Composition of the income:

	For the year ended December 31		
	2017	2016	2015
	NIS in millions	NIS in millions	NIS in millions
Sales	605	536	538
Performance of work and services	59	68	52
Construction contracts	16	41	42
Franchise and other agreements	44	15	100
Total income from sales, work and services (*)	724	660	732
Rent, management and maintenance and senior housing fees	1,868	1,745	1,623
Total income	2,592	2,405	2,355

(*) Including income from marketing alternative energy sources for 2017 in the sum of NIS 556 million (for 2016 and 2015, NIS 505 million and NIS 499 million, respectively).

Note 24 - Cost of income

The composition:

	For the year ended December 31		
	2017	2016	2015
	NIS in millions	NIS in millions	NIS in millions
A. According to the sources of income:			
Sales	358	295	309
Performance of work and services	61	72	52
Construction contracts	22	40	38
Franchise and other agreements	33	13	82
	474	420	481
Rent, management and maintenance fees	484	445	385
Total cost of income	958	865	866
B. According to its components:			
Gas and other materials consumed(*)	294	260	348
Labor and external work salary	194	190	130
Depreciation and amortization	25	21	15
Production expenses and others	446	394	358
	959	865	851
Net of increase/plus decrease in inventory of work in progress	-	1	-
Net of increase/plus decrease in inventory of finished products	(1)	(1)	15
	958	865	866

(*) The purchases of gas from Oil Refineries Ashdod Ltd. and from Oil Refineries Ltd. are above 10% of the acquisitions.

Note 25 - Sales and marketing expenses

The composition:

	For the year ended December 31		
	2017	2016	2015
	NIS in millions	NIS in millions	NIS in millions
Wages, salaries and related expenses	78	73	62
Advertising	48	34	32
Depreciation and amortization	33	31	27
Maintenance of buildings and facilities	5	5	5
Rent and municipal taxes	4	4	4
Haulage and maintenance of commercial motor vehicles	10	11	11
Other sales and marketing expenses	14	14	15
	192	172	156

Note 26 - General & administrative expenses

The composition:

	For the year ended December 31		
	2017	2016	2015
	NIS in millions	NIS in millions	NIS in millions
Management fees, wages, salaries and related expenses (*)	39	34	37
Consultancy, legal and audit fees	37	35	33
Provision for doubtful and lost debts	3	2	1
Depreciation and amortization	6	8	6
Other general and administrative expenses	29	25	24
	114	104	101

(*) In 2015 including share-based payment in the sum of NIS 3 million.
For details in respect of transactions with related and interested parties - see Note 36B.

Note 27 - Other income

“Other income” includes primarily dividends received from investments in financial assets available for sale (Leumi and Leumi Card) in the sum of NIS 33 million (in each of the years 2016 and 2015 - NIS 10 million), income from the acquisition of Visa Europe in the sum of approx. NIS 30 million (see Note 11(2)), and income from indemnification by the insurance company for the Texas storm damage in the sum of NIS 64 million (see Note 13H(2)).

Note 28 - Financing revenues and expenses

The composition:

	For the year ended December 31		
	2017	2016	2015
	NIS in millions	NIS in millions	NIS in millions
Financing revenues			
Revenues from interest on loans and receivables	8	15	11
Financing revenues from a financial asset in respect of franchise arrangement	3	2	-
Profit from a change in exchange rates, net	-	3	2
Revenues from interest on deposits in banks	2	2	1
Classification as profit or loss of profits that were recognized in other comprehensive income upon the disposition of financial assets available for sale (see Note 11(1))	81	26	-
Other financing revenues	-	1	4
Financing revenues carried to profit and loss	94	49	18
Financing expenses			
Financing expenses on loans and liabilities	92	117	123
Financing expenses on bonds	107	86	52
Miscellaneous bank expenses and charges	11	8	10
Loss from change in exchange rates, net	1		
Linkage on deposits from customers	2	(1)	(1)
Other financing expenses	9	5	1
Financing expenses	222	215	185
Net of capitalized credit costs	(38)	(56)	(40)
Financing expenses carried to the income statement	184	159	145
Net financing expenses carried to the income statement	90	110	127

Note 29 – Taxes on income

A. Details in respect of the tax environment in which the Group operates:

(1) Amendments to the Income Tax Ordinance and the Land Appreciation Tax Law

(a) On January 4, 2016, the plenum of the Knesset approved the Law for Amendment of the Income Tax Ordinance (No. 216) 5776-2016, which determined, *inter alia*, a decrease in the corporate tax rate, commencing 2016 forth, by a rate of 1.5%, to 25% (in 2015, the tax rate was 26.5%).

On December 29, 2016, the Economic Arrangements Law (Legislative Amendments to Achieve the Budget Targets for 2017 and 2018), 5777-2016 was published in the Official Gazette, in the framework of which the corporate tax rate will be reduced from 25% to 24% in 2017 on income generated or accrued commencing January 1, 2017 and shall continue to be reduced to 23% in 2018 forth on income generated or accrued commencing January 1, 2018.

As a result of the said legislation, there is a decrease in the deferred tax liabilities of the Company as of December 31, 2016 in the sum of approx. NIS 420 million and a decrease in the balances of the deferred tax assets in the sum of NIS 12 million which was recorded against other comprehensive income for 2016 in the sum of approx. NIS 408 million, of which a sum of approx. NIS 393 million was recorded against tax income in 2016.

(b) In August 2013, the "Arrangements Law" (the "**Law**") was published in the Official Gazette in which context Section 100A1 of the Income Ordinance was added, determining that revaluation profits 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 applicability provisions determine that they shall apply to assets outside of Israel on the effective date of regulations to be promulgated by the Minister of Finance, and provisions shall be set for the avoidance of double taxation within the meaning thereof in Section 200 of the Income Tax Ordinance. Furthermore, the definition of "Revaluation Profits" determined that they are "surpluses not subject to corporate tax of the type determined by the Minister of Finance". As of the date of approval of these Financial Statements, not such regulations have been published.

In view of the manner in which the decision on distribution of a dividend in the Company is made, as stated in Note 22B, such legislation has no significant tax implications for the Company.

(c) On September 17, 2009, the Income Tax Regulations (Determination of interest rate for purposes of Section 3(j)) (Amendment), 5769-2009 were published, in the framework of which the provisions in the Income Tax Regulations (Determination of interest rate for purposes of Section 3(j)), 5746-1986 were changed comprehensively.

The regulations determined a mechanism for the annual update of the interest rate. In view of the aforesaid, notices of the Minister of Finance in respect of determining the interest rate for the purposes of Section 3(j) of the Tax Ordinance, are published in the Official Gazette, as follows:

The interest rate for purposes of Section 3(j) of the Ordinance for 2017 was set at 2.56% (2016 – 2.56%, 2015 – 3.05%).

On January 21, 2018, a notice of the Minister of Finance in respect of determining the interest rate for the purposes of Section 3(j) of the Ordinance for 2018 at the rate of 2.61%, was published in the Official Gazette.

Conversely, where the loans are extended in foreign currency (as defined in the Regulations), the interest rate for purposes of Section 3(j) has been set as the rate of the change of the exchange rate for that currency plus 3%.

Note 29 – Taxes on income (Cont.)

A. Details in respect of the tax environment in which the Group operates: (Cont.)

(2) The Company and a subsidiary have a holding (90%-99%) in American partnerships, which hold real property. The profits (losses) of the American partnerships from the rental of the real properties and from the sale thereof are attributable directly to the partners, in accordance with their shares in the capital, because under American tax law, a partnership which has been registered in the USA is considered to be transparent for tax purposes.

Accordingly, the Group will be attributed the profits (losses) of the American partnerships in which it serves as a limited partner and accordingly will be liable for tax in the USA in respect of the profits, attributed thereto as aforesaid in accordance with the Federal corporate tax rate (at a rate of 15%-35%) and Texas state tax (whose rate on December 31, 2017 was 0.75% of the “taxable margin”, as defined in the law), which constitutes an expense for the purposes of the calculation of the Federal tax. In addition, under certain circumstances, a "branch tax" at the rate of 12.5% may be levied on part of the profits of the partnerships (even if not yet actually distributed). If such profits are reinvested for business in the USA and subject to compliance with additional conditions, the "branch tax" may be deferred.

In a similar manner, the general partners in the American partnerships will be liable for tax in the USA in respect of their share (1%) of the profits (losses) from the rental of the real properties and/or from the sale thereof, in accordance with the tax rates that are mentioned above (with the exclusion of "branch tax").

In accordance with the provisions of Section 63 of the Ordinance, the limited partners (the Company and its subsidiary), will be liable for corporate tax in Israel in respect of their share of the profits from the rental of the land in the USA and in the real capital gain that is derived from their sale by the American partnerships.

In the case of tax payable in the USA, in respect of which it is not possible to obtain a tax credit in Israel in the tax year in which it was paid, *inter alia*, by reason of losses for tax purposes incurred by the subsidiary - a credit may be obtained in respect thereof (in adjusted values, in accordance with the rate of the rise in the CPI) against the tax imposed on the subsidiary in Israel in respect of revenues from lease overseas in the 5 subsequent years.

(3) The Company has a holding (100%) in U.S. subsidiaries that are liable for tax in the USA. The subsidiaries are liable for Federal Tax rate on the companies’ current income and capital gains from the sale of the real properties of 35%, and for Texas state tax.

On January 1, 2018, a U.S. corporate tax reform took effect, after its enactment was in fact completed by its approval by the U.S. House of Representatives and Senate and signing by the President of the United States in December 2017. The main change affecting the Group is the decrease of the federal tax rate to 21% from tax year 2018 forth, instead of 35% until the end of tax year 2017. In view of the aforesaid, the Company reduced its deferred tax liabilities by approx. NIS 15 million.

Note 29 – Taxes on income (Cont.)

B. Tax revenues (expenses) on income recognized in the income statement:

	For the year ended December 31		
	2017	2016	2015
	NIS in millions	NIS in millions	NIS in millions
Current tax revenues (expenses)			
For the current period	(176)	(171)	(194)
Net taxes in respect of previous years	8	4	1
	(168)	(167)	(193)
Deferred tax income (expenses)	(240)	118	(162)
Total expenses of taxes on income	(408)	(49)	(355)

Note 29 – Taxes on income (Cont.)

C. Taxes on income in respect of the components of other comprehensive income:

	2017			2016			2015		
	Amounts before tax	Tax income (expenses) (*)	Amounts net of tax	Amounts before tax	Tax income (expenses) (*)	Amounts net of tax	Amounts before tax	Tax income (expenses) (*)	Amounts net of tax
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Translation differences from foreign operations	(114)	-	(114)	(11)	-	(11)	1	-	1
Change in the fair value of financial assets available for sale	269	(65)	204	134	(18)	116	31	(13)	18
Amounts that were carried to the income statement from disposition of financial assets available for sale	(81)	19	(62)	(26)	6	(20)	-	-	-
Actuarial losses due to defined benefit plan	-	-	-	-	-	-	(1)	-	(1)
Total other comprehensive income	74	(46)	28	97	(12)	85	31	(13)	18

(*) The deferred taxes have been calculated in accordance with a tax rate of 23% (in 2016 according to 23%-24% and in 2015 according to 26.5%).

Note 29 – Taxes on income (Cont.)

D. Compatibility between the theoretical tax on the income before income taxes and the tax expenses:

	For the year ended December 31		
	2017	2016	2015
	NIS in millions	NIS in millions	NIS in millions
Income before income taxes	1,856	1,866	1,282
The Company's principle tax rate	24%	25%	26.5%
Tax calculated at the Company's principle tax rate	445	467	340
Addition (saving) in the tax liability in respect of:			
Different tax rates and laws in subsidiaries that operate outside of Israel	(16)	(13)	4
Net of tax calculated in respect of the Company's share in the losses of associates accounted for by the equity method	1	2	2
Exempt income	(7)	(3)	(4)
Recording of a reserve for tax on an investment in a consolidated company	-	-	3
Expenses not recognized	1	2	2
Company's share in partnerships	(1)	(1)	(2)
Utilization and creation of deferred taxes in respect of losses and benefits from previous years, in respect of which deferred taxes were not recorded	(3)	(11)	(9)
Losses and benefits for tax purposes from the period in respect of which deferred taxes were not recorded	21	6	14
Taxes in respect of previous years	(7)	(4)	(1)
Differences in the definition of capital, assets and expenses for tax purposes and others	(2)	1	6
Effect of the change in the statutory tax rate	(24)	(393)	-
Other differences	-	(4)	-
Tax expenses on income	408	49	355

Note 29 – Taxes on income (Cont.)

E. Deferred tax assets and liabilities:

(1) Deferred tax assets and liabilities that have been recognized

The deferred taxes in respect of companies in Israel have been calculated in accordance with the tax rates that are expected to apply at the time of the reversal, as detailed above. Deferred taxes in respect of subsidiaries that operate outside of Israel have been calculated in accordance with the relevant tax rates in each country.

The deferred tax assets and liabilities are attributed to the following items:

	Real estate	Employee benefits	Financial instruments (1)	Deductions and losses to be carried forward for tax purposes	Others (2)	Total
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Deferred tax as of January 1, 2016	(3,021)	11	(106)	74	62	(2,980)
Changes carried to profit and loss (3)	(285)	(3)	(1)	8	(3)	(284)
Changes carried to other comprehensive income	-	-	(26)	-	-	(26)
Effect of the change in the tax rate carried to profit and loss	406	-	-	(11)	(1)	394
Effect of the change in the tax rate carried to other comprehensive income	-	-	14	-	-	14
Exit from consolidation	49	(4)	13	(17)	(48)	(7)
Entry into consolidation	(82)	1	-	77	-	(4)
Deferred tax as of December 31, 2016	(2,933)	5	(106)	131	10	(2,893)
Changes carried to profit and loss	(246)	-	(6)	(7)	1	(258)
Changes carried to other comprehensive income	-	-	(46)	-	-	(46)
Effect of the change in the tax rate carried to profit and loss	28	-	-	(10)	-	18
Deferred tax as of December 31, 2017	(3,151)	5	(158)	114	11	(3,179)

(1) Primarily for financial assets available for sale and financial asset – receivables in respect of franchise arrangement.

(2) Primarily doubtful debts and linkage differentials on deposits from customers.

(3) In 2016, including deferred tax income in the sum of NIS 7 million due to discontinued operations.

(*) The deferred taxes have been calculated at a tax rate of 23% (in 2016 – mainly at a tax rate of 23%. For details regarding changes in the tax rate – see Note 29A(1)B).

Note 29 – Taxes on income (Cont.)

E. Deferred tax assets and liabilities: (Cont.)

(2) Deferred tax assets that have not been recognized

Deferred taxes not recognized in respect of the following items:

	As of December 31	
	2017	2016
	NIS in millions	NIS in millions
Losses for tax purposes	107	108
Capital loss for tax purposes	152	152
Real difference from securities	7	7
	266	267

(3) Losses and deductions for tax purposes that are available to be carried forward to the coming years

(a) The current business losses for tax purposes of consolidated companies, which are carried forward to the following year amount as of December 31, 2017 to approx. NIS 512 million (December 31, 2016 – approx. NIS 492 million).

As of December 31, 2017, consolidated companies have recorded a deferred tax asset in an amount of NIS 88 million in respect of accumulated business losses (December 31, 2016 – NIS 94 million) in accordance with the management's evaluation that there is a high level of confidence that these losses will be realized in the coming years.

(b) The Company and consolidated companies have accumulated capital losses for tax purposes in an amount of approx. NIS 264 million (December 31, 2016 – approx. NIS 302 million). The Company and consolidated companies recorded deferred tax assets in the sum of NIS 26 million in respect of the accumulated capital losses (December 31, 2016 – NIS 35 million).

(c) According to the existing tax laws in Israel, there is no time restriction for the exploitation of losses for tax purposes, or on the exploitation of the deductible temporary differences. Deferred tax assets have not been recognized in respect of such losses and differences, in cases where it is not expected that there will be sufficient chargeable income in the coming years against which it will be possible to exploit the tax benefits.

(d) The Group does not create deferred taxes that relate to investments in consolidated companies in respect of which the decision as to the disposition thereof is in the Group's hands whenever there is no decision to realize them in the foreseeable future.

Note 29 – Taxes on income (Cont.)

F. Tax assessments:

The Company and some of the consolidated companies have final tax assessments until tax year 2010 inclusive.

Subsequent to the tax assessments to the best of judgment issued by the Israel Tax Authority to the Company and Canit Hashalom, a subsidiary wholly-owned by the Company, on December 5, 2016, on January 1, 2018 the Company and Canit Hashalom received orders pursuant to Section 152(B) of the Income Tax Ordinance in the sum total of approx. NIS 170 million (including interest and linkage differentials) for the years 2011-2014 (inclusive) in addition to the tax paid due to these years. It is noted that with respect to parts of the amount of the assessment, the Company's financial statements include a liability for taxes.

The Company disputes the Israel Tax Authority's positions and is of the opinion, *inter alia* in reliance on its professional advisors, that it has good arguments against such positions. Therefore, in January 2018, the Company filed an appeal from the issued orders with the District Court. In the Company's estimation, the assessment received is not expected to have a material effect on the Company's financial results.

Some of the consolidated companies have final tax assessments up to and including the tax years 2012-2015.

Save for the above mentioned companies, the Group’s other companies have final tax assessments up to and including the years 2012-2013, in the framework of Section 145(a)(2) of the Income Tax Ordinance (Prescription).

Note 30 – Engagements

The consolidated companies have engagements and liabilities as of the date of the Statement of Financial Position, as follows:

A. Material engagements:

		NIS in millions
(1)	For the purchase of fixed assets	3
	For the performance of projects	934
	For rentals and leases (*)	54
	For operating leasing agreements for motor vehicles	5
	(*) Following are the repayment times for rental and leasing undertakings:	
	2018	13
	2017	11
	2020	10
	2021	2
	2022 forth	18
		54

(2) With respect to the engagements with related and interested parties, see Note 36.

Note 30 – Engagements (Cont.)

B. Additional engagements:

(1) The Company and its subsidiaries engaged with OPC Rotem Ltd. ("**OPC**"), a private electricity producer, in an agreement to purchase electricity. In addition, the companies of the Group engaged in a parallel agreement between them, which regulates the relationship between the companies of the Group in relation to the aforesaid agreement. Pursuant to the agreement, OPC shall sell electricity to the companies of the Group in the volume that is set forth in the agreement, in consideration for a tariff which varies according to actual consumption which is based on the tariffs of the Israel Electric Corporation Ltd. (the "**IEC**"), net of various discount rates determined in the agreement, which depend on the companies' volumes of consumption. The agreement is effective for a 15-year period, commencing from July 2013. The agreement sets forth special conditions that allow the parties to terminate it by giving an advance notice. In the event that OPC's power plant does not work and does not supply electricity for any reason whatsoever, electricity shall be supplied directly from the IEC. The agreement sets forth maximum and minimum volumes of electricity consumption by the companies of the Group. In the event of failure to meet the minimum volumes, the discount shall be gradually reduced.

The Group's companies reserve the right to purchase 100 megawatt hour more, in the event of the construction of an additional power plant by OPC's parent company.

(2) In July 2013, Supergas Natural Ltd. ("**Supergas Natural**"), a consolidated company of Supergas, signed an agreement with the partners in the Tamar holding for the supply of natural gas for a period of 5 years, whereby Supergas Natural shall purchase natural gas from the sellers for the marketing thereof to its customers. Due to non-fulfillment of conditions that were defined in the agreement, Supergas Natural is not subject to an obligation to purchase natural gas.

In February 2018, Supergas Natural signed an agreement with a third party for the purchase of natural gas in the scope of approx. NIS 400 million for the purpose of marketing thereof to its customers.

The supply period is expected to begin during 2020 for a period of about 7 years. The agreement includes mechanisms for a minimum purchase commitment and compensation as customary in similar transactions.

(3) Investee companies of Supergas (50%), hold licenses for the establishment and operation of a natural gas distribution network in the center of Israel and in the Hadera and Valleys area. The licenses for the center of Israel and for Hadera and the Valleys were received in November 2009 and April 2013, respectively, and are for a 25-year period. Pursuant to the terms of the licenses, the companies are required to invest approx. NIS 160 million in the establishment of the distribution network in the center of Israel and approx. NIS 218 million the in Hadera and the Valleys area, according to the milestones determined in the licenses. Until December 31, 2017 a total amount of approx. NIS 152 million was invested. According to the terms and conditions of the licenses, the companies will receive their income from one-time connection fees and from a distribution fee tariff, as specified in the license. As of the Report Date, the companies are still at the stages of setting up the distribution network. In view of bureaucratic and regulatory difficulties which are delaying the progress of the chain's rollout and connection of the consumers, the distribution companies are working to update the timetables that were determined in the licenses. Supergas' management estimates that in view of the fact that the delays described above are not controlled and/or caused by Supergas, the terms and conditions determined in the licenses will be updated. In order to meet the license conditions, the investee companies of Supergas provided unconditional autonomic guarantees in favor of the State of Israel in the sum total of approx. NIS 18 million, which will be valid for the entire term of the license and for 6 months and 24 months, respectively, after the license end date and termination date. For the purpose of provision of the guarantee, Supergas provided a guarantee to the investee companies for its relative share (50%).

Note 30 – Engagements (Cont.)

B. Additional engagements: (Cont.)

(4) Supergas engaged with a third party company in an agreement for cooperation respect to natural gas, in which it was agreed, *inter alia*, that:
(1) The third party company would be entitled to 30% of the profit from the marketing of the natural gas of Supergas to be supplied through the distribution network to customers in areas in which Supergas and the third party company have licenses to set up and operate a natural gas distribution network; (2) a company would be established which would act as the contractor to set up the distribution networks which would be held 70% by the third party company and 30% by Supergas.

(5) Azrieli E-Commerce Ltd. ("**Azrieli E-Commerce**") cooperates with several commercial companies in the internet industry, which contributes to Azrieli E-Commerce's operations and the services which it provides to internet users and its customers.

(6) On May 20, 2015, a consolidated company, Ahuzat Bayit Raanana – Retirement Home Ltd., entered into a trust agreement with a trust company, whereby it will serve as the trustee of the residents of the retirement home for the purpose of registration of the mortgages in their favor. Pursuant to the agreement, the consolidated company registered a first ranking mortgage in favor of the trust company at the Land Registry, on a majority of the sub-parcels that constitute the land of the retirement home. The consolidated company is acting to complete the registration of the mortgage in favor of the trust company on all of the sub-parcels of the retirement home.

(7) On November 16, 2014 Ahuzat Bayit Raanana – Retirement Home Ltd. ("**Ahuzat Bayit**") entered into a contract with former controlling shareholders thereof to separate the past activities (the "**Separation of Past Activities Contract**"), in which its former controlling shareholders undertook to indemnify Ahuzat Bayit for all Past Debts, such that Ahuzat Bayit will not be required to itself bear any Past Debt, and that Ahuzat Bayit shall transfer to its former controlling shareholders assets deriving from past activities.

For this purpose, Past Debts – any liability of any kind whatsoever which applies to Ahuzat Bayit and which derives, directly or indirectly, from the known debts, the existing legal proceedings and the additional debts, without exception, and including legal costs, consultants' costs and any additional liability payment and/or expense relating thereto, and all with the exception of: (1) Debts in connection with the land, the "Ahuzat Bayit" senior home business and the "Park Mall" shopping center, directly and/or indirectly, whether the cause thereof precedes or is subsequent to the date of signing of the Separation of Past Activities Contract; (2) Undertakings for payment of loans/capital notes of any kind whatsoever, including banks and other third parties – and all as provided in the contract. It is clarified that in the context of transfer of control of Ahuzat Bayit, an investee company of the Company and Ahuzat Bayit received a letter of undertaking from the former controlling shareholders, whereby the liability of the former controlling shareholders for the past activities in Ahuzat Bayit, remains in effect.

To secure the said indemnity, the former controlling shareholders placed a deposit in escrow in the sum of approx. NIS 5.2 million.

Note 30 – Engagements (Cont.)

B. Engagements for investments: (Cont.)

(8) Azrieli Holon Center

The Group, via Canit Hashalom, is the owner of leaseholds in a reserve of land of a total area of approx. 30,000 sqm in the East Holon Industrial Area (in this section: the "**Land Reserve**") under an agreement that was signed between the City of Holon and Canit Hashalom on June 5, 2008 (in this section: the "**Agreement**") and approved by the Minster of the Interior in December 2008. Within the framework of the Agreement, Canit Hashalom made guarantees available to the Economic Company for the Development of Holon Ltd., which is intended to ensure the compliance with Canit Hashalom's undertakings under the Agreement. As of the date of the financial statement, the balance of the inspection guarantee is NIS 1.1 million.

The entire Land Reserve is owned by the City of Holon, without any known charges or mortgages. In accordance with the Agreement the project is for the construction of a business park (with no more than four sub-stages), including buildings for hi-tech offices, display halls and retail, service areas and parking areas as well as for additional uses (the "**Project**"). The Project was built and is operated as an income-producing property (for rental) by way of a joint venture, where the material terms of the transaction are as follows:

(a) The City of Holon is leasing to Canit Hashalom, in accordance with the Agreement, for a period of 99 years with an option for an additional 99 years for a payment, 83% of the areas and land of the Project.

(b) The Project is managed and operated by the Company as an income-producing property that is held jointly by the two parties, where the areas of the Project are leased as a common reserve for the two parties. The areas are leased through a management company wholly owned by the Company, and the division of the rent is carried out using a mechanism that has been agreed by the two parties.

(c) The Project is managed by a management company. Management is executed on the basis of cost +15%, which constitute the fees of the management company.

(d) The Agreement sets various restrictions on the transfer of rights in areas in the Project and/or in the rights and undertakings of Canit Hashalom thereupon. It is further determined in the Agreement that the transfer of shares, including by way of a public offering, in shares of Canit Hashalom in an amount of up to 25% will be permitted. It is further clarified that the provisions relating the transfer of rights and a change in the ownership structure will not apply to the parent company or to a subsidiary or an affiliate of Canit Hashalom.

(e) The Group treats this Project as a joint operation.

Note 31 - Charges and guarantees

A. Fixed and floating charges:

	As of December 31,		
	2017	2016	
	NIS in millions	NIS in millions	Secured by
Short-term credit from banks	10	9	In a consolidated company a floating charge on credit cards. In another consolidated company, floating charges on all the assets of the consolidated company and fixed charges on shares of an investee company thereof, goodwill and an asset of its investee company. In addition, fixed and floating charges have been registered on assets of consolidated companies thereof, including on the rights existing in any agreements.
Long-term loans from banks and others (including accumulated interest presented in short-term)	2,517	2,664	A charge on the rights to receive monies in respect of investment property of the Company and of some of the investee companies. The book value of the pledged assets – approx. NIS 5.7 billion. In a consolidated company, a floating charge was registered on all the assets of a consolidated company thereof, including rights deriving therefrom and a fixed charge on shares of an investee company thereof, insurance rights and rights deriving from an asset of a consolidated company. The value of the pledged asset of the consolidated company is approx. NIS 0.1 billion. In another consolidated company, a fixed charge on the consolidated company's assets, including real properties, deposits in banks and revenues from customers. The value of the pledged real properties of the consolidated company is approx. NIS 0.4 billion.
Bonds (including accumulated interest presented in short-term)	362	398	In a consolidated company, the bonds are collateralized by a first ranking floating charge, in an unlimited amount, on all of the assets of the consolidated company. In addition, the investee company has created a first ranking fixed charge in an unlimited amount over all of the shares in the consolidated company that it owns and in its holding, including the rights that derive from those shares. The value of the pledged assets of the consolidated company is approx. NIS 0.3 billion.

Note 31 - Charges and guarantees (Cont.)

A. Fixed and floating charges: (Cont.)

	As of December 31,		
	2017	2016	
	NIS in millions	NIS in millions	Secured by
Senior housing tenants' deposits	664	630	On the date of the entrance of tenants, the consolidated company registered a caveat in favor of the tenants or the depositors, the purpose of which is to ensure the refund of the deposit balance. Currently, the land is in a process of registration of the condominium. Upon the completion of the process, the consolidated company will register a mortgage for every tenant on his apartment, in lieu of the caveat. Pursuant to the provisions of the Senior Housing Law which took effect on June 3, 2015, the consolidated company is required to provide the tenants with collateral. The options for collateral include, *inter alia*, a bank guarantee or a mortgage. The consolidated company is acting, as stated, to register mortgages in favor of the tenants. Insofar as the condominium registration process will not be completed, and it will not be possible to register mortgages in favor of the tenants, the consolidated company will examine additional options as required by law. In an additional consolidated company, a first-ranking mortgage was registered in favor of the tenants during the Report Period at the Land Registry. In addition, to secure some of the undertakings of the consolidated company in respect of deposits, caveats were registered at the Land Registry in favor of the tenants.

(*) The Company committed to banks, financial institutions and in the indentures to the bonds that it would not create floating charges over its entire assets. The Company may create a floating charge as aforesaid, provided that concurrently with the creation thereof, it will create a floating charge to the benefit of the lender as well. The Company also committed, irrevocably, to a bank that it had not created and will not create a floating charge over its entire property and assets, whether they are owned thereby or will be owned thereby in the future, including over the goodwill and share capital thereof, and it also committed towards another bank not to commit in any manner to create a floating charge as aforesaid, without the advance written agreement of the bank.

(**) In addition, to secure the conditions relating to a certificate of approval of the Investment Center, a floating charge was registered at a consolidated company on all of the machines, equipment, facilities and land thereof in favor of the State of Israel.

Note 31 - Charges and guarantees (Cont.)

B. The Company and consolidated companies have contingent liabilities:

		As of December 31	
		2017	**2016**
		NIS in millions	**NIS in millions**
(1)	Financial guarantees to banks:		
	Financial guarantees to banks for associates and third parties	-	3
	Financial guarantees to banks extended by a consolidated company for a consolidated company thereof	75	60
(2)	Performance guarantees and others:		
	- Performance guarantees for customers and others, including tender guarantees	52	42
	- Guarantees to authorities - of which sum of c. NIS 73 million due to demands for betterment levies.	131	130
(3)	Guarantees to lessor in respect of usage rights for LTC units.	1	1
(4)	Guarantees for undertakings in respect of tenants.	5	6
(5)	A guarantee extended by a consolidated company in favor of a consolidated company thereof in respect of its liabilities to banks.	34	41
(6)	A guarantee extended by a consolidated company in favor of a consolidated company thereof in respect of its liabilities to its customers.	24	24
(7)	Guarantees and letters of indemnification given by a consolidated company to banks financing projects of former controlling shareholders of the consolidated company, which shall remain in effect until the completion of such projects. For such guarantees, the consolidated company received an indemnity from the former controlling shareholders (see Note 30B(7)).	3	3

(*) In addition to details regarding guarantees in connection with the sale of Sonol, see Note 8 on discontinued operations.

(**) In addition, guarantees given by the Company and an investee company to consolidated limited partnerships thereof overseas and to consolidated companies thereof overseas, for their liabilities to financial corporations, which are enforceable only in several specific cases defined in the loan agreements (Bad Boy).

(***) In relation to a BOT project for the treatment of solid municipal waste in the Shafdan area, the Company guarantees, vis-a-vis Shikun & Binui Ltd. ("**S&B**"), the compliance of a wholly-owned consolidated company, G.E.S. Global Environmental Solutions Ltd. ("**GES**") with its obligations under the shareholders agreement between GES and S&B in respect of a special-purpose company incorporated for the project – Zero Waste Ltd., all subject to and as provided by the shareholders agreement between GES and S&B as shareholders of Zero Waste Ltd. This guarantee will expire upon the completion of the project's construction and the obtainment of a commercial operation permit therefor or insofar as the SPC does not win the tender in connection with the project.

Note 32 - Contingent liabilities

A. Class actions and claims in respect of which motions for class certification were filed:

The parties	Amount of claim	Nature of claim	Prospects of claim
1. Claim against Supergas	A claim in the sum total of approx. NIS 40 million	A claim and a motion for class certification of March 2014. The action concerns a claim of collection of money by Supergas contrary to law and/or to agreement by Supergas raising gas rates per cubic meter and the fixed usage fees, without detailing the manner of calculation and/or informing the customers of the price rise. In addition, it was claimed in the action that Supergas is raising prices to which it committed in discount agreements vis-à-vis the petitioners, contrary to the agreements and without updating the petitioners regarding the price rise in advance and/or retroactively.	On February 2, 2017 the court granted class certification only on the grounds of a breach of the duty of announcing the raising of gas prices or fixed usage fees, starting 7 years prior to the filing of the claim. In the Company's estimation, based on the estimation of Supergas' management, in reliance on its legal counsel, insofar as the mediation proceeding fails, Supergas' prospects of having the pecuniary remedy in the claim dismissed, exceed 50% with respect to the majority of Supergas' customers. With respect to a minority of the customers, according to Supergas' calculations, Supergas' management believes that the exposure to a pecuniary remedy, if any, is immaterial.
2. Claim against three gas companies, including Supergas	Claim and motion for class certification from November 2016. Amongst the remedies sought is the demand to reimburse amounts collected, allegedly in excess, from the customers of the defendant companies. The motion does not state an amount.	Claim and motion for class certification with the argument that Supergas and the other gas companies allegedly breached the Restrictive Trade Practices Law, by being a party to a restrictive arrangement, and the existence of a cartel between Supergas and other gas companies.	In the Company's estimation, based on the estimation of Supergas, in reliance on its legal counsel, the chances of the motion for class certification are less than 50%.

Note 32 - Contingent liabilities (Cont.)

A. Class actions and claims in respect of which motions for class certification were filed: (Cont.)

The parties	Amount of claim	Nature of claim	Prospects of claim
3. Claim Against Supergas and a Subsidiary thereof	Claim and motion for class certification of March 2018. It is not possible to estimate the amount of the claim at this stage but it is over NIS 3 million, and may reach NIS 26 million.	Claim and motion for class certification, claiming that Supergas violates the provisions of the law when it collects from its customers an amount for their reconnection to the gas supply, after such customers were disconnected from the gas supply due to expiration of the validity of the standard inspection of the customers' gas facility.	In view of the preliminary stage of the proceeding, the chances of the class certification motion cannot be assessed.
4. Claim Against Azrieli E-Commerce	Claim and motion for class certification from January 2017 in the amount of approx. NIS 10 million.	Claim and motion for class certification. Underlying the claim, are arguments on the presentation of a price per measurement unit according to the regulations under the Consumer Protection Law.	In the Company’s estimation, in reliance on the estimation of Azrieli E-Commerce, in reliance on its legal counsel, at this stage it is impossible to estimate the chances of the claim. However, in the estimation of Azrieli E-Commerce’s management, insofar as there is financial exposure, it is significantly lower than the amount claimed in the certification motion.

Note 32 - Contingent liabilities (Cont.)

B. Other actions:

The parties	Amount of claim	Nature of claim	Prospects of claim
1. A municipality against Supergas	Approx. NIS 13 million.	A demand for the amendment of a municipal tax assessment (including interest and linkage differentials) for a gas container farm, for the years from 1997 through 2004. In addition, Supergas received additional payment demands up to and including 2017.	In the Company's estimation, based on the estimation of Supergas' management, in reliance on Supergas' legal counsel, with respect to the claim for retroactive payment, the chances of defeating the Municipality's demand for payment of municipal tax for past years (up to and including 2015) are higher than 50%. With respect to the assessment demand for 2016-2017, in the opinion of the Company's management, based on the estimation of Supergas' management, in reliance on its legal counsel, the amount demanded by the Municipality will be reduced. A fair provision was made with respect thereto in Supergas' financial statements.

Note 32 - Contingent liabilities (Cont.)

B. Other actions: (Cont.)

The parties	Amount of claim	Nature of claim	Prospects of claim
2. An agency operator against Supergas	Approx. NIS 34 million.	A claim from 2004 for monetary refunds in respect of investments made in an agency that was operated for several years by the claimant, and thereafter was returned to Supergas.	Deliberation of the claim was transferred to arbitration. In the Company's estimation, based on the estimation of Supergas' management, based on Supergas' legal counsel, the chances of the claim being accepted over and above the amount paid, are lower than 50%.
3. An agency operator against Supergas	Approx. NIS 16.4 million.	A claim from October 2012 filed by a former agent of Supergas and companies owned by him, alleging that Supergas owes them money for work done by them, payments and additional alleged damage.	In the Company's estimation, based on the estimation of Supergas' management, in reliance on Supergas' legal counsel, the chances of the claim are lower than 50%.
4. Payment demand of Supergas	A demand in the sum total of approx. NIS 117.2 million.	In the years 2011-2012, the Local Committee of the City of Kiryat Ata issued betterment levy assessments for the approval of NOP 32/C, following Supergas' application for a building permit for Supergas' gas facility site in Kiryat Ata.	In December 2012, a decision was made by the Appeals Committee whereby the subject matter of the claim does not present a planning event which establishes a betterment levy liability. The City of Kiryat Ata filed a motion for leave to appeal with the court, which granted its motion to file an appeal in November 2015. In January 2016, a counter-appeal was filed according to which, prior to the approval of NOP 32 the gas farm was not subject to the burial obligation and therefore the compensation due to Supergas is higher. As of the date of the Report, a decision has yet to be issued. In the estimation of the Company's management, based on the estimation of the management of Supergas, in reliance on Supergas' legal counsel, the chances that Supergas will be charged a betterment levy are lower than 50%.

Note 32 - Contingent liabilities (Cont.)

B. Other actions: (Cont.)

The parties	Amount of claim	Nature of claim	Prospects of claim
5. Indictment against Supergas and directors thereof.	Criminal.	In October 2011, the City of Kiryat Ata filed two proceedings against Supergas with the Local Affairs Court in Krayot – (1) an indictment pursuant to the Business Licensing Law in respect of the operation of the gas farm in Kiryat Ata without a business license. This proceeding was filed both against Supergas and against the directors thereof. (2) A motion for a cessation of occupation in a business order, in the context of which the granting of an order against Supergas was sought to order it to immediately halt the gas farm's activity due to the absence of a business license. This motion was filed as an interim motion in the framework of the abovementioned indictment proceeding.	With respect to the motion for a cessation of occupation order – in January 2012, the Court's decision was issued, in which the City's motion was denied. With respect to the indictment proceeding, court hearings were held in November 2017 and further hearings have been scheduled for 2018. In the Company's estimation, in reliance on the estimation of Supergas' management, at this stage, and in view of the type of the proceeding, it is impossible to estimate the chances thereof.
6. Claim of a supplier against GES and others.	Approx. NIS 19 million (GES's share NIS 9.5 million).	A subcontractor's claim of December 2013 for a debt allegedly owed to him by GES and additional parties in respect of a settlement of accounts in a project in which GES served as lead contractor together with an additional third party.	In February 2018 a settlement agreement was signed for the full and absolute discharge of all of the parties' claims and arguments. According to the agreement, GES will pay an immaterial amount. GES has updated the liabilities in its books accordingly.

Note 32 - Contingent liabilities (Cont.)

B. Other actions: (Cont.)

The parties	Amount of claim	Nature of claim	Prospects of claim
7. Claim in tort against Supergas	A claim in tort in the sum of approx. NIS 36 million which was amended and set at a sum of approx. NIS 70 million.	In August 2015, a claim in tort was filed against Supergas due to alleged damage that occurred in the customer's plant as a result of an alleged failure in the gas system.	Supergas filed an Answer and a third party notice against the plaintiff's insurer. In the estimation of Supergas' management, its exposure in this claim does not exceed its deductible according to its insurance policy. A provision reflecting the increase of the amount of the deductible was made in Supergas' financial statements.
8. A claim against Ahuzat Bayit Raanana Senior Housing Ltd.	Approx. NIS 10 million	Claims for building defects caused, according to the Plaintiffs, in connection with projects previously built by Ahuzat Bayit.	In the Company's estimation, based on the estimation of Ahuzat Bayit, in reliance on the legal counsel of Ahuzat Bayit, Ahuzat Bayit will be required to pay a partial amount out of the said claims. Accordingly, Ahuzat Bayit recorded a provision on its books against the said claims, opposite an asset of an indemnity from the former controlling shareholders of Ahuzat Bayit (see Note 30B(7)).
9. A claim against Supergas and two additional gas companies	Approx. NIS 71 million against all defendants	In March 2017, a monetary claim was filed against Supergas and two other gas companies for alleged violations of the Restrictive Trade Practices Law and the violation of various provisions of the State Economy Arrangements Law (Legislative Amendments), 5749-1989.	At the request of the other gas companies sued in this proceeding, the court decided to stay the proceedings in this case. In the Company's estimation, based on the estimation of Supergas, in reliance on its legal counsel, it holds substantial proof to dismiss the claim against it. Notwithstanding, in view of the early stage of the proceeding, it is impossible to estimate the chances of the claim.

Note 32 - Contingent liabilities (Cont.)

C. Additional claims (mostly legal and in insignificant amounts) arising from the ordinary course of business have been submitted against the Group companies.

D. The Group recorded provisions against the claims in the sum of approx. NIS 4 million (December 31, 2016 – approx. NIS 8 million). In the estimation of the Company's management (and in respect of the Granite Group companies, based on the estimation of the management of the companies in the Granite Group), the provisions recorded to settle the results of the claims outlined above are fair.

Note 33 - Management of financial risks

A. General:

The Group is exposed to the following risks, which derive from the use of financial instruments:

- Credit risk.
- Liquidity risk.
- Market risk (including currency risk, interest risk and other price risks).

Information is provided in this Note in respect of the Group's exposure to each of the abovementioned risks, the Group's objectives, its policy and its processes in respect of the measurement and management of the risk. Additional, quantitative disclosure is provided throughout these Consolidated Financial Statements.

The comprehensive responsibility for the institution of the framework for the management of the financial risks of the Company and of its subsidiaries (except for the risk management of the Granite segment, of Palace, Ahuzat Bayit Ra'anana and Azrieli E-Commerce which is executed by them) (the "**Company**") and for the supervision thereof lies in the hands of the Company's management.

The Company's Finance Committee is responsible, *inter alia*, for supervision and monitoring of the management of the Company's financial risks, and supervises the management of implementation of its resolutions.

The person in charge of financial risks management in the Company is Ms. Irit Sekler-Pilosof, the Company's CFO.

The Company's managers routinely examine the market risks in the fields of interest, the index and the exchange rates and act to reduce the economic exposure that is inherent in those risks, whilst taking cost-benefit considerations, such as changes in the composition of the long-term and short-term bank credit, into account.

B. Credit risk:

Credit risk is the risk of a financial loss that would be caused to the Group if a customer or a counter party to a financial instrument does not meet its contractual commitments, and it derives primarily from the debts of customers and other receivables, from the long-term loans that have been extended and from investments in securities.

The Group has no significant credit risk from its customers in the retail centers and malls segment, the office and other space for lease segment and the income-producing property in the USA segment, since the Group collects its income in respect of rent and management fees in advance. Moreover, in most cases, as collateral for the rent, the tenants are required to prove personal guarantees from third parties and/or bank guarantees and/or deposits, to the Company's satisfaction.

The Group has no significant credit risk from its customers in the senior housing segment, since the Group collects a significant portion of the deposit required of the tenant prior to his entrance to the apartment.

The Group has credit risk in respect of credit card companies' balances deriving from the current clearing of customers' credit cards in the e-commerce segment. Azrieli E-Commerce routinely examines customers' credit assessments and makes specific doubtful debt provisions, which, in the opinion of Azrieli E-Commerce's management, correctly reflect the loss entailed by debts the collection of which is doubtful.

Note 33 - Management of financial risks (Cont.)

B. Credit risk: (Cont.)

The Group has a credit risk deriving from companies in the Granite Group. The income of the companies in the Granite Group derives primarily from sales in Israel to customers in the field of energy alternatives and from sales to customers in the water and wastewater segment.

The companies in the Granite Group have a procedure for the extension of credit to a customer, which includes guidelines in respect of what is to be done when a new customer is opened, the procedure includes, *inter alia*, a check on its financial position, a check on stability and control over the credit extended to the customer, which relies on past experience and external raisings, as well as, where possible, the receipt of collateral, such as: bank guarantees, personal guarantees, charges on land, motor vehicles, and debt notes.

Moreover, the procedure includes a hierarchy of authority for the approval of the maximum amount of a customer's credit, which starts with the credit manager and going up to the credit committee, which is headed by the Chief Executive Officer of each subsidiary. The procedure on authorities for the approval of credit is presented to the financial forum of the boards of directors of each of the subsidiaries for approval. The procedure determines and defines a framework of responsibility for the collection of the payment from customers and also the ways in which customers' balances that are in arrears are to be dealt with. The routine monitoring of the receipts from customers is conducted by the credit and collection departments and by the credit committees and management in each subsidiary.

The Companies in the Granite Group recognize provisions for doubtful debts, which reflect their evaluation made in respect of the loss that is contained in the debts whose collection is in doubt. This provision is made up of specific balances as well as a general component of the loss, which is determined for certain groups of similar customers, in respect of losses that have occurred, but which have not yet been identified.

The abovementioned general provision for a loss is determined on the basis of historical information in respect of the payments statistics in respect of similar financial assets.

C. Liquidity risk:

Liquidity risk finds expression in the non-ability to meet the Group's financial commitments when they are due for payment. The Group's approach to the management of its liquidity risk is to ensure, in so far as it is possible, that there is a sufficient level of liquidity to meet its commitments on time. The Group verifies the existence of sufficient levels of cash and/or credit lines in accordance with the expected needs for the payment of the operating expenses, including the amounts that are required to meet the financial liabilities; the aforesaid does not take into account the potential impact of extreme occurrences, which it is not reasonably possible to forecast.

The Group is of the opinion that at the time of need, financing entities will grant it the credit required thereby for the purposes of its business.

D. Market risks:

Market risk is the risk that changes in market prices, such as the exchange rates of foreign currencies, the CPI, interest rates, the prices of capital instruments and risks associated with the prices of goods, will have an impact on the Group's income or on the value of its holdings in financial instruments and on inventory balances.

The objective of the management of the market risks is to manage and to supervise the exposure to market risk within the framework of generally accepted parameters.

Note 33 - Management of financial risks (Cont.)

D. Market risks: (Cont.)

Currency risk

The Company's functional currency is the New Israeli Shekel (NIS).

The Group has loans in U.S. dollars, therefore its financial results are exposed to the risk of a change in the dollar exchange rate. Most of the Group's income in the income-producing property in the USA segment is stated in U.S. dollars, such that a rise in the exchange rate as aforesaid leads to an increase in income from rent and in the value of the property and reduces this risk.

Companies in the Granite Group are exposed to currency risk in respect of the purchase of raw materials, fixed assets and export sales, which are stated in currencies that are different from the functional currency. The currencies in which most of the transactions are stated which are not NIS are the Euro and the US Dollar (most of the purchases of oil distillates are linked to the US Dollar). The companies examine, on an ongoing basis, the assets and the financial liabilities stated in foreign currency in order to mitigate the risks deriving from the changes in the exchange rates. The companies examine use of forward transactions for the purpose of hedging their currency risk.

Interest rates risk

The Group has short-term and long-term credit at variable interest rates. Accordingly, its financial results (financing income/expenses) are exposed to the risk of a change in the interest rates.

Index risks

The Group has loans and bonds that are index-linked, and therefore its financial results (financing income/expenses) are exposed to the risk of a change in the Index.

Most of the Group's income in the retail centers and malls segment and in the office and other space for lease segment are linked to the CPI, such that an increase in the Index, as aforesaid, will lead to an increase in the rent income and a reduction in this risk.
Furthermore, the index rise bears an impact on the calculation of the value of investment properties due to the increase in rent revenues.

The companies in the senior housing sector have exposure in respect of the effect of changes in the CPI on the deposits of the tenants in the retirement home, which are linked to the CPI.

Currency risk - cash

As of December 31, 2017, a small part of the cash is managed overseas in the dollar currency, and therefore the Company may be exposed to fluctuations in the currency exchange rates. In general, and other than as specified by the Company in the 2010 Prospectus, the Company takes no protective measures against such exposures.

In addition, the Company has a material holding in Bank Leumi’s shares that are traded in TASE. Changes in the rate of Bank Leumi’s share may affect the equity. The Company does hedge against such exposures (see also Note 2U).

Note 33 - Management of financial risks (Cont.)

D. Market risks: (Cont.)

Risks associated with the prices of goods

The inventory in Supergas is comprised primarily of oil distillates and accordingly it is exposed to changes in the prices of oil distillates. Supergas acts to reduce the quantity of inventory that is exposed and adjusts the quantities of the inventory of distillates in accordance with the sales forecasts.

Note 34 - Financial instruments

A. Credit risk:

(1) Exposure to credit risk

The book value of the financial assets represents the maximum credit exposure. The maximum exposure to credit risk, as of the date of the Statement of Financial Position, was as follows:

	Book Value	
	As of December 31	
	2017	2016
	NIS in millions	NIS in millions
Financial assets at amortized cost:		
Short-term deposits and investments	144	658
Trade accounts receivable	285	288
Other receivables	153	61
Receivables for work in progress	8	5
Non-current loans	141	154
Restricted investments	19	22
Loans to associates	85	78
Receivables in respect of franchise arrangement	55	58
	890	1,324

The maximum exposure to credit risk in respect of trade accounts receivable, other receivables, including derivative financial instruments, receivables for work in progress, long-term loans , as of the Report Date, by geographical region, is mainly local and the exposure overseas is negligible.

Note 34 - Financial instruments (Cont.)

A. Credit risk (Cont.):

(2) The aging of debts and losses from impairment

The following is the aging of the trade accounts receivable, other receivables, including derivative financial instruments, receivables for work in progress, long-term loans:

	As of December 31, 2017		As of December 31, 2016	
	Gross	Impairment	Gross	Impairment
	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Not in arrears	573	1	492	1
0–30 days in arrears	2	-	6	-
31-120 days in arrears	8	1	8	-
121 days to one year in arrears	6	1	3	1
More than one year in arrears	11	10	10	9
	600	13	519	11

The movements in the provision for impairment in respect of trade receivables, other receivables and non-current loans during the year were as follows:

	As of December 31	
	2017	2016
	NIS in millions	NIS in millions
Balance as of January 1	11	175
Recovery of impairment loss recognized	3	5
Exit from consolidation	-	(159)
Doubtful debts that became bad debts	(1)	(10)
Balance as of December 31	13	11

Several times in each reporting period, the Group reviews the impairment and takes into account the period of the debt, the collateral that is available thereto, the financial of the debtors and the chances of legal proceedings against them.

Note 34 - Financial instruments (Cont.)

B. Liquidity risk:

Set forth below are the projected repayment dates of the financial liabilities, including an estimate of interest payments:

	As of December 31, 2017							
	Book value	Forecasted cash flow	2018	2019	2020	2021	2022 forth	No repayment date /upon demand
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Non-derivative financial liabilities								
Short-term credit from banks and other credit providers (1)	630	630	630	-	-	-	-	-
Trade accounts payable	296	296	296	-	-	-	-	-
Other payables	46	46	46	-	-	-	-	-
Deposits from customers	792	792	-	-	-	-	-	792
Loans from banks and other credit providers (2)	2,765	3,126	532	457	401	767	969	-
Bonds (2)	5,901	6,449	522	647	643	634	4,003	-
Long-term deposits from customers	48	48	-	-	48	-	-	-
	10,478	11,387	2,026	1,104	1,092	1,401	4,972	792

Note 34 - Financial instruments (Cont.)

B. Liquidity risk: (Cont.)

Set forth below are the projected repayment dates of the financial liabilities, including an estimate of interest payments: (Cont.)

	As of December 31, 2016							
	Book value	Forecasted cash flow	2017	2018	2019	2020	2021 forth	No repayment date /upon demand
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Non-derivative financial liabilities								
Short-term credit from banks and other credit providers (1)	696	696	696	-	-	-	-	-
Trade accounts payable	219	219	219	-	-	-	-	-
Other payables	56	56	56	-	-	-	-	-
Deposits from customers	764	764	-	-	-	-	-	764
Loans from banks and other credit providers (2)	3,244	3,562	827	516	457	383	1,379	-
Bonds (2)	5,171	5,615	720	414	501	499	3,481	-
Long-term deposits from customers	44	44	-	-	44	-	-	-
	10,194	10,956	2,518	930	1,002	882	4,860	764

(*) In the matter of guarantees, see Note 31B.

(1) The book value includes the accumulated interest as of December 31, 2017 and 2016.

(2) The book value includes current maturities and accumulated interest as of December 31, 2017 and 2016.

Note 34 - Financial instruments (Cont.)

C. Index and foreign currency risks:

(1) Exposure to Index and foreign currency risk

The Group's exposure to Index and foreign currency risk, based on nominal values, is as follows:

	As of December 31, 2017		
	Israeli currency	Foreign currency	
	Index-linked	Dollar	Other (*)
	NIS in millions	NIS in millions	NIS in millions
Assets	98	201	4
Liabilities	(8,025)	(1,221)	(23)
Total balance of balance sheet, net	(7,927)	(1,020)	(19)

(*) Mainly Euro and GBP.

	As of December 31, 2016		
	Israeli currency	Foreign currency	
	Index-linked	Dollar	Other (*)
	NIS in millions	NIS in millions	NIS in millions
Assets	93	134	3
Liabilities	(7,728)	(1,194)	(21)
Total balance of balance sheet, net	(7,635)	(1,060)	(18)

(*) Mainly Euro and GBP.

Note 34 - Financial instruments (Cont.)

C. Index and foreign currency risks: (Cont.)

(2) Sensitivity analysis

The strengthening of the New Israeli Shekel against the following currencies as of December 31, 2017 and an increase in the CPI would increase (decrease) the capital and the profit or loss, net of tax, by the amounts that are presented below. This analysis has been made on the assumption that the other variables, and especially the interest rates, remain fixed. The analysis in respect of the year 2016 was made on the same basis.

	As of December 31, 2017	
	Capital	Profit (loss)
	NIS in millions	NIS in millions
1% rise in the CPI	(60)	(60)
3% rise in the exchange rate of the US Dollar	(23)	(23)

	As of December 31, 2016	
	Capital	Profit (loss)
	NIS in millions	NIS in millions
1% rise in the CPI	(57)	(57)
3% rise in the exchange rate of the US Dollar	(24)	(24)

A decrease in the exchange rate of the US Dollar by a similar rate and a decrease in the CPI by a similar rate as of December 31, 2017 would have had an identical effect, although in an opposite direction, in the same amount, assuming that all of the other variables remain constant.

Note 34 - Financial instruments (Cont.)

D. Interest rate risk:

Type of interest

Following are details in respect of the types of interest in the Group's interest bearing financial instruments:

	Book value As of December 31	
	2017	2016
	NIS in millions	NIS in millions
Fixed interest instruments		
Financial assets	200	743
Financial liabilities	8,700	8,405
Variable interest instruments		
Financial assets	141	158
Financial liabilities	664	734

(1) Sensitivity analysis for the fair value in respect of fixed interest instruments

The Group's assets and liabilities at fixed interest are not measured at fair value through profit and loss, therefore, a change in the interest rates as of the Report Date is not expected to have any impact on the profit or loss in respect of changes in the value of assets and liabilities with fixed interest rates.

(2) Sensitivity analysis for variable interest instruments

A change of 1% in the interest rates on the reporting date would increase or reduce the capital and the profit or loss, net of tax, by the sum of NIS 4 million. This analysis was made assuming that the other variables remained fixed.

E. Other price risk:

Sensitivity analysis of the security price – financial assets available for sale – (see Note 11(1))

If the prices of the held securities were higher by 1%, the effect after tax would be as follows:

The net income for the year ending on December 31, 2017 would not be affected since these investments are treated as available for sale and they were not disposed of and their value does not decline.

The other comprehensive income would increase by approx. NIS 9 million as of December 31, 2017 as a result of the change in the fair value of the shares.

Note 35 – Fair value

A. Assets and liabilities measured at fair value in the Statement of Financial Position:

For the purpose of measurement of the fair value of the assets or liabilities, the Group classifies them in accordance with the rating that includes the following three levels:

Level 1: Quoted (not adjusted) prices in active markets for identical assets or identical liabilities to which the entity has access at the time of measurement.

Level 2: Data, other than quoted prices included in level 1, that are directly or indirectly observable for the asset or liability.

Level 3: Non-observable data for the asset or liability.

The classification of the assets or liabilities that are measured at fair value is based on the lowest level significantly used for measuring the fair value of the entire asset or liability.

Note 35 – Fair value (Cont.)

A. Assets and liabilities measured at fair value in the Statement of Financial Position: (Cont.)

Below are the Group's assets and liabilities measured at fair value in the Company's Statement of Financial Position as of December 31, according to their measurement levels.

Fair value of items measured at fair value on a periodic basis

	As of December 31, 2017		
	Level 2	Level 3	Total
	NIS in millions	NIS in millions	NIS in millions
Investment property:			
Retail centers and malls in Israel	-	11,842	11,842
Land and office and other space for lease in Israel	257	8,075	8,332
Investment property under construction in Israel	-	1,887	1,887
Senior housing	-	1,212	1,212
Total investment property in Israel	257	23,016	23,273
Income-producing property in the USA	-	1,933	1,933
Total investment property	257	24,949	25,206

	As of December 31, 2016		
	Level 2	Level 3	Total
	NIS in millions	NIS in millions	NIS in millions
Investment property:			
Retail centers and malls in Israel	181	10,922	11,103
Land and office and other space for lease in Israel	363	5,267	5,630
Investment property under construction in Israel	-	3,720	3,720
Senior housing	50	1,086	1,136
Total investment property in Israel	594	20,995	21,589
Income-producing property in the USA	174	1,960	2,134
Total investment property	768	22,955	23,723

Note 35 – Fair value (Cont.)

A. Assets and liabilities measured at fair value in the Statement of Financial Position (Cont.)

Financial assets and liabilities:

	As of December 31, 2017			
	Level 1	Level 2	Level 3	Total
	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Financial assets held for trading:				
Securities	1	-	-	1
Financial assets available for sale:				
Marketable shares	1,132	-	-	1,132
Non-marketable shares	-	87	536	623
Financial assets designated at fair value through profit and loss:				
Non-marketable investments	-	17	-	17
Total fair value of financial assets	1,133	104	536	1,773

	As of December 31, 2016			
	Level 1	Level 2	Level 3	Total
	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Financial assets held for trading:				
Securities	1	-	-	1
Financial assets available for sale:				
Marketable shares	1,040	-	-	1,040
Non-marketable shares	-	88	562	650
Financial assets designated at fair value through profit and loss:				
Non-marketable investments	-	23	-	23
Total fair value of financial assets	1,041	111	562	1,714

Note 35 – Fair value (Cont.)

B. Assets and liabilities measured at fair value at level 3 in the Statement of Financial Position:

(1) Movement in investment property measured at fair value

	Real estate in Israel				Real estate in the U.S.	
	Retail centers and malls	Offices and other	Senior housing	Under construction	Income-producing property	Total
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Balance as of January 1, 2017	10,922	5,267	1,086	3,720	1,960	22,955
Profits or losses recognized:						
in profit or loss	(23)	180	59	453	(186)	483
Entry into consolidation(*)	-	-	-	-	124	124
Purchases	174	36	17	732	67	1,026
Classifications	588	2,448	-	(3,036)	-	-
Carried from level 2	181	144	50	36	174	585
Carried to fixed assets	-	-	-	(18)	-	(18)
Net translation differences deriving from the translation of the financial statements of foreign operations	-	-	-	-	(206)	(206)
Balance as of December 31, 2017	11,842	8,075	1,212	1,887	1,933	24,949

(*) See Note 13H(3).

Note 35 – Fair value (Cont.)

B. Assets and liabilities measured at fair value at level 3 in the Statement of Financial Position (Cont.):

(1) Movement in investment property measured at fair value (Cont.)

	Real estate in Israel				Real estate in the U.S.	
	Retail centers and malls	Offices and other	Senior housing	Under construction	Income-producing property	Total
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Balance as of January 1, 2016	10,591	4,996	589	1,875	2,011	20,062
Profits or losses recognized:						
in profit or loss	98	106	56	546	(81)	725
Entry into consolidation (*)	69	-	462	-	-	531
Purchases	165	62	2	1,177	59	1,465
Exit from consolidation (**)	-	(12)	-	-	-	(12)
Classifications	(1)	161	(23)	(137)	-	-
Carried from level 2	-	(35)	-	3	-	(32)
Carried from down payments on account of investment property	-	-	-	256	-	256
Carried to fixed assets	-	(11)	-	-	-	(11)
Net translation differences deriving from the translation of the financial statements of foreign operations	-	-	-	-	(29)	(29)
Balance as of December 31, 2016	10,922	5,267	1,086	3,720	1,960	22,955

(*) See Note 13I(2).
(**) See Note 8 on discontinued operations.

Note 35 – Fair value (Cont.)

B. Assets and liabilities measured at fair value at level 3 in the Statement of Financial Position (Cont.):

(2) Movement in assets and liabilities measured at fair value

	For the year ended December 31	
	2017	2016
	NIS in millions	NIS in millions
Financial assets available for sale:		
Balance as of beginning of the year	562	681
Total losses recognized:		
In other comprehensive income	(26)	(31)
Carried to Level 2	-	(88)
	536	562

Note 35 – Fair value (Cont.)

B. Assets and liabilities measured at fair value at level 3 in the Statement of Financial Position (Cont.)

(3) Description of evaluation techniques

Description of the measured instrument	Fair value as of December 31, 2017	Evaluation technique	Description of significant non-observable data	Range	Other data	Range
	NIS in millions					
Financial assets available for sale	536 (1)	Discounted cash flow	Weighted average cost of capital (WACC)	8.5%		
			Growth rate	2.5%		
Retail centers and malls in Israel	11,657 (3)	Income approach – discounted cash flow (DCF)	Primary cap rate	6.75% - 8%	Marketable space (in sqm in thousands)	5-40 sqm in thousands
			Fair value per sqm in NIS in thousands (4)	NIS 12-52 thousand		
			Occupancy rate (**) (4)	90% - 100%		
Land	185	Comparison method	Size-specific adjustment			
Offices and others in Israel:						
Space for lease for existing offices	7,798 (2) (3)	Income approach - discounted cash flow (DCF)	Primary cap rate (4)	6.75% - 8.5%	Marketable space (in sqm in thousands)	2-151 sqm in thousands
			Fair value per sqm in NIS in thousands	NIS 6-17 thousand		
			Occupancy rate (**) (4)	83%-100%		
Other space for lease	95 (3)	Income approach - discounted cash flow (DCF)	Estimated average rent per sqm in NIS (*)	NIS 28		
			Primary cap rate	7.50%		
Land	182	Comparison method	Size-specific adjustment			

Note 35 – Fair value (Cont.)

B. Assets and liabilities measured at fair value at level 3 in the Statement of Financial Position (Cont.)

(3) Description of evaluation techniques (Cont.)

Description of the measured instrument	Fair value as of December 31, 2017 NIS in millions	Evaluation technique	Description of significant non-observable data	Range	Other data	Range
Buildings under construction in Israel	269 (3)	Discounted cash flow (DCF), net of the estimated construction costs expected for the completion thereof	Estimated rent per sqm in NIS	Retail NIS 128-235	Estimated balance of construction costs expected per sqm marketable space	1,143-2,045 per sqm
			Primary cap rate	8.5%		
	271 (3) (5)	Discounted cash flow (DCF), net of the estimated construction costs expected for the completion thereof	Estimated tenant deposit against residential units	NIS 1.3-2.0 million	Estimated balance of construction costs expected per sqm building rights	NIS 4,000-4,286 per sqm
			Primary cap rate	9.5%		
			Annual tenant turnover rate	10%		
	1,246	Comparison method	Specific adjustment for location, size and standard Estimated betterment levy			
	101	Cost approach				
Income-producing property in the USA	1,912 (3)	Income approach – discounted cash flow (DCF)	Estimated average rent per sqm in Dollars (*) Primary cap rate Fair value per sqm in NIS in thousands Occupancy rate (**)	$17-20 5.75% - 7.75% NIS 6-13 thousand 76% - 100%	Marketable space (in sqm in thousands)	3-89 sqm in thousands
	21	Comparison method	Size and standard			
			Estimated tenant deposit against residential units	NIS 0.8-3.9 million		
Senior housing	1,160 (3)	Income approach – discounted cash flow (DCF)	Cap rate	8.75%		
			Annual tenant turnover rate	10%		
	52	Cost approach				

Note 35 – Fair value (Cont.)

B. Assets and liabilities measured at fair value at level 3 in the Statement of Financial Position (Cont.)

(3) Description of evaluation techniques (Cont.)

(*) Calculated on the basis of average rent per marketable meter in each property separately.
(**) Calculated on the basis of each property separately.

(1) The fair value estimate will increase if the growth rate increases and/or the weighted cap rate decreases.

(2) The fair value estimate will increase if the rent payments increase and/or the weighted cap rate decreases. A 5% increase or decrease in the average rent per sqm, will increase or reduce the market value of the offices at Azrieli Center by approx. NIS 133 million, respectively. In addition, a 0.25% decrease or increase in the cap rate will increase their market value by approx. NIS 113 million or reduce the same by approx. NIS 105 million, respectively.

(3) The fair value estimate will increase if the building costs per sqm decrease, the rent payments increase, the weighted cap rate decreases and/or in the case of appreciation of senior housing units.

(4) Including properties under lease-up.

(5) Relates to senior housing.

Note 35 – Fair value (Cont.)

B. Assets and liabilities measured at fair value at level 3 in the Statement of Financial Position (Cont.)

(3) Description of evaluation techniques (Cont.)

Description of the measured instrument	Fair value as of December 31, 2016	Evaluation technique	Description of significant non-observable data	Range	Other data	Range
	NIS in Millions					
Financial assets available for sale	562 (1)	Discounted cash flow	Weighted average cost of capital (WACC)	9%		
			Growth rate	2.5%		
Retail centers and malls in Israel	10,922 (2)(3)	Income approach - discounted cash flow (DCF)	Primary cap rate	6.75% - 8%	Marketable space (in sqm in thousands)	5-40 sqm in thousands
			Fair value per sqm in NIS in thousands (4)	NIS 13-53 thousand		
			Occupancy rate (**) (4)	79% - 100%		
Offices and others in Israel:						
Space for lease for existing offices	5,143 (2)(3)	Income approach - discounted cash flow (DCF)	Primary cap rate (4)	7% - 8.5%	Marketable space (in sqm in thousands)	2-151 sqm in thousands
			Fair value per sqm in NIS in thousands	NIS 6-17 thousand		
			Occupancy rate (**) (4)	81%-100%		
Other space for lease	92 (2)	Income approach - discounted cash flow (DCF)	Estimated average rent per sqm in NIS (*)	NIS 28		
			Primary cap rate	7.75%		
Land	32	Comparison method	Size-specific adjustment			
			Estimated betterment levy			

Note 35 – Fair value (Cont.)

B. Assets and liabilities measured at fair value at level 3 in the Statement of Financial Position (Cont.)

(3) Description of evaluation techniques (Cont.)

Description of the measured instrument	Fair value as of December 31, 2016	Evaluation technique	Description of significant non-observable data	Range	Other data	Range
	NIS in millions					
Buildings under construction in Israel	2,428	Discounted cash flow (DCF), net of the estimated construction costs expected for the completion thereof	Estimated average rent per sqm in NIS (*)	Offices NIS 62-100 Retail NIS 177-233	Estimated balance of construction costs per sqm	740-1,040 per sqm
			Primary cap rate	7.75% - 8.5%		
	1,079	Comparison method	Specific adjustment for location, size and standard			
			Estimated betterment levy			
	213	Cost approach				
Income-producing property in the USA	1,960 (3)	Income approach – discounted cash flow (DCF)	Estimated average rent per sqm in Dollars (*)	$16-20	Marketable space (in sqm in thousands)	3-89 sqm in thousands
			Primary cap rate	5.75% - 7.75%		
			Fair value per sqm in NIS in thousands	NIS 9 - 14 thousand		
			Occupancy rate (**)	73% - 100%		
Senior housing	1,086 (3)	Income approach – discounted cash flow (DCF)	Estimated tenant deposit against residential units	NIS 0.7-3.6 million		
			Cap rate	8.75%		
			Annual tenant turnover rate	10%		

(*) Calculated on the basis of average rent per marketable meter in each property separately.

(**) Calculated on the basis of each property separately.

Note 35 – Fair value (Cont.)

B. Assets and liabilities measured at fair value at level 3 in the Statement of Financial Position (Cont.)

(3) Description of evaluation techniques (Cont.)

(1) The fair value estimate will increase if the growth rate increases and/or the weighted cap rate decreases.

(2) The fair value estimate will increase if the rent payments increase and/or the weighted cap rate decreases. A 5% increase or decrease in the average rent per sqm, will increase or reduce the market value of the offices at Azrieli Center by approx. NIS 126 million, respectively. In addition, a 0.25% decrease or increase in the cap rate will increase their market value by approx. NIS 103 million or reduce the same by approx. NIS 97 million, respectively.

(3) The fair value estimate will increase if the building costs per sqm decrease, the rent payments increase, the weighted cap rate decreases and/or in the case of appreciation of senior housing units.

(4) Including properties under lease-up.

Note 35 – Fair value (Cont.)

C. For a description of the evaluation processes used in determining the fair value – see Note 3C.

D. Fair value of items that are not measured at fair value in the Statement of Financial Position:

(1) Fair value by comparison to the book value

Following are details regarding the fair value of certain items that are not measured at fair value in the Statement of Financial Position.

		As of December 31			
		2017		2016	
	Level of fair value	Book value	Fair value	Book Value	Fair value
		NIS in millions	NIS in millions	NIS in millions	NIS in millions
Non-current assets:					
Receivables in respect of franchise arrangement (1)	2	55	74	58	71
Non-current liabilities:					
Loans from banks and other credit providers (1)	2	2,765	2,823	3,243	3,271
Bonds (2)	1	5,901	6,170	5,171	5,180
		8,666	8,993	8,414	8,451
Surplus of liabilities over assets		(8,611)	(8,919)	(8,356)	(8,380)

(1) The book value includes current maturities and accrued interest.
(2) See Note 3C in the matter of the basis of the determination of the fair value.

Note 35 – Fair value (Cont.)

D. Fair value of items that are not measured at fair value in the Statement of Financial Position: (Cont.)

(2) The interest rates used in the determination of the fair value

The interest's 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, with the addition of an appropriate fixed credit margin, as follows:

	As of December 31	
	2017	2016
	%	%
Non-current assets:		
Receivables in respect of franchise arrangement	1.11-1.88	3.1
Non-current liabilities:		
Loans from banks and other credit providers	0.76 - 4.36	1.15 - 4.63
Bonds	0.62 - 0.92	1.13 - 1.83

Note 36 – Related and interested parties

A. Parent company, controlling shareholder and subsidiary:

As aforesaid in Note 1A, the Company is a company that is held by Nadav Investments (a company that is resident in Canada) (the "**Parent Company**"), a company controlled by Ms. Sharon Azrieli, Naomi Azrieli and Danna Azrieli. On material subsidiaries, see Note 9A in respect of the Group's entities.

B. Benefits for key managerial personnel (including directors who are employed by the Company):

Benefits in respect of the employment of key management personnel (including directors who are employed in the Company) include:

	For the year ended December 31					
	2017		2016		2015	
	No. of persons	Amount	No. of persons	Amount	No. of persons	Amount
		NIS in millions		NIS in millions		NIS in millions
Short-term benefits (1) (2)	19	28.6	15	21.4	12	15.8
Other long-term benefits	2	0.3	2	0.5	1	-
Share-based payments	-	-	-	-	3	2.3
		28.9		21.9		18.1

(1) See also Note 36C below.

(2) Including 8 directors who are not employed by the Company (in the years 2015 and 2016 – 7 directors).

Note 36 – Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties:

	For the year ended December 31			As of December 31	
	2017	2016	2015	2017	2016
	Amounts of transactions			Balance in balance sheet	
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Interested party and affiliates owned by interested party					
Rent income	1	1	1.4		
Donations (7)	14	12.4	12.5		
Trade and other payables				0.2	0.6
Associates					
Financing income	4.6	5.8	5.2		
Loans and capital notes to associates				228.8	216.2

	Amounts of Transactions		
	For the year ended December 31		
	2017	2016	2015
	NIS in millions		
Key management personnel (including directors) in the Company (*)			
Interested parties who are employed by the Company	9.7	8.5	8.6
Number of persons to whom the benefit relates	2	2	2
Director remuneration for interested parties who are not employed by the Company	0.2	0.2	0.2
Number of persons to whom the benefit relates	2	2	2
Remuneration for directors who are not employed by the Company (**)	1.6	2.7	1.5
Number of persons to whom the benefit relates	6	6	5

(*) This information is included in Section B above.
(**) See Note 36C(9).

Note 36 – Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties: (Cont.)

(1) On December 28, 2014, after receiving the approval of the Company's Compensation Committee and Board, the general meeting of the Company approved the engagement in a management agreement with Ms. Danna Azrieli with respect to the terms and conditions of her office and employment as Active Chairman of the Board of the Company, an agreement which took effect on January 1, 2015, and the principles of which are specified below:

The Management Services, as hereinafter defined, shall be provided to the Company by Ms. Danna Azrieli through a company wholly-owned by Ms. Danna Azrieli (the "**Management Company**"), in the framework of which services, Ms. Danna Azrieli shall serve as the Active Chairman of the Board of the Company on a full-time basis (100% position) (it is clarified that Ms. Danna Azrieli may continue to take additional actions, including philanthropic activities in which she is involved, from time to time, provided that the performance thereof does not affect the discharge of her duties in the Company) and shall provide the following services to the Company, through the Management Company: chairman of the executive board of the Company's management, overseeing the implementation of strategic decisions, formulating business and managerial decisions related to the development and management of the Company's properties, business development, financing and budget, targets and the examination of new operating segments, providing ongoing managerial and professional advice to the Company's management and the managers of the principal operating segments, overseeing, accompanying and analyzing business opportunities and leading transactions and acquisitions in Israel and overseas, overseeing existing projects and monitoring their progress, overseeing development and construction and business development abroad, responsibility for outlining the Company's community relations and representing the Company in conferences in Israel and abroad (the "**Management Services**").

In consideration for the provision of the Management Services, the Company shall pay Ms. Danna Azrieli (through the Management Company) the following consideration:

Fixed component – Annual management fee in the amount of approx. NIS 2.7 million (in nominal terms) (constituting, as of December 2014, monthly management fee of approx. NIS 225,000), plus V.A.T. as required by law, linked to the rise in the CPI for November 2014, which was published on December 15, 2014 (the "**Fixed Management Fee**") (in the event of a decline in the Index in a particular month, the consideration will not be reduced, but the reduction will be offset against future index rises). The Fixed Management Fee will be paid every current calendar month.

Variable component – for the Management Services, the Management Company shall be entitled to an annual bonus, for each calendar year, deriving from the Adjusted Profit, as specified below:

The “Adjusted Profit” for purposes of this section, for every calendar year – the annual pre-tax profit, according to the Company’s audited consolidated annual financial statements, net of the following amounts: (1) a dividend received from financial assets available for sale included in the annual pre-tax profit; (2) profit (loss) deriving from the revaluation of real estate properties; (3) results of companies which do not engage in the Company’s core business segments (real estate) and were included in the annual pre-tax profit; (4) linkage differentials accrued on financial liabilities; (5) interest expenses, at the actual weighted effective interest rate for such year, of the Company and companies controlled thereby, which engage in the Company’s core business, on loans (regardless of whether or not they were taken) at a financing rate of 65% on the historical purchase cost in the books of the investment in companies which are not in the core business; (6) the sum total of the management fee (including bonus) to Ms. Danna Azrieli for such year, as included in the annual pre-tax profit; and (7) profit (loss) from financial assets (marketable securities) held for trading, including interest and dividend in respect thereof.

Note 36 – Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties: (Cont.)

(1) (Cont.)

Bonus threshold and brackets – in a year in which the Adjusted Profit is less than NIS 925 million – there is no bonus entitlement. In a year in which the Adjusted Profit ranges between NIS 925 million and NIS 1,050 million – a bonus shall be paid at the rate of 0.5% of the difference between the bonus threshold and the actual Adjusted Profit; in a year in which the Adjusted Profit exceeds NIS 1,050 million – for the portion of the Adjusted Profit exceeding NIS 1,050 million – the amount paid shall be 0.75% of the amount in excess of NIS 1,050 million, plus 0.5% of the difference between NIS 925 million and NIS 1,050 million.

Bonus cap and payment for a partial year –the sum total of the annual bonus for any calendar year as aforesaid shall not exceed NIS 1.5 million. If the Management Services shall have been rendered during part of a calendar year, the Management Company shall be entitled to a bonus calculated according to the relative part in the annual calculation results, on the basis of a 365 day year, in accordance with the part of the year during which the Management Services were rendered and based on the consolidated annual statements for such year in which the Management Agreement commenced or ended.

Repayment clause – if and insofar as it transpires *post factum* that the data on which the Company relied when granting the annual bonus as aforesaid to Ms. Danna Azrieli are incorrect and that re-presentation thereof is required in the Company’s Financial Statements, Ms. Danna Azrieli shall repay the Company the difference between the amount of the bonus paid to her based on such incorrect data and the amount of the annual bonus to which she is entitled based on the data after such re-presentation thereof.
Reimbursement of expenses, car and telecommunication – the Company shall bear all of the expenses of the Management Company in the context of the provision of the Management Services, including entertaining expenses, travel and *per diem* expenses in Israel and abroad, all in accordance with the Company's procedures and against presentation of appropriate evidence up to a maximum amount as shall be determined by the Company's Board from time to time and which shall be determined appropriate thereby, taking into account the Company's business and the scope thereof. The Company shall further bear the costs of making available and maintaining a car for the purpose of providing the Management Services, the costs of use of telephony and telecommunication, and may also, from time to time and in accordance with the compensation policy, grant Ms. Danna Azrieli additional related benefits, such as a laptop, internet connection, subscriptions to financial newspapers and daily newspapers, payment for participation in professional conferences, professional literature, seminars, etc. Reimbursement of car and telecommunication expenses shall not exceed a maximum amount as shall be determined from time to time by the Audit Committee and which shall be determined appropriate thereby, considering the Company's business and the scope thereof.

The agreement also includes the Company’s undertaking of inclusion within an officers’ insurance policy, and the grant of letters of exemption and indemnification in the standard language granted to the other officers of the Company, all subject to the provisions of the Companies Law and the approvals required thereunder, the Company's articles of association and the Company's compensation policy.

Term of the agreement and termination thereof – the management agreement took effect on January 1, 2015 for a three-year period as of such date, unless extended prior thereto by agreement between the parties and subject to receipt of all of the approvals required under law. The management agreement may be terminated by the Management Company, on the one hand, and by the Company, by way of a board resolution, on the other hand, subject to a prior notice of 6 months in advance (with no adjustment period), other than in exceptional events in which it may be terminated by the Company with immediate effect.

Note 36 – Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties: (Cont.)

(1) (Cont.)

On October 6, 2016, the general meeting of the Company's shareholders approved the extension of the management agreement with Ms. Danna Azrieli, for a three-year period, from the aforesaid meeting approval date, with no change to the effective agreement.

The total management fee for 2017 amounted to approx. NIS 4.4 million (in 2016 – approx. NIS 3.7 million).

(2) Granite's general meeting has approved:

(a) The provision of an indemnification in advance to all of the officers who are so entitled in Granite and in its consolidated companies, including officers who are considered to be controlling interests, in the past, present and future. The commitment to indemnification is limited to certain types of events and to amounts as detailed in the decision that was passed. The indemnification is in respect of the period in which Granite was a public company (until September 2012) and in connection with the office of the officers at such time.

The cumulative maximum amount of the indemnification, for all of the officers, may not exceed 20% of Granite's equity in accordance with the last financial statements that are known at the time of the passing of the decision in respect of the indemnification, with the addition of amounts that will be received from the insurance company.

(b) The granting of an exemption in advance to all of the officers who are so entitled in Granite and in its consolidated companies, including officers who are considered to be controlling interests, from liability in respect of damage caused as the result of a breach of the duty of care vis-à-vis the Company.

(c) Directors and officers liability insurance in Granite and in its subsidiaries, for a period of 12 months from August 9, 2017 and with limits of overall liability per case and for a period of U.S. $30 million.

(d) Expansion of the indemnification granted to Granite's directors and officers was approved such that it will apply also to events arising from the Improvement of Enforcement Law, within the limits of the law. Granite further limited the retroactive indemnification amount to 20% of its equity according to the Financial Statements, as being on the date of actual granting of the indemnification. Further approved was the granting of indemnification also to Ms. Danna Azrieli, who is deemed a controlling shareholder of the Company. The granting of the exemption to Ms. Danna Azrieli is subject to approval by the general meeting of Granite's shareholders.

(3) With respect to the guarantees that the Group has made available to companies in the Group, see Note 31B.

Note 36 – Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties: (Cont.)

(4) On March 18, 2015, the Company's Board approved, after the Audit Committee's approval, for the sake of caution only, engagement in an agreement to receive consulting services from a company wholly owned and fully controlled by Mr. Menachem Einan (the "**Management Company**") (the "**Consulting Agreement**"). According to the Consulting Agreement, the Management Company will provide consulting services on various strategic matters according to the Company's requirement and up to a scope of 40 monthly hours, in consideration for monthly consulting fees of approx. NIS 60 thousand, linked to the Index, plus reimbursement of reasonable expenses. In addition, it was determined that insofar as the process of disposition of Sonol Israel Ltd. and/or Supergas Israel Gas Co. Ltd., from Granite Hacarmel Investments Ltd. group, which is controlled by the Company, is completed, the Management Company will be entitled to a one-time bonus of NIS 500 thousand in respect of each one of the dispositions, in accordance with the date set forth in the agreement. The agreement is for a period of 24 months from March 1, 2015 (the "**Term of the Agreement**"), while each party is entitled to terminate the Consulting Agreement at any time after a period of 12 months from the date of its taking effect, in which case, the Company will continue to pay the Management Company monthly consulting fees for the entire remainder of the Term of the Agreement (all unless the agreement is breached). In the framework of the agreement, the Management Company committed to confidentiality and non-competition. On February 28, 2017 this agreement ended.

In 2016 Mr. Einan received a bonus in the amount of NIS 400 thousand, in accordance with the agreement between the parties, following the disposition of Sonol Israel Ltd.

Since March 2016, Mr. Einan serves as a director of the Company. In August 2016, the Company's general meeting approved his appointment as a director.

In accordance with the resolutions of the Company's Compensation Committee and Board, which were adopted on March 19 & 21, 2016 (respectively), since March 1, 2017, Mr. Einan receives director compensation in accordance with the Companies Regulations (Rules on External Directors' Remuneration and Expenses), 5760-2000.

Note 36 – Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties: (Cont.)

(5) On April 2, 2013, the Company's Board approved the appointment of Mr. Yuval Bronstein ("**Mr. Bronstein**") as the Company's CEO as of May 1, 2013, in lieu of his office as the Company's CFO.

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 of Mr. Bronstein**").

The Management Company of Mr. Bronstein was entitled to a fixed monthly payment of NIS 255,000, linked to the rate of increase of the CPI for February 2013, as published on March 15, 2013, and to related benefits, including the provision of a vehicle (Group 7) and a mobile phone.

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

Furthermore, the Management Company of Mr. Bronstein was entitled to adjustment compensation in an amount equal to 9 monthly payments.

On October 6, 2016, the general meeting of the Company's shareholders approved an update to the management agreement with Mr. Bronstein, which updated the monthly management fees that were paid to the Management Company of Mr. Bronstein to the sum of NIS 313 thousand, linked to the June 2016 index. The remaining terms and conditions of Mr. Bronstein's engagement remain unchanged.

Mr. Bronstein was granted 82,454 phantom units during his service as the Company's CFO, in accordance with the approval by the Company's Board and general meeting of May 2010. Upon approval of the terms and conditions of the engagement as the Company's CEO, the terms and conditions of the phantom units remained unchanged. The total cost carried to the income statement in the year ended on December 31, 2015, amounted to approx. NIS 1 million.

In addition, in 2017, Mr. Bronstein received a bonus in the sum of NIS 941 thousand (2016 – NIS 941 thousand and in 2015 – NIS 652 thousand).

In October 2017, Mr. Yuval Bronstein gave notice of the termination of his office on December 31, 2017.

(6) On October 19, 2017, the Board appointed Mr. Eyal Henkin ("**Mr. Henkin**") as the Company's CEO, as of January 1, 2018.

In November 2017, the Company's Compensation Committee and Board approved the Company's engagement with a company wholly owned by Mr. Henkin (the "**Management Company of Mr. Henkin**"), which shall be submitted for the approval of the next general meeting.

The Management Company of Mr. Henkin is entitled to a fixed monthly payment of NIS 313 thousand, linked to the June 2016 index, as published in July 2016, and related benefits, including the provision of a vehicle (Group 7) and a mobile phone.

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

In addition, the Management Company of Mr. Henkin shall be entitled to an adjustment bonus in an amount equal to 9 monthly payments.

Note 36 – Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties: (Cont.)

(7)

a. On May 5, 2010, shortly before the Company's IPO, the Company's general meeting, after the approval of the Company's Board had been received on May 5, 2010, gave its approval that within the framework of the annual contributions which are given to NPO's by the Company, whose scope shall be determined by the Company's Board from time to time, the Company shall remit, *inter alia*, through contributions to the Azrieli Foundation (Israel) (R.A.), ("**AFI**"). The resolution was adopted based on an examination of the main objectives of AFI which are to act to promote education and culture in Israel, through projects in the field of education, culture, welfare and science, the execution of project and the conducting of research alone and/or in conjunction with other organizations, including by means of awarding grants to organizations and/or individuals for the purpose of the performance of projects and/or research work that accords with the objectives of the Foundation, which have been examined and found to accord with the Company's policy on contributions. There is nothing in the said decision that prevents the Company's Board from resolving to contribute to other charitable entities, whose objectives accord with the Company's policy on contributions, as they may be from time to time.

Within the framework of the said decision by the general meeting, it was determined that during the period until May 2015, the company will donate to the Foundation, in each calendar year, by itself or by means of companies that it controls (except for Granite), an amount that constitutes 1.5% of the Company's annual profit and in any event not more than an amount of NIS 14 million.

The contributions remitted by the Company to AFI were used for the making of donations and for the current needs of the AFI. This contribution is deemed as a contribution out of the Company's annual contribution budget, as determined by the Company's Board from time to time.

The Company's internal auditor was appointed by the Company's Board, to examine in each calendar year and prior to the time of the signing of the financial statements for that year, the total scope of the contributions that AFI has contributed in that year, and the correlation between the contribution that stood at the basis of the decision by the general meeting that approved the annual contribution, as aforesaid and shall submit a written report to the Audit Committee. In view of Amendment 16 to the Companies Law that shortened the transaction to 3 years, on March 14, 2013, the Company's Audit Committee approved the reasonableness of the period which was set at 5 years (namely – May 2015).

In May 2015, the general meeting (after the approval of the Audit Committee and the Company's Board) approved the Company's engagement with AFI in a new contribution arrangement, which extended the arrangement for contribution to AFI by another five years commencing on June 1, 2015 and ending on May 31, 2020.

Note 36 - Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties: (Cont.)

(7) (Cont.)

b. On March 13, 2014, a contribution agreement (the "**Contribution Agreement**") was signed between Azrieli Holdings and the Azrieli Foundation (Israel) (R.A.) ("**AFI**"), a non-profit association registered in Israel, which works, *inter alia*, to promote education and culture through projects in the fields of culture, welfare and science.

According to the terms of the Contribution Agreement, Azrieli Holdings granted AFI, by way of a contribution, for no consideration, 6,902,000 ordinary shares of par value NIS 0.1 each of the Company (the "**Contribution Shares**"), which constitute approx. 5.69% of the Company's issued capital.

According to the provisions of the Contribution Agreement, the contribution of the Contribution Shares to AFI was made subject to the following 3 conditions:

(a) AFI shall hold the Contribution Shares, shall not transfer the same nor make any other disposition therein, for a period of at least 10 years from the date of execution of the contribution agreement (the "**Limitation Period**"); upon expiration of the Limitation Period, any transfer of the Contribution Shares by AFI will require a resolution by a special majority of at least 75% of the members of the board (or any other required organ), who are entitled to participate in a vote on such resolution ("**Special Approval**");

(b) Upon expiration of the Limitation Period and subject to receipt of the Special Approval as aforesaid, any future transfer of the Contribution Shares will be subject to a right of first refusal in favor of Azrieli Holdings;

(c) Azrieli Holdings shall retain all of the voting rights under the Contribution Shares, to which end AFI has signed the necessary powers of attorney. In the case of a future sale of the Contribution Shares by AFI, the voting rights under the Contribution Shares shall pass to the buyer.

As a result of receipt of the Contribution Shares, AFI became an interested party, as this term is defined in the Securities Law, 5728-1968 (the "**Securities Law**"), in the Company. Pursuant to the provisions of the Contribution Agreement, Azrieli Holdings and AFI are considered "Joint Holders" within the definition thereof in the Securities Law. In the matter of duties applying or relating, according to the Companies Law, to controlling shareholders of a company, the Company chose to relate to AFI as if it is the controlling shareholder of the Company, even if this is not required according the provisions of the law, so long as the Company did not give another reporting.

On the Company's engagement in an agreement for the purchase of one share of Canit Hashalom from AFI – see Note 9C.

c. On March 24, 2014, Azrieli Holdings transferred to The Azrieli Foundation, a registered Canadian philanthropic foundation whose assets are designated for donations and to fund philanthropic activity in Israel and in Canada (the "**Azrieli Foundation Canada**"), 460,000 shares of the Company as a contribution for no consideration, constituting approx. 0.38% of the Company's issued capital. After the transfer of the Company's shares, the Azrieli Foundation Canada held 13.68% of the Company's share capital.

In 2015 and 2016, Azrieli Foundation Canada sold some of the Company's shares that were held thereby, and after the sale of the shares and as of the Report Date, Azrieli Foundation Canada holds 8.55% of the Company's share capital.

Note 36 - Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties: (Cont.)

(8) In November 2014, Gemel Tesua Investments Ltd. ("**Gemel Tesua**") entered into an agreement with Azrieli Foundation (Israel) R.A. ("**AFI**") (see Section 7 above), according to which Gemel Tesua will lease to AFI, under market conditions, from January 2015, an area of approx. 457 sqm out of the office space in the Herzliya Business Park project, which is owned by the Group, and will also provide AFI with management and maintenance services as it provides to the other tenants in the project, which include, *inter alia*, cleaning, maintenance, building insurance and third party insurance for the public areas, payments of municipal taxes in respect of the public areas and gardening, for a period of five years, with an option to extend the period for an additional five years, in consideration for a monthly payment of approx. NIS 58 thousand.

It was further agreed that Gemel Tesua will receive one-time compensation from AFI in respect of the investment budget provided in relation to the old area in the sum of NIS 313 thousand, linked to the index according to the previous agreement of 2010.

In October 2013, Gemel Tesua entered into an agreement with Candan Residences Ltd. ("**Candan Residences**"), a company controlled by the controlling shareholder and chairman of the Board, Ms. Danna Azrieli, whereby Gemel Tesua will lease to Candan Residences, at arm's length conditions, effective from October 2013, an area of approx. 190 sqm of the office space in the Herzliya Business Park project that is owned by the Group, and will provide to Candan Residences management and maintenance services as it does to the other tenants in the project which include, *inter alia*, cleaning, maintenance, building insurance, third party insurance for public areas, payment of municipal taxes for public areas and gardening, for a two-year period with an option to extend the period by two more years until October 14, 2017, in consideration for a monthly payment of approx. NIS 22 thousand. In October 2017 the agreement was extended with the same terms and conditions by two more years until October 14, 2019.

The Company classified the transactions as negligible transactions, under market conditions and in the ordinary course of business, and determined that they are not transactions which require special approvals pursuant to the Companies Law (the classification was made in relation to each transaction separately).

(9) Remuneration of the directors - in accordance with the decision of the Company's Board and the Company's general meeting, from May 10, 2010 and August 24, 2010, the remuneration of the external directors, who are appointed in the Company, to be in accordance with the Companies Regulations (Rules on External Directors' Remuneration and Expenses), 5760-2000 (the "**Remuneration**"). The annual remuneration and the remuneration for participation (including remuneration as an expert outside director) will be paid in accordance with the maximum amount that is set in the remuneration regulation, in accordance with the Company's capital grade, as it may be from time to time.

Note 36 - Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties: (Cont.)

(9) (Cont.)

In accordance with the decision of the Company's Board and general meeting as of May 6, 2010, the payment to the Company's directors, except for the independent external directors and except for directors who receive fees from the Company (whether themselves or by means of management companies that they control), in an amount of NIS 65 thousand and remuneration for participation in meetings in an amount of NIS 2,300. The amounts of the Remuneration will be index-linked in accordance with the provisions of the Remuneration Regulations, In addition, the provisions of Sections 5 (B) and 6 (A) of the Remuneration Regulations will apply to the Remuneration paid to the directors, *mutatis mutandis*. On May 13, 2013, following Amendment 16 to the Companies Law, after the approval of the Company's Compensation Committee had been received, the Company's Board approved the continued payment of the annual remuneration and the said participation remuneration to Naomi Azrieli and Sharon Azrieli under the same terms and conditions as specified above. On May 24, 2016, the Company's Board, following receipt of the approval of the Company's Audit Committee in its capacity as the Compensation Committee of May 22, 2016, approved the continuation of the payment of the annual compensation and participation compensation as aforesaid to Naomi Azrieli and Sharon Azrieli under the same terms and conditions as specified above. The approval of the compensation as aforesaid is for a three-year period, effective from June 3, 2016.

Such approvals were reported to the public in accordance with Regulation 1B(3) of the Companies Regulations (Relief in Transactions with Interested Parties), 5760-2000.

D. Exemption, insurance and indemnification for officers and directors:

(1) Exemption:

In accordance with the decision passed by the Board and the Company's shareholders meeting on May 6, 2010, the Company has granted officers and the directors, as they may be from time to time, with the exception of the indirect controlling shareholder directors, Sharon Azrieli, Naomi Azrieli and Danna Azrieli, an exemption in advance and retrospectively from their responsibility, in whole or in part, as a result of any damage that may be caused to it and/or that has been caused to it, whether directly or indirectly, as a result of a breach of a duty of care of the directors and the officers to it and to its subsidiaries, and as officers and/or as directors in the Company or officers and/or directors acting on the Company's behalf in the subsidiaries. For details regarding an amendment to the Company's articles with respect to the exemption, see Note 36D(3).

Note 36 – Related and interested parties (Cont.)

D. Exemption, insurance and indemnification for officers and directors: (Cont.)

(2) Indemnification:

On May 6, 2010, the Company’s Board and general meeting approved the grant of indemnification to all of the officers in the Company and the directors of the Company, as being from time to time, for any liability or expenses as specified below, imposed thereon as a result of actions made (including actions made prior to the grant of letter of indemnification) and/or will make in their capacity as officers and/or directors of the Company and/or as officers and/or directors acting on the Company's behalf in the subsidiaries or affiliates of the Company or any other company in which the Company has an interest: (a) a financial indebtedness that is placed on an officer and/or director in favor of another person under a judgment, including a judgment issued by way of compromise or an arbitration award that is approved by a court and solely that those actions relate to one or more of the events that are detailed in the letter of indemnification; (b) reasonable litigation expenses, including lawyers' fees, which are expended by an officer and/or a director or that they were charged to pay by a court, in proceedings that were presented against them by the Company or in its name or in the name of another person, or on a criminal indictment that they are acquitted of, or on a criminal indictment on which they are found guilty and which does not require proof of criminal intent; (c) reasonable litigation expenses, including lawyers' fees that have been expended by an officer and/or a director, as the result of an investigation or proceedings that are conducted against them by an authority that is authorized to conduct the investigation or proceedings, and which ended without the presentation of an indictment against them and without any financial liability being placed upon them as an alternative to criminal proceedings, or which ended without the presentation of an indictment against them but with the placement of a financial liability as an alternative to criminal proceedings in a transgression which does not require proof of criminal intent.

The amount of the indemnification that the Company will pay to each officer (including directors), cumulatively in accordance with each letter of indemnification that is issued to them by the Company in accordance with the indemnification decision, in respect of one or more of the events that are detailed in the letter of indemnification, may not exceed 20% of the capital that is attributed to the shareholders in the Company in accordance with the last financial statements of the Company (audited or reviewed), which were published before the date of the indemnification.

After receipt of the approval of the Company's Board and the Audit Committee dated June 28, 2011, the general meeting approved the amendment to the language of the letters of exemption and indemnification which the Company granted and grants to the Company's officers and directors, including officers and directors of the Company who are deemed controlling shareholders and/or in the granting of which the controlling shareholders of the Company have a personal interest, as shall hold office from time to time, in order to adjust the same to the provisions of Section 56H of the Securities Law, such that they shall include an indemnification undertaking with respect to payments to persons injured by a breach and expenses in connection with administrative enforcement proceedings, including reasonable litigation expenses.

On December 28, 2014, after receipt of approval from the Company's Compensation Committee and Board, the Company's general meeting approved the extension of the letters of indemnification to the directors who are indirect controlling shareholders of the Company (Mmes. Danna, Sharon and Naomi Azrieli) for an additional three-year term from August 15, 2014, with no change in the terms and conditions of the letter of indemnification (whose language is identical to that to which the other directors are entitled as described in the Note), with the exception of the exemption component, which was not included in the letter of indemnification whose extension was approved as aforesaid.

Note 36 – Related and interested parties (Cont.)

D. Exemption, insurance and indemnification for officers and directors: (Cont.)

(2) (Cont.)

On August 9, 2016, the general meeting of the Company's shareholders approved amendments to the Company's articles, concerning mainly updates in accordance with legislative provisions that have changed, expansion of the liabilities and/or expenses for which the Company will be entitled to grant indemnification and/or insurance to directors and officers, *inter alia*, pursuant to the Restrictive Trade Practices Law, 5748-1988, and expansion of the term "Party Injured by a Breach" such that the this definition will apply to any and all acts of legislation pursuant to which an administrative proceeding may be held.

On October 6, 2016, the general meeting of the Company's shareholders approved an amendment to the exemption clause in the Company's articles such that following the amendment to the articles the Company may exempt, in advance and retrospectively, an officer thereof, of his liability, in whole or in part, for damage pursuant to a breach of the duty of care towards it, to the maximum extent permissible under any law, subject to the exemption not applying to a resolution or transaction in which the controlling shareholder or an officer of the Company have a personal interest.

On April 27, 2017, the general meeting of the Company's shareholders approved an amendment to and extension of letters of indemnification that had been granted to Ms. Danna Azrieli, Ms. Sharon Azrieli and Ms. Naomi Azrieli, the indirect controlling shareholders of the Company ("**Directors who are Controlling Shareholders**"), for an additional three-year period, and the grant of an exemption from liability to the Directors who are Controlling Shareholders for a three-year period, as of April 27, 2017.

On April 27, 2017, the general meeting of the Company's shareholders approved the grant of updated letters of indemnification and exemption to directors of the Company, as serving thereat from time to time, with the exception of directors who are controlling shareholders of the Company and/or their relatives.

Note 36 – Related and interested parties (Cont.)

D. Exemption, insurance and indemnification for officers and directors: (Cont.)

(3) Insurance:

On May 24, 2016, the Company's Board approved (after the Compensation Committee's approval of the same date) engagement for renewal of the Company's insurance policy for directors and officers (including from among the Company's controlling shareholders) of the Company and the Company's subsidiaries, except in relation to the Granite Hacarmel group which holds an independent D&O insurance policy, from June 3, 2016 until June 2, 2017 which was in accordance with the Company's compensation policy (as being at such time). On June 1, 2017, the Compensation Committee approved an engagement for the renewal of the D&O insurance policy of the Company (including from among the Company's controlling shareholders) and subsidiaries of the Company (except with respect to Granite Hacarmel, which holds an independent D&O insurance policy), from June 3, 2017 until June 2, 2018 (the "**Engagement**"). The Engagement is consistent with the engagement framework specified in the Company's approved compensation policy, and as specified below:

1) The limits of liability in the insurance policy shall not exceed U.S. $100 million per event and for the period of the insurance, plus reasonable legal defense costs in Israel, over and above the limits of liability, and in respect of claims filed outside of Israel – reasonable legal defense costs over and above the limits of liability, in accordance with trial costs customary in Israel and pursuant to the Israeli law.

2) The deductible per claim for the Company alone shall not exceed U.S. $150 thousand, in accordance with the cause of action and the place of filing thereof, and at an annual premium which has been and/or shall be paid which shall not exceed U.S. $250 thousand.

3) The insurance policy was extended to cover claims that are filed against the Company (as distinguished from claims against directors and/or officers thereof), which concern the violation of securities law at least in Israel (entity coverage for securities claims), and procedures for the payment of insurance benefits shall be determined, whereby the right of the directors and/or officers to receive indemnification from the insurer pursuant to the policy shall precede the right of the Company.

4) The policy covers also the liability of the controlling shareholders in their capacity as directors and/or officers of the Company, and the terms of the coverage with respect thereto do not exceed those of the other directors and/or officers of the Company.

POSI type policy – On June 3, 2010 the Company purchased a POSI (Public Offering of Securities Insurance) type insurance policy, which covers the responsibility of the Company, the directors and the officers in it, the controlling interests and additional parties, who have taken part in public offering of the Company's shares in accordance with the prospectus that was issued in May 2010 (the "**Offering**"), against claims that may be filed against them in connection with the Offering and this for a period of 7 years from the time of the Offering. The maximum limits of liability of the insurer in accordance with this policy will not exceed U.S. $100 million per event and for the period of the insurance, plus reasonable legal defense costs over and above the limits of liability pursuant to the Israeli law. The annual premium is U.S. $250 thousand. The deductible per claim for the Company in respect of claims under this policy will not exceed U.S. $35 thousand.

Note 36 – Related and interested parties (Cont.)

E. Negligible transactions:

On November 24, 2010, the Company's Board decided to adopt guidelines and rules regarding the classification of transactions which are not irregular transactions, of the Company or of a consolidated company thereof with interested parties therein or controlling shareholders, as a negligible transactions. Such guidelines were prescribed, *inter alia*, considering the scope of the Company's assets, the diversity of its businesses, the nature of the transactions performed thereby and the level of effect thereof on the Company's business and results. In May 2015, the Company's Board adopted a master procedure for transactions with related parties, which consolidated and incorporated procedures that were approved at the Company in the years preceding the approval thereof, including in respect of classification of negligible transactions.

Such rules and guidelines will serve on the one hand for examining the need to approve the transaction at the relevant institutions in the Company, and on the other hand, for examining the duty and/or scope of disclosure in the periodic report and the prospectus (including in shelf offer reports), and/or the provision of an immediate report in respect of such a transaction. It is noted that the transactions are examined at the group level, including material companies controlled by the Company.

The Company's Board determined that a negligible transaction at the Company is a transaction of the Company with controlling shareholders or another person in which the controlling shareholder has a personal interest, which is not irregular (i.e. is in the ordinary course of business, under market conditions and not material), and meets the following tests:

(1) In respect of the duty to provide an immediate report in connection with a negligible transaction – a single transaction in a company or a subsidiary controlled thereby is a negligible transaction if the financial scope thereof does not exceed the rate of 0.1% of the Company's consolidated equity according to the last financial statements; in case of ongoing transactions (including rent, leases and so forth), according to the monthly transaction amount, or the total sum of the transaction for the whole duration of the engagement, according to the shorter/lower between them. For the purpose of immediate report, the negligibility of a transaction will be examined on the basis of the specific single transaction, and to the extent such will pass the negligibility threshold, the Company will report such transaction through an immediate report.

(2) In respect of providing specification in the annual report in connection with negligible transactions – the total sum of all of the transactions of a certain type in the Company or a subsidiary controlled thereby, in a calendar year has not exceeded a rate of 0.5% of the Company's consolidated equity according to the last annual reports. The Company will include the types of transactions and aggregate amount thereof within its annual report only if the total amount exceeds the rate stated above. For the purpose of reporting within a periodic report, financial statements and a prospectus (including a shelf proposition report), the negligibility of the aggregate of all of the transactions of the same type of the Company with the controlling shareholder or with corporations controlled by the controlling shareholder, will be examined on an annual basis.

(3) Integrated transactions - upon the classification of transactions as negligible or non-negligible, each transaction will be examined in itself, however, the negligibility of integrated transactions, or such that are contingent upon each other or transactions of the same type, will be examined in the aggregate as one transaction. In respect of multiannual transactions (agreements for a period of several years), the scope of transaction will be calculated for examination of the negligibility threshold on an annual basis (i.e. – the total monetary amount deriving from the transaction exceeding the negligibility threshold as aforesaid). In insurance transactions, the premium will be examined as the transaction amount. Regardless of the insurance coverage provided, multiannual insurance transactions will be measured on the basis of the annual insurance fees paid or collected.

Note 36 - Related and interested parties (Cont.)

E. Negligible transactions: (Cont.)

(4) Negligible transactions at the subsidiaries – the transactions classified as negligible by the Company's investees will be deemed as negligible at the Company level too, while those classified by them as non-negligible, will be examined on the Company level. In case that the Company does not have available information allowing the examination of the classification of transactions as negligible or non-negligible transactions, then the aggregate of all of the transactions of the same type will be deemed as a negligible or non-negligible transaction, except if according to the figures in the Company's possession, one of the two conditions has been fulfilled: (1) According to the quantitative parameter above, the transaction in itself as a single transaction is not negligible; (2) the aggregate of the transactions is material to the Company.

(5) Non-quantitative examination – notwithstanding the aforesaid, the examination of the qualitative considerations of a negligible transaction from the quantitative aspect, may lead to the classification thereof as a transaction which is not negligible, if due to its nature, materiality and effect on the Company it is perceived as a significant event by the Company's management and serves as a basis for adoption of important managerial decisions or if within the context of the Company's transaction with controlling shareholders or another person in which the controlling shareholder has a personal interest, the other party is expected to receive benefits with regards to which there is significance in the reporting thereof to the investor public. It is clarified that even if a transaction of the Company with controlling shareholders or another person in which the controlling shareholder has a personal interest meets the quantitative test below, it will not be deemed negligible if such qualitative considerations indicate a material aspect thereof.

The approving entity

Pursuant to Section 22.3 of the Company's articles, the Board determined that the classification of an interested parties' transaction as a negligible transaction will be examined by the CFO in cooperation with the General Counsel, to the extent required, and in any approval of a transaction as negligible the examination and classification proceeding will be documented.

The approving entity (Cont.)

In accordance with the Company's master procedure, the classification of a transaction of the Company with controlling shareholders or with another person in which the Controlling Shareholder has a personal interest as a negligible transaction will be examined by the CFO and the General Counsel, to the extent required, and in every approval of a transaction as a negligible transaction, the examination and classification proceeding will be documented. In addition, the Board has authorized the Company's CEO or the CFO to approve the performance of transactions which meet the definition of negligibility according to this procedure, subject to the following two exceptions: (a) a situation in which both of the said persons have a personal interest in the same transaction, in which case such person will be replaced by another senior officer at the Company; and (b) a transaction concerning the terms of office and employment of an officer, or an engagement with a controlling shareholder or his relative, directly or indirectly, including through a company controlled by him, in respect of receipt of services from him by the Company, and if he is an employee of the Company and not an officer thereof – in respect of his employment at the Company, in which case the approval proceeding will be carried out pursuant to the Companies Law.

Note 36 - Related and interested parties (Cont.)

E. Negligible transactions: (Cont.)

(5) (Cont.)

Competitive proceeding or another proceeding

In May 2015, the Audit Committee approved an amendment to the procedure, whereby unless decided otherwise by the Audit Committee, for Irregular Transactions and Non-negligible Transactions specified in Section 270(4) of the Companies Law, the Company's management shall conduct a competitive proceeding or another proceeding at the Company under the supervision of the Audit Committee, in accordance with the following principles.

In transactions for the purchase of services and/or the purchase of equipment and systems, the amount of annual expense in respect of which exceeds the quantitative threshold set for in the procedure, proposals from at least 3 different relevant suppliers in the required field, which were given in accordance with a specification of requirements to be determined thereby according to its needs and in accordance with the Group's procurement procedures, as being from time to time, will be presented to the Audit Committee with a recommendation to the Audit Committee of the chosen bidder and the reasons for the choice. The invitation to submit proposals will be supervised by the CFO of the Company who may instruct, according to his discretion, the performance of changes and/or improvements in the proceeding and/or negotiations with the bidders.

With respect to transactions for the lease of income-producing spaces, which are the Company's core business, and in view of the fact that during the regular course of business the proper proceeding is not necessarily a competitive proceeding, especially when such proceeding may create a business advantage for competing companies vis-à-vis potential lessees who are good for the Company, and the length of time for conducting such proceeding may jeopardize good transactions, the Company has adopted another proceeding, whereby a transaction, the amount of annual expense in respect of which exceeds the quantitative threshold set for in the procedure, and assuming that the marketing stages for such asset shall have commenced (i.e., pricing, hiring brokers etc.), the Company shall act to collect comparative data for the transaction (price per sqm, benefits and investments, lessees and their characterization, fittingness to the mix) in similar properties of the Company and similar properties of third parties in that area, and, to the extent required, shall be assisted by external consultants for this purpose. The Audit Committee and/or Board may request the Company's management to provide additional details or a comparison from other aspects. The Company's management shall present the Audit Committee with the details of the transaction proposed for approval and the reasons with respect to its advantageousness relative to the comparative transactions. It is clarified, that if it is a transaction which the Audit Committee determines to be uncharacteristic of the Company due to its scope and content (such as the construction or purchase of an entire building for the purpose of leasing it to one lessee which is a Related Party), the Audit Committee shall determine the procedures and the transaction shall be approved according to the requirements of the law.

Related Party Transactions for the purchase of products from companies owned by Granite Hacarmel, whose activity is not in the core business of the Group and their products are mostly sold "over the counter", will not be deemed a transaction under the procedure.

Transactions with respect to terms of office and employment, other transactions with companies in the Granite Group and/or the contribution to bodies in which the Controlling Shareholder has a Personal Interest, shall be discussed at the Audit Committee, which shall determine, for every transaction, the suitable procedure for approval thereof. Nothing in the aforesaid shall derogate from the duties of approval of such engagements under any law.

Note 36 - Related and interested parties (Cont.)

E. Negligible transactions: (Cont.)

(5) (Cont.)

Competitive proceeding or another proceeding (Cont.)

In types of transactions in respect of which this chapter does not stipulate whether there is a duty to conduct a competitive proceeding or another proceeding, the Audit Committee shall determine in advance, ad hoc, for any concrete future transaction, whether the competitive proceeding or another proceeding will be conducted and the nature thereof as aforesaid.

Supervision and audit

Internal bi-quarterly review – until July 15 and January 15 of each year, a report shall be made to the Company's CFO on transactions as stated in the procedure (including negligible and non-negligible transactions) in which the Company engaged in the two quarters that lapsed, and in respect of transactions with affiliates in which other companies in the Group engaged, stating the terms and conditions of each transaction (annual financial volume, general financial volume, nature of the transaction, identity of the related party and other material conditions).

Annual follow-up

Once a year, before the deliberation on the Company's annual financial statements, or in special cases if the Audit Committee so requests prior thereto, the coordinator will report to the Audit Committee on transactions as stated in the procedure (including negligible and non-negligible transactions and including the Company's engagements in lease agreements with related parties in view of the Company's undertaking in the Company's IPO prospectus released in May 2010) and in which the Company engaged during the previous year and during the months until the date of approval of the financial statement at the Company's institutions, insofar as relevant. The report will also include related party transactions in other companies of the Group which were brought to the coordinator's attention during such period, stating the terms and conditions of each transaction (annual financial volume, general financial volume, nature of the transaction, identity of the related party and other material conditions), and regarding the sum total of the related party transactions in such year. In the framework of the annual follow-up as aforesaid, the officer shall attach a statement signed by him, whereby to the best of his knowledge and understanding, all of the relevant processes for mapping and identifying transactions with related parties were carried out at the Company and that all of the checks required by virtue of the undertaking in the prospectus were carried out, all in accordance with the provisions of the procedure, and that the transactions he reported were duly disclosed in the annual financial statements.

The Company's Board will examine, from time to time and at least once every three years, after receipt of the Audit Committee's recommendation, the implementation of the procedure by the Company and the need to update the procedure and/or the criteria therein and/or the proceedings prescribed for approval of the transactions, considering related party transactions in which the Company engages, material changes in the scope of the business of the Company and the Company's investee companies, and the relevant financial figures, and changes in the relevant statutory provisions. The provisions of the procedure do not derogate from the authority of the Audit Committee to decide to hold a discussion, from time to time, on various aspects relating to interested party transactions and to invite to such discussions the relevant entities, including the Company's management, the coordinator, the internal auditor and the General Counsel.

Note 36 - Related and interested parties (Cont.)

E. Negligible transactions: (Cont.)

(5) (Cont.)

After discussing the implementation of the provisions of the negligible transactions procedure and reviewing the consideration for the negligible transactions signed in 2017 and their other characteristics vis-à-vis the market conditions, that was held on March 18, 2018 and March 20, 2018, the Audit Committee and the Board determined, respectively, that they were all transactions duly approved in 2017, including at the material companies controlled by the Company, and made under accepted market conditions and they have no material effect on the Company's business position and results of operations. They further determined that all of the transactions examined as aforesaid were found to be transactions that meet the definition of "negligible transaction" in accordance with the Company's procedure in respect of negligible transactions, and that this procedure was adequately implemented by the Company.

Note 37 – Segment reporting

A. General:

The Company applies IFRS 8, "Operating Segments" ("**IFRS 8**"). In accordance with the provisions of the standard, operating segments are identified on the basis of the internal reporting in respect of the components of the Group, which are reviewed on a regular basis by the Group's Chief Operational Decision Makers ("**CODM**") for the purpose of the allocation of resources and the evaluation of the performance of the operating segments.

The Company's business activities focus primarily on the various property segments, while most of the Group's business activity is in the retail centers and malls in Israel segment, and in the office and other space for lease segment, and land designated for residential lease in Israel. In addition, the Company engages in the income-producing property in the USA segment (office space for lease) and in the senior housing segment. In addition, the Company engages, through its holding (100%) in Granite in the marketing of energy substitutes (through Supergas Israeli Gas Distribution Company Ltd., held 100% by Granite), and through its holding (through Granite) in GES Global Environmental Solutions Ltd. in the field of the treatment of water, wastewater and chemicals.

The Company engages in additional activities, including financial investments and activity in the eCommerce sector which was acquired in June 2016.

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 – Senior housing.

Segment E – Granite.

In the following business segments: the retail centers and malls in Israel, office and other space for lease in Israel, income-producing property in the USA and senior housing, the data of each one of the segments was aggregated.

Following are the considerations exercised by the management in implementing the criteria for aggregation of each one of these segment:

Note 37 – Segment reporting (Cont.)

A. General (Cont.)

The Group's management examined the financial characteristics of each one of these segments and reached the conclusion that the financial characteristics in each one of them are similar, due to the fact that each one of the segments is managed in the same geographical region (Israel or the USA), stated in the same currency (NIS or USD), subject to similar political and legal conditions, and has similar profitability rates. In addition, the Group's management considered that each one of these segments is similar in all of the following characteristics:

- The nature of the projects – all of the projects in each one these segments are in the same operating segment.
- The nature of the development and enterprise processes – all of the projects in each one of these segments involve similar development and enterprise processes.
- Type of customers – all of the projects in each one of these segments, are marketed to similar clientele (business customers, the senior population).
- The methods used for marketing the projects – the methods for marketing all of the projects in each one of these segments are similar and include identical advertising and marketing processes.
- The nature of the supervisory environment – similar laws, regulations and rules apply to all of the projects in each one of these segments, including in respect of real property, planning, construction, and leasing, environmental protection, laws on the municipal level and in respect of land taxation, and laws and regulations in the field of senior housing.

Based on the considerations specified above, the Group's management believes that the aggregation of each one of the segments: the retail centers and malls in Israel, office and other space for lease in Israel, income-producing property in the USA and senior housing are in accordance with IFRS 8.

Note 37 – Segment reporting (Cont.)

B. Operating segments:

	For the year ended December 31, 2017						
	Retail centers and malls in Israel	Office and other space for lease Israel	Income-producing property in the USA	Senior housing	Granite	Others	Consolidated
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Income:							
Total external income	1,032	489	221	126	705	19	2,592
Total segment expenses	204	92	100	87	601	65	1,149
Segment profit (loss) (NOI)	828	397	121	39	104	(46)	1,443
Net profit (loss) from adjustment to fair value of investment property and investment property under construction	(25)	630	(186)	81	-	-	500
Unallocated costs							(115)
Financing expenses, net							(90)
Other income, net							124
Company's share in the results of associates, net of tax							(6)
Income before taxes on income							1,856
Additional information as of December 31, 2017:							
Segment assets	12,368	9,462	1,983	1,725	1,265		26,803
Unallocated assets (*)							3,340
Total consolidated assets							30,143
Capital investments	321	598	191	138	51		

(*) Mainly financial assets available for sale in the sum of approx. NIS 1.7 billion and cash and short-term deposits in the sum of NIS 1.1 billion.

Note 37 – Segment reporting (Cont.)

B. Operating segments: (Cont.)

	For the year ended December 31, 2016						
	Retail centers and malls in Israel	Office and other space for lease Israel	Income-producing property in the USA	Senior housing	Granite	Others	Consolidated
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Income:							
Total external income	974	447	229	95	653	7	2,405
Total segment expenses	195	78	105	66	570	12	1,026
Segment profit (loss) (NOI)	779	369	124	29	83	(5)	1,379
Net profit (loss) from adjustment to fair value of investment property and investment property under construction	220	517	(82)	56	-	-	711
Unallocated costs							(115)
Financing expenses, net							(110)
Other income, net							9
Company's share in the results of associates, net of tax							(8)
Income before taxes on income							1,866
Additional information as of December 31, 2016:							
Segment assets	12,074	8,219	2,176	1,495	1,298		25,262
Unallocated assets (*)							3,321
Total consolidated assets							28,583
Capital investments	639	1,038	233	638	43		

(*) Mainly financial assets available for sale in the sum of approx. NIS 1.6 billion and cash and short-term deposits in the sum of NIS 1.3 billion.

Note 37 – Segment reporting (Cont.)

B. Operating segments: (Cont.)

	For the year ended December 31, 2015							
	Retail centers and malls in Israel	Office and other space for lease Israel	Income-producing property in the USA	Senior housing	Granite	Others	Adjustments (**)	Consolidated
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Income:								
Total external income	932	419	237	36	730	1	-	2,355
Total segment expenses	184	72	105	24	644	-	-	1,029
Segment profit (NOI)	748	347	132	12	86	1	-	1,326
Net profit (loss) from adjustment to fair value of investment property and investment property under construction	123	70	(28)	14	-	-	-	179
Unallocated costs								(94)
Financing expenses, net								(127)
Other income, net								7
Company's share in the results of associates, net of tax								(9)
Income before taxes on income								1,282
Additional information as of December 31, 2015:								
Segment assets	11,056	6,830	2,052	803	1,175	-	1,913	23,829
Unallocated assets (*)								2,616
Total consolidated assets								26,445
Capital investments	374	536	48	717	49	-		

(*) Mainly financial assets available for sale in the sum of approx. NIS 1.6 billion and cash and short-term deposits in the sum of approx. NIS 0.9 billion.

(**) Segment assets and capital investments of discontinued operations.

Note 38 - Material subsequent events

A. Pursuant to a resolution of the Board on March 20, 2018, it has been resolved to distribute a dividend in the total amount of NIS 520 million.

B. For details regarding the expansion of the Series D bonds after the date of the Statement of Financial Position, see Note 20B(4).

C. With respect to orders pursuant to Section 152(B) of the Income Tax Ordinance received by the Company and Canit Hashalom, a subsidiary wholly-owned by the Company, after the date of the Statement of Financial Position, and an appeal from the issued orders that was filed by the Company thereafter with the District Court, see Note 29F.

D. With respect to the Company winning, through a wholly-owned subsidiary, a tender for the purchase of a leasehold in a lot located in Modi'in-Maccabim-Reut CBD, after the balance sheet date, see Note 13G.

E. For updates on claims after the date of the Statement of Financial Position - see Note 32 regarding contingent liabilities.

Azrieli Group Ltd.

Separate Financial Information
For Y2017

Prepared pursuant to the provisions of Section 9C of the Securities Regulations
(Periodic and Immediate Reports), 5730-1970

Azrieli Group Ltd.

Separate Financial Information
For Y2017

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

Dear Sir/Madam,

Re: Auditor’s special report on separate financial information pursuant to Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

We have audited the separate financial information, which is presented according to Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, of Azrieli Group Ltd. (the “**Company**") as of December 31, 2017 and 2016 and for each of the years in the three-year period ended December 31, 2017. The Company's Board and Management are responsible for this separate financial information. Our responsibility is to express an opinion on this separate financial information based on our audit.

We did not audit the separate financial information from the financial statements of investee companies, the total investments in which amounted to approx. NIS 317 million and approx. NIS 756 million as of December 31, 2017 and 2016, respectively, and the income from continuing operations from such investee companies amounted to approx. NIS 66 million, approx. NIS 48 million and approx. NIS 196 million for the years ended on December 31, 2017, 2016 and 2015, respectively, and results from discontinued operations which amounted to a total loss of approx. NIS 9 million and approx. NIS 99 million for the years ended on December 31, 2016 and 2015, respectively. The financial statements of such companies were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to the amounts that have been included in respect of such companies, is based upon the reports of the other auditors.

We performed our audit in accordance with generally accepted auditing standards in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and details included in the separate financial information. An audit also includes assessing the accounting principles used in the preparation of the separate financial information and significant estimates made by the Company's Board and Management, as well as evaluating the overall separate financial information presentation. We believe that our audit and the other auditors’ reports provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of other auditors, the separate financial information was prepared, in all material respects, according to the provisions of Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Brightman, Almagor, Zohar & Co.
Certified Public Accountants
Member of Deloitte Touche Tohmatsu Limited

Tel Aviv, March 20, 2018

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Azrieli Group Ltd.

Information on the Financial Position

	As of December 31	
	2017	2016
	NIS in millions	NIS in millions
Assets		
Current assets		
Cash and cash equivalents	826	454
Short-term deposits and investments	101	612
Trade accounts receivable	14	10
Other receivables	96	101
Current tax assets	5	-
Total current assets	1,042	1,177
Assets held for trading	40	-
	1,082	1,177
Non-current assets		
Financial assets	1,685	1,625
Investment property and investment property under construction	10,397	9,480
Investments in investee companies	8,610	7,931
Loans to investee companies	3,711	3,832
Fixed assets	9	8
Receivables	18	8
Total non-current assets	24,430	22,884
Total assets	25,512	24,061
Liabilities and capital		
Current liabilities		
Current maturities and credit from banks and other credit providers	1,413	1,756
Trade payables	88	60
Payables and other current liabilities	89	75
Current tax liabilities	-	15
Total current liabilities	1,590	1,906
Non-current liabilities		
Loans from banks and other credit providers	1,095	1,514
Bonds	5,122	4,150
Other liabilities	17	16
Deferred tax liabilities	1,406	1,199
Employee benefits	1	3
Total non-current liabilities	7,641	6,882
Capital		
Share capital	18	18
Premium	2,478	2,478
Capital reserves	571	539
Retained earnings	13,214	12,238
Total capital attributed to shareholders of the Company	16,281	15,273
Total liabilities and capital	25,512	24,061

March 20, 2018			
Date of approval of the separate financial information	**Danna Azrieli Chairman of the Board**	**Eyal Henkin CEO**	**Irit Sekler-Pilosof Chief Financial Officer**

Azrieli Group Ltd.

Information on the Income or Other Comprehensive Loss and Profit

	For the year ended December 31		
	2017	2016	2015
	NIS in millions	NIS in millions	NIS in millions
Revenues			
From rent and management and maintenance fees	514	471	459
Net profit (loss) from adjustment to fair value of investment property and investment property under construction	455	614	(19)
Financing	215	188	146
Other	63	10	10
Total revenues	1,247	1,283	596
Costs and expenses			
Cost of revenues from rent and management and maintenance fees	21	14	14
Sales and marketing	26	23	25
General and administrative	53	51	49
Financing	104	91	68
Total costs and expenses	204	179	156
Profit before Company's share in the profits of investee companies	1,043	1,104	440
Share in profits of investee companies, net of tax	642	814	591
Profit before income taxes	1,685	1,918	1,031
Taxes on income	(229)	(99)	(110)
Profit from continuing operations	1,456	1,819	921
Loss from discontinued operations (after tax)	-	(9)	(99)
Net profit for the year	1,456	1,810	822
Other comprehensive income:			
Amounts that were or will be classified in the future to income or loss, net of tax:			
Change in fair value of financial assets available for sale, net of tax	204	106	10
Amounts carried to the income statement from disposition of financial assets available for sale, net of tax	(62)	(20)	-
Translation differences due to foreign operations	(81)	(9)	3
Share in the other comprehensive income (loss) of investee companies, net of tax.	(29)	8	4
Other comprehensive income for the year, net of tax	32	85	17
Total comprehensive income for the year	1,488	1,895	839

Azrieli Group Ltd.

Information on the Cash Flows

	For the year ended December 31		
	2017	2016	2015
	NIS in millions	NIS in millions	NIS in millions
Cash flows - current operations			
Net profit for the year	1,456	1,810	822
Depreciation and amortization	1	1	1
Net loss (profit) from adjustment of fair value of investment property and investment property under construction	(455)	(614)	19
Financing and other income, net	(180)	(103)	(84)
Share in profits of investee companies, net of tax	(642)	(805)	(492)
Tax expenses recognized in the income statement	229	99	110
Income tax paid, net	(68)	(88)	(71)
Change in trade and other receivables	1	51	(35)
Change in trade and other payables	(7)	14	(6)
Change in employee provisions and benefits	-	1	(11)
Erosion (revaluation) of financial assets designated at fair value through profit and loss	4	(4)	(3)
Change in benefit recorded in respect of share based payment and employee benefits	-	-	3
Receipt of deposits from senior housing tenants	-	2	-
Net cash – current operations	339	364	253
Cash flows - investment activities			
Proceeds from (investment in) fixed and intangible assets	(3)	36	-
Acquisition and investment in investment property and investment property under construction	(486)	(1,263)	(446)
Down payments on account of investment property	-	-	(5)
Purchase of fixed and intangible assets	-	(38)	(3)
Investments in investee companies	(80)	(110)	(1)
Change in financial assets designated at fair value through profit and loss, net	3	5	2
Receipt (Granting) of long-term loans to investee companies, net	183	(290)	(164)
Acquisition of investee companies	-	(99)	-
Interest and dividend received	57	34	31
Return of investment in an investee company	12	2	2
Proceeds from liquidation of financial assets available for sale, net	233	80	-
Change in short-term deposits	511	(611)	-
Taxes paid in respect of financial assets	(17)	-	-
Down payments on account of disposition of investment property	8	-	-
Net cash - investment activities	421	(2,254)	(584)

Information on the Cash Flows
(Continued)

	For the year ended December 31		
	2017	2016	2015
	NIS in millions	NIS in millions	NIS in millions
Cash flows - financing activities			
Issue of bonds net of issue expenses	1,354	2,177	2,209
Dividend distribution to the shareholders	(480)	(400)	(320)
Repayment of bonds	(609)	(167)	(44)
Receipt of long-term loans from banks and other corporations	-	800	-
Repayment of long-term loans from banks and other corporations	(473)	(770)	(625)
Short-term credit from banks and other corporations, net	(74)	45	(53)
Customer deposits, net	1	1	-
Interest paid	(102)	(103)	(92)
Net cash - financing activities	(383)	1,583	1,075
Increase (decrease) in cash and cash equivalents	377	(307)	744
Cash and cash equivalents at the beginning of the year	454	761	19
Effect of exchange rates changes on cash balances held in foreign currency	(5)	-	(2)
Cash and cash equivalents at the end of the year	826	454	761

(*) Non-cash activities include increase in payables balances due to credit purchases of non-current assets for 2017 in the amount of NIS 32 million (in 2016 – NIS 5 million).

Azrieli Group Ltd.

Additional Information for the Separate Financial Statements

A. General:

Definitions

The Company	-	Azrieli Group Ltd.
Investee company	-	See Note 9 to the Company's Consolidated Financial Statements as of December 31, 2017.

B. Form of Preparation of the Financial Information:

The financial information out of the Consolidated Statements, attributed to the Company itself as a parent company (the "Financial Information") were prepared according to the provisions of Regulations 9C of and the 10th Schedule to the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

The Notes specified below also include disclosures pertaining to additional material information, according to the disclosure requirements specified in the said Regulation and as specified in the 10th Schedule, insofar as such information is not included in the Consolidated Statements in a manner which explicitly addresses the Company itself as a parent company.

(1) Accounting policy

The Company's separate financial information is prepared according to the accounting policy specified in Note 2 to the Company's Consolidated Financial Statements except for the amounts of the assets, liabilities, revenues, expenses and cash flows in respect of investee companies, as specified below:

a. The assets and liabilities are presented at their value in the consolidated statements attributed to the Company itself as a parent company, except for investments in investee companies.

b. Investments in investee companies are presented as the net sum amount of the total assets net of the total liabilities which present in the Company's consolidated statements financial information regarding the investee companies, including goodwill.

c. The revenues and expenses amounts reflect the revenues and expenses included in the consolidated statements attributed to the Company itself as a parent company, segmented between profit or loss and other comprehensive income, except for amounts of revenues and expenses in respect of investee companies.

d. The Company's share in the results of investee companies is presented as the net amount of the total revenues net of the total expenses presenting in the consolidated statements of the Company business results in respect of investee companies, including impairment of goodwill or the reversal thereof, in segmentation between profit or loss and other comprehensive income.

e. The cash flow amounts reflect the amounts included in the consolidated statements attributed to the Company itself as a parent company, except for amounts of the cash flows in respect of investee companies.

f. Loans given and/or received from investee companies are presented at the amount attributed to the Company itself as a parent company.

g. Balances, revenues and expenses in respect of transactions with investee companies which were written off within the consolidated statements, are measured and presented within the relevant clauses in the information on the financial position and the comprehensive income, in the same manner that such transactions would have been measured and presented had they been performed vis-à-vis third parties. Profits (losses) in respect of such transactions until the level that they are not recognized in the Company's consolidated statements, which were deferred, are presented net of (as an addition) of the items of the Company's share in the profits (losses) of investee companies and investments in investee companies so that the Company's separate profit (loss) is identical to the Company's consolidated profit (loss) attributed to the owners of the parent company.

C. Financial Assets and Liabilities:

(1) Liquidity risk management

Financial liabilities which do not constitute derivative financial instruments:

The following tables specify the Company's remaining contractual maturity dates in respect of financial liabilities which do not constitute a derivative financial instrument. The tables were prepared based on the non-discounted cash flows of the financial liabilities based on the earliest date on which the Company might be required to repay them. The table includes cash flows in respect of both interest and principal.

	As of December 31, 2017						
	Book Value	Projected cash flow	2018	2019	2020	2021 forth	Without maturity date / per demand
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Financial liabilities which are not derivatives							
Short-term credit from banks and other credit providers (1)	602	602	602	-	-	-	-
Trade accounts payable	88	88	88	-	-	-	-
Other payables	30	30	30	-	-	-	-
Loans from banks and other credit providers (2)	1,522	1,592	443	217	319	613	-
Bonds (2)	5,545	6,018	466	588	582	4,382	-
Long-term customer deposits	17	17	-	-	17	-	-
Total	7,804	8,347	1,629	805	918	4,995	-

	As of December 31, 2016						
	Book Value	Projected cash flow	2017	2018	2019	2020 forth	Without maturity date / per demand
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Financial liabilities which are not derivatives							
Short-term credit from banks and other credit providers (1)	675	675	675	-	-	-	-
Trade accounts payable	60	60	60	-	-	-	-
Other payables	26	26	26	-	-	-	-
Deposits from senior housing customers	2	2	-	-	-	-	2
Loans from banks and other credit providers (2)	1,994	2,105	507	443	217	938	-
Bonds (2)	4,781	5,130	665	359	442	3,664	-
Long-term customer deposits	16	16	-	-	16	-	-
Total	7,554	8,014	1,933	802	675	4,602	2

C. Financial Assets and Liabilities (Contd.):

(1) Book value includes interest accrued as of December 31, 2017 and 2016.
(2) Book value includes current maturities and interest accrued as of December 31, 2017 and 2016.

(2) Details regarding investments in other companies:

Details regarding investments in financial assets available for sale

For details pertaining to the Company's investments in Bank Leumi Le-Israel Ltd. and Leumi Card Ltd., see Note 11 to the Consolidated Financial Statements as of December 31, 2017.

D. Taxes on Income:

(1) Details regarding the tax environment in which the Group operates and changes in the tax rates:

For details pertaining to the tax environment in which the Company operates and changes in the tax rates, see Note 29A to the Consolidated Financial Statements for the year ended on December 31, 2017.

(2) Taxes on income recognized in profit and loss:

	For the year ended on December 31		
	2017	2016	2015
	NIS in millions	NIS in millions	NIS in millions
Current taxes:			
For the current period	(74)	(62)	(75)
Adjustments for previous years, net	6	-	1
	(68)	(62)	(74)
Deferred taxes expenses:	(161)	(37)	(36)
Total income tax expenses	(229)	(99)	(110)

(3) Tax Assessments:

See Note 29F to the Consolidated Financial Statements of the year ended on December 31, 2017.

D. Taxes on Income: (Cont.)

(4) Taxes on income due to other comprehensive income components:

	2017			2016			2015		
	Amounts before tax	Tax income (expense)	Amounts net of tax	Amounts before tax	Tax income (expense)	Amounts net of tax	Amounts before tax	Tax income (expense)	Amounts net of tax
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Change in the fair value of financial assets available for sale	269	(65)	204	124	(18)	106	18	(8)	10
Amounts carried to the income statement from disposition of financial assets available for sale	(81)	19	(62)	(26)	6	(20)	-	-	-
Translation differences due to foreign operations	(81)	-	(81)	(9)	-	(9)	3	-	3
Share in the other comprehensive income (loss) of investee companies, net of tax	(29)	-	(29)	8	-	8	8	(4)	4
Total other comprehensive income (loss)	78	(46)	32	97	(12)	85	29	(12)	17

(*) The deferred taxes were calculated in 2017 according to a tax rate (in 2016 according to a tax rate of 23%-24% and in 2015 according to 26.5%).

D. Taxes on Income: (Cont.)

(5) Deferred taxes note:

Deferred taxes assets and liabilities which were recognized

The deferred taxes are calculated according to the tax rate expected to apply on the reversal date as specified above.

Deferred taxes assets and liabilities are attributed to the following items:

	Real estate assets and fixed assets	Employee benefits	Financial instruments (1)	Carry forward deductions and losses for tax purposes	Others (2)	Total
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Deferred tax asset (liability) balance as of January 1, 2016	(1,136)	1	(85)	14	54	(1,152)
Changes carried to profit and loss	(191)	-	(1)	(3)	(5)	(200)
Changes carried to other comprehensive income	-	-	(25)	-	8	(17)
Effect of the change in the tax rate carried to profit and loss	165	-	-	(2)	2	165
Effect of the change in the tax rate carried to other comprehensive income	-	-	14	-	(9)	5
Deferred tax asset (liability) balance as of December 31, 2016	(1,162)	1	(97)	9	50	(1,199)
Changes carried to profit and loss	(140)	-	(7)	(9)	(6)	(162)
Changes carried to other comprehensive income	-	-	(46)	-	-	(46)
Effect of tax rate changes recognized in profit and loss	1	-	-	-	-	1
Deferred tax asset (liability) balance as of December 31, 2017	(1,301)	1	(150)	-	44	(1,406)

(1) Mainly due to financial assets available for sale.

(2) Mainly due to the capital reserve created due to credit given to subsidiaries other than at arm's length.

(3) The deferred taxes were calculated in 2016-2017 mainly according to a tax rate of 23%.

E. Material Engagements and Transactions with Investee Companies:

(1) On material investments in companies directly held by the Company, see Note 9A to the Consolidated Financial Statements as of December 31, 2017.

(2) **a.** Canit Hashalom Investments Ltd. ("**Canit Hashalom**") issued to the Company bonds in the amount of NIS 1,220 million, linked to the Consumer Price Index. The linkage differentials in respect of the loan will not be lower, in any case, than the interest set in respect of Section 3(j) of the Income Tax Ordinance. The principal and the linkage differentials will be repaid in one sum on December 31, 2017 and in case that Canit Hashalom will not pay the principal, the interest and the linkage differentials until the maturity date, the bonds shall be deemed as having been paid and reissued on the day following the maturity date. The balance, as of December 31, 2017, is NIS 1,412 million.

b. Canit Hashalom issued to the Company bonds in the amount of NIS 1,080 million linked to the Consumer Price Index and bearing interest at a rate of 1% per annum (in 2016 - 4.8%). The interest and the linkage differentials in respect of the loan will in any event not be lower than the interest determined for purposes of Section 3(j) of the Income Tax Ordinance. The principal, interest and linkage differentials will be repaid in one sum on December 31, 2017. In case that Canit Hashalom will not pay the principal, interest and linkage differentials until the maturity date, the bonds shall be deemed as having been paid and reissued on the day following the maturity date. The balance as of December 31, 2017 is NIS 1,381 million.

In addition, the Company received loans without a maturity date to Canit Hashalom, the balance of which as of December 31, 2017, is approx. NIS 66 million, which are not linked to the Index and bear interest according to the Income Tax Regulations.

The credit as of December 31, 2017 is presented and measured at fair value on the first recognition date, according to the current value of the projected returns. The difference between the fair value measured on the first recognition date and the loan amount actually granted, is carried to capital reserve from transactions with a controlling shareholder, and is in the amount of approx. NIS 121 million (December 31, 2016 – approx. NIS 139 million).

(3) Material arrangements between the Company and Investee Companies

a. The Company and several companies held thereby and other companies in the Group have agreements, according to which the Company is entitled to management fees at a fixed rate out of those companies' total expenses. In the years 2017 and 2016, the Company received management fees as aforesaid at a total sum of approx. NIS 28 million and approx. NIS 19 million, respectively.

b. The Company and several companies held thereby have agreements, according to which the Company is entitled to amounts for a depreciation and replacement fund for the replacement and/or fundamental repair of facilities and equipment serving all of the tenants in the Company's real estate. In the years 2017 and 2016, the Company received proceeds as aforesaid in a total amount of approx. NIS 11 million and approx. NIS 5 million, respectively.

c. The Company and several companies held thereby have agreements, according to which the Company is entitled to amounts for rent due to the companies' use of areas owned thereby. In the years 2017 and 2016, the Company received rent as aforesaid in a total amount of NIS 2 million.

E. Material engagements and transactions with investee companies: (Cont.)

(3) Material arrangements between the Company and Investee Companies (Cont.)

d. The Company provided loans to several investee companies thereof, as detailed below:

Loans in an amount of approx. NIS 143 million linked to the USD and bearing interest at a rate of approx. 10% per annum.

A loan in an amount of approx. NIS 42 million linked to the USD and bearing interest at a rate of approx. 6.5% per annum.

Capital notes in the amount of approx. NIS 821 million linked to the Index and bearing no interest for a period of 5 years. The balance is presented net of capital reserve.

With regards to the loans to Canit Hashalom, see Section 2 above.

The remaining loans bear interest pursuant to the Income Tax Regulations.

The interest and linkage differentials which were accrued due to such loans and were presented in the Statement of Net Profit of the Company for the years ended on December 31, 2017 and 2016 are in a total amount of approx. NIS 133 million and approx. NIS 148 million, respectively.

e. The Company bears expenses for office, insurance, compensation and benefits of senior employees at the group (the "**Group's Expenses**"). The Company and several companies held thereby and other companies in the Group have agreements, according to which the Company is entitled to reimbursement for amounts paid thereby for the companies. In the years 2017 and 2016 the Company received such proceeds in a total amount of approx. NIS 29 million and approx. NIS 27 million, respectively.

f. The Company and companies held thereby have an agreement, according to which the investee companies are entitled to rent, management fee and parking fees for areas owned thereby. In the years 2017 and 2016, the Company paid rent, management fees and parking fees as aforesaid in a total amount of approx. NIS 5 million and approx. NIS 6 million, respectively.

(4) With regards to the purchase of one share of an investee company in 2016, see Note 9C to the Consolidated Financial Statements as of December 31, 2017.

F. Guarantees:

(1) On February 4, 2011, the Company provided an American financial institution a guarantee in the amount of the loan taken by a consolidated limited entity thereof, enforceable only under certain cases defined in the loan agreement. The loan balance as of December 31, 2017 is NIS 417 million.

(2) On January 1, 2012, the Company provided an American financial institution, a guarantee in the amount of the loan taken by a consolidated limited entity thereof, enforceable only under certain cases defined in the loan agreement. The loan balance as of December 31, 2017 is NIS 221 million.

(3) On September 21, 2014, the Company provided an American financial institution, a guarantee in the amount of the loan taken by a consolidated limited entity thereof, enforceable only under certain cases defined in the loan agreement. The loan balance as of December 31, 2017 is NIS 159 million.

(4) On August 1, 2016, the Company provided an American financial institution, guarantees in the amount of the loan taken by a consolidated limited entity thereof, enforceable only under certain cases defined in the loan agreement. The loan balance as of December 31, 2017 is NIS 74 million.

G. Contractual Restrictions and Financial Covenants:

For details regarding contractual restrictions undertaken by the Company, see Note 20 to the Consolidated Financial Statements as of December 31, 2017.

H. Dividends from Companies Directly held by the Company:

Companies directly held by the Company have no contractual restrictions on dividend distribution.

I. Pledges:

(1) The Company committed to banks, financial institutions and in the indentures to the bonds that it would not create floating charges over its entire assets. The Company may create a floating charge as aforesaid, provided that concurrently with the creation thereof, it will create a floating charge to the benefit of the lender as well. The Company also committed, irrevocably, to a bank that it had not created and will not create a floating charge over its entire property and assets, whether they are owned thereby or will be owned thereby in the future, including over the goodwill and share capital thereof, and it also committed towards another bank not to commit in any manner to create a floating charge as aforesaid, without the advance written agreement of the bank.

(2) As of December 31, 2017, the Company has investment property and investment property under construction which are not pledged in an amount of approx. NIS 9,468 million and investment property of approx. NIS 987 million charged by a fixed charge for securing loans from banks and other corporations, the balance of which as of December 31, 2017 is in an amount of approx. NIS 175 million. Furthermore, against loans of the Company in the sum of NIS 1,096 million, assets of investee companies in the sum of NIS 2,622 million are pledged. For further details, see Note 13B to the Consolidated Financial Statements as of December 31, 2017.

(3) As of December 31, 2017, the Company has financial assets available for sale which are not pledged in an amount of approx. NIS 1.7 billion, see also Note 11 to the Consolidated Financial Statements as of December 31, 2017.

(4) With respect to pledges – see Note 31 to the Consolidated Financial Statements as of December 31, 2017.

J. Engagements with Affiliated and Interested Parties:

Regarding engagements with related and interested parties, see Note 36 to the Consolidated Financial Statements as of December 31, 2017.

K. Subsequent Events:

Regarding subsequent material events, see Note 38 to the Consolidated Financial Statements as of December 31, 2017.

Further Details about the Corporation

Part D

CHAPTER D | ADDITIONAL DETAILS ABOUT THE CORPORATION

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Regulation 25A – Registered Address

Company Name: Azrieli Group Ltd.

Company Number in the Registrar of Companies: 51-096071-9

Address: 1 Azrieli Center, Tel Aviv, 6702101

Facsimile: 03-6081380

Telephone: 03-6081400

email: rant@azrieli.com

Date of the Statement of Financial Position: December 31, 2017

The Report Date: March 20, 2018

Regulation 10A - Summary of the Reports on Results of the Company's Operations for Each Quarter of 2017 (NIS in million)

	1-3/2017	4-6/2017	7-9/2017	10-12/2017	1-12/2017
Income					
From rent, management and maintenance fees	452	459	480	477	1,868
From sales, work and services	225	172	150	177	724
Profit, net of fair value adjustment of investment properties and properties under construction	(15)	531	(31)	15	500
Financing	13	4	77	-	94
Other	10	35	8	76	129
Total Income	685	1,201	684	745	3,315
Costs and Expenses					
Cost of income from rent, management and maintenance fees	115	117	513	711	484
Cost of income from sales, work and services	149	110	98	117	474
Sale and marketing	43	45	51	53	192
General and administrative	25	28	26	35	114
Portion of results of included companies, net of tax	2	1	1	2	6
Financing expenses	42	78	18	64	184
Other	-	-	-	5	5
Total Costs and Expenses	376	379	329	375	1,459
Profit before tax on income	309	822	355	370	1,856
Tax on income	(69)	(179)	(90)	(70)	(408)
Net profit per period	240	643	265	300	1,448
Attributed to: owners of the Company	240	643	265	830	561,4
Non-controlling interests	-	-	-	(8)	(8)
	240	643	265	300	1,448

Regulation 10C - Use of Proceeds from Securities

Series B Bonds

On March 29, 2017, approx. NIS 229 million par value of Series B Bonds were issued in consideration for approx. NIS 223 million (approx. NIS 221 million net of attribution of the issue expenses), by way of expansion of the Series B Bond series of the Company in accordance with a shelf offering report released on March 29, 2017 (Ref. No.: 2017-01-032703, a "**Shelf Offering Report**"), included herein by way of reference, and released by virtue of the Company's shelf prospectus released on May 10, 2016 (Ref. No.: 2016-01-063049, a "**Shelf Prospectus**"), included herein by way of reference.

Series C Bonds

On March 29, 2017, approx. NIS 179 million par value of Series C Bonds were issued in consideration for approx. NIS 182 million (approx. NIS 181 million net of attribution of the issue expenses), by way of expansion of the Series C Bond series of the Company in accordance with a Shelf Offering Report released by virtue of a Shelf Prospectus.

Series D Bonds

On March 29, 2017, approx. NIS 984 million par value of Series D Bonds were issued in consideration for approx. NIS 960 million (approx. NIS 955 million net of attribution of the issue expenses), by way of expansion of the Series D Bond series of the Company in accordance with a Shelf Offering Report released by virtue of a Shelf Prospectus.

On January 31, 2018, approx. NIS 1,367 million par value of Series D Bonds were issued in consideration for approx. NIS 1,409 million (approx. NIS 1,400 million net of attribution of the issue expenses), by way of expansion of the Series D Bonds of the Company in accordance with a shelf offering report released on January 31, 2018 (Ref. No.: 2018-01-010993), included herein by way of reference and released by virtue of a Shelf Prospectus.

The proceeds received from these issues were and shall be used by the Company, *inter alia*, for the refinancing of an existing financial debt and for current financing needs, from time to time, according to the Company's goals and business plans.

Regulation 11 - List of Investments in Material Subsidiaries and Affiliates as of the Date of the Statement of Financial Position

See **Annex A** to this chapter.

Regulation 12 - Changes in Investments in Material Subsidiaries and Affiliates, Directly and Indirectly, in the Report Period

During the Report Period, no changes have occurred in investments in the Company's subsidiaries and associated companies.

At the end of 2017, the Group increased its holdings in two of its assets that are located in Houston, Texas – 1 Riverway and 3 Riverway. For further details, see Section 10.9 of Chapter A of this report.

Date of Change	Nature of Change	Name of Company	Name of Holder	Remarks
December 2017	Purchase of 33.33% of 1 Riverway	South Post OAK LP	Canit Hashalom Investments Ltd.	See Section 10.9 of Chapter A of this report
December 2017	Purchase of 45% of Riverway 3	Rivercan LP	Canit Hashalom Investments Ltd.	See Section 10.9 of Chapter A of this report

Regulation 13 - Profit of Material Subsidiaries and Affiliates and the Corporation's Income therefrom as of the Date of the Statement of Financial Position (NIS in Million)

Investee Company	Main Business	Profit (Loss) (NIS in million)		Company's Income from the Affiliate		
		Net Profit	Comprehensive Income	Dividend	Management Fee	Interest and Linkage Differentials
Canit Hashalom Investments Ltd.	Development, management, construction, acquisition and lease of commercial and office buildings in Israel and in the US. Holding in Granite Hacarmel	665	638	-	-	89
Otzem Initiation & Investments (1991) Ltd.	Development, construction and lease of commercial buildings (Or Yehuda and Ramla)	23	23	-	-	14
AG Galleria Office Buildings, LP	Holding of 90% of the rights in office buildings situated in Houston, Texas, USA, which are known by the name Galleria	(65)	(91)	-	4	-
Gemel Tesua Investments Ltd.	Development, management, construction, acquisition and lease of commercial and	91	91	-	-	-

	office buildings in Israel					
Otzma & Co. Investments Maccabim Ltd.	Development, management, construction, acquisition and lease of office buildings in Israel	10	10	-	-	3
AG Plaza at Enclave	Holding of 100% of the rights in an office building in Houston, Texas, USA - "Houston Dow Center"	20	9	-	-	(1)
Granite Hacarmel Investments Ltd.	Private holding company which holds, inter alia, Supergas and GES	69	57	-	-	-
G.E.S. Global Environmental Solutions Ltd.	Treatment of water, wastewater and chemicals	1	1	-	-	-
Supergas Israel Gas Distribution Company Ltd.	Marketing of energy substitutes	66	55	-	-	-
Palace America Senior Housing Company Ltd.	Operation of a senior home for nursing and recuperation	48	48	-	-	-
Ahuzat Bayit Raanana – Senior Housing Ltd.	Operation of a senior home and a retail center	22	22	-	-	8
Modi'in Senior Housing Ltd.	Establishment of a senior home	44	44	-	-	2
Azrieli E-Commerce Ltd.	The eCommerce segment	(44)	(44)	-	-	2
AG Two Aspen LLC	Was established for the purpose of holding 100% of the rights in an office building in Austin, Texas, USA - "Aspen Lake 2"	18	18	-	-	(2)

* Including capital reserve.

Regulation 20 - Trade on the Stock Exchange – Listed Securities / Trading Suspensions - Dates and Reasons

a. Shares/Securities

On April 2, 2017, approx. NIS 229 million par value of Series B Bonds, approx. NIS 179 million par value of Series C Bonds and approx. NIS 984 million par value of Series D Bonds, were listed on TASE, by way of expansion of the Series B-D Bond series.

On February 4, 2018, approx. NIS 1,367 million par value of Series D Bonds were listed on TASE by way of expansion of the Series D Bond series.

For further details, see Regulation 10C of this Chapter D.

b. Trading Suspensions

During the Report Period, there was no suspension of trading in the securities issued by the Company.

Regulation 21 - Payments to Senior Officers

For a specification of the compensation granted in the Report Period, as specified in Schedule 6 of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, see Section 1 of Chapter E of this Report – Corporate Governance.

Regulation 21A - Control of the Company

As of the Report Release Date, Azrieli Holdings Inc. ("**Azrieli Holdings**"), a private company incorporated under Canadian law, holds, directly and indirectly, through its holding of the entire share capital of Nadav Investments Inc. ("**Nadav Investments**"), a private company incorporated under Canadian law, which is the direct controlling shareholder of the Company, 55.62% of the share capital and 61.31%[1] of the voting rights of the Company *de facto* and on a fully-diluted basis. As the Company has been informed, Azrieli Holdings is controlled by Sharon Azrieli, Naomi Azrieli and Danna Azrieli, either directly or through Canadian holding corporations.

Until his death, in July 2014, Mr. David Azrieli OBM directly and indirectly held approx. 44.77% of the share capital of Azrieli Holdings and all of the voting rights in Azrieli Holdings (including the voting rights of his children's shares, which were held by him in trust). Following the passing of Mr. David Azrieli OBM, the shares of Azrieli Holdings that had been held by him and his shares in a Canadian holding corporation controlled by him ("**David Holding Corporation**") were transferred to his estate, and Sharon Azrieli, Naomi Azrieli and Danna Azrieli were appointed as the 3 directors of Azrieli Holdings and of Nadav Investments. As the Company has been informed, on April 13, 2015, shares of Mr. David Azrieli OBM in Azrieli Holdings and in David Holding Corporation were distributed from his estate. Following such distribution, each one of Sharon Azrieli, Naomi Azrieli and Danna Azrieli, holds, directly and through David Holding Corporation, approx. 27.24% of the capital rights in Azrieli Holdings and approx. 33.13% of the voting rights in Azrieli Holdings, and together they hold approx. 81.73% of the capital rights in Azrieli Holdings and approx. 99.39% of the voting rights therein. The remainder of Azrieli Holdings' shares are mainly held by the Azrieli Foundation of Canada (an interested party in the Company), which, following the distribution of the estate, holds (indirectly, through a holding of shares of David Holding Corporation) 15.93% of Azrieli Holdings' shares, with no voting rights (which holding indirectly constitutes a

1 Which include all of the voting rights by virtue of the Contribution Shares. See Section 3.1 of Chapter A of the Report.

holding of approx. 8.86% of the capital rights of the Company), in addition to and separately from its direct holding of 8.55% of the capital and voting rights in the Company. As the Company has been informed, on March 20, 2017, a shareholders' agreement (the "**2017 Agreement**") was signed between Sharon Azrieli, Naomi Azrieli and Danna Azrieli (by themselves and through companies controlled by them), the indirect controlling shareholders of the Company and directors thereof (the "**Controlling Shareholders**"). Additional parties to the 2017 Agreement are Azrieli Holdings, Nadav Investments and David Holding Corporation (the three "**Holding Corporations**"). The 2017 Agreement replaces and substitutes the former shareholders agreement made by the parties in November 2012 (the "**2012 Agreement**"), and it regulates the relations between the Controlling Shareholders, by themselves, and through the Holding Corporations, in respect of their rights in the Company. Similarly to the 2012 Agreement, the terms of the 2017 Agreement include agreements regarding the sale and transfer of shares in the Company and in the Holding Corporations, including a lock-up period, right of first refusal, right of first offer, co-sale right and an exclusion in connection with certain sales of shares (drip) on TASE. The 2017 Agreement further prescribes that the manner of use of the voting rights in the Company will be determined by the Controlling Shareholders (by a majority vote), provided however, that in respect of resolutions to appoint directors of the Company, each one of the Controlling Shareholders shall have the right to use the voting rights to appoint one director who will be determined by her, whereas the manner of use of the voting rights in the Company regarding resolutions to appoint additional directors, will be adopted by a majority vote. Together with the 2017 Agreement, another agreement was signed between all of the direct shareholders in Azrieli Holdings (including the controlling shareholders). Such additional agreement was required under Canadian law, in order to ensure that Azrieli Holdings is subject to part of the provisions of the 2017 Agreement. It is clarified, that the 2017 Agreement does not change the identity of the Company's controlling shareholders (including of Azrieli Holdings) nor their percentage holdings in the capital and in the voting rights in the Company, and that as of the Report Release Date, Sharon Azrieli, Naomi Azrieli and Danna Azrieli are the Company's controlling shareholders. For further details see the immediate report of March 21, 2017 (ref. no.: 2017-01-026388), which is included herein by way of reference.

Regulation 22 - Transactions with Controlling Shareholders

For details with respect to transactions with the controlling shareholder or in the approval of which the controlling shareholder has a personal interest, in which the Company or a corporation controlled thereby or an affiliate thereof engaged, see Section 2 of the Company's Corporate Governance Report, which is attached as Chapter E hereof.

Regulation 24 - Holdings of Interested Parties and Senior Officers

For details regarding the holdings of interested parties and senior officers of the Company, see the immediate report regarding the holdings of interested parties and officers released by the Company on January 7, 2018 (Ref. No.: 2018-01-002572), which is included herein by way of reference.

Regulation 24A - Authorized Capital, Issued Capital and Convertible Securities

As of December 31, 2017, the registered share capital of the Company is 127,501,500 ordinary shares par value NIS 0.1 each, and the issued share capital of the Company is 121,272,760 ordinary shares par value NIS 0.1 each.

Regulation 24B - The Company's Shareholders' Register

Shareholder's Name	Company	Address	Class of Shares	Quantity of Shares	Par value
Registration Co. of Bank Hapoalim Ltd.	510356603	62 Yehuda Halevi, Tel Aviv	Ordinary par value NIS 0.1	121,272,760	NIS 0.1

Regulation 26 - Directors of the Corporation (as of the Report Date)

Below are personal and professional details with regard to the Company's directors:

(1) Director's Name:	Danna Azrieli, Active Chairman of the Board
Identification number:	321657744
Date of Birth:	June 3, 1967
Address for service of process:	Azrieli Center 1, Tel Aviv
Citizenship:	Israeli
Membership on board of directors' committees	None
Outside Director/Independent Director:	No
Position filled at the Company/Subsidiary/Affiliate of the Company or of an interested party therein:	Active Chairman of the Board
Date of commencement of service as director of the Company:	June 1, 2010
Education:	BA in Sociology and Anthropology from Swarthmore College; Juris Doctor of Law from Vermont Law School; member of the Massachusetts State Bar Association in the U.S. and the Israel Bar Association.
Occupation in the past five years and other corporations in which he holds office as director:	Active Vice Chairman of the Board of the Company; Serves as a director of the companies: Nadav Investments Inc., Azrieli Holdings Inc., Candan Residences Ltd., Dan Squared Ltd., Candan Constructions' Maintenance and Management Ltd., Candan Management Services Ltd. and Candan Holdings Ltd.; Chair of Azrieli Foundation (Israel), R.A., and Director of Azrieli Foundation (Canada), a Canadian nonprofit organization.
Family relation to an interested party:	Controlling shareholder. For details see Regulation 21A above.
Accounting and Financial Expertise or Professional Qualification:	Professional Qualification

(2) Director's Name:	Sharon Azrieli
Identification number:	HM841817
Date of Birth:	August 4, 1960
Address for service of process:	Azrieli Center 1, Tel Aviv
Citizenship:	Canadian
Membership on board of directors' committees	None
Outside Director/Independent Director:	No
Position filled at the Company/Subsidiary/Affiliate of the Company or of an interested party therein:	None
Date of commencement of service as director of the Company:	June 1, 2010
Education:	PhD in Music from the University of Montreal; MA in Music from the University of Montreal; BA in Art from Vassar College; Certificate from the Juilliard School of Music; Associate degree from the Parsons School of Design.
Occupation in the past five years and other corporations in which he holds office as director:	Opera singer, cantor and artist; Publisher of interior design magazines; Member of the board of Azrieli Foundation (Israel), R.A., and director of Azrieli Foundation (Canada), a Canadian nonprofit organization. Serves as President of the Directors Board of the Orchestre de Chambre McGill; Sharon Azrieli Foundation for the Arts (SAFA); Opera Cares Foundation; Shir Chadash Synagogue. A director of the following organizations: 7809298 Canada Inc.; 7807872 Canada Inc.; Vancouver Home Magazine Inc.; Toronto Home Magazine Inc.; Montreal Home Magazine Inc.; McCord Museum (Montreal); Canadian Vocal Arts Institute; America-Israel Cultural Foundation (AICF). Owner and manager of foreign private companies.
Family relation to an interested party:	Controlling shareholder. For details see Regulation 21A above.
Accounting and Financial Expertise or Professional Qualification:	No

(3) Director's Name:	Naomi Azrieli
Identification number:	HB510031
Date of Birth:	September 26, 1965
Address for service of process:	Azrieli Center 1, Tel Aviv
Citizenship:	Canadian
Membership on board of directors' committees	None
Outside Director/Independent Director:	No
Position filled at the Company/Subsidiary/Affiliate of the Company or of an interested party therein:	None

Date of commencement of service as director of the Company:	June 1, 2010
Education:	PhD (D. Phil) in International History from Oxford University, England; Master of International Affairs in International Relations, Finance and Economics from Columbia University, New York; BA from the University of Pennsylvania in Political Science and Russian Studies.
Occupation in the past five years and other corporations in which he holds office as director:	CEO and Director of the Azrieli Foundation (Canada), a Canadian nonprofit organization. Member of the board of Azrieli Foundation (Israel), R.A. Owner and manager of foreign private companies. Director and president of the corporations: Canpro Investments Ltd., Omico Investments Ltd. Director in the following entities: Canadian Society for Yad Vashem, Technion International Board, Yeshiva University, Brain Canada Foundation, Weizmann Institute of Science.
Family relation to an interested party:	Controlling shareholder. For details see Regulation 21A above.
Accounting and Financial Expertise or Professional Qualification:	Professional Qualification

(4) Director's Name:	**Joseph Ciechanover**
Identification number:	5991468
Date of Birth:	October 1, 1933
Address for service of process:	Azrieli Center 1, Tel Aviv
Citizenship:	Israeli
Membership on board of directors' committees	Audit Committee, Compensation Committee, FSRC and Enforcement Committee ("All of the Committees")
Outside Director/Independent Director:	Independent Director
Position filled at the Company/Subsidiary/Affiliate of the Company or of an interested party therein:	None
Date of commencement of service as director of the Company:	May 6, 2010
Education:	PhD in Philosophy from Boston University; LLM from the Hebrew University; Completed his studies towards an MBA at the Hebrew University (missing final paper); LLM from the University of Berkeley California.
Occupation in the past five years and other corporations in which he holds office as director:	Consultant for Etgar 2 Fund by way of the Atidim Funds Management Co. Ltd. Director at Harel Investments, Insurance and Financial Services Ltd., Mifal HaPayis and a member of the board of directors at the Israel Museum. Chairman and CEO of Atidim Funds Management Ltd., IYZ Investment Management Ltd. and J.C. Atara Ventures Ltd. Member of the associations: the Jacob Isler Foundation, the Dayan Center – Tel Aviv University, the Elie Wiesel Foundation, RA and the Israel Science Foundation, the Clinical Genetics Society. Served as a director of Azrieli Foundation (Israel), R.A.
Family relation to an interested party:	No
Accounting and Financial Expertise or Professional Qualification:	Expert director; has accounting and financial expertise

(5) Director's Name:	Tzipora Carmon
Identification number:	51528933
Date of Birth:	December 7, 1952
Address for service of process:	Azrieli Center 1, Tel Aviv
Citizenship:	Israeli
Membership on board of directors' committees	All committees
Outside Director/Independent Director:	Independent
Position filled at the Company/Subsidiary/Affiliate of the Company or of an interested party therein:	None
Date of commencement of service as director of the Company:	May 19, 2013
Education:	BA in Sociology and Education, the Hebrew University, Jerusalem; MBA, UCLA, California, USA.
Occupation in the past five years and other corporations in which he holds office as director:	Manager and owner of T.C. Exports Ltd. in the last 21 years; Director of Delta Galil Industries Ltd.
Family relation to an interested party:	No
Accounting and Financial Expertise or Professional Qualification:	Expert director; has accounting and financial expertise.

(6) Director's Name:	Efraim Halevy, Outside Director
Identification number:	49871718
Date of Birth:	December 2, 1934
Address for service of process:	Azrieli Center 1, Tel Aviv
Citizenship:	Israeli
Membership on board of directors' committees	All committees
Outside Director/Independent Director:	Outside Director
Position filled at the Company/Subsidiary/Affiliate of the Company or of an interested party therein:	None
Date of commencement of service as director of the Company:	August 24, 2010
Education:	LL.M. - The Hebrew University in Jerusalem. Management studies of process leadership for senior executives –the Tel Aviv University.
Occupation in the past five years and other corporations in which he holds office as director:	2003-2011: Head of the Shasha Center for Strategic Studies in the Hebrew University.
Family relation to an interested party:	No
Accounting and Financial Expertise or Professional Qualification:	Professional qualifications.

(7) Director's Name:	Niv Ahituv, Outside Director
Identification number:	008115693
Date of Birth:	August 16, 1943
Address for service of process:	Azrieli Center 1, Tel Aviv
Citizenship:	Israeli and Canadian
Membership on board of directors' committees	All committees
Outside Director/Independent Director:	Outside Director
Position filled at the Company/Subsidiary/Affiliate of the Company or of an interested party therein:	None
Date of commencement of service as director of the Company:	August 24, 2010
Education:	BA in Mathematics and Physics from the Hebrew University. MBA from Tel Aviv University MA in Information Systems from Tel Aviv University. PhD in Management (specialization in Information Systems) from Tel Aviv University.
Occupation in the past five years and other corporations in which he holds office as director:	Dean of the Faculty for HiTech Studies, the Academic Studies Center; Professor Emeritus of the Faculty of Management at Tel Aviv University; Member of the management at Beit Lessin Theatre; member of the management of Keshet Eilon; Member of the "Profit-Sharing" Investments Committee at Migdal Insurance; Outside Director of Rapac Communication & Infrastructure Ltd.; Outside Director of Discount Investments; Chairman of the managing committee at the Hillel Association.
Family relation to an interested party:	No
Accounting and Financial Expertise or Professional Qualification:	Expert director; has accounting and financial expertise

(8) Director's Name:	Oran Dror
Identification number:	024973315
Date of Birth:	August 2, 1970
Address for service of process:	Azrieli Center 1, Tel Aviv
Citizenship:	Israeli
Membership on board of directors' committees	All committees
Outside Director/Independent Director:	Independent Director
Position filled at the Company/Subsidiary/Affiliate of the Company or of an interested party therein:	None
Date of commencement of service as director of the Company:	November 18, 2014

Education:	BA in Economics and East Asian Studies from the Hebrew University, Jerusalem. Research studies in the field of management and marketing for two years at the Waseda University, Tokyo, Japan – School of Commerce.
Occupation in the past five years and other corporations in which he holds office as director:	CEO and director of Dror Liat Investment Ltd. (a company he controls); executive director and VP Telecom – MEA Regional Management of Microsoft International; executive director and VP Sales at Microsoft Israel; CEO and director at N.B.X. E-Service Solutions Ltd. (a company he controls); VP at VATBox Ltd. (through Dror Liat Investment Ltd.).
Family relation to an interested party:	Fourth degree cousin of the controlling shareholders and directors Danna, Sharon and Naomi Azrieli.
Accounting and Financial Expertise or Professional Qualification:	Expert director; has accounting and financial expertise

(9) Director's Name:	**Menachem Einan**
Identification number:	008995383
Date of Birth:	June 17, 1939
Address for service of process:	Azrieli Center 1, Tel Aviv
Citizenship:	Israeli
Membership on board of directors' committees	All committees
Outside Director/Independent Director:	No
Position filled at the Company/Subsidiary/Affiliate of the Company or of an interested party therein:	In addition to his being a director of the Company, Mr. Einan served as an external consultant of the Company until February 28, 2017.
Date of commencement of service as a director of the Company:	March 22, 2016
Education:	BA in Humanities from Tel Aviv University; degree in Business Administration from UCLA.
Occupation in the past five years and other corporations in which he holds office as director:	Director and Active Deputy Chairman of the Board of the Company until February 2015; Served as Chairman of the Board of Granite Hacarmel Investments Ltd. and as a director at Tambour Ltd., Sonol Israel Ltd., Supergas Israel Gas Distribution Company. Ltd. and GES Global Environmental Solutions Co. Ltd. until February 2015. Serves as a director of Leumi Card Ltd., member of the board of Azrieli Foundation (Israel), R.A.
Family relation to an interested party:	No
Accounting and Financial Expertise or Professional Qualification:	Professional qualifications

Regulation 26A: Senior Officers of the Corporation as of the Report Release Date

Name	Eyal Henkin	Irit Sekler-Pilosof	Arnon Toren	Gideon Avrami	Ran Tal	Israel Keren	Avraham Jacoby	Moshe Cohen	Rafi Wunsh	Sharon Arie	Yoram Polak Ben Porat
Identity Number	024604332	025710542	054121678	56524325	027474824	003105657	052253747	051209971	028145738	023544612	056000813
Date of Birth	November 3, 1969	October 31, 1973	July 14, 1957	July 6 1960	May 22, 1974	September 17, 1947	March 31, 1954	April 3, 1952	February 15, 1971	July 2, 1968	July 29, 1959
Office Commencement Date	January 1, 2018	May 1, 2013	November 1, 2013	May 15, 2016	August 1, 2016	July 1, 2002	July 1, 1987	March 22, 2017	October 15, 2010	December 1, 2017	March 22, 2016
Position held in the Company/ Subsidiary/ Affiliate or in an interested party	CEO of the Company. CEO of Canit Hashalom Investments Ltd. Chairman of the Board of Directors of Granite Hacarmel, and subsidiaries thereof from January 1, 2018 (in lieu of Mr. Yuval Bronstein whose office ended). Director in Azrieli E-Commerce Ltd.	CFO and in charge of financial risks at the Company, and a director of Mini Israel and of SONAPCO	Deputy CEO and Head of Malls. Director in Azrieli E-Commerce Ltd.	VP, Head of Office Segment	VP, General Counsel and Company Secretary	CEO of asset companies Gemel Tesua Investments Ltd., Otzma & Co. Investments-Maccabim Ltd., Urban A.A.R. Ltd., Azrieli Raanana and Herzliya Business Park Operations Ltd.	Chief Comptroller, Azrieli Group Ltd.	The internal auditor	Business Development Manager	VP Engineering and Construction	VP, Head of Senior Housing Sector

Name	Eyal Henkin	Irit Sekler-Pilosof	Arnon Toren	Gideon Avrami	Ran Tal	Israel Keren	Avraham Jacoby	Moshe Cohen	Rafi Wunsh	Sharon Arie	Yoram Polak Ben Porat
Education	B.A. in Computer Science and Management from Tel Aviv University; Executive MBA, in the Kellogg Recanati program of Northwestern University and Tel Aviv University	B.A. in Business Administration, major in Accounting, The College of Management; LL.M., Bar Ilan University; Licensed as a CPA (Israel)	B.A. in Economics and Sociology, Hebrew University	B.A. in History and International Relations, the Hebrew University 1986. Diploma in Hotel Management 1994.	LL.B from Haifa University; LL.M from the Hebrew University of Jerusalem	B.A. in General History, Tel Aviv University	B.A. in Accounting and Economics, Bar Ilan University; Licensed as a CPA (Israel)	CPA, B.A. in Economics and Accounting, Tel Aviv University	B.A. in Economics and Accounting, Hebrew University of Jerusalem	Technion graduate of studies of Civil Engineering	Technion graduate of studies of Business Administration and Hotel Management
Business experience in the last five years	CEO of Supergas Israel Gas Distribution Company Ltd. in the eight years prior to his appointment as CEO	Comptroller in Azrieli Group in the 13 years preceding the office commenceme nt date.	Manager of the office segment in Azrieli Group and CEO of Azrieli Center in Tel Aviv in the six years prior to his current appointment; Director of Vardinon Real Estate and Investments Ltd.	CEO of Azrieli Towers 2001-2004. CEO of Jerusalem mall, Malcha 2005-2016	VP, General Counsel, Gilat Satellite Networks Ltd. VP, General Counsel, Netafim Ltd.	Manager of properties, property marketing and management of logistics projects and property construction in Azrieli Group	Managing comptroller, Azrieli Group	Managing partner at Chaikin Cohen Rubin & Co.; director and manager at private companies affiliated with Chaikin Cohen Rubin & Co., CPA; internal auditor at a large number of public companies and public entities	VP Quebec Region, Elad Group Canada Inc. CFO, Elad Group Canada Inc.	VP Engineering, Nitsba Holdings, VP Engineering and Business Development, Aura Israel	Head of Senior Housing Development at the Group for the past three years. Previously CEO and director of Hon, a real estate management company of the Property & Building Group and the CEO of the chain Mediterranean Towers – Senior Housing for 14 years.

None of the officers is an interested party in the Company or has a family relation to another officer of the Company or to another interested party in the Company.

Senior officers whose office ended during the Report Period and in the subsequent period until the Report Date:

Name	Yuval Bronstein	Dor Lev Ran	Gali Gana
I.D. No.	024297996	029444668	059674770
Position that he held at the corporation	CEO of the Company	VP Engineering and Construction	Internal Auditor
Date of commencement of term of office	May 1, 2013	March 16, 2015	November 2009
Date of conclusion of term of office	December 31, 2017	September 15, 2017	March 21, 2017

Regulation 26B – Authorized Signatories of the Corporation

See Section 8 of Chapter E of this Report - Corporate Governance.

Regulation 27 - The Company's Accountants

The Company's auditors are Brightman Almagor Zohar & Co., CPA, 1 Azrieli Center, Tel Aviv.

Regulation 28 – Changes in the Memorandum or Articles of Association

No change was performed in the Report period.

Regulation 29 - Resolutions and Recommendations of the Board of Directors

See Section 4 of Chapter E of this Report - Corporate Governance.

Regulation 29A - The Company's Resolutions

See Section 4 of Chapter E of this Report - Corporate Governance.

Exemption, Indemnification and Insurance of Officers:

For a description of the applicable arrangements with regard to exemption, indemnification and insurance for Directors and Officers in the Company, see Note 36D to the Financial Statements as of December 31, 2017.

Danna Azrieli, Chairman of the Board of Directors	**Eyal Henkin, CEO**

Date: March 20, 2018

Annex A – Regulation 11 – List of Investments in Material Subsidiaries and Affiliates as of the Date of the Statement of the Financial Position

					Rate in %				NIS in million				
Company name	Shares' class	Total par value of shares in NIS	Total par value of held shares in NIS	Of the capital	Of voting	Authority to appoint Directors	Cost of the held shares	Book value of investment (*)	Balance of the loans from the Company	Manner of presentation in the financial statements	Company's country of incorporation	Securities exercisable into capital rights or voting rights in the Company's investee company	Guaranties the Company provided to the investee company
Directly held companies													
Canit Hashalom Investments Ltd.	ordinary	114	114	100%	100%	100%	51	7,907	(1) 2,606	Consolidated Company	Israel	-	-
International Consultants (Iconsult) Ltd.	ordinary	3,900	3,900	100%	100%	100%	30	79	(1) 40	Consolidated Company	Israel	-	
Otzem Initiation & Investments (1991) Ltd.	Management	80	80			100%	-	197	(2) 355	Consolidated Company	Israel	-	-
	ordinary A	21,330,220	21,330,220										
	ordinary B	4,999	4,999										
		21,335,299	21,335,299	100%	100%	100%							
Azrieli E-Commerce Ltd.	ordinary	1,600	1,600	100%	100%	100%	26	(25)	(2) 81	Consolidated Company	Israel		
Modi'in Senior Housing	ordinary	1,000	1,000	100%	100%	100%	32	46	(2) 53	Consolidated Company	Israel		
AG Galleria Office Buildings, LP (3)		-	-	100%	100%	-	188	118	-	Consolidated Company	USA	-	Guarantee in several cases which were defined in the loan agreement
AG Plaza at Enclave (3)		-	-	100%	100%	-	59	132	82	Consolidated Company	USA	-	Guarantee in several cases which were defined in the loan agreement
AG 8 West Center (3)		-	-	100%	100%	-	23	35	61	Consolidated Company	USA	-	Guarantee in several cases which were defined in the loan agreement
AG Two Aspen (3)		-	-	100%	100%	-	27	44	42	Consolidated Company	USA	-	Guarantee in several cases which were defined in the loan agreement

Companies held by Canit Hashalom												
Granite Hacarmel Investments Ltd.	ordinary	147,146,834	147,146,834	100%	100%	100%	1,059	-	Consolidated Company	Israel	-	-
Gemel Tesua Investments Ltd.	ordinary	53,750,000	53,721,650	99.9%	99.9%		-	-	Consolidated Company	Israel	-	-
Otzma & Co. Investments Maccabim Ltd.	ordinary	16,100,000	16,091,764	99.9%	99.9%	100%	-	(2) 86	Consolidated Company	Israel	-	-
Companies held by Palace Senior Housing Group Ltd.												
Palace America Senior Housing Company Ltd.	ordinary	100	100	100%	100%	100%	270	-	Consolidated Company	Israel	-	-
Ahuzat Bayit Ra'anana Senior Housing Ltd.	ordinary	15,000,000	15,000,000	100%	100%	100%	55	(2) 298	Consolidated Company	Israel	-	-
Companies held by Granit HaCarmel Investments Ltd.												
GES Global Environmental Solutions Ltd.	ordinary	17,304,169	17,304,169	100%	100%	100%	57	-	Consolidated Company	Israel	-	-
Supergas Israel Gas Distribution Co. Ltd.	ordinary	252	252	100%	100%	100%	32	-	Consolidated Company	Israel	-	-

*) The data refers solely to the companies directly held by the Company.

(1) After deduction of capital reserve

(2) Capital notes after deduction of capital reserve

(3) Foreign partnership

AZRIELIGROUP

Corporate Governance

Part E

CHAPTER E – CORPORATE GOVERNANCE REPORT

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PART A | ASPECTS OF CORPORATE GOVERNANCE

Following are details regarding corporate governance processes in the Company for 2017, which include both issues relating to corporate governance in accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "**Report Regulations**"), and a corporate governance questionnaire in accordance with the version included in the document on proposed legislative amendments regarding improvement of the reports which was published by the Israel Securities Authority on March 16, 2014.

1. Regulation 21 - Payments to Interested Parties and Senior Officers – 2017

The compensation as recognized in the Company's financial statements in 2017 for the five highest paid individuals among the senior officers of the corporation or a corporation controlled thereby, in connection with their office at the corporation or a corporation controlled thereby, are as follows (in terms of annual costs to the corporation, NIS in thousands, for the twelve-month period that ended on December 31, 2017 (as specified in the Sixth Schedule of the Reports Regulations):

Details of the Compensation Recipient				Compensation			
Name	**Position**	**Position Scope**	**Rate of Holding in the Corporation's Capital**	**Management Fee (a)**	**Bonus**	**Other**	**Total**
(1) Danna Azrieli	Active Chairman of the Board	100%*	(b)	2,810	1,500	197 (d)	4,507
(2) Yuval Bronstein	CEO of the Company	100%	---	3,916	941	325 (c)	5,181
(3) Arnon Toren	Deputy CEO and Head of Malls Segment	100%	---	3,050	724	-	3,774
(4) Eyal Henkin	CEO of Supergas Israeli Gas Distribution Co. Ltd.	100%	---	2,138	525	-	2,663
(5) Irit Sekler-Pilosof	CFO	100%	---	2,044	486	-	2,530

* It is clarified that Ms. Danna Azrieli may continue to perform additional activities, including philanthropic activities in which she is involved, from time to time, provided that performance thereof does not compromise the fulfillment of her duties at the Company.

a) The management fee component includes the following components: cost of monthly management fees and/or cost of monthly salary, social rights, social and related benefits as customary, car maintenance and reimbursement of communication and other expenses.

b) For details regarding control of the Company on the Report Date see Regulation 21A of Chapter D of the Report.

c) Reflects an expense in 2017 due to the adjustment update.

d) Amendment of previous years' bonus.

(1) Ms. Danna Azrieli

Ms. Danna Azrieli has been serving as the Company's Active Chairman of the Board since July 2014. For details with respect to the management agreement of Ms. Danna Azrieli, which took effect on January 1, 2015, see Note 36C(1) to the financial statements and the transaction report of November 20, 2014 (Ref. No. 2014-01-199977), as amended on December 21, 2014 (Ref. No. 2014-01-225993) and December 23, 2014 (Ref. No. 2014-01-228996), respectively. On October 6, 2016, the general meeting of the Company's shareholders (after the approval of the Compensation Committee and the Board of Directors of the Company on August 22, 2016 and August 24, 2016, respectively) approved extension of the said management agreement of Ms. Danna Azrieli as chairman of the Company's Board for another three years from the date of the meeting's approval as aforesaid (ref. no.: 2016-01-060735). It is emphasized that there is no change in the terms and conditions of the agreement which was approved in October 2016 versus the agreement that was approved in December 2014. The reports mentioned in this Paragraph (1) are included herein by way of reference.

According to the provisions of the Company's compensation policy[1] (the "**Compensation Policy**"), the Chairman of the Board is entitled to an annual bonus for meeting an adjusted profit target[2]. In 2017, the adjusted profit was approx. NIS 1,286 million, and therefore the sum of the variable bonus to which Ms. Danna Azrieli is entitled for the 2017 results was NIS 1,500 thousand.

(2) Mr. Yuval Bronstein

Mr. Bronstein served as the Company's CEO from May 1, 2013 until December 31, 2017, through a company owned by him. For details regarding the management agreement with Mr. Bronstein and for details on the update to the management agreement, see Section 4 of the notice of meeting report, as published on August 28, 2016 (ref. no.: 2016-01-111643), included herein by way of reference, and Note 36C(5) to the financial statements. According to the Company's Compensation Policy, the Company's CEO will be entitled to an annual bonus, according to the following criteria: first criterion – measurement of the officer's contribution – the Compensation Committee and the Board of Directors will examine (after receipt of the recommendation of the chairman of the Company's board) the CEO's meeting of criteria that shall mainly be based on the CEO's contribution to the Company in accordance with his duties and responsibilities; second criterion – amount of the bonus – upon fulfillment of the aforesaid, the Compensation Committee and the Board of Directors will be entitled to decide, in relation to the CEO, on the granting of a bonus in an amount that shall not exceed the sum of up to three times the monthly payment.

In accordance with the aforesaid, on November 19, 2017, the Compensation Committee examined, and on November 21, 2017 the Company's Board of Directors examined the CEO's contribution (after the recommendation of the Chairman of the Board was received), and it was resolved that on the basis of his

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[1] The Company's compensation policy that was amended and approved by the Company's general meeting on October 6, 2016. For details see Section 3 of the notice of meeting report as published on August 28, 2016 (Ref.: 2016-01-111643), included herein by way of reference.

[2] "The Adjusted Profit for the Chairman" for this purpose, in respect of each calendar year – annual pre-tax profit, in accordance with the audited consolidated annual financial statements of the Company, net of the following amounts: (1) a dividend that it received from financial assets available for sale which was included in the annual pre-tax profit; (2) profit (loss) deriving from revaluation of real properties; (3) results of companies which do not engage in the core segments (real estate) of the Company and were included in the annual pre-tax profit; (4) linkage differentials accrued on financial liabilities; (5) interest expenses at the actual weighted effective interest rate for such year, of the Company and companies controlled thereby which engage in the Company's core business, in respect of loans (regardless of whether or not they were taken), at a financing rate of 65% on the historic purchase cost on the books of the investment in companies which are not in the core business; (6) the sum total of management fees (including bonus) for the (active) Chairman of the Board for such year, as included in the annual pre-tax profit; and (7) profit (loss) from financial assets (marketable securities) held for trading, including any interest and dividend in respect thereof.

contribution as aforesaid and the Company's results for 2017, Mr. Bronstein will be granted a bonus in the sum of three (3) times the monthly management fees.

(3) Mr. Arnon Toren

As of June 1, 2014, Mr. Toren holds the office of Deputy CEO of Azrieli Group and Head of the Mall Segment (following his former office as CEO of Azrieli Malls), through a company he owns. In consideration for his services, Mr. Toren is entitled to index linked, fixed, monthly management fees which, as of December 31, 2017, amounted to approx. NIS 241 thousand and standard related benefits, including the provision of a (Grade 6) vehicle, cellular telephones, expense reimbursements and advance notice of 6 months. The Company bears the full cost of all the benefits (including the cost of use and gross-up of the tax value).

According to the Compensation Policy, an officer who does not serve as the CEO of the Company or as a director thereof will be entitled to an annual bonus in accordance with the following criteria: first criterion – measurement of the officer's contribution – the Chairman of the Board and the CEO of the Company will examine the officer's meeting of criteria that shall mainly be based on the officer's contribution to the Company in accordance with his position and responsibilities.

Second criterion – amount of the bonus – upon fulfillment of the aforesaid, the Chairman of the Board and the CEO will be entitled to decide on the granting of an annual bonus, if it is decided to grant the same, in an amount that shall not exceed a sum of up to three times the monthly cost of employment of such officer.

In accordance with the aforesaid, it was resolved to grant Mr. Toren a bonus in the sum of NIS 724 thousand for 2017.

(4) Mr. Eyal Henkin

Mr. Henkin has served as the Company's CEO since January 1, 2018, through a company owned by him. For details regarding the management agreement with Mr. Henkin in relation to his office as CEO of the Company, see the notice of meeting report that will be published in proximity to the date of this report, and Note 36C(6) to the financial statements. In relation to Mr. Henkin's office as CEO of Supergas Israeli Gas Distribution Co. Ltd. ("**Supergas**") and as the Company has been informed, since September 1, 2010, until December 31, 2017, Mr. Henkin, through a company owned by him, served as CEO of Supergas (after previously serving as Deputy CEO of Supergas for approx. eight months). In consideration for his services, Mr. Henkin was entitled to a fixed monthly management fee, linked to the index, which, as of December 31, 2017, amounted to approx. NIS 175 thousand (the said consideration includes the cost of a car and includes the tax value for use of the car), and standard related benefits, including use of a cellular telephone, expense reimbursement and prior notice of 90 days, and, in the event of termination of the agreement by either party, entitlement to 6 monthly payments in the amount of the last consideration payment in effect on the termination date. In addition, according to a resolution of Supergas' board, Mr. Henkin shall be entitled to an annual bonus in an amount of up to 5 times the monthly management fee paid to him as aforesaid.

(5) Ms. Irit Sekler-Pilosof

Ms. Irit Sekler-Pilosof has been serving as the Company's CFO since May 1, 2013. For her work, Ms. Sekler-Pilosof is entitled to a gross fixed index-linked monthly salary which, as of December 31, 2017, amounts to approx. NIS 162 thousand, and standard related benefits, including the provision of a (Grade 6) vehicle, cellular telephones, expense reimbursements and advance notice of 6 months. The Company bears the full cost of all the benefits (including the cost of use and gross-up of the tax value). In accordance with the provisions of Section (3) above, it was resolved to grant Ms. Sekler-Pilosof a bonus in the sum of NIS 486 thousand for 2017.

The compensation which was paid during the year prior to the Report Release Date to interested parties in the Company who are not listed in the table above, in relation to services they provided as functionaries in the corporation or a corporation controlled thereby, are as follows (in terms of annual cost for the corporation, in NIS in thousand, for the period of the twelve months ended on December 31, 2017 (as specified in the Sixth Schedule to the Reports Regulations):

Name of compensation recipient				Compensation					
Name	**Position**	**Scope of position**	**Rate of holding in corporation's capital**	**Salary**	**Bonus**	**Share-based payment**	**Management fee(*)**	**Other**	**Total**
Seven directors	Directors of the Company (a)	---		---	---	---	---	1,516 (b)	1,516
Menachem Einan (*)	Consulting services				-		120	157	277

a) Three independent directors, two outside directors and two directors who are controlling shareholders.
b) Directors' compensation.
(*) Since March 2015, Mr. Einan has provided the Company with consulting services by virtue of a consulting agreement with a company owned by him, which agreement ended on February 28, 2017 (the "**Consulting Agreement**"). For further details, see the Company's immediate report of March 18, 2015 (ref. no.: 2015-01-053536), included herein by way of reference. According to the Consulting Agreement, the consulting firm provided consulting services on various strategic matters, upon the Company's request, and up to a scope of 40 monthly hours, in consideration for monthly consulting fees in the sum of approx. NIS 60 thousand, linked to the index and plus reimbursement of reasonable expenses. Since March 2016, Mr. Einan has served as a director of the Company. Throughout the term of the Consulting Agreement, Mr. Einan was not entitled to additional compensation for his office as director. Mr. Einan was included in the D&O liability insurance policy and was granted a letter of exemption and indemnification as accepted in the Company in relation to the other directors and officers. On February 28, 2017, the term of the Consulting Agreement ended. According to the resolution of the Compensation Committee and the Company's Board, from March 1, 2017 Mr. Einan is entitled to director's compensation like the other directors of the Company (who are not controlling shareholders) as specified in Section (6) below. For further details see the Company's immediate report published on March 22, 2017 (Ref.: 2017-01-027009), included herein by way of reference.

(6) Directors of the Company

In accordance with the Company's Compensation Policy, the compensation for outside directors and other directors of the Company who are not controlling shareholders of the Company and do not receive a salary or management fee as will hold office from time to time, shall be the compensation in the amount of the "maximum amount" per director, according to the rating of the Company as provided in the Companies Regulations (Rules on Compensation and Expenses for the Outside Director), 5760-2000 (the "Compensation Regulations") and the classification of such director. In addition, the directors may be included in an insurance policy for officers of the Company and shall receive an undertaking of indemnification, or indemnification pursuant to an indemnification permit and receive an exemption from liability subject to the provisions of the Companies Law. In 2017, the compensation paid by the Company to all of the independent directors (two outside directors and three independent directors), amounted to a total of approx. NIS 1,333 thousand. For further details, see Note 36C(9) and 36D to the financial statements. In addition, the directors are entitled to the reimbursement of expenses as accepted at the Company and in accordance with the Compensation Regulations.

Compensation of additional directors of the Company who are controlling shareholders: For details see Regulation 22 below – Compensation for additional directors who are controlling shareholders of the Company.

2. Regulation 22 - Controlling Shareholder Transactions

Following are details, to the Company's best knowledge, with regard to transactions with the controlling party or in the approval of which the controlling party has a personal interest, in which the Company or a corporation controlled by it or a company related to it engaged in the Report Period, and which are still in force as of the Report Date:

Transactions listed in Section 270(4) of the Companies Law

- **Engagement in a Management Agreement with a Management Company Controlled by Ms. Danna Azrieli**

  On December 28, 2014, the Company's general meeting approved the Company's engagement with a Company controlled by Ms. Danna Azrieli in a management agreement through which Ms. Danna Azrieli provides to the Company Active Chairman of the Board services (the "**Management Agreement**"). For details, see Part C of the notice of meeting report as published by the Company on December 23, 2014 (Ref. No.: 2014-01-228996). On October 6, 2016, the general meeting of the Company's shareholders approved extension of the Management Agreement, with no change to the terms and conditions of the engagement between Ms. Danna Azrieli and the Company, for another three years from the date of the meeting's approval (ref. no.: 2016-01-060735). The reports mentioned in this paragraph are included herein by way of reference, and see Note 36C(1) to the financial statements.

- **Compensation of Additional Directors who are Controlling Shareholders of the Company**

  Ms. Sharon Azrieli and Ms. Naomi Azrieli, controlling shareholders of the Company, are entitled to directors' compensation as approved by the Board and general meeting of the Company on May 6, 2010 and ratified by the Company's Board on May 13, 2013 and on May 24, 2016 (following receipt of the approvals of the Company's compensation committee) and reported to the public on May 14, 2013 and May 25, 2016, respectively, and pursuant to Section 1B(3) of the Companies Regulations (Relief in Transactions with Interested Parties), 5760-2000. The aforesaid compensation approval of May 25, 2016 was granted for a 3-year period commencing from June 3, 2016. In addition, the provisions of Sections 5(b) and 6(a) of the Compensation Regulations pertaining to reimbursement of expenses to directors, including flights, per diems and hospitality, shall apply also with regard to such directors, mutatis mutandis. The audit committee and board of directors approved a framework for such expenses, which is examined from time to time. In accordance with the aforesaid, in 2017, the compensation paid by the Company to Naomi Azrieli and Sharon Azrieli as aforesaid amounted to a total of approx. NIS 188 thousand. For details see immediate report published by the Company on May 25, 2016 (Ref. No.: 2016-01-033138), included herein by way of reference, Regulation 21(6) of this part above and Note 36C(9) to the financial statements.

- **Insurance and Indemnification of Controlling Shareholders in the Company**

  Ms. Danna Azrieli, Chairwoman of the Board of the Company, Ms. Naomi Azrieli, Director, and Ms. Sharon Azrieli, Director (the "**Controlling Shareholders who are Directors**"), are entitled to an officers' insurance arrangement to which all of the directors and officers of the Company are entitled. On June 1, 2017 the compensation committee approved an engagement for renewal of the insurance policy of the directors and officers of the Company (including among the controlling shareholders of the Company) and the Company's subsidiaries (other than with respect to Granite Hacarmel which holds an independent officers' insurance policy) from June 3, 2017 until June 2, 2018. The engagement is according to the framework of the engagement specified in the Company's Compensation Policy. In addition, the Controlling Shareholders who are Directors are entitled to letters of indemnification and exemption according to the Company's Compensation Policy. For details see Note 36D to the financial statements. On April 27, 2017 the Company's general meeting approved the amendment and extension of letters of indemnification that were granted to the Controlling Shareholders who are Directors, for an additional three year period, and the granting of exemption from liability to the Controlling Shareholders who are Directors, commencing from April 27, 2017. For further details see the notice of meeting report dated March 23, 2017 (Ref.: 2017-01-028392), and an immediate report on the results of the meeting dated April 20, 2017 (Ref.: 2017-01-043866), included herein by way of reference.

- **Contributions to the Azrieli Foundation (Israel), a Registered Association**

  In May 2010 (following approval by the board of directors), the general meeting, approved the Company's policy on contributions to the Azrieli Foundation (Israel) R.A. (the "**Azrieli Foundation**"). On March 14, 2013, the Company's audit committee determined that the length of time which was originally set forth by the general meeting of the Company in respect of the Company's contributions to the Azrieli Foundation, i.e. 5 years, is reasonable under the circumstances. In May 2015, the general meeting approved (after approval by the audit committee and board of directors of the Company) the Company's engagement with the Azrieli Foundation in a new contribution arrangement, whereby the arrangement for contribution to the Azrieli Foundation would be extended for an additional period of five years, commencing on June 1, 2015 and ending on May 31, 2020. For details about the contribution arrangement, see the invitation to a meeting report of April 16, 2015 (Ref. No. 2015-01-000186), which is included herein by way of reference, and Note 36C(7) to the financial statements. Sharon Azrieli, Naomi Azrieli and Danna Azrieli may be deemed as having a personal interest in the contribution to the Azrieli Foundation due to their office on the Company's Board and the Board of the Azrieli Foundation. It is further clarified that following the receipt of the contribution shares (for details with respect to the contribution shares, see the definitions section in Part A of the Report), the Foundation became an interested party in the Company, within the definition of such term in the Securities Law, and following the provisions of the aforesaid contribution arrangement, Azrieli Holdings and the Azrieli Foundation are deemed as "co-holders", within the definition of such term in the Securities Law; for the purpose of duties applicable or relating under the Companies Law to the controlling shareholders of the Company, the Company has chosen to treat the Azrieli Foundation as if it were a controlling shareholder of the Company, together with Azrieli Holdings, even if not required under the provisions of the law, and for as long as no other notice is given by the Company in an immediate report.

Negligible Transactions

In the Report Period, the Group performed negligible transactions with the controlling parties thereof, or that the controlling parties thereof had an interest in their approval, of the kinds and characteristics in accordance with a negligible transactions procedure approved by the Board of Directors of the Company, as specified in Note 36E to the financial statements, including:

- **Lease Agreements with Related Parties**

  The Company, companies controlled by the Company and related companies thereof, have engaged in lease agreements with lessees, in the engagement with whom the controlling party has a personal interest, pursuant to which part of the aforesaid companies lease out for several years now and/or leased out during 2017, in the ordinary course of business and at market conditions, areas in some of the income producing properties of the Company. The income with respect to the aforesaid rentals in the year ending on December 31, 2017, totaled approx. NIS 1,610 thousand (about four lessees, including the Foundation). The Audit Committee and the Board of Directors of the Company examined in their meetings on March 18, 2018 and March 20, 2018, respectively, that these engagements, which were made during 2017, were negligible transactions which are carried out in the ordinary course of business of the Company and at market conditions. For details, see Note 36E to the financial statements.

  During the Report Period, the Group employed one employee who is related to a controlling shareholder of the Company (and does not amount to the definition of "relative" in the Companies Law) in an employment agreement which is not irregular and is also negligible, in a total cumulative annual amount of approx. NIS

603 thousand. As of the Report Release Date, the employment of aforesaid employee has ended.

- **Ties with the community**

  From time to time the Company makes, either itself or through companies which are among the members of the Group, direct contributions as well as contributions through the Foundation as specified in Section 2 above. In addition, to the Company's best understanding, the Foundation may donate to the community and to bodies or entities which require assistance, including bodies to which interested parties of the Company may have a link, or in which interested parties of the Company are volunteer members.

3. Additional Issues in Relation to the Control of the Company

3.1 Restructuring

In the context of a process of restructuring of the companies in the Group and primarily, steps for the consolidation of similar activities of the Group which were performed in fellow subsidiaries, and streamlining of the Group's current operation, the Company engaged, in November 2008, in an agreement with Nadav Investments whereby Nadav Investments transferred its shares in some of the Group's companies to the Company, as is, in consideration for an allotment of shares of the Company (the "**Restructuring Agreement**"). As of the Report Date, the restriction period by virtue of Section 104A of the Income Tax Ordinance (New Version), 5721-1961, pertaining to the sale of shares which have been transferred, has expired.

Due to it being a company which is incorporated under Canadian law, Nadav Investments is governed, *inter alia*, in connection with its operations or investments in Israel, by the rules of taxation which are set forth in the treaty between the State of Israel and Canada pertaining to the prevention of double taxation and tax evasion with regard to taxes on income and capital (the "**Treaty**"), including with regard to the sale of shares in companies whose assets are mainly real properties. For purposes of clarification and interpretation of the sections of the Treaty which contemplate this issue, various tax ramifications and provisions regarding the sale of the Company's shares were set forth in the context of an agreement between the Israel Tax Authority and the Company, Canit Hashalom and Nadav Investments, dated November 2008, in accordance with the rate of the Company's holdings in real properties in Israel.

In addition, the aforesaid agreement set forth provisions whereby Nadav Investments shall not act towards receiving any tax benefits in Canada which are not in accordance with the provisions of the law in Canada or the Treaty, provisions pertaining to the possibility to terminate the agreement if in the future the provisions of the Treaty and/or Chapter E of the Ordinance will be materially modified in the manner which has an effect on the manner of taxation of the sale, and additional provisions whereby in any event where there will be a tax liability in Canada due to the sale of the shares, the same shall have no effect on the tax liability which is set forth in the agreement. Any restructuring in accordance with the provisions of the second part of the Ordinance which addresses the Company's shares and/or the shares of Canit Hashalom shall be performed solely after the receipt of the advance consent of the Mergers and Splits Department of the Tax Authority.

3.2 Definition of Business

On May 24, 2016, the Company's Board, after the approval of the Audit Committee of May 22, 2016, approved the Company's Definition of Business Procedure (the "**Procedure**") which shall apply to the Company's directors and to the Company's controlling shareholders. The Procedure determines the types of business in which they will not be able to engage in transactions in Israel and overseas, and the manner of disclosure to the Company, prior to engagement in such transactions, and the how the Company shall make the decision as to whether such transactions are relevant to the Company. The Procedure shall apply to controlling shareholders and board members at the Company and will be in effect throughout the period of their being controlling shareholders of the Company and/or their term of office as members of the Company's Board, whichever is later, and with respect to directors for an additional period of six months from the end of the said timeframe, so long as no other resolution shall have been adopted by the Company's Board, after receipt of the resolution of the Company's Audit Committee. The Procedure determines that a controlling shareholder and/or director of the Company is prohibited from being involved, either directly or indirectly, in business activity which may, according to the Companies Law, fall under the definition of a business opportunity of the Company, and in any event which falls within one or more of the activities to which the Procedure applies.

The Procedure regulates the process of approval of performance of the transaction by a controlling shareholder and/or director, if the Company chooses not to perform such transaction itself. According to the Procedure, a controlling shareholder and/or director is required to present, in writing, to the Company's management and subsequently to the Audit Committee, an outline of the transaction in connection with a property and/or activity which fall within any of the activities according to the Procedure which he is interested in performing, and to forward all of the material relevant to the transaction for their perusal. Only if the Company's management, and subsequently the Audit Committee, decide that the proposed activity does not interest the Company, will the controlling shareholder and/or director of the Company be free to engage in such transaction.

Due to the complexity of the issues covered by the Procedure, the timetables for performance of transactions and the concern of other bodies which may frustrate the transaction, decisions must be made under the Procedure on short notice and even immediately, all as specified in the Procedure. Therefore, the decision of the Audit Committee as to whether to approve the proposed activity or alternatively to seek supplementary details from the Company's management, shall be given no later than up to 10 business days after the date of presentation of the proposal by such person and receipt of the material and information required, such decision being made by a majority of members who do not have a personal interest in the decision.

It is clarified that the provisions of the Companies Law and the provisions of supplementary laws such as securities law prevail over the provisions of the Procedure, and therefore the Company is required to seek advice in each case according to the special circumstances thereof from the legal aspect, as applicable at such time.

In addition, there is a definition of business procedure for the Chairman of the Board, Ms. Danna Azrieli, which applies to her in addition to the provisions of the Procedure.

4. Regulation 29 and Regulation 29A - Recommendations and Resolutions of the Board of Directors

For details on resolutions of the board of directors with regards to dividend distributions see Section 4 of Chapter A of this Report and Notes 22 and 38A to the financial statements.

Resolutions of the Special General Meeting

Set forth below is a specification of resolutions which were approved in special general meetings of the Company's shareholders:

Date of resolution	Subject of resolution	Ref.[3]
April 27, 2017	Amendment and approval of the extension of the letters of indemnification that are granted to the directors who are the controlling shareholders and granting of exemption from liability to the directors who are the controlling shareholders. Approval of granting of updated letters of indemnification and exemption to directors of the Company as will hold office therewith from time to time, other than directors who are controlling shareholders of the Company and/or their relatives.	2017-01-043866

Resolutions of the Company – Regulation 29A

In the Report Period, and until the Report Release Date, no Company resolutions were adopted on the issues specified in Regulation 29A of the Report Regulations, other than as specified below:

For details in relation to the resolution to renew the Company's insurance policy for directors and officers (including from among the controlling shareholders of the Company) of the Company and the Company's subsidiaries, with the exception of Granite Hacarmel Group which holds an independent officers' insurance policy, from June 3, 2017 until June 2, 2018 which was adopted on the Report Date see Section 2 above, which is included in the specification with respect to insurance and indemnification for controlling shareholders of the Company, that was adopted pursuant to the provisions of Sections 1B(5) and 1B1 of the Companies Regulations (Relief in Transactions with Interested Parties), 5760-2000 and Note 36D to the financial statements.

5. Compensation of Senior Officers

The Company's Compensation Policy determines a compensation plan for officers of the Company, including directors of the Company who are controlling shareholders.

At the Compensation Committee's meeting of March 18, 2018 and at the board meeting of March 20, 2018, a discussion was held on the terms of employment and the compensation granted to the senior officers and the interested parties of the Company in 2017 which are specified in Regulation 21 of this chapter with respect to each one of the said senior officers and interested parties separately.

The Company's board of directors determined, after having received the recommendation of the compensation committee, *inter alia*, that all of the compensation terms of the officers are consistent with the Company's Compensation Policy. The board of directors noted, with respect to Mr. Eyal Henkin and his office in the Report Period as the CEO of Supergas, a company wholly owned by Granite Hacarmel, that he was included in the disclosure under Regulation 21 of the Report Regulations, in view of his being, during the Report Period, a

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3 The reports in this table are included herein by way of reference.

senior officer of a corporation controlled by the Company, albeit not material to the Company. This being the case, in view of the fact that in 2017 he is not included in the definition of a senior officer of the Company, the provisions of the Company's Compensation Policy are not applicable to him. Accordingly, in the estimation of the Company's Compensation Committee and Board, the compensation granted to Mr. Henkin for his office as CEO of Supergas, as specified in Regulations 21 and 22 above is consistent with the Company's Compensation Policy and/or is reasonable and fair.

6. Internal Audit

In 2010 the Company adopted an internal audit procedure (the "**Internal Audit Procedure**"), whose purpose is to define the status and scope of activity of the internal auditing of the Company, as well as the methods and means for fulfillment of its tasks. This Procedure was approved by the audit committee in its meeting of November 15, 2010 and by the Company's board of directors in its meeting of November 24, 2010.

Identity of the Internal Auditor: Mr. Moshe Cohen, CPA, managing partner at Chaikin Cohen Rubin (the "**Internal Auditor**"), was appointed to the position of the internal auditor of the Company and the Group's companies (excluding Granite Hacarmel) and began his service at the Company in March 2017. Until March 21, 2017 Mr. Gali Gana held office as the Company's internal auditor (the "**Outgoing Internal Auditor**"). To clarify, the details included in this section refer to the office of Mr. Moshe Cohen as the Internal Auditor of the Company, unless stated otherwise.

Compliance of the Internal Auditor with Legal Requirements: To the best of the knowledge of the Company's management, according to the Internal Auditor's statement, he complies with the requirements of Section 146 (b) of the Companies Law and the provisions of Section 3(a) and 8 of the Internal Audit Law, 5752-1992 (the "**Internal Audit Law**").

Holding Securities of the Company or a Body Related Thereto: As of this Report Date, as the Internal Auditor informed the Company, he does not hold securities of the Company or a body related thereto.

Ties of the Internal Auditor with the Company or a Body Related Thereto: To the best of the knowledge of the Company's management, as the Internal Auditor informed the Company, the Internal Auditor does not have material business or other ties with the Company, and nothing in other business ties of the Internal Auditor creates a conflict of interest with his duties as an Internal Auditor of the Company.

Additional Positions of the Internal Auditor in the Company: The internal auditor is an external service provider to the Company on behalf of Chaikin Cohen Rubin. According to the Internal Audit Procedure, the auditor and the audit workers will not hold a position in the Company in addition to the internal audit. As of the Report Date, except for his position as the Company's internal auditor, the internal auditor is neither employed by the Company nor provides any other external services thereto.

Other positions of the Internal Auditor Outside the Company: Mr. Moshe Cohen is a managing partner at Chaikin Cohen Rubin.

Method of Appointment of the Internal Auditor: Mr. Moshe Cohen was appointed to serve as the internal auditor of the Company pursuant to the recommendation of the Company's audit committee of March 19, 2017 and the resolution of the Company's board of directors of March 21, 2017, after an in-depth review of his education, qualifications and experience of many years in internal auditing while considering the obligations, authorities and duties imposed on the internal auditor according to law.

Mr. Cohen was found suitable to serve as the internal auditor of the Company, *inter alia,* considering the scope of business and complexity of the company. Within the framework of the Company's Internal Audit Procedure which was approved by the audit committee and board of directors of the Company in November 2010, the Company's board of directors appointed the Internal Auditor and determined his status and compensation terms.

Conclusion of term of office: According to the Internal Audit Procedure which determines that the term of office of the Company’s internal auditor shall not exceed 6 years, on March 21, 2017 the office of the Outgoing Internal Auditor expired. Accordingly, on March 21, 2023 Mr. Moshe Cohen will end his term of office as the Company’s internal auditor.

The Identity of the Supervisor of the Internal Auditor: The organizational supervisor of the internal auditor is, as of the Report Date, the chairman of the Company's board of directors, in coordination with the Company's audit committee.

The Audit Plans: According to the Internal Audit Procedure, the internal auditor submits a proposal for an annual work plan, in coordination with the chairman of the board and the Company's CEO. The audit committee must discuss the plan and approve it, and thereafter the plan is forwarded for the board's approval. In November 2017, the audit committee adopted the report of the Internal Auditor regarding a multi-annual risk survey, according to which the audit committee laid down a multi-annual plan for the years 2017-2021 for determination of the audit objectives, which served as an outline for laying down the annual work plan of the internal audit. The audit plan of the internal auditor is an annual plan, derived from a multi-annual work plan, *inter alia*, according to the following considerations: potential for streamlining and saving, risks inherent to the Company's business, rules and regulations applicable to the Company and weaknesses which the Company's board of directors, management or internal auditor observe on an ongoing basis.

The annual work plan of the internal audit includes also the performance of an audit of the follow up on implementation of the internal auditor and audit committee's recommendations by the Company's management. The audit is carried out according to the plan under the supervision of the internal auditor and is adapted, according to developments and findings which are discovered during the audit. The work plan leaves discretion with the auditor for change in the audited issues, after a discussion on the subject with the relevant parties.

Material Transactions: The internal auditor receives an invitation, including background material for meetings of the Company's audit committee in which transactions are examined and approved, as specified in Section 270 of the Companies Law. According to his choice, after receiving proper details, he is present at the meetings or is updated in respect thereof. Also, the internal auditor receives, upon his request, minutes of the Company's board meetings in which such transactions had been approved.

Audit of Investee Corporations: The internal auditor also serves as the internal auditor of the subsidiaries in the Group, excluding the Granite Hacarmel Group and the senior housing in which an internal audit is performed by other internal auditors. The audit plan also refers to material investee corporations of the Company in which no internal auditor had been appointed, including overseas.

Scope of Retaining of the Internal Auditor and Scope of Retaining of the Outgoing Internal Auditor: The scope of retaining of the Internal Auditor, and the scope of retaining of the Outgoing Internal Auditor were approved by the audit committee according to the audit plan which was approved thereby.

In respect of the audit plan for 2017, the hours of the internal audit in the Company and in its investee companies (excluding Granite Hacarmel) which were performed by the Outgoing Internal Auditor amounted to approx. 250 hours and by the Internal Auditor approx. 768 hours. The management has the option to expand the scope of retaining according to circumstances.

In the Company's estimate, the scopes of the Outgoing Internal Auditor's work and the Internal Auditor's work in respect of 2017, each of them with respect to his term of office, are appropriate.

The scope of hours for the audit work in the Company and in the subsidiaries is determined according to the audit plan proposed by the internal auditor and is approved by the audit committee.

In 2017, the internal audit hours in Granite Hacarmel Group amounted to approx. 565 working hours (which were performed by CPA Erez Cohen) and the internal audit hours in senior housing, which were performed by the Outgoing Internal Auditor, amounted to approx. 132 working hours.

According to the Internal Audit Procedure, the period of office of an internal auditor in the Company will not exceed six years, unless the audit committee and the board of directors have decided otherwise.

Guideline Professional Standards in the Performance of the Audit: The internal auditor and the team of employees reporting to him perform the audit work in meticulous compliance with necessary standards for the performance of professional, reliable, autonomous audit, independent of the auditee. Pursuant to information provided to the Company's management by the internal auditor, the audit reports rely on the audit findings and the facts recorded in the audit are carried out according to accepted professional standards according to professional guidelines on internal auditing, including standards of the Institute of Internal Auditors in Israel (IIA), and in accordance with the Internal Audit Law, 5752-1992 and the Companies Law. The board of directors relied on the reports of the internal auditor regarding his compliance with the professional standards according to which he performs the audit.

Free Access to the Internal Auditor: The internal auditor of the Company has free, unlimited and direct access, in coordination, to documents, information and the relevant information systems of the Company, and of investee companies, including financial data, as well as an independent status. The internal auditor undertakes to keep in confidence, not to provide to others and not to make any use for his own use or for the use of others, of any information pertaining to the Company.

The Report of the Internal Auditor: The internal audit reports are submitted in writing and discussed on an ongoing basis with the Company's management and the CEO.

- The dates on which a report was submitted regarding the findings of the Outgoing Internal Auditor to the CEO are: February 1, 2017, February 5, 2017, March 2, 2017 (4 reports), July 16, 2017 and August 6, 2017.
- The dates on which a report was submitted regarding the findings of the Internal Auditor to the CEO are: August 10, 2017 and February 20, 2018 (2 reports).
- The dates on which a discussion was held at the audit committee on the findings of the Outgoing Internal Auditor, are as follows: March 19, 2017, May 21, 2017 (6 reports), August 10, 2017 (2 reports).
- The dates on which a discussion was held at the audit committee on the findings of the Internal Auditor, are as follows: March 18, 2017 (two reports).

The Evaluation by the Company's Board of Directors of the Activity of the Internal Auditor: According to the evaluation of the board of directors, the qualifications of the internal auditor and his team, the scope, nature and continuity of the activity of the internal auditor and his work plan are reasonable in the circumstances of the matter, and fulfill the purposes of the internal audit at the Company.

On March 20, 2018, the chairman of the audit committee held a conversation with the internal auditor of the Company, in the absence of the Company's management, for discussion of the internal auditor's work and found that there are no restrictions on his work, as aforesaid.

On March 19, 2017, the chairman of the audit committee held a meeting with the Outgoing Internal Auditor of the Company, in the absence of the Company's management, for discussion of the Outgoing Internal Auditor's work and found that there are no restrictions on his work, as aforesaid.

Compensation of the Internal Auditor and the Outgoing Internal Auditor: The payment to the Internal Auditor and the Outgoing Internal Auditor (jointly below in this paragraph, the "**Auditor**") of the Company and of subsidiaries in Israel is done according to actual working hours and according to the work plan approved by the audit committee and the progress in the audit work of each and every subject. In the beginning of each year the auditor submits a proposal for an annual audit plan which will include a planned hourly framework.

The audit committee determines the audit plan and the hour quota. The auditor will not deviate from the hour quota without the approval of the audit committee. In case that further tasks will be imposed on the auditor during the audit year – the audit committee will determine the hour quota for the further tasks.

With respect to the compensation of the Outgoing Internal Auditor: in respect of 2017, the cost of the fee to the Outgoing Internal Auditor and his team amounted to approx. NIS 54 thousand (plus VAT). The cost of the internal audit in the senior housing amounted to approx. NIS 28 thousand (plus VAT).

With respect to the compensation of the Internal Auditor: in respect of 2017, the cost of the fee to the Internal Auditor and his team amounted to approx. NIS 150 thousand (plus VAT).

According to the Company's estimation, due to the fact that the remuneration is based on working hours, the aforesaid remuneration cannot affect the exercise of the internal auditor's professional discretion. The Company determined as a matter of essential policy the independence of the internal audit, and therefore, the internal auditor is not dependent at all upon the Company and the management thereof.

7. The Outside Auditor

The Auditor's Identity

The primary outside auditors of the Company and of the investee companies (excluding some of the companies in the Granite Hacarmel group) are the accounting firm of Brightman Almagor Zohar (the "**Auditor**"). It shall be stated that the firm leases offices from the Company at the Azrieli Center in Tel Aviv for amounts which are immaterial to the Company. However, in order to ensure the independence thereof is not prejudiced, the Auditor has assumed (within the framework of an agreement with the Israel Securities Authority) parameters which will be examined from time to time in respect of the engagement, including with respect to the specificity of the terms of the lease agreement and non-modification thereof; written – at arm's length fee agreements; separation between the identity of the service providers and the decision makers in respect of the lease agreement; restrictions regarding the settling of accounts between the lease agreement and the services and agreement that in case of dispute the auditor shall act for termination of his office. The Company confirms with the Auditor the fulfillment of such parameters and the validity thereof on an annual basis.

The Auditor's Fee

In the years 2016 and 2017, the accountant fee for audit services, audit-related services and tax services and consultation services totaled as follows:

2017		Audit Services, Audit-Related Services and Tax Services		Other Services		Total	
Company	**Auditor**	**NIS in thousands**	**Hours**	**NIS in thousands**	**Hours**	**NIS in thousands**	**Hours**
Azrieli Group Ltd.	Brightman Almagor Zohar & Co., CPAs	**1,915**	**8,767**	**96**	**284**	**2,011**	**9,051**
Supergas and GES	Somekh Chaikin KPMG (auditors)	**557**	**3,465**	**287**	**790**	**844**	**4,255**
2016		**Audit Services, Audit-Related Services and Tax Services**		**Other Services**		**Total**	
Company	**Auditor**	**NIS in thousands**	**Hours**	**NIS in thousands**	**Hours**	**NIS in thousands**	**Hours**
Azrieli Group Ltd.	Brightman Almagor Zohar & Co.	1,674	8,966	108	522	1,900	10,322
Ahuzat Bayit Raanana Retirement Home Ltd.	Ziv Haft	126	900	-	-	126	900
Azrieli E-Commerce Ltd.	Strauss Lazer & Co.	85	680	-	-	85	680
Granite Hacarmel	Somekh Chaikin KPMG (auditors)	981	4,950	373	1,290	1,354	6,240

Determination of the Auditor's Fee

The Company's board of directors, after receiving the recommendation of the Company's audit committee, was authorized in the Company's articles of association to determine the fee of the outside auditor. The fee is determined based on the work required and past experience, while adjusting such to changes in regulation and scope of work, development of the Company and events which occurred during the passing year. At its meeting of March 20, 2018, the Company's board of directors confirmed that the auditor's fee would remain unchanged in 2018.

8. Independent Authorized Signatory

As of the Report Release Date, the Company does not have an independent authorized signatory.

9. Contributions

The Company has a deep commitment to the improvement and promotion of the community in Israel. The social accountability, the integration and giving to the community are strategic objectives which constitute an integral part of the Company's business work plan, which allocates financial resources to the matter, in the annual work plan, mainly under the contribution agreement, as specified in Section 2 of this chapter.

Over the course of 2017 the Company made contributions, itself and through consolidated companies (excluding Granite Carmel), in money and in finished products, at a total value of approx. NIS 14,052 million.

For resolutions adopted by the Company in respect of its contribution policy, through the Azrieli Foundation (Israel), which also includes undertakings to grant future contributions, see Regulation 2 above and Note 36C(7) to the financial statements.

10. Internal Enforcement Plan in the Company

In 2012, the Company has adopted an internal enforcement plan. Within the framework of the internal enforcement plan, the Company's board of directors appointed a board committee designated for the issue of internal enforcement in the Company (the "**Enforcement Committee**") which held a series of discussions regarding required adjustments for an enforcement outline and an enforcement system procedure for the needs of the Company, the unique structure of the Company and its field of business. The supervisor of internal enforcement in the Company is Adv. Ran Tal, General Counsel and Company Secretary.

In the context of the enforcement plan, the Company updated and adopted several procedures regarding corporate governance in the Company, which constitute part of the overall enforcement system in the Company, including: (a) Procedure for the work of the board and its committees; (b) Procedure for identifying transactions with related parties (which also addresses the identification of transactions with interested parties, the classification of irregular and negligible transactions and criteria for types of transactions and acts as being irregular); (c) Immediate reports procedure (for examination of the materiality and the need for submitting an immediate report upon the occurrence of various events); (d) Insider information procedure; (e) Whistleblower employees procedure; (f) Ethical code; (g) Officer holdings procedure; (h) Cluster of companies procedure; (j) Definition of business for directors and controlling shareholders of the Company procedure and other procedures designated to support and regulate the work of the different organs in the Company and its management.

In 2017, the Company implemented the enforcement plan and acted in accordance therewith, in the context of which it also held the annual training day, which compiles the relevant updates for the managers and employees of the Group. A report for 2017 and an enforcement plan for 2018 are expected to be deliberated shortly after the Report's release.

PART B | CORPORATE GOVERNANCE QUESTIONNAIRE[4]

To clarify, for the avoidance of doubt, the questionnaire is not intended to exhaust all corporate governance aspects relevant to the Company, but only addresses several aspects; for receipt of further information, please inspect the Company's reports, including in this periodic report.

Independence of the Board of Directors

		Correct	Incorrect
1.	Throughout the entire report year, two or more outside directors held office in the corporation. In this question you may reply "Correct" if the period of time in which two outside directors did not hold office does not exceed 90 days, as provided in Section 363A(b)(10) of the Companies Law however, any reply which is (Correct/Incorrect) shall state the period (in days) in which two or more outside directors did not hold office in the corporation in the report year (including also a term of office which was retroactively approved, while distinguishing between the different outside directors): Director A: Prof. Niv Ahituv Director B: Mr. Efraim Halevy Number of outside directors holding office in the corporation as of the date of release of this questionnaire: 2.	✓	
2.	The rate[5] of independent directors[6] holding office in the corporation as of the date of release of this questionnaire: 5/9 The rate of independent directors determined in the articles of association[7] of the corporation[8]: ______. ☒ Irrelevant (no provision set in the articles of association).	✓	
3.	In the report year, an examination was held vis-à-vis the outside directors (and the independent directors) and it was found that in the report year they complied with the provision of Section 240(b) and (f) of the Companies Law regarding the absence of a link of the outside (and independent) directors holding office in the corporation, and that they also fulfill the conditions required for holding office as an outside (or independent) director.		
4.	All of the directors who held office in the corporation during the report year do not, directly or indirectly, report[9] to the CEO (excluding a director who is a workers' representative, if there is a workers' representative body in the corporation).If your answer is "Incorrect", (i.e., the director reports to the CEO as aforesaid) – state the number of directors not complying with the aforesaid restriction: ______.	✓	
5.	All of the directors who notified of the existence of a personal interest they have in the approval of a transaction on the meeting's agenda, neither attended the deliberation nor participated in a vote as aforesaid (other than a deliberation and/or vote in circumstances as stated in Section 278(b) of the Companies Law): If your answer is "Incorrect" – Was it for the purpose of presentation of a specific issue by him pursuant to the provisions of the last part of Section 278(a): ☐ Yes ☐ No (check the appropriate box). State the number of meetings in which such directors were present at the deliberation and/or participated in the vote, other than in circumstances as provided in Subsection a.: ___________.	✓	

4 According to the language included in the document on proposed legislative amendments regarding improvement of the reports which was published by the Israel Securities Authority on March 16, 2014.
5 In this questionnaire, "rate" – a specific number out of the total. For example 3/8.
6 Including "outside directors" as defined in the Companies Law.
7 In the context of this question – "articles of association" including pursuant to a specific legal provision that applies to the corporation (for example, in a banking corporation – the guidelines of the Supervisor of Banks).
8 A bond company is not required to answer this section.
9 For purposes of this question – the mere holding of office as a director in a held corporation which is controlled by the corporation, shall not be deemed as "reporting", conversely, a director's office in a corporation acting as an officer (other than a director) and/or employee in the held corporation which is controlled by the corporation, shall be deemed as "reporting" for purposes of this question.

			Correct	Incorrect
6.	The controlling shareholder (including his relative and/or anyone on his behalf), who is not a director or another senior officer of the corporation, did not attend the board meetings held in the report year. If your answer is "Incorrect" (i.e., the controlling shareholder and/or his relative and/or anyone on his behalf who is not a board member and/or a senior officer of the corporation attended such board meetings) - the following details regarding the attendance of any additional person in such board meetings shall be stated: Identity: Ms. Stephanie Azrieli; Holds no position at the Corporation; the wife of Mr. David Azrieli OBM and the mother of Danna Azrieli, Chairman of the Board, Naomi and Sharon Azrieli, directors. Was it for the purpose of presentation of a certain issue by him: □ Yes ☒ **No** (check the appropriate box) The rate of his attendance[10] at board meetings held in the report year for the purpose of presentation of a specific issue by him: ___________. Other presence: Ms. Stephanie Azrieli, accompanies her daughters, Danna Azrieli, Chairman of the Board, Naomi and Sharon Azrieli, directors; however, she does not take an active part in the discussions and resolutions.			✓

Directors' qualifications and skills

			Correct	Incorrect
7.	In the corporation's articles of association there is no provision limiting the possibility to immediately terminate the office of all of the directors of the corporation who are not outside directors (in this context - a determination by a regular majority is not deemed a limitation)[11]. If your answer is "Incorrect" (i.e., such limitation exists), state -		✓	
	a.	The period prescribed in the articles of association for the office of a director: ______.		
	b.	The required majority prescribed in the articles of association for the termination of office of the directors: ______.		
	c.	The legal quorum at the general meeting prescribed in the articles of association for the termination of office of the directors: ______.		
	d.	The majority required for amending these provisions in the articles of association: ______.		
8.	The corporation has a training plan for new directors, in the field of the corporation's business and in the field of the law applicable to the corporation and the directors, as well as a continuing plan for the training of incumbent directors, which is adjusted, *inter alia*, to the position held by the director in the corporation. If your answer is "Correct" - state whether the plan was implemented in the report year:☒**Yes** ☐ No (check the appropriate box)		✓	
9.	a.	The corporation determined a required minimum number of directors on the board who must have accounting and financial expertise. If your answer is "Correct" – *state the minimum number which was determined: 1 (apart from the outside director having accounting expertise).*	✓	
	b.	Number of directors holding office in the corporation during the report year - Having accounting and financial expertise[12]: 4. Having professional qualifications: 6. *If there were changes in the number of directors as aforesaid in the report year, provide the figure of the lowest number (other than in the 60-day period from the change) of directors of any kind who held office in the report year.*	✓	

[10] While separating the controlling shareholder, his relative and/or another on his behalf.
[11] A bond company is not required to answer this section.
[12] After the board's estimation, in accordance with the provisions of the Companies Regulations (Conditions and Tests for Directors Having Accounting and Financial Expertise and Directors with Professional Qualifications), 5766-2005.

			Correct	Incorrect
10.	a.	Throughout the report year, the composition of the board included members of both genders. If your answer is "Incorrect" – state the period (in days) in which the aforesaid was not met: ______. In this question, you may answer "Correct" if the period in which directors of both genders did not hold office does not exceed 60 days. However, in any answer (Correct/Incorrect), state the period (in days) in which directors of both genders did not hold office in the corporation: 0.	✓	
	b.	Number of directors of each gender holding office on the board of the corporation as of the date of publication of this questionnaire: Men: 5 Women: 4.		

Board Meetings

			Correct	Incorrect
11.	a.	Number of board meetings held during each quarter in the report year: Q1:4. Q2:1. Q3:3. Q4:3.		
	b.	Alongside each of the names of the directors holding office in the corporation during the report year, state their participation rate[13] in the board meetings (in this subsection - including meetings of the board committees of which they are members, and as stated below) held during the report year (in reference to his term of office): *(Add extra lines according to number of directors)*		

Name of Director	Rate of Participation in the Board Meetings (11 meetings)	Rate of Participation in the Meetings of the Audit Committee[16] (4 meetings)	Rate of Participation in the Meetings of the Financial Statements Review Committee[15] (4 meetings)	Rate of Participation in Meetings of Compensation Committee[14] (4 meetings)	Rate of Participation in Meetings of Additional Board Committees of which he is a Member (state the committee's name)
Danna Azrieli	11/11				----
Naomi Azrieli	9/11				----
Sharon Azrieli	8/11				----
Joseph Ciechanover	11/11	4/4	4/4	4/4	Enforcement Committee – 1/1
Oran Dror	11/11	4/4	4/4	4/4	Enforcement Committee – 1/1
Niv Ahituv	11/11	4/4	4/4	4/4	Enforcement Committee – 1/1
Efraim Halevy	11/11	4/4	4/4	4/4	Enforcement Committee – 1/1

13 See footnote 9.
14 With regard to a director who is a member of this committee.
15 With regard to a director who is a member of this committee.
16 With regard to a director who is a member of this committee.

Tzipora Carmon	11/11	4/4	4/4	4/4	Enforcement Committee – 1/1	
Menachem Einan	11/11	2/4	3/4	3/4	0/1	Note: Mr. Einan was appointed as a director of the audit, enforcement and compensation committees in May 2017

		Correct	Incorrect
12.	In the report year, the board held at least one deliberation on the management of the corporation's business by the CEO and the officers reporting to him, in their absence, and they were afforded the opportunity to express their position.	✓	

Separation between the Positions of the CEO and the Chairman of the Board

		Correct	Incorrect
13.	Throughout the entire report year, a chairman of the board held office in the corporation. In this question, you may answer "Correct" if the period in which a chairman of the board did not hold office in the corporation does not exceed 60 days, as provided in Section 363A(2) of the Companies Law). However, in any (Correct/Incorrect) answer, state – The period (in days) during which there was no chairman of the board holding office in the corporation as aforesaid: ______.	✓	
14.	Throughout the entire report year, a CEO held office in the corporation. In this question, you may answer "Correct" if the period during which there was no acting CEO in the corporation does not exceed 90 days as provided in Section 363A.(6) of the Companies Law, however, in any (Correct/Incorrect) answer, state the period (in days) during which there was no CEO holding office in the corporation as aforesaid: ______.	✓	
15.	In a corporation in which the chairman of the board also serves as the CEO of the corporation and/or exercises his powers, the dual office was approved in accordance with Section 121(c) of the Companies Law[17]. ☒Irrelevant (insofar as such dual office does not exist in the corporation).		
16.	The CEO is not a relative of the chairman of the board.	✓	
17.	A controlling shareholder or his relative do not serve as the CEO or as a senior officer in the corporation, other than as a director.	✓	

17 In a bond company – an approval pursuant to Section 121(d) of the Companies Law.

The Audit Committee

		Correct	Incorrect
18.	The following did not hold office in the audit committee during the report year -		
	a. The controlling shareholder or his relative.	✓	
	b. The chairman of the board.	✓	
	c. A director who is employed by the corporation or by the controlling shareholder of the corporation or by a corporation controlled by him.	✓	
	d. A director who regularly provides services to the corporation or to the controlling shareholder of the corporation or a corporation controlled by him.	✓	
	e. A director whose primary livelihood depends on the controlling shareholder.	✓	
19.	No one who is not entitled to be a member of the audit committee, including a controlling shareholder or his relative, was present, in the report year, in the audit committee meetings, other than pursuant to the provisions of Section 115 (e) of the Companies Law.	✓	
20.	The Legal quorum for deliberation and adoption of resolutions in all of the audit committee's meetings held during the report year was a majority of the committee members, where the majority of the attendees were independent directors and at least one of them was an outside director. If your answer is "Incorrect" - state the rate of the meetings in which the said requirement was not met: ______.	✓	
21.	In the report year, the audit committee held at least one meeting in the presence of the internal auditor and the outside auditor, and in the absence of officers of the corporation who are not members of the committee, regarding deficiencies in the business management of the corporation.	✓	was held on February 2, 2014, and with the internal auditor on February 16, 2014, while the previous discussion was held on December 31, 2012)
22.	In all of the audit committee's meetings in which a person who is not entitled to be a committee member was present, it was with the approval of the chairman of the committee and/or at the request of the committee (regarding the general counsel and secretary of the corporation who is not a controlling shareholder or his relative).	✓	
23.	In the report year, there were valid arrangements which were set forth by the audit committee regarding the manner of handling complaints of employees of the corporation in relation to flaws in the management of its business and with regard to the protection that will be provided to employees who complained as aforesaid.	✓	
24.	The audit committee and/or the Financial Statements Review Committee is satisfied that the scope of work of the auditor and his fee with respect to the financial statements in the report year were appropriate for the performance of proper audit and review work.	✓	

The Duties of the Financial Statements Review Committee (hereinafter - FSRC) in its Preliminary Work for the Approval of the Financial Statements				
			Correct	**Incorrect**
25.	a.	State the period (in days) prescribed by the board of directors as reasonable time for delivery of the committee's recommendations in contemplation of the board's deliberation for the approval of the financial statements: 2 business days apart from cases in which it is otherwise determined under the circumstances.		
	b.	The number of days actually elapsed between the date of delivery of the recommendations to the board and the date of the board's deliberation for the approval of the financial statements: Q1 statement (for 2017): 2 business days. Q2 statement: 2 business days. Q3 statement: 2 business days. Annual Statement: 2.		
	c.	The number of days elapsed between the date of delivery of the draft financial statements to the directors and the date of the board's deliberation for the approval of the financial statements: Q1 statement (2017): 7 days. Q2 statement: 7 days. Q3 statement: 7 days. Annual statement: __ days.		
26.		The Corporation's outside auditor was invited to all of the FSRC and board meetings, in which the financial statements of the corporation referring to periods included in the report year were deliberated.	✓	
27.		All of the conditions specified below were fulfilled at the FSRC throughout the entire report year and until the release of the annual statement:		
	a.	The number of the members was not less than three (on the date of the deliberation by the FSRC and approval of the statements as aforesaid).	✓	
	b.	All of the conditions specified in Section 115 (b) and (c) of the Companies Law (in respect of the office of audit committee members) were met thereby.	✓	
	c.	The chairman of the FSRC is an outside director.	✓	
	d.	All of its members are directors and most of its members are independent directors.	✓	
	e.	All of its members have the ability to read and understand financial statements and at least one of the independent directors has accounting and financial expertise.	✓	
	f.	The members of the FSRC provided a statement prior to their appointment.	✓	
	g.	The legal quorum for discussion and decision making on the FSRC was the majority of its members provided that most of those present were independent directors including at least one outside director.	✓	

Compensation Committee

		Correct	Incorrect
28.	In the report year, the FSRC consisted of at least three members and the outside directors constituted a majority therein (on the date of the deliberation by the FSRC).	✓	
29.	The terms of office and employment of all of the members of the compensation committee in the report year are in accordance with the Companies Regulations (Rules on Compensation and Expenses for an Outside Director), 5760-2000.	✓	
30.	The following did not hold office in the compensation committee during the report year -	✓	
	a. The controlling shareholder or his relative.	✓	
	b. The chairman of the board.	✓	
	c. A director who is employed by the corporation or by the controlling shareholder of the corporation or by a corporation controlled by him	✓	
	d. A director who regularly provides services to the corporation or to the controlling shareholder of the corporation or a corporation controlled by him.	✓	
31.	In the report year, a controlling shareholder or his relative did not attend meetings of the compensation committee, unless the chairman of the board determined that any one of them is required in order to present a specific issue.	✓	
32.	The compensation committee and the board did not exercise their power pursuant to Sections 267A(c), 272(c)(3) and 272(C1)(1)(c) to approve a transaction or compensation policy, despite the objection of the general meeting.	✓	

Internal Auditor

		Correct	Incorrect
33.	The chairman of the board or the CEO of the corporation is the organizational supervisor of the internal auditor in the corporation.		
34.	The chairman of the board or the audit committee approved the work plan in the report year. In addition, specify the audit issues addressed by the internal auditor in the report year: In the year of the report, as in every year, the audit plan was preapproved by the audit committee and the board of directors of the Company, and as of the Report Release Date, the internal auditor has completed the reports according to plan, including on financial, operational and corporate governance issues.	✓	✓
35.	Scope of employment of the internal auditor in the corporation in the report year (in hours[18]): According to the specification in Section 6 of Chapter E of the annual report above. In the report year a deliberation was held (by the audit committee or the board) on the internal auditor's findings.	✓	
36.	The internal auditor is neither an interested party in the corporation, nor its relative, auditor or another on its behalf, nor maintains material business ties with the corporation, its controlling shareholder, relative or corporations controlled thereby.	✓	

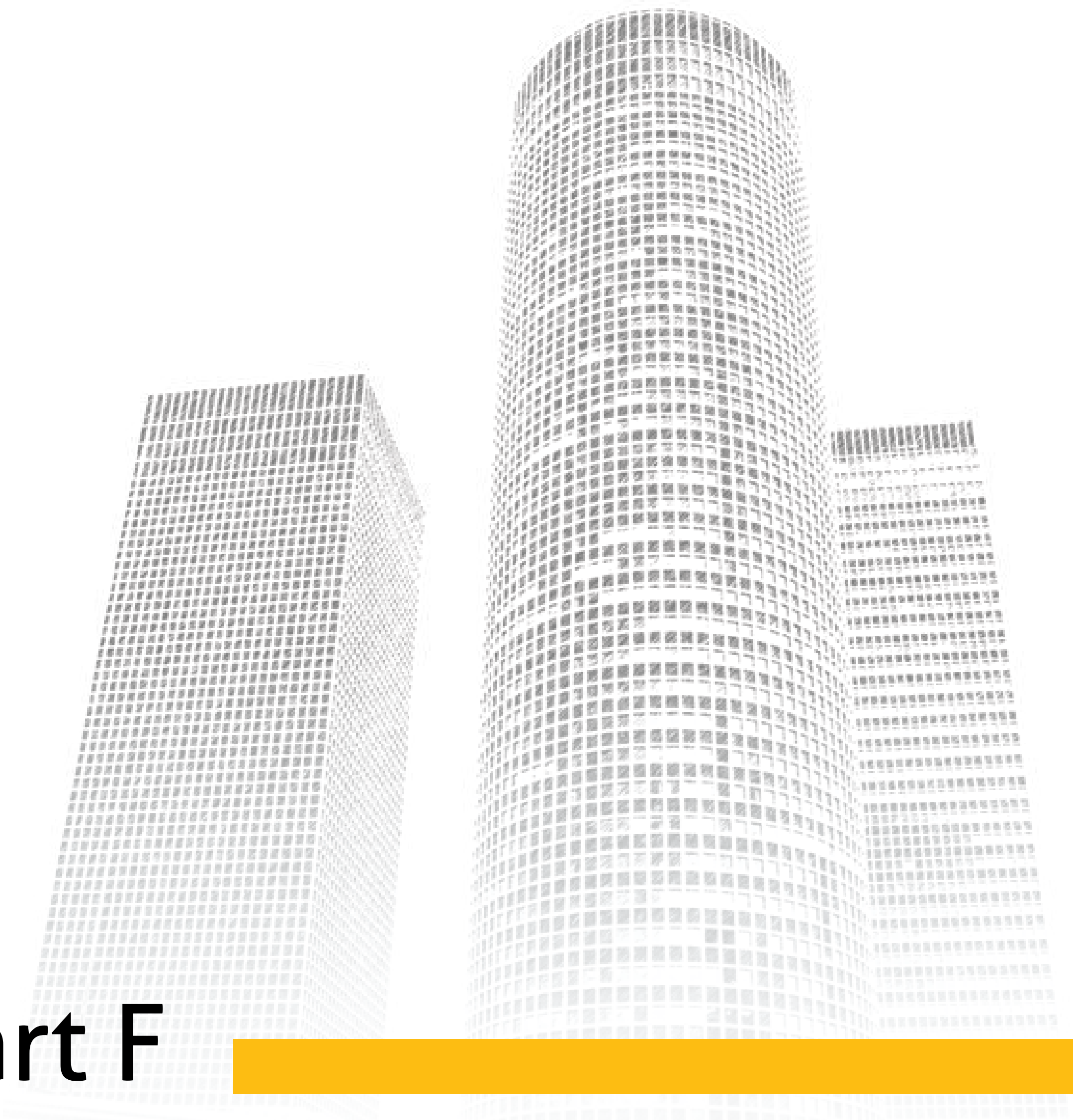
[18] Including working hours invested in held companies and in auditing overseas, and as the case may be.

Transactions with Interested Parties

		Correct	Incorrect
37.	The controlling shareholder or his relative (including a company controlled by him) is neither employed by the corporation nor provides management services thereto. If you answer is "Incorrect" (i.e. the controlling shareholder or his relative is employed by the corporation or provides management services thereto) state - – The number of relatives (including the controlling shareholder) employed by the corporation (including companies controlled by them and/or through management companies): 1 (Ms. Danna Azrieli). – Have the agreements for such employment and/or management services been approved by the organs specified in the law: ☒ Yes (the management agreement with Ms. Danna Azrieli, who serves as the Company's Active Chairman of the Board, was approved by the compensation committee, the board of directors and the general meeting of the Company held in October 2016). ☐ No		✓
38.	To the best knowledge of the corporation, the controlling shareholder does not have other businesses in the operating segment of the corporation (in one or more segments). If your answer is "Incorrect" - state whether an arrangement was prescribed to define activities between the corporation and the controlling shareholder thereof: ☒Yes, see specification in Section 3.2 above. ☐ No		✓

Chairman of the Board: Ms. Danna Azrieli **Chairman of the Audit Committee:** Efraim Halevy **Chairman of the FSRC:** Prof. Niv Ahituv

Effectiveness of Internal Control over the Financial Reporting and Disclosure



Part F

ATTACHED HERETO IS AN ANNUAL REPORT ON THE EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE PURSUANT TO REGULATION 9B(A) FOR 2017:

The management, under the supervision of the Board of Directors of Azrieli Group Ltd. (the "Corporation"), is responsible for setting and maintaining proper internal control over financial reporting and disclosure at the Corporation.

For this purpose, the members of management are:

1 | **Eyal Henkin**, CEO

2 | **Irit Sekler-Pilosof**, CFO

3 | **Ran Tal**, VP, General Counsel and Corporate Secretary

4 | **Yair Horesh**, Chief Comptroller for Accounting and Financial Statements

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

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

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

The management, under the supervision of the Board of Directors, carried out an examination and evaluation of internal control over financial reporting and disclosure at the Corporation, and the effectiveness thereof. The evaluation of the effectiveness of internal control over financial reporting and disclosure carried out by the management under the supervision of the Board of Directors included:

- Mapping and documentation of the controls and identification of the very material processes at the Company and at the main consolidated companies according to the reporting risks, in respect of each of the Company or the main consolidated companies, as the case may be.
- The processes which were defined as very material are: in the Company: revenues from rent in investment property, investment property; in Supergas: the revenues from sales process.
- Examination of the actual performance and documentation of the controls defined in the control processes on the organization level (ELC), the information systems (ITGC), the financial statements preparation process and the processes which were identified as very material to the financial reporting and disclosure.
- General evaluation of the internal control effectiveness.
- Based on the effectiveness evaluation performed by the management with the supervision of the Board of

Directors as specified above, the Board of Directors and management of the Corporation reached the conclusion that internal control over financial reporting and disclosure in the Corporation, as of December 31, 2017 is effective.

Attached please find the statements of the CEO and the CFO, who is responsible for the financial reporting in the Company.

Date: March 20, 2018

STATEMENT OF MANAGERS:

STATEMENT OF CEO PURSUANT TO REGULATION 9B(D)(1):

I, Eyal Henkin, represent that:

1. I have reviewed the periodic report of Azrieli Group Ltd. (the "Corporation") for the year 2017 (the "Reports").
2. To my knowledge, the Reports do not contain any misrepresentation nor omission of a material fact required for the representations included therein, given the circumstances under which such representations were included, not to be misleading with regard to the period of the Reports.
3. To my knowledge, the Financial Statements and other financial information included in the Reports adequately reflect, in all material respects, the financial position, operating results and cash flows of the Corporation for the periods and as of the dates covered by the Reports.
4. I have disclosed to the Corporation's auditor and to the Corporation's Board of Directors and the Audit Committee and Financial Statement Committee, based on my most current evaluation of internal control over financial reporting and disclosure:
   a. Any and all significant flaws and material weaknesses in the setting or maintaining internal control over financial reporting and disclosure which may reasonably adversely affect the Corporation's ability to gather, process, summarize or report financial information in a manner which casts doubt on the reliability of the financial reporting and preparation of the Financial Statements in conformity with the provisions of the law; and –
   b. Any fraud, either material or immaterial, which involves the CEO or anyone reporting to him directly or which involves other employees who play a significant role in internal control over financial reporting and disclosure;
5. I, myself or jointly with others at the Corporation:
   a. Have set controls and procedures, or confirmed that such controls and procedures have been set and maintained under my supervision, which are designed to ensure that material information in reference to the Corporation, including consolidated companies thereof as defined in the Securities Regulations (Annual Financial Statements), 5770-2010, is presented to me by others at the Corporation and the consolidated companies, particularly during the preparation of the Reports; and –
   b. Have set controls and procedures, or confirmed that such controls and procedures have been set and maintained under my supervision, which are designed to reasonably ensure reliability of financial reporting and preparation of the Financial Statements in conformity with the provisions of the law, including in conformity with GAAP.
   c. Have evaluated the effectiveness of internal control over financial reporting and disclosure and presented in this report the conclusions of the Board of Directors and management with regard to the effectiveness of internal control as aforesaid as of the date of the Reports.

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

Date: March 20, 2018

____

Eyal Henkin | CEO

STATEMENT OF MANAGERS:

STATEMENT OF THE MOST SENIOR FINANCIAL OFFICER PURSUANT TO REGULATION 9B(D)(2):

I, Irit Sekler-Pilosof, represent that:

1. I have reviewed the Financial Statements and other financial information included in the reports of Azrieli Group Ltd. (the "Corporation") for year 2017 (the "Reports");
2. To my knowledge, the Financial Statements and the other financial information included in the Reports do not contain any misrepresentation nor omission of a material fact required for the representations included therein, given the circumstances under which such representations were included, not to be misleading with regard to the period of the Reports.
3. To my knowledge, the Financial Statements and other financial information included in the Reports adequately reflect, in all material respects, the financial position, operating results and cash flows of the Corporation for the periods and as of the dates covered by the Reports;
4. I have disclosed to the Corporation's auditor and to the Corporation's Board of Directors and the Audit Committee and Financial Statement Committee, based on my most current evaluation of internal control over financial reporting and disclosure:
   a. Any and all significant flaws and material weaknesses in the setting or maintaining internal control over financial reporting and disclosure insofar as it relates to the Financial Statements and the other information included in the Reports, which may reasonably adversely affect the Corporation's ability to gather, process, summarize or report financial information in a manner which casts doubt on the reliability of financial reporting and preparation of the Financial Statements in conformity with the provisions of the law; and -
   b. Any fraud, either material or immaterial, which involves the CEO or anyone reporting to him directly or which involves other employees who play a significant role in internal control over financial reporting and disclosure;
5. I, myself or jointly with others at the Corporation:
   a. Have set controls and procedures, or that such controls and procedures have been set and maintained under my supervision, which are designed to ensure that material information in reference to the Corporation, including consolidated companies thereof as defined in the Securities Regulations (Annual Financial Statements), 5770-2010, insofar that it is relevant to the financial statements and other financial information included in the Reports, is presented to me by others at the Corporation and the consolidated companies, particularly during the preparation of the Reports; and -
   b. Have set controls and procedures, or confirmed that such controls and procedures have been set and maintained under my supervision, which are designed to reasonably ensure reliability of financial reporting and preparation of the Financial Statements in conformity with the provisions of the law, including in conformity with GAAP;
   c. Have evaluated the effectiveness of internal control over financial reporting and disclosure, insofar as it relates to the Financial Statements and the other financial information included in the Reports, as of the date of the Reports. My conclusions in respect of my evaluation as aforesaid were presented to the Board of Directors and management and are incorporated in this Report.

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

Date: March 20, 2018

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Irit Sekler-Pilosof | CFO