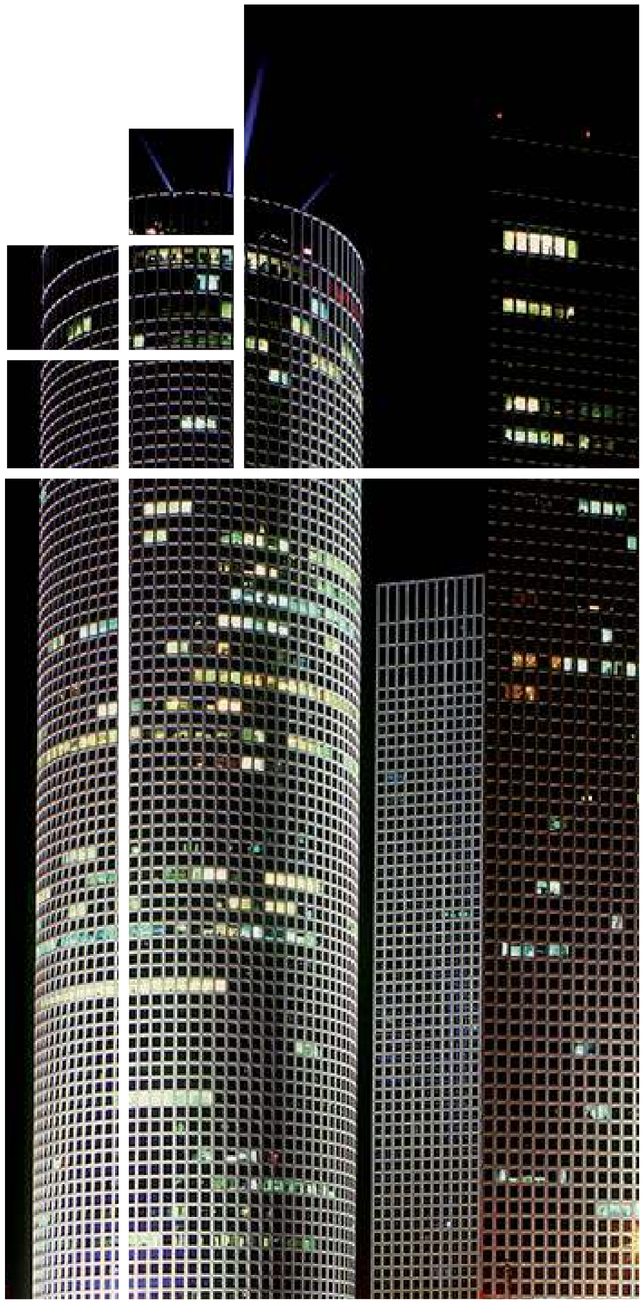
AZRIELIGROUP

Azrieli Group Ltd.

Quarterly Report
Q1/2016
Dated 31 March 2016



Part A Board Report

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

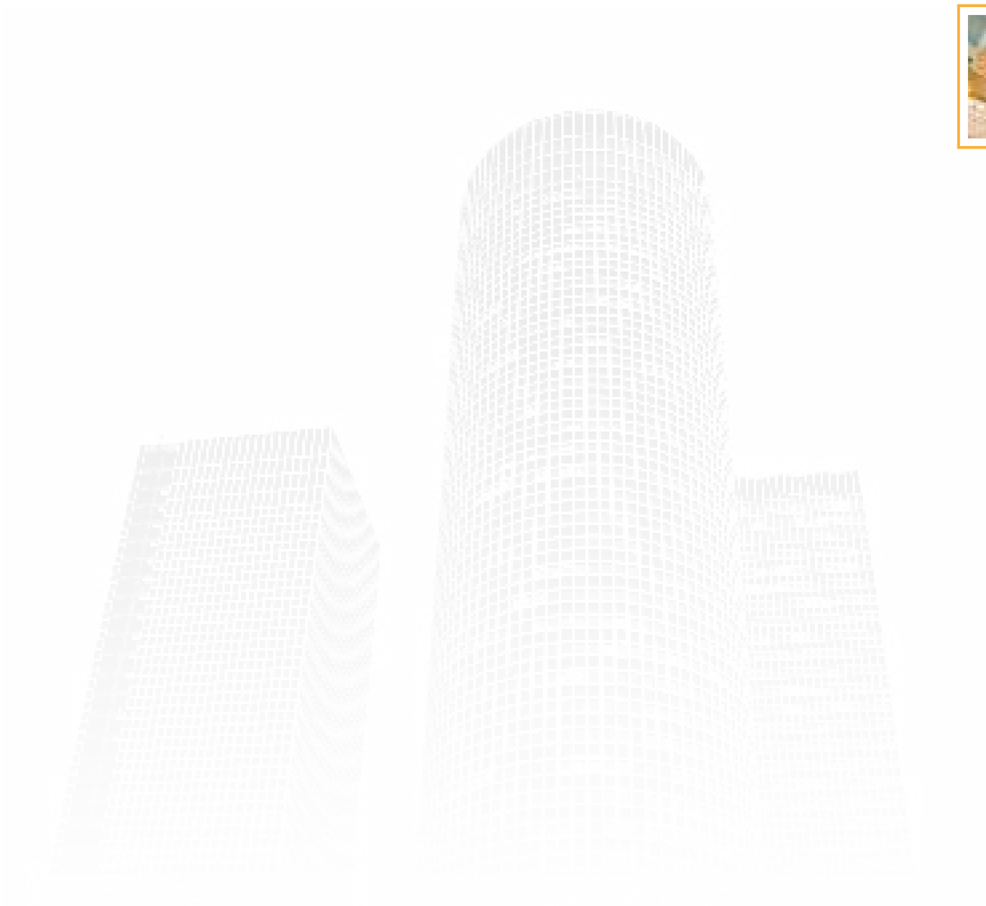
Part C Consolidated Financial Statements Dated 31 March 2016

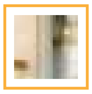
Part D Effectiveness of Internal Control over the Financial Reporting and Disclosure

AZRIELI GROUP

Part A

Board Report





AZRIELIGROUP

Azrieli Group Ltd.

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

for the three months ended March 31, 2016

The board of directors of Azrieli Group Ltd. hereby respectfully submits the Board of Directors' Report for the three months ended March 31, 2016 (the "**Report Period**" and the "**Quarter**" respectively), pursuant to the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "**Regulations**").

The review that shall be presented below is limited in scope and refers to events and changes which occurred in the state of the Company's affairs in the Report Period, whose effect is material, and should be inspected together with the Description of the Corporation's Business Chapter in the periodic report for December 31, 2015, the Financial Statements and the Board of Directors' Report on the state of the Company's affairs for the year ended on the same date (the "Periodic Report for 2015") and the update to the Corporation's Business Chapter and the Financial Statements for March 31, 2016.

Azrieli Group Ltd. (the "**Company**"; the Company together with all of the corporations held thereby, directly and/or indirectly, shall hereinafter be referred to as the "**Group**" or "**Azrieli Group**"), engages mainly in the various real estate segments, while most of the Group's business activity is in the retail centers and malls in Israel segment and in the office and other space for lease segment, both in Israel and overseas. In addition, the Company engages, through its (indirect) holding in Sonol Israel Ltd. ("**Sonol**"), also in another business segment, which includes oil distillates via direct marketing and fueling and commerce complexes. For details regarding engagement in an agreement for the sale of Sonol, see Section 1.1.1 of Part A (this part) of the Report. From a long-term perspective, as the Company has reported in the past, the Company intends to focus on its core business of real estate operations, and therefore examines, from time to time, its holdings in non-real estate segments. In addition, and in accordance with the Company's strategy, the Company has continued to develop the senior housing operations after closing the acquisition of the Palace Tel Aviv senior home and it recently acquired the senior home Ahuzat Bayit in Raanana. In addition, the Company is continuing to look into business opportunities in connection with expansion of its operations to other fields in line with its business strategy, and recently acquired business in the eCommerce sector. For further details see Section 1.1.1 of Part A of the Report. The Company has other businesses, such as energy, water and other wastewater (through its holding in Granite Hacarmel Investments Ltd. ("**Granite**" or "**Granite Hacarmel**")). The Company also has minority holdings in financial corporations.

In accordance with the aforesaid, the Company reports on four operating segments, which also constitute reportable business segments in its financial statements.

The data appearing in the Board of Directors' Report are based on the Consolidated Financial Statements as of March 31, 2016. The financial data and business results of the Company are affected by the financial data and business results of the companies held thereby. In certain cases, details are presented which review events that occurred after the date of the Financial Statements and in

proximity to the date of release of the Report, with such fact being stated alongside them (the "Report Release Date") or additional details and data on the Company level only. The materiality of the information included herein was examined from the Company's viewpoint. In some cases, an additional detailed description was provided in order to give a comprehensive picture of the described topic, which is, in the Company's opinion, material for purposes of this Report.

The attached Financial Statements are prepared according to the International Financial Reporting Standards (IFRS). For further details, see Note 2 to the Financial Statements as of March 31, 2016.

Extended standalone statement – the income-producing property business

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

Main emphases for the Quarter ended March 31, 2016 and until the Report Release Date (*)

Net Profit

- Approx. NIS 674 million net profit in the Quarter, compared with net profit of approx. NIS 191 million in the same quarter last year.

Improvement in the NOI in the Quarter compared with the corresponding quarter

- Approx. 7% growth in the NOI (approx. NIS 319 million) compared with the same quarter last year (approx. NIS 298 million);

Improvement in the same-property NOI in the Quarter compared with the corresponding quarter

- Approx. 5% growth in the same-property NOI, compared with the corresponding quarter. (See Section 1.1.4 of the Report)**;**

FFO from the income-producing property operations compared with the corresponding quarter

- Approx. 13% growth in the FFO (NIS 232 million) attributed to the income-producing property operations (see Section 1.1.6 of the Report);

Business Development and Initiation

- In the Report Period, the Company invested approx. NIS 665 million in the purchase of properties, development, construction of new properties and the upgrade and betterment of existing properties.

Disposition of Assets in Granite Hacarmel

- In accordance with the Group's strategy, the Company is examining, on an ongoing basis, the holdings which are not in its core business in the real estate sector. For details regarding engagement in a transaction for the sale of all of Granite's rights in Sonol, see Section 1.1.1 of Chapter A of the Report. As of the Report Release Date, the Company is continuing to hold negotiations from time to time with various entities for the disposition of its holdings in relation to Granite as a whole and/or its subsidiaries.

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

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

1.1 General

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

Agreement for the acquisition of a property in Holon

On April 13, 2016, the Company closed the acquisition of all of the ownership rights 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, after it received the Antitrust Commissioner's approval, in consideration for NIS 280 million plus VAT. The designation of the land, according to a valid zoning plan, is a special industrial area with a retail front, and includes building rights of approx. 193 thousand sqm above-ground and parking basements. 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), included herein by way of reference, and Note 4B to the financial statements as of March 31, 2016.

Closing of a transaction for the acquisition of "Yedioth Ahronoth House" (expansion of Azrieli Tel Aviv center)

On March 31, 2016, closing was performed of the acquisition of the full ownership of land of an area of approx. 8,400 sqm near the Azrieli Tel Aviv center, on which is currently built a building which is slated for demolition known as "Yedioth Ahronoth House". For further details, see the Company's immediate reports of May 22, 2013 and April 3, 2016 (Ref.: 2013-01-068386 and 2016-01-023433, respectively), included herein by way of reference, and Section 7.8 of the description of the corporation's business, Chapter A of the 2015 periodic report and Note 4G to the financial statements as of March 31, 2016.

Agreement for the acquisition of a senior home and retail center in Raanana

On April 13, 2016, the Company received the Antitrust Commissioner's approval for the closing of the acquisition of 100% of the shares of Ahuzat Bayit Raanana – Senior Housing Ltd.[1], which holds and manages "Ahuzat Bayit", a senior home, and "Park Mall", a retail center in Raanana, in consideration for NIS 55 million. "Ahuzat Bayit" is an active senior home on Ahuza St. in Raanana, near the route of Road 531, which includes approx. 335 senior housing units, and LTC units. "Park Mall" is an active retail center near the senior home and there are approx. 20 tenants on an area of approx. 4,500 sqm therein. The closing of the

[1] A private company which is a reporting corporation, as defined in the Securities Law, 5728-1968.

transaction is expected to be completed shortly after the release of the Report. For details, see the Company's immediate reports of March 24, 2016, March 27, 2016 and April 13, 2016 (Ref.: 2016-01-013692, 2016-01-014163 and 2016-01-048331, respectively), included herein by way of reference, and Note 4E to the financial statements as of March 31, 2016.

Winning a tender for the acquisition of lease rights designated for senior housing in Rishon Lezion

On March 13, 2016, a consolidated company won a tender conducted by the ILA for the acquisition of lease rights in a lot of an area of 3,400 sqm designated for senior housing in the Harakafot neighborhood in East Rishon Lezion, designated for the construction of at least 250 senior housing units and approx. 3,000 sqm of retail, in consideration for NIS 26 million. According to the terms and conditions of the tender, the consolidated company is required to pay development expenses of approx. NIS 22 million. For details, see the immediate report of March 13, 2016 (ref.: 2016-01-005097), included herein by way of reference.

Agreement for the acquisition of eCommerce business

Further to the Company's reports, whereby it is continuing to examine business opportunities in connection with expansion of its business to additional segments which are in line with its business strategy, and gaining a foothold in the digital world of new commerce which is gaining momentum in Israel and worldwide, with the aim of creating a consumer experience and an additional growth engine, further to development of its core business in traditional commerce. On May 18, 2016, approval was received from the Antitrust Commissioner for an agreement that was signed with Buy2 Networks Ltd., a public company whose shares are listed on the Tel Aviv Stock Exchange, for the acquisition of the seller's business in the eCommerce sector in consideration for NIS 70 million, subject to adjustments, such that the net consideration, as of the Report Date, is approx. NIS 62 million. In addition, approx. NIS 5 million per year will be paid for management services in the business sector which will be provided by the seller to the buyer for a period of 24 months from the transaction closing date. The Company is working towards the closing of the transaction. For further details, see the immediate report of May 3, 2016 (Ref.: 2016-01-057901), included herein by way of reference.

Financing transactions

On May 24, 2016, a loan in the sum of NIS 550 million was provided to the Company by an institutional body, affiliated with neither the Company nor its controlling shareholders, linked to the CPI, with annual interest at the rate of 1.5%. To secure repayment of the loan, Canit Hashalom pledged Azrieli Rishonim center in Rishon Lezion (which is under construction). For further details, see the Company's immediate report of May 2, 2016 (Ref.: 2016-01-057004), included herein by way of reference, and Note 8B to the financial statements as of March 31, 2016.

On May 2, 2016, the Company entered into a credit agreement with an institutional body for the provision of a NIS 300 million loan bearing shekel interest at the rate of Prime interest -0.1%, to be repaid (interest and principal) six months after the date of provision thereof. To secure repayment of the loan, an existing pledge on a property which was provided to the lender to secure another loan that was received therefrom, will be used. For further details, see the Company's immediate report of May 2, 2016 (Ref.: 2016-01-057553), included herein by way of reference, and Note 8C to the financial statements as of March 31, 2016.

In April 2016, a NIS 250 million loan was provided to the Company by an institutional body that is not affiliated with the Company or with its controlling shareholders, to be repaid (principal) in a single payment two years after the date of provision of the loan. The loan is not linked and bears fixed shekel interest (paid quarterly) at an annual rate of approx. 1.35%. The loan is not secured and the Company has an undertaking to meet financial covenants identical to the covenants set forth in the indentures of the Series B and C bonds of the Company (the "Indentures"). The agreement includes standard grounds for acceleration, including those included in the Indentures. In addition, the agreement includes an undertaking not to grant a floating charge on the Company's assets, in whole or in part, to any entity unless, on the same date, it creates a floating charge in favor of the lender, identical in rank and scope (*pari passu*).

Agreement for the sale of Sonol

Further to immediate reports of the Company whereby it is looking into the disposition of its holdings in Granite Hacarmel, which are not in its core business in the income-producing property segment, on April 14, 2016, Granite Hacarmel engaged with Israel Oil & Gas Fund L.P., a limited partnership which was incorporated in Israel and whose general partner is controlled by Mr. David Weissman in an agreement for the sale of all of Granite Hacarmel's holdings (100%) in Sonol in consideration for NIS 363.5 million. The Agreement determined conditions precedent which mainly include receipt of the Antitrust Commissioner's approval and receipt of the approval of third parties.

Since the transaction did not include the properties in Pi Glilot (including Sonol's shares in Pi Glilot Petroleum Terminals and Pipelines Ltd., which holds real estate in the same area), on May 10, 2016, the Company engaged, directly and indirectly through companies controlled thereby, with third parties which are not affiliated with the Company in sale agreements for the sale of all of the Company's holdings in the Pi Glilot land and of the shares of the Pi Glilot company (which holds lease rights in respect of land in the Pi Glilot site), for total consideration of approx. NIS 130 million. The transactions are not contingent on one another and the closing of each one of them is contingent on various conditions precedent, and therefore the closing thereof is uncertain.

For further details, see the Company's reports of June 18, 2015, October 26, 2015, February 2, 2016 and April 14, 2016 (Ref.: 2015-01-050991, 2015-01-141945, 2016-01-021562 and 2016-01-048793, respectively), included herein by way of reference, and Note 8A to the financial statements as of March 31, 2016.

Shelf prospectus

On May 11, 2016, the Company published a shelf prospectus after receiving a permit from the ISA.

Senior Officers

Details regarding changes in the office of officers in the Report Period were included in a specification in the Company's Annual Report for December 31, 2015, and in the Company's immediate report of March 23, 2016 regarding the appointment of Mr. Menachem Einan as a director of the Company (Ref.: 2016-01-012291), included herein by way of reference.

Class Actions

On April 14, 2016, a joint motion was filed with the court to enter a judgment approving a settlement agreement in connection with a motion that was filed with the Economic Department at the Tel Aviv District Court against the Company and against the subsidiary, Canit Hashalom, for a class action concerning a full tender offer completed by the Company in September 2012, for shares of the public in Granite Hacarmel. In accordance with the Settlement Agreement, and without admitting any of the claims raised by the class plaintiff, and for settlement purposes only, the class of plaintiffs (as defined in the Settlement Agreement) will be paid NIS 1,250,000 (including the legal fees of the class plaintiff's counsel) against a full, absolute and final waiver and discharge of the action. As of the Report Date, the Settlement Agreement has not yet received the Court's approval as required pursuant to the provisions of the Class Actions Law, 5766-2006. For further details, see the Company's immediate reports of August 8, 2013 and April 26, 2016 (Ref.: 2013-01-113148 and 2016-01-055675, respectively), included herein by way of reference, and Note 3.A.1 to the Financial Statements as of March 31, 2016.

As has already been stated in the past, the Company is conducting initial contacts only with several entities in Israel and overseas, further to its reports in the 2015 Periodic Report, concerning business opportunities within the Company's business areas or the disposition of holdings that are not in its core business, which are not certain to mature into negotiations. The Company shall report in the future, insofar as there shall be developments which shall require reporting pursuant to law. As of the Report Release Date, there are no short-term plans which deviate from the Company’s ordinary course of business and which may have material repercussions on the Company’s business and results.

1.1.2 **Developments in Initiation and Development**

As of the date of this Report, the Company is acting for the development of several properties under construction, as specified below.

Set forth below is a summary of the data regarding properties under construction and expansions as of March 31, 2016

Name of property	Location	Date of purchase	Usage	Rate of holding	Area of land (in sqm)	Sqm for marketing	Date of commencement of construction	Estimated date of completion	Value of the project on the Company's books as of March 31, 2016[(1)] (NIS in millions)	Estimated cost of construction including land (NIS in millions)
Azrieli Rishonim	Rishon Lezion	Aug. 2008	Commerce and Offices	100%	19,000	53,000	December 2011	December 2016[(3)]	548	760-770
Sarona Azrieli Center	Tel Aviv	May 2011	Commerce and Offices	100%	9,400	11,500 115,000	May 2012	Y2017	1,463	1,600-1,660
Modi'in Senior Housing	Modi'in	June 2014	Senior Housing	100%	10,500	35,000*	April 2015	Y2018	77	340-350
Azrieli Town[(2)]	Tel Aviv	October 2012	Commerce, Offices and Residential	100%	10,000	75,000	Q3/2016 (Estimated)	Y2020	145	1,000-1,050
Lehavim senior housing land	Lehavim	December 2014	Senior Housing	100%	28,300	*44,000	Q3/2016 (Estimated)	Y2018	24	320-340
Expansion of Azrieli Center Tel Aviv[(4)]	Tel Aviv	May 2013	Commerce, Offices and Residential	100%	8,400	69,000	Q2/2016 (Estimated)	Not yet determined	570	1,000-1,050
Holon land	Holon	Feb. 2015	Commerce and Offices	100%	12,400	55,000	Not yet determined	Not yet determined	65	Not yet determined

Property in Holon Industrial Zone(5)	Holon	April 2016	Commerce and Offices	100%	55,000	193,000	Not yet determined	Not yet determined	28	Not yet determined
Rishon Lezion Senior Housing Land	Rishon Lezion	March 2016	Senior housing	100%	3,400	*28,750	Not yet determined	Not yet determined	48	Not yet determined
Total						679,250			2,968	

(1) The figure reflects the value of the project on the books. The total capitalizations in projects that are presented at cost is approx. NIS 48 million.
(2) As of the Report Release Date, the Company has not yet received possession of this property, the data presented relate to the existing zoning plan for the land. It is noted that in November 2014, an addendum to the agreement was signed, whereby the handover date was postponed to August 2016.
(3) The offices will open on the said date while the retail space is expected to open in March 2017.
(4) On March 31, 2016, the Company received possession of this property, the data presented relate to the existing zoning plan for the land.
(5) An income-producing property, income in respect of which until April 2017 belongs to the seller. There are future building rights in the property designated mainly for industry, as well as commerce. After the date of the Financial Statements, the Company paid the balance of the payment for the property.
(*) The figure constitutes the scope of building rights in sqm.
(**) Cost of construction for the entire project.

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

1.1.3 The NOI (Net Operating Income) index[2]

As stated in the Board of Directors' Report for December 31, 2015[3], the NOI figure (which is unaudited) is one of the important parameters in the valuation of income-producing property companies. In addition, the NOI is used for measurement of the free cash flow available to service financial debt taken to finance the acquisition of the property. Current maintenance expenses for property preservation are offset against the total NOI.

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

NIS in millions	For the three months ended		For the year ended
	March 31, 2016	March 31, 2015	December 31, 2015
Retail centers and malls in Israel	191	180	748
Growth rate	6%		
Office and other space for lease in Israel	92	84	347
Growth rate	10%		
Income-producing property in the USA	30	34	132
Growth rate	(12%)		
Senior housing	6	-	11
Total NOI	**319**	**298**	**1,238**
Growth rate	7%		
For explanations regarding the change in the NOI, see Sections 1.10.1, 1.10.2 and 1.10.3 below.			

[2] As stated in the Board of Directors' Report as of December 31, 2015, the NOI figure (which is unaudited) is one of the most important parameters in valuations of income-producing property companies and the measurement of the free cash flow available for service of financial debt that was taken to finance the acquisition of the property (after offsetting current repair and maintenance costs).

[3] Details regarding the use made of this figure and the manner of calculation thereof were provided at length in the report of the Company's Board of Directors for December 31, 2015.

1.1.4 Same property NOI Index[4]

NIS in millions	For the three months ended	
	March 31, 2016	March 31, 2015
Retail centers and malls in Israel segment	182	178
Office and other space for lease in Israel segment	92	84
Income-producing property in the US segment	30	34
Total	**304**	**296**
Growth rate	3%	

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

	2016	2015			
	Q1	**Q4**	**Q3**	**Q2**	**Q1**
Same property NOI in all of the periods (*)(**)	304	309	303	299	296
NOI from properties acquired/launched	15	14	12	7	2
NOI from properties sold during the period	-	-	-	-	-
Total NOI for the period	**319**	**323**	**315**	**306**	**298**

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

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

1.1.5 Weighted cap rate

Following is a calculation of the weighted cap rate derived from the entire income-producing property (excluding senior housing[5]) of the Group as of March 31, 2016**:**

	NIS in millions
Total Investment property in the "Extended Standalone" Statement (See Annex C) (*)	21,553
Net of value attributed to investment property under construction	2,139
Net of value attributed to advance payments on account of land purchase	173
Net of the value attributed to land reserves	731
Net of the value attributed to senior housing	615
Total value of income-producing investment properties (including fair value of the vacant space)	17,895
Actual NOI for the quarter ended on March 31, 2016	313
Addition to future quarterly NOI (**)	26
Total standardized NOI	339
Pro-forma annual NOI based on standardized NOI (excluding senior housing)	1,356
Weighted cap rate derived from income-producing investment property (including vacant space) (***)	7.6%

(*) As of the Report Date, the Company has not performed new valuations for the income-producing properties included in this calculation. The rest of the data is based on the valuations as of December 31, 2015. The data includes receivables appearing in the balance sheet item "loans and receivables" in respect of averaging attributed to real estate.

(**) The figure mainly includes estimates for an addition of NOI for vacant space that has not yet been leased-up and space that will be leased-up during 2016, for lease-up for one year for which value was credited in the valuations as of December 31, 2015.
This figure does not constitute a forecast of the Company for the NOI of 2016 and all of its purpose is to reflect the NOI under the assumption of full lease-up for a whole year of all of the income-producing property. In addition, property that will begin producing income in 2016, such as: Azrieli Rishonim were not included in the standardized NOI.

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

The Company's estimates mentioned in this Section 1.1.5 includes

[5] Since the cap rate of senior housing properties derives from the FFO and not from the NOI, these properties were not included in this calculation. The weighted cap rate of the senior housing as of the Report Date is 9%.

forward-looking information, as defined in the Securities Law, 5728-1968. This information is uncertain and is based, inter alia, on information regarding a contractual engagement with tenants as of the Report Date, parameters in the calculation of the fair value and the Company's estimates in respect of lease-up of space. The actual results may be materially different to the estimates specified above and the implications thereof for various reasons, including immediate termination of lease agreements or a business crisis of any of the tenants or a change in the parameters for fair value or non-achievement of development or lease-up targets.

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

The FFO Index is an indicator commonly used around the world that provides an adequate basis for comparison between income-producing property companies. The index expresses net reported profit net of income and expenses of a capital nature, plus the Company's share in depreciation from real estate and other amortizations.

In this Report the FFO index is presented for the Group's income-producing property.

The Company's management believes that since the FFO index is an index customary in companies of which all of their business focuses on the income-producing property, therefore an adjustment of that index is required in companies of the Company's kind to better reflect the Group's income-producing property business while neutralizing influences which are not from the real estate business, such as in respect of non-operating items which are affected by revaluation of fair value of assets and liabilities, mainly adjustments of fair value of investment property and property under construction, various capital losses and gains, deferred tax expenses and financing expenses in respect of appreciation of financial liabilities, as specified in the basic assumptions underlying the table below. It should be emphasized that the FFO does not represent cash flow from current operations according to GAAP and does not reflect cash held by the Company and its ability to distribute the same and does not substitute the reported net profit. It is further clarified that this index is not a figure which is audited by the Company's auditors.

	For the three months ended	
NIS in Millions	**March 31, 2016**	**March 31, 2015**
Net profit for the period attributed to shareholders	672	188
Discounting the net (profit) from Granite Hacarmel attributed to shareholders (including amortization of surplus costs)	(20)	(18)
Adjustments to profit (1):		
Impairment (appreciation) of investment property	(357)	13
Depreciation and amortizations	2	1
Net non-cash flow financing and other revenues	(28)	(39)
Tax expenses (revenues)	(36)	50
Plus benefit recorded for employee option plan	-	2
Net of dividend received from financial assets available for sale	(10)	-
Cash flow due to receipt of deposits from tenants net of return of deposits to tenants	7	-
Net of revenues from forfeiture of tenants' deposits	(3)	-
Total adjustments to profit	(425)	27
Plus interest paid for real investments - (2)	5	8
Total FFO attributed to income-producing property operations (3)	**232**	**205**

Remarks and assumptions:

1. The adjustments to the profit below do not include adjustments due to Granite Hacarmel since its profits were discounted in full.
2. Calculated according to weighted interest of the Group due to the real investments, which include: Granite Hacarmel, Bank Leumi and Leumi Card, due to 65% of the investments' cost.
3. Which is attributed to shareholders only.

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

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

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

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

It should be emphasized that the indices specified above do not include the expected profit component in respect of the projects under construction which has not yet been recorded in the financial statements.

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

EPRA NAV (NIS in millions)	**As of**	
	March 31, 2016	**March 31, 2015**
Equity attributed to the Company's shareholders in the financial statements	14,025	13,207
Together with a tax reserve due to revaluation of investment property and fixed assets to fair value (net of the minority share)	2,976	2,782
EPRA NAV	**17,001**	**15,989**
EPRA NAV per share (NIS)	**140**	**132**
EPRA NNNAV (NIS in millions)	**As of**	
	March 31, 2016	**March 31, 2015**
EPRA NAV	17,001	15,989
Adjustment of assets' value to fair value (net of the minority)	10	10
Adjustment of the value of financial liabilities to fair value (net of the minority)	(186)	(364)
Net of tax reserve due to revaluation of investment property and fixed assets to fair value (net of the minority share)	(2,976)	(2,782)
EPRA NNNAV	**13,849**	**12,853**
EPRA NNNAV per share (NIS)	**114**	**106**

1.1.8 Summary of the Company's Results (Consolidated)

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

	For the three-month period ended		For the year ended
	March 31, 2016	March 31, 2015	Dec. 31, 2015
Net profit for the period attributed to the shareholders	672	188	821
Net profit attributed to the shareholders and non-controlling interests	674	191	828
Basic profit per share (in NIS)	5.54	1.55	6.77
Comprehensive income for shareholders and non-controlling interests	648	279	846

In the Report Period, the Company recorded growth in the NOI from the real estate operations, growth in the profit from adjustment of the fair value of investment property and a decrease in the tax expenses compared with the same quarter last year.

b. The Comprehensive Income

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

The difference between the comprehensive income and the net profit mainly derives from an increase in the fair value of financial assets available for sale, net of tax of approx. NIS 11 million net of a decrease from translation differences from foreign operations of approx. NIS 37 million.

c. Main market trends regarding income-producing property segment

The Company's board of directors estimates that no material change has occurred in the business environment in which the Group operates, as described in the Board of Directors' Report for December 31, 2015, except as specified below. The business indicators in Q1/2016 show that the Israeli market is continuing to grow at the moderate pace of the last two years. In the income-producing property sector in Israel, stability has been preserved both on the level of demand and on the level of rental prices and the occupancy rate, further to the trend that characterized 2015. The (known) CPI recorded a decline of 0.9% in Q1/2016. Bank of Israel interest remained unchanged in Q1 at 0.1%. The Prime interest is 1.6%.

In the coming years there may be changes in the competitive balance between the players in the income-producing property sector, *inter alia* due to the opening of new retail centers and expansion of the supply of retail space throughout the country and/or due to lease-up of office projects, mainly in the Dan metropolitan area, which pose challenges to the sector.

The Company's management estimates that the broad dispersion of the properties portfolio owned thereby, the active current maintenance and management of the properties, their being located mainly in high-demand areas, the high business positioning of the properties and the Company’s investments in improving its properties to maintain such advantage, the high occupancy rates, the broad range of businesses existing in the malls and retail centers of the Group and the suitable mix of businesses and the stable capital structure of the Company contribute to reducing the scope of the exposure of the Group's business to significant crisis and/or instability due to the materialization of any of the Company’s risk factors.

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

Summary of the Group's operating segments[6]

- **The Retail Centers and Malls in Israel Segment** – The Company has 15 malls and retail centers in Israel, at a comprehensive leasable area of approx. 302 thousand sqm (consolidated and the Company’s share) leased to approx. 1,700 tenants;

- **Office and Other Space for Lease in Israel Segment** – The Company has 11 income-producing properties in this segment in Israel, at a comprehensive leasable area of approx. 393 thousand sqm (consolidated and the Company's share) leased to approx. 550 tenants;

- **Income-Producing Property Segment in the USA** – The Company has 6 income-producing properties in this segment at a comprehensive leasable area of approx. 187 thousand sqm (consolidated) and approx. 177 thousand sqm (the Company’s share) leased to approx. 250 tenants;

- **Fueling and Commerce Complexes and Direct Marketing (Sonol) Segment** – The Group operates in two sectors, fueling and commerce complexes and direct marketing, through Sonol Israel Ltd. For details on an agreement for the sale of Sonol, see Section 1.1.1 above.

1.2.1 The income-producing property:

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

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

In this Report, the Company specifies the causes which contributed to

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

the business stability and the improvement in its business activity, mainly in the income-producing property segment which constitutes its main business. In addition, the Group invests in future growth engines, whether through the development and construction of new income-producing properties, or in the development of the senior housing operations which, as of the Report Date, include one active home and senior home development projects at the planning and/or construction stages, as specified in Section 1.1.2 above.

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

The average occupancy rate in the income-producing property in Israel owned by the Group is very high and is approx. 97% in the retail centers and malls segment and approx. 99% in the office and other space for lease segment[7]. The average occupancy rate in the income-producing property in the USA is approx. 82%[8].

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

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

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

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[7] Excluding the 2 buildings at Phase B in Azrieli Holon center which opened at the end of 2015 and at the end of Q1/2016 and are in preliminary lease-up stages. The occupancy rate in the leasable area for offices and others segment, including Stage B in the Azrieli Holon Center, is about 93%.

[8] In view of expiration of a contract with a tenant who holds approx. 20 thousand sqm (approx. 10% of the space of the operating segment in the U.S.) in one of the office towers in Houston, the Company is holding negotiations for the lease of the remainder of the space that was vacated.

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

1.2.2 Sonol segment:

The condition of the Company and the results thereof may be affected in a certain manner also from the business condition of Sonol.

In the Report Period, there was an increase in Sonol's loss compared with the same period last year, mainly as a result of growth in the financing expenses as a result of the effect of the exchange rate and other expenses, which was partly offset by an increase in quantities of fuels sold, an increase in the profit attributed to the convenience stores and a decrease in the inventory losses recorded this year compared with the same period last year, as specified in Section 1.10.4 of this Report below. For details regarding an agreement for the sale of Sonol (transaction not yet closed), see Section 1.1.1 above.

The effect of Sonol's results on the Company's income statements (NIS in millions):

	For the three month period ended March 31, 2016			For the three month period ended March 31, 2015		
	Consolidated	Sonol's effect	Without Sonol	Consolidated	Sonol's effect	Without Sonol
Revenues from sales of work and services	898	708	190	1,114	889	225
Revenues from rent and management and maintenance fees	416	-	416	383	-	383
Profit (loss) net from fair value adjustment of investment property and investment property under construction	357	-	357	(13)	-	(13)
Financing revenues	14	4	10	22	9	13
Other revenues	11	-	11	5	2	3
Total revenues	**1,696**	**712**	**984**	**1,511**	**900**	**611**
Cost of revenues from sales of work and services	671	558	113	898	746	152
Cost of revenues from rent and management and maintenance fees	99	-	99	85	-	85
Sales and marketing expenses	163	126	37	166	127	39
General and administrative expenses	39	16	23	43	16	27
Share in the results of associates, net of tax	2	-	2	2	-	2
Financing expenses	37	13	24	29	11	18
Other expenses	2	2	-	-	-	-
Total costs and expenses	**1,013**	**715**	**298**	**1,223**	**900**	**323**
Profit (loss) before tax	**683**	**(3)**	**686**	**288**	**-**	**288**
Tax expenses	**(9)**	**(1)**	**(8)**	**(97)**	**-**	**(97)**
Net profit	**674**	**(4)**	**678**	**191**	**-**	**191**

1.2.3 Additional Businesses

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

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

	Investment value in the financial statements as of Dec. 31, 2015	Investments during the three months ended March 31, 2016	Total investment as of March 31, 2016 before adjustment for changes in the fair value during the Report Period	Fair value* of the investment as presented in the financial statements as of March 31, 2016	Change in the fair value during the Report Period	Dividend received in the Report Period
Investment in Bank Leumi le-Israel Ltd. (*)	954	-	954	953	(1)	-
Investment in Leumi Card Ltd. (**)	603	-	603	603	-	10
Total	1,557	-	1,557	1,556	(1)	10

* The fair value of the investment in Bank Leumi le-Israel was determined according to the value of the share at the TASE as of March 31, 2016;

** The fair value of the investment in Leumi Card was determined according to an independent appraiser, in accordance with the valuation as of December 31, 2015.

1.3 The Business Results and the Total Assets

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

	Segment profit for the three months ended:		Rate of the segment's profit from the total consolidated net profit in the three months ended:	
	March 31, 2016	**March 31, 2015**	**March 31, 2016**	**March 31, 2015**
Retail centers and malls in Israel	191	180	28%	94%
Office and other space for lease in Israel	92	84	14%	44%
Income-producing property in the USA	30	34	5%	18%
Sonol	8	-	1%	-
Others	43	30	6%	16%
Total attributed profit	**364**	**328**	**54%**	**172%**
Changes in fair value	357	(13)	53%	(7%)
Net financing expenses	(23)	(6)	(4%)	(3%)
Tax expenses	(9)	(97)	(1%)	(51%)
Administrative and other expenses, net	(15)	(21)	(2%)	(11%)
Net profit for the period	674	191	100%	100%

The Group's revenues from the operating segments for the three-month period ended March 31, 2016 amounted to approx. NIS 1,314 million, compared with approx. NIS 1,497 million in the same period last year, a decrease of approx. NIS 183 million. The difference is comprised, on the one hand, from a decrease of approx. NIS 177 million in Sonol's revenues (primarily as a result of the decrease in fuel prices), and on the other hand, an increase of approx. NIS 33 million in the revenues of the income-producing property segment and revenues from senior housing, which offset such decrease. As of March 31, 2016, the total assets on the balance sheet was approx. NIS 27.2 billion compared with approx. NIS 26.4 billion as of December 31, 2015, which increase is attributed mainly to investments and revaluations in the income-producing property segments, offset against a decline in cash.

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

	The share of the segment's assets out of the total assets, on a consolidated basis, as of (NIS in millions)		The rate of the segment's assets out of the total assets, on a consolidated basis, as of	
	March 31, 2016	**Dec. 31, 2015**	**March 31, 2016**	**Dec. 31, 2015**
Retail centers and malls in Israel	11,329	11,056	42%	42%
Office and other space for lease in Israel	7,507	6,830	28%	26%
Income-producing property in the USA	1,996	2,052	7%	8%
Sonol	1,887	1,913	7%	7%
Others and adjustments	4,450	4,594	16%	17%
Total	**27,169**	**26,445**	**100%**	**100%**

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

	As of March 31, 2016	As of March 31, 2015	As of Dec. 31, 2015
Current assets	2,203	3,473	2,438
Non-current assets	24,966	22,653	24,007
Current liabilities	5,510	5,248	3,523
Non-current liabilities	7,589	7,576	9,052
Capital attributed to the Company's shareholders	14,025	13,207	13,771
Capital attributed to the Company's shareholders from the total balance sheet (in percent)	**52%**	**51%**	**52%**

The Group finances its business activity mostly by its equity, cash and cash equivalents and by using non-bank credit (mostly bonds and loans from institutional bodies), bank credit (short- and long-term) and commercial paper. The Group's financial solidity, which is characterised by low leverage and significant non-mortgaged properties, provides the Group with available sources for obtaining finance under convenient terms.

1.5 Financial Condition, Liquidity and Financing Sources

(a) Liquid Means in the Group

As of March 31, 2016, the cumulative scope of liquid means (cash and cash equivalents, financial assets held for trading and short-term deposits and investments) held by the Group amounted to approx. NIS

663 million. The Company deems its liquid means, the considerable cash flow from current operations and its non-pledged assets (in a total value of approx. NIS 17.9 billion in addition to approx. NIS 663 million specified above) as significant for its financial strength, for its high financial flexibility due to its non-dependency on the availability of external sources also for the purpose of returning debts and for the ability to use investment opportunities in different periods In Section 18 of the Description of the Corporation's Business Chapter in Chapter A of the 2015 Periodic Report, the Company specified additional issues in connection with the financing activity at the Group[9]. Regarding additional possible liquid sources, the Company estimates that the Group is able to raise financing under favorable terms, even under the currently prevailing financial conditions.

Following is a table of non-pledged assets that are available to serve as collateral against the receipt of credit[10]:

Assets	Value of assets as of March 31, 2016 (NIS in millions) as presented in the financial statements
Properties in retail centers and malls in Israel segment	8,938*
Properties in the office and other space for lease in Israel segment	6,234*
Other Properties	199
Company's holdings in Leumi Card	603
Company's holdings in Granite Hacarmel	978
Company's holdings in Bank Leumi	953
Total	17,905

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

* On the pledge of Azrieli Rishonim Center in Rishon LeZion (under construction) after the date of the financial statements, see Section 1.1.1 above.

(b) Dividends:

The Company: On March 22, 2016, the Company's board of directors approved a cash distribution in the sum total of NIS 400 million (approx. NIS 3.3 per share). On May 4, 2016, the Company paid the dividend to its shareholders. According to the Company's Financial Statements as of March 31, 2016, the Company has retained earnings of approx. NIS 11.5 billion (including a revaluation fund of financial assets available for sale). For further details, see the immediate report of March 23, 2016 (Ref.: 2016-01-012243), included herein by way of reference.

[9] In Section 18 of the Description of the Corporation's Business Chapter in Chapter A of the 2015 Periodic Report, the Company specified additional issues in connection with the financing activity at the Group.

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

Leumi Card: On February 23, 2016, the board of directors of Leumi Card decided on the distribution of a NIS 50 million dividend which was paid on March 1, 2016. The Company's share in the sum of the said dividend is NIS 10 million.

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

(c) Cash flows

Net cash flows generated for the Group from current operations in the three months ended March 31, 2016, amounted to the sum of approx. NIS 227 million, compared to the sum of approx. NIS 223 million in the same period last year.

The cash flows in the Report Period resulted mainly from the operating profit of the income-producing real estate in the sum of approx. NIS 319 million, offset against income taxes paid.

The cash flow derived by the Group from current operations in the three months ended March 31, 2016 were used by the Group mainly for financing investments required for projects under construction, the purchase of land and the payment of long-term liabilities.

Net cash flows used by the Group for investment activity in the three months ended March 31, 2016 amounted to approx. NIS 707 million compared with approx. NIS 258 million in the same period last year. The cash flow in the Report Period was mainly used for the acquisition of and investment in investment property and investment property under construction in the sum of approx. NIS 694 million. The cash flow in the same period last year was mainly used for the acquisition of and investment in investment property and investment property under construction in the sum of approx. NIS 375 million, offset against proceeds received from the sale of the solar business in the sum of approx. NIS 151 million.

Net cash flows that the Group derived from financing activity in the three months ended March 31, 2016 amounted to approx. NIS 162 million compared with cash that derived from financing activity in the sum of approx. NIS 430 million in the same period last year. The decrease versus the same period last year mainly derived from the bond offering in the sum of approx. NIS 619 million in the corresponding period and the acquisition of non-controlling minority interest in the sum of approx. NIS 51 million in the present period, offset by growth in the receipt of long-term loans and short-term credit in the sum of approx. NIS 374 million.

Following is the composition of the Group’s financing sources

	March 31, 2016		December 31, 2015	
	NIS in millions	% of total balance sheet	NIS in millions	% of total balance sheet
Short-term credit and current maturities of loans from banks and other credit providers	3,651	13%	2,030	8%
Long-term credit from banks and other credit providers	2,072	8%	2,989	11%
Long-term bonds	2,462	9%	2,963	11%
Total	**8,185**	**30%**	**7,982**	**30%**

The increase in the sum of approx. NIS 203 million in the Report Period mainly derives from receipt of a long-term loan and growth in short-term credit offset against current loan and bond repayments. As of the Report Date, the Company has a deficit in the working capital in the sum of approx. NIS 3.3 billion on a consolidated basis and in the sum of approx. NIS 2.3 billion in the standalone statement, resulting also from the decision of the Group's management, at this stage, to finance its business also through short-term credit in view of the business opportunity, due to the low interests for such credit. The Company estimates that if it decides to exchange such credit with long-term credit at any time, it will be able to do so in light of its financial strength and/or the scope of its non-pledged assets, and therefore, the Company’s board of directors determined, at its meeting of May 24, 2016, after having examined the cash flow sources and the financing of the Company, that the said deficit in the working capital does not affect its ability to repay its liabilities on time.

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

(d) Rating

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

The Security	The Rating Company	The Rating	The Rating Date
Series A Bonds of the Company	Midroog	Aa2 with a stable outlook	September 21, 2014
	Midroog	Aa1 with a stable outlook	November 1, 2015
	Maalot	AA+ stable	January 20, 2015
Series B Bonds of the Company	Maalot	AA+ stable	June 21, 2015
Series C Bonds of the Company	Maalot	AA+ stable	September 3, 2015
Commercial paper	Maalot	A-1+	January 20, 2015
Private loan	Maalot	AA+	March 29, 2016
Private loan	Midroog	Aa2 with a stable outlook	September 21, 2014

For further details, see Note 21 to the Financial Statements as of December 31, 2015. To review Maalot's annual rating report, see the Company's immediate report of January 31, 2016 (Ref.: 2016-01-020275), included herein by way of reference. To review Maalot's report for a private loan, see the Company's immediate report of March 29, 2016 (Ref.: 2016-01-017358), included herein by way of reference. To inspect Midroog's report for a private loan, see the Company's immediate report of September 21, 2014 (Ref.: 2014-01-161508), included herein by way of reference. To review Midroog's report for the raising of the rating of the Company's Series A bonds, see the Company's immediate report of November 1, 2015 (Ref.: 2015-01-146127), included herein by way of reference. To inspect Maalot's report for the Company's Series A bonds, see the Company's immediate report of January 20, 2015 (Ref.: 2015-01-015679), included herein by way of reference. To inspect Maalot's reports for the Company's Series B bonds, see the Company's immediate reports of January 20, 2015 (Ref.: 2015-01-015688) and June 21, 2015 (Ref.: 2015-01-052239), included herein by way of reference. To inspect Maalot's report for the Company's Series C bonds, see the Company's immediate report of September 3, 2015 (Ref.: 2015-01-112698), included herein by way of reference. To inspect Maalot's full report, see the Company's immediate report of February 11, 2015 (Ref.: 2015-01-029467), included herein by way of reference. For the rating of the commercial paper by Maalot, see the Company's immediate report of June 23, 2014 (Ref.: 2014-01-096798) and Maalot's ratification of this rating of January 20, 2015 (Ref.: 2015-01-015679), included herein by way of reference.

(e) Liabilities and Financing

Financial liabilities of the Group (except for Granite Hacarmel) as of March 31, 2016, in millions of NIS:

	Fixed Interest			Variable Interest		Total		Total
	Index linked	USA Dollar Linked	Not Linked	Sterling Linked	Not Linked	Fixed Interest	Variable Interest	
Short Term Loans	-	-	-	23	820	-	843	843
Long Term Loans	4,535	1,074	255	-	45	5,864	45	5,909
Total	4,535	1,074	255	23	865	5,864	888	6,752

The date of payment of the Group's financial liabilities (with the exception of Granite Hacarmel) as of March 31, 2016, in NIS in millions:

Year	Principal	Interest	Total
1	2,703	159	2,862
2	344	84	428
3	639	75	714
4	673	67	740
5 forth	2,393	119	2,512
Total	6,752	504	7,256

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

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

As of March 31, 2016, short-term loans accounted for approx. 12% of the Group’s total financial liabilities (except for Granite Hacarmel). In the Company’s estimation, this rate is low and conservative in light of the low leverage ratio and the sum of the non-pledged assets as specified above.

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

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

- The Group has a positive cash flow from current operations for many years. This cash flow amounted to the sum of approx. NIS 227 million in the three months ended March 31, 2016, compared with the sum of approx. NIS 223 million in the same period last year.

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

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

1.6 Quality of Profit

No changes occurred in the Report Period in the description that the Company included in the Board of Directors' Report for December 31, 2015.

1.7 General Administrative and Marketing Expenses (Extended Standalone)

The Company's consolidated administrative and marketing expenses (without Granite Hacarmel) in the Report Period amounted to approx. NIS 21 million in the Report Period, compared with approx. NIS 23 million in the same period last year. The decline mainly derives from expenses in respect of a share-based payment in the sum of approx. NIS 2 million that were recorded in the same period last year.

1.8 The Net Financing Expenses

The Group's net financing expenses in the Report Period amounted to the sum of approx. NIS 23 million, compared with approx. NIS 6 million in the same period last year (an increase of approx. NIS 17 million). The increase in the net financing expenses results mainly from the effect of the change in the rate of the decline in the index on loans and bonds in the Report Period, compared with the same period last year (which derived from a decline of approx. 0.9% in the rate of the rise in the known index in the Report Period compared with a decline of approx. 1.6% in the same period last year).

1.9 Taxes on Income

The Group's income tax expenses in the Report Period, amounted to the sum of approx. NIS 9 million, compared with tax expenses in the sum of approx. NIS 97 million in the same period last year. The decline in tax expenses in the Report Period mainly derives from reduction of the corporate tax rate to 25% (which created tax income of approx. NIS 162 million) offset against an increase in the tax expenses in the present period due to the increase in the gain from fair value adjustment of investment property.

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

The Company implemented in its Financial Statements the International Financial Reporting Standard 8 concerning Operating Segments (IFRS8). The Company's division into segments is based on the managerial and internal reports of the Company. With respect to the income-producing property segments, the NOI figure is one of the most important parameters in valuations of income-producing property companies (for the manner of calculation of the figure, see Section 1.1.7 of the Board of Directors' Report for December 31, 2015). In addition, the contribution to the results takes into account the Company's share in the results of the company held by the Company (indirectly), Sonol, which constitutes an operating segment.

1.10.1 Retail Centers and Malls in Israel Segment

Summary of the segment's business results:

	For the three-month period ended		For the year ended
	March 31, 2016	**March 31, 2015**	**Dec. 31, 2015**
	NIS in **Millions**		
Revenues	234	221	931
% change	6%		
NOI	191	180	748
% change	6%		

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

The growth in the NOI mainly derives from lease-up of the second floor in the Ayalon mall and the opening of the Ramla mall in March 2015.

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

	For the three-month period ended	
	March 31, 2016	**March 31, 2015**
For the segment's properties owned by the Company as of the beginning of the period[11]	182	178
For properties whose construction was completed in 2015	9	2
For properties that were purchased or whose construction was completed in 2016	-	-
Total	191	180

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

- A real increase in the rent at the time of renewal of contracts in the various properties (pursuant to option exercise by the tenants and/or execution of new agreements).
- Lease-up of the second floor of the Ayalon mall and lease-up of the retail space in the Azrieli Holon center.

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

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

The balance of the assets of the retail centers and malls in Israel segment – amounted, on March 31, 2016, to the sum of approx. NIS 11.3 billion, compared with approx. NIS 11.1 billion on December 31, 2015. The change mainly derives from investments in the segment's properties and the revaluation profits as aforesaid.

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

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

The gain from fair value adjustment of investment property and investment property under construction of the segment amounted, in the Report Period, to approx. NIS 74 million compared with a loss of approx. NIS 11 million in the same period last year. The assets are presented according to the valuations performed by an independent appraiser as of December 31, 2015, with the exception of the valuations for the land to be used for expansion of Azrieli Tel Aviv center and for the property under construction Azrieli Sarona center which were performed in the present quarter.

1.10.2 Office and other space for lease in Israel segment:

	For the three-month period ended		For the year ended
	March 31, 2016	**March 31, 2015**	**Dec. 31, 2015**
	NIS in millions		
Revenues	110	102	420
% change	8%		
NOI	92	84	347
% change	10%		

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

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

	For the three-month period ended	
	March 31, 2016	**March 31, 2015**
Due to the segment's properties owned by the Company as of the beginning of the period[12]	92	84
Due to properties which were purchased or whose construction was completed in 2015	-	-
Due to properties which were purchased or whose construction was completed in 2016	-	-
Total	92	84

The NOI figure is one of the important parameters in valuations of

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

income-producing property companies. For details regarding the manner of calculation of the figure, see Section 1.1.3 above.

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

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

The balance of the Group's investment property in the office and other space for lease in Israel segment – amounted on March 31, 2016 to the sum of approx. NIS 7.5 billion compared with approx. NIS 6.8 billion on December 31, 2015. The change mainly derives from investments in the segment's properties and revaluation profits as stated below.

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

The gain from the fair value adjustment of investment property and investment property under construction of the segment amounted, in the Report Period, to the sum of approx. NIS 288 million, compared with a loss of approx. NIS 1 million in the same period last year. The assets are presented according to an update to the valuations carried out by an independent appraiser as of December 31, 2015, with the exception of the valuations for the land to be used for expansion of Azrieli Tel Aviv center and for the property under construction Azrieli Sarona center which were performed in the present quarter.

1.10.3 Income-producing property in the USA segment:

Summary of the business results of the segment:

	For the three-month period ended		For the year ended
	March 31, 2016	**March 31, 2015**	**December 31, 2015**
	NIS in millions		
Revenues	55	60	236
% change	(8%)		
NOI	30	34	132
% change	(12%)		

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

	For the three-month period ended	
	March 31, 2016	March 31, 2015
Due to the segment's properties owned by the Company as of the beginning of the period[13]	30	34
Due to properties purchased or whose construction was completed in 2015	-	-
Total	30	34

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

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

- The expiration of a contract with a tenant that holds an area of approx. 20 thousand sqm in one of the office towers in Houston.
- The average exchange rate of the U.S. dollar in the Report Period was approx. 1% lower than the average exchange rate of the U.S. dollar in the same period last year.

The investment property balance of the Group in the segment – amounted, on March 31, 2016, to the sum of approx. NIS 2 billion compared with NIS 2.1 billion on December 31, 2015. The decline derives from a decline in the exchange rate of the dollar as of March 31, 2016 compared with December 31, 2015.

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

The loss from fair value adjustment of investment property of the segment amounted, in the Report Period, to the sum of approx. NIS 5 million, compared with a loss of approx. NIS 1 million in the same period last year from the decline in the exchange rate of the Pound Sterling in the period.

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

1.10.4 Sonol segment:

The Company's share in the Sonol segment results amounted, in the Report Period, to a profit of approx. NIS 8 million, compared with a negligible profit in the same period last year.

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

	For the three-month period ended		For the year ended Dec. 31, 2015
	March 31, 2016	March 31, 2015	
	NIS in millions		
Net revenues	714	891	3,738
Gross profit	154	144	658
Operating profit	6	2	39
Pre-tax profit (loss)	(3)	(1)	13

Revenues:

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

Gross profit

The rise in the Report Period compared with the same period last year mainly derives from an increase in the quantities of fuels sold and from a decrease in the inventory losses and the effect of the rate differentials on the cost of sales.

Operating profit:

The rise in the operating profit in the Report Period compared with the same period last year derives from the rise in the gross profit as aforesaid, offset against an increase in the sales and marketing, general and administrative expenses, mainly due to a rise in automatic fuelling fee expenses and from an increase in the provision for doubtful debts.

Pre-tax loss:

The increase in the pre-tax loss in the Report Period derives from an increase in financing expenses in the present period compared with the same period last year, mainly due to a loss from hedge transactions in the present quarter compared with profit in the corresponding period which was partly offset by a reduction of the interest expenses that derived from reduction of the Prime interest rate and the amount of credit, offset by growth in the operating profit as aforesaid.

1.11 **Comment regarding forward-looking information**

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

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

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

2.1 General

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

The risk management at the Company and at the Group's investee companies is determined and performed directly by their managements.

The person in charge of market risk management in the Company is the CFO, Ms. Irit Sekler-Pilosof. In the quarter ended March 31, 2016, no material changes occurred in the risk factors, in the Company's policy on the management of market risks, in the means of supervision or in the implementation of policy, compared with the description in the Board of Directors' Report regarding the state of the corporation's affairs for the year ended December 31, 2015 and in the notes to the Financial Statements for such year.

2.2 Positions in derivatives

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

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

In the quarter ended March 31, 2016, no material changes occurred in the analysis of sensitivity tests and the effects on the fair value compared with the description in the Board of Directors' Report regarding the state of the corporation's affairs for the year ended December 31, 2015 and in the notes to the Financial Statements for such year.

2.4 Linkage bases table

See Annex B to the Board of Directors' Report.

2.5 Designated Disclosure to Holders of Series B and Series C Bonds

See Annex D to the Board of Directors' Report.

3. Corporate Governance Aspects

3.1 The Financial Statement Approval Procedure at the Corporation

The members of the Financial Statements Review Committee (the "**Committee**") are Prof. Niv Ahituv (Chairman of the Committee and an outside director, with accounting and financial expertise), Mr. Menachem Einan, (regular director with professional qualifications), Mr. Efraim Halevy (an outside director with professional qualifications), Mr. Joseph Ciechanover (an independent director with accounting and financial expertise), Mr. Oran Dror (independent director with accounting and financial expertise), and Ms. Tzipa Carmon (an independent director with accounting and financial expertise). For further details regarding the Financial Statements Review Committee, see the Corporate Governance Report which is attached to the Company's Periodic Report for 2015.

Financial Statement Approval Procedure

The Committee convened on May 22, 2016 to review the Financial Statements for March 31, 2016 and all of its members participated in order to formulate its recommendations to the board of directors regarding approval of the statements. After an advanced draft of the quarterly report, including all parts thereof, and the Company's presentation regarding the main financial results and material issues for discussion were forwarded to the Committee members several days before the date scheduled for the Committee's meeting.

After a discussion was held at the Committee as aforesaid, the participants who are not members of the Committee left the meeting (with the exception of the Company’s CEO, CFO and general counsel), at which point the Committee's chairman put the Committee's recommendation to the Board of Directors to the vote and asked whether any of the Committee members still had any unanswered questions or issues. At the same meeting, the Committee decided to recommend to the Board of Directors to approve the Company's Financial Statements for March 31, 2016. The Committee's recommendations were forwarded to the Board members, at the end of the Committee’s meeting, in preparation for the Board meeting which was held on May 24, 2016.

On May 24, 2016, the Company's board of directors, the corporate organ in charge of governance, approved the Company's Financial Statements for March 31, 2016. For details regarding the members of the Board of Directors, see Section 26 of Chapter D of the Company's Periodic Report for 2015. Advanced drafts of the Financial Statements, the notes thereto, the Board of Directors' Report and the annexes thereto and any report and presentation accompanying the same were sent to the Board members several days before the date scheduled for the Board meeting.

Representatives of the Company's auditor gave their comments and responded, as required, to questions directed to them by the Board members pertaining to material issues deriving from the data presented in the Financial Statements contemplated in the discussion. In the framework of presentation of the statements to the Board of Directors, the material developments in the period and the financial results were reviewed, while comparing to previous periods, during which review questions were answered. In addition, a discussion was held on the working capital deficit and the reasons why it does not indicate a liquidity problem at the Company and therefore does not constitute a warning sign. At the end of the discussion at the Board of Directors, a vote was held during which the Company's Financial Statements for March 31, 2016 were approved and the persons authorized to sign them were empowered. .

3.2 Acquisition of Canit Hashalom share

On March 6, 2016, the Company's general meeting approved (after the approval of the Audit Committee and the Company's Board) the Company's engagement with Azrieli Foundation (Israel) R.A. ("**AFI**") in an agreement for the acquisition of Canit Hashalom's share from AFI in consideration for NIS 51 million. The transaction was closed on March 14, 2016. For details, see Part B of the Invitation Report, as released by the Company on January 27, 2016 (Ref.: 2016-01-018823), included herein by way of reference, and Note 4.C to the Financial Statements as of March 31, 2016.

3.3 Approval of compensation for controlling shareholder directors of the Company

On May 24, 2016, the Company's Board, after receiving the approval of the Company's Compensation Committee of May 22, 2016, approved the continued payment of the annual compensation and the said participation compensation to Messrs. Naomi Azrieli and Sharon Azrieli, who have served as directors of the Company since June 2010, under the same conditions as were approved in the past, with the exception of linkage (to date, the linked sums amount to NIS 75,175 for annual compensation and NIS 2,660 for participation compensation). In addition, the provisions of Sections 6(a) and 5(b) of the Compensation Regulations will also apply with respect to Naomi and Sharon, and they will be entitled to reimbursement of expenses pursuant to the provisions of Section 6(a) of the Compensation Regulations (including reimbursement for flights, *per diems* and hospitality) and in accordance with the criteria that were approved by the Audit Committee (as being from time to time) in relation to all of the Company's directors and subject to any law. Approval of the compensation as aforesaid is for a period of three years from June 3, 2016. It is further noted that Naomi and Sharon are entitled to letters of indemnification and to D&O insurance under the same conditions to which the Company's other directors are entitled, in accordance with the Company's compensation policy. For further details, see the immediate report that the Company is releasing pursuant to the Companies Regulations (Relief in Transactions with Interested Parties), 5760-2000 (the "**Relief Regulations**") in proximity to the release of this report.

3.4 Renewal of liability insurance policy for directors & officers (including controlling shareholders)

On May 24, 2016 the Company's board of directors (following the approval of the compensation committee) approved an engagement for renewal of an insurance policy for directors and officers (including from among the

Company's controlling shareholders) of the Company and the Company's subsidiaries, apart from Granite Hacarmel which holds an independent D&O insurance policy, from June 3, 2016 until June 2, 2017. The engagement shall be based on the main engagement principles set forth in the Company's approved compensation policy. For further details see an immediate report released by the Company in accordance with the Relief Regulations in proximity to the release of this Report.

3.5 <u>Definition of business</u>

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 will 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 enter into transactions in Israel and overseas and the manner of disclosure to the Company prior to the engagement in such transactions and the manner of making of the decision by the Company as to whether such transactions are relevant to the Company. The procedure will apply to controlling shareholders and members of the Board at the Company, and will be in effect throughout their term of office as controlling shareholders of the Company and/or members of the Company's Board, whichever is later, and in respect of directors for an additional six-month period thereafter, so long as no other resolution shall have been adopted by the Company's Board, after receiving the decision of the Company's Audit Committee. The Procedure determines that a controlling shareholder and/or director of the Company is prohibited from being either directly or indirectly involved in business activity which may, according to the Companies Law, fall under the definition of a business opportunity of the Company, and in any case which falls under 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 a 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, a transaction outline in connection with a property and/or business which falls under any of the activities according to the Procedure that he is interested in performing, and to forward all of the material relevant to the transaction for their inspection. Only if the Company's management, and subsequently the Audit Committee, shall decide that the proposed business 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 that other bodies may thwart the transaction, decisions according to the Procedure need to be made on short notice and even immediately, all as specified in the Procedure. Therefore, the Audit Committee's decision as to whether to approve the proposed business, or alternatively to return the discussion to the Company's management for the purpose of supplementation of details, will be issued 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, which decision will be 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 counsel in each case according to the special circumstances thereof, from the legal aspect, as applicable at such time.

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

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

For events and developments in the Report Period, see Chapter B of this Report – updates to the Description of the Corporation's Business Chapter as of December 31, 2015 and Note 4 to the Financial Statements as of March 31, 2016.

4.2 Report on the Group's liabilities

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

4.3 Lawsuits

For details see Note 3 to the consolidated financial statement for March 31, 2016.

4.4 Disclosure pertaining to Very Material Valuations

As of the Report Date, no change has occurred in the parameters for the disclosure and attachment of valuations, as published in the Periodic Report for 2015. The Company updated the valuations of its assets in Israel as of December 31, 2015 and performed new valuations as of March 31, 2016 for land to be used for expansion of Azrieli Tel Aviv center and for the property under construction Azrieli Sarona center. (For details regarding the parameters for the update of the valuations in the quarterly statements, see Note 3C1 to the Financial Statements as of December 31, 2015).

As of the Report Date, and after the above determination was checked, it transpires that the very material valuation is in respect of the Azrieli Towers in Tel Aviv (which is included in the valuation of the entire Azrieli Center, along with its components – namely – including the Azrieli Mall) only. This valuation as of December 31, 2015 was attached to the Company’s Financial Statements as of December 31, 2015, as released on March 23, 2016 (Ref.: 2016-01-012174), and the appraiser’s estimate, whereby no material changes have occurred to the valuation, is attached hereto in a separate file. Details on this valuation in accordance with Section 8B of the Regulations, are attached hereto as Annex E.

As of March 31, 2016, the value of the Company's assets whose fair value was determined through a very material valuation (made as of December 31, 2015) was in the sum of approx. NIS 5 billion (which is attributed both to Azrieli Center’s towers and Azrieli mall), out of a fair value of investment properties in the sum of approx. NIS 21 billion (approx. 24% of the Company's total investment properties).

4.5 Subsequent events

See Note 8 to the Financial Statements.

4.6 Financial figures attributed to the Company as a parent company

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

4.7 Issues to which the Company's auditors drew attention in their opinion on the Financial Statements

Without qualifying their opinion, the auditors drew attention to the provisions of Note 3 pertaining to legal actions in material amounts, cumulatively, against the Company and consolidated companies, regarding which a motion was filed to recognize the same as class actions.

The Company's Board of Directors and management express their great appreciation for the Company's officers, the managements of the Group's various companies and their employees, on their blessed contribution to the Group's achievements in the quarter ended March 31, 2016.

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

Date: May 24, 2016

Annex A

The Group's Derivative Positions

As of March 31, 2016

Annex A
The Group's Derivative Positions
as of March 31, 2016

The Group's derivative positions as of March 31, 2016

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

Below is a specification of the engagements as of March 31, 2016:

Amount in thousands	Currency receivable	Currency payable	Date of expiration/payment/exercise	Fair Value (NIS in thousands)
34,000	Dollar	NIS	April 2016	4,492
41,000	Dollar	NIS	May 2016	2,688

The maximum holding of derivatives, during the Report Period, of all of the purchase positions for purposes of hedging the dollar-NIS exchange rate was US $75,000 thousand.

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

Annex B

Reporting According to Linkage Bases

As of March 31, 2016

(IFRS 7)

Annex A
The Group's Derivative Positions
as of March 31, 2016

The Group's derivative positions as of March 31, 2016

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

Below is a specification of the engagements as of March 31, 2016:

Amount in thousands	Currency receivable	Currency payable	Date of expiration/payment/exercise	Fair Value (NIS in thousands)
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41,000	Dollar	NIS	May 2016	2,688

The maximum holding of derivatives, during the Report Period, of all of the purchase positions for purposes of hedging the dollar-NIS exchange rate was US $75,000 thousand.

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

Annex C

Financial Statements

(Extended Standalone)

As of March 31, 2016

(Unaudited and unreviewed)

Annex C

Extended Standalone Financial Statements

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

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

Balance sheet:

	As of March 31		As of December 31
	2016	2015	2015
	NIS in thousands	NIS in thousands	NIS in thousands
Assets			
Current Assets			
Cash and cash equivalents	575,824	507,129	860,618
Financial assets held for trading	506	814	506
Trade accounts receivable	43,831	44,813	44,478
Other receivables	148,710	80,530	69,023
Current tax assets	7,973	3,662	5,505
Total Current Assets	776,844	636,948	980,130
Non-Current Assets			
Investment in investee companies	978,492	1,140,161	952,919
Loans and receivables	93,837	78,267	93,190
Financial assets	1,585,040	1,660,521	1,581,575
Investment property and investment property under construction	21,469,356	19,151,144	20,516,134
Fixed assets	110,798	43,890	111,491
Intangible assets	73,691	-	73,952
Deferred tax assets	833	1,087	835
Total Non-Current Assets	24,312,047	22,075,070	23,330,096
Total Assets	25,088,891	22,712,018	24,310,226

Annex C

Extended Standalone Financial Statements

Balance Sheet: (Cont.)

	As of March 31		As of December 31
	2016	2015	2015
	NIS in thousands	NIS in thousands	NIS in thousands
Liabilities and Capital			
Current Liabilities			
Credit from banks and other credit providers	2,703,195	1,818,149	1,068,409
Trade payables	145,473	204,221	125,455
Payables and other current liabilities	375,699	66,693	362,630
Deposits from senior housing customers	297,792	-	295,241
Declared dividend	400,000	320,000	-
Current tax liabilities	46,739	66,942	91,778
Total Current Liabilities	3,968,898	2,476,005	1,943,513
Non-Current Liabilities			
Loans from banks and other credit providers	1,958,143	2,980,432	2,872,842
Bonds	2,090,171	1,105,209	2,579,151
Other liabilities	42,557	40,090	42,421
Employee benefits	3,429	3,762	3,420
Deferred tax liabilities	2,958,198	2,805,829	3,001,313
Total Non-Current Liabilities	7,052,498	6,935,322	8,499,147
Capital			
Ordinary share capital	18,223	18,223	18,223
Share premium	2,518,015	2,518,015	2,518,015
Capital reserves	389,431	475,215	407,396
Retained earnings	11,099,635	10,195,477	10,827,591
Total equity attributable to shareholders of the Parent Company	14,025,304	13,206,930	13,771,225
Not-controlling interests	42,191	93,761	96,341
Total Capital	14,067,495	13,300,691	13,867,566
Total Liabilities and Capital	25,088,891	22,712,018	24,310,226

Annex C

Extended Standalone Financial Statements

Income Statement:

	For the three-month period ended March 31		For the year ended December 31
	2016	2015	2015
	NIS in thousands	NIS in Thousands	NIS in thousands
Revenues:			
From rent, management and maintenance fees	422,272	385,285	1,631,581
Net gain (loss) from fair value adjustment of investment property and investment property under construction	357,011	(12,929)	179,071
Financing	6,235	2,952	8,640
Share in results of held companies, net of tax	19,393	19,946	(77,480)
Other	9,989	(57)	9,983
Total Revenues	814,900	395,197	1,751,795
Costs and Expenses:			
Cost of revenues from rent, management and maintenance fees	98,878	85,630	385,222
Sales and Marketing	6,009	6,130	34,068
General and Administrative	15,145	17,256	60,030
Financing	20,545	4,523	110,239
Total Costs and Expenses	140,577	113,539	589,559
Income before income taxes	674,323	281,658	1,162,236
Revenues (expenses) for taxes on income	58	(90,465)	(334,571)
Net Profit for the period, including minority	674,381	191,193	827,665

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	1,223.6	1,223.6	4.0	1,213.5	1,207.6	Fixed	0.65	April 1st in the years 2016 to 2025 (inclusive)	From October 1, 2015 and subsequently April 1st and October 1st in the years 2016 to 2025 (inclusive).	Linkage (principal and interest) to the rise in the CPI for December 2014*.	Name of the trust company: Hermetic Trust (1975) Ltd.; Address: 113 Hayarkon St., Tel Aviv; Tel: 03-5544553; Fax: 03-5271039; E-mail address: hermetic@hermetic.co.il Contact person at the trustee: Dan Avnon or Idan Knobel.
	June 23, 2015	600.3											
Series C	Sept. 6, 2015	1,005.1	1,005.1	1,005.1	9.3	997.2	1,020.6	Fixed	1.64	July 1st 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*.	
Total		2,228.7	2,228.7	2,228.7	13.3	2,210.7	2,228.2						

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

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

1. The Series B bond series and Series C bond series 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 and of the Series C 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).

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

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

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 Series C	Maalot Maalot	AA+ stable AA+ stable	AA+ stable AA+ stable	June 21, 2015 Sept. 3, 2015	-	-

Annex E

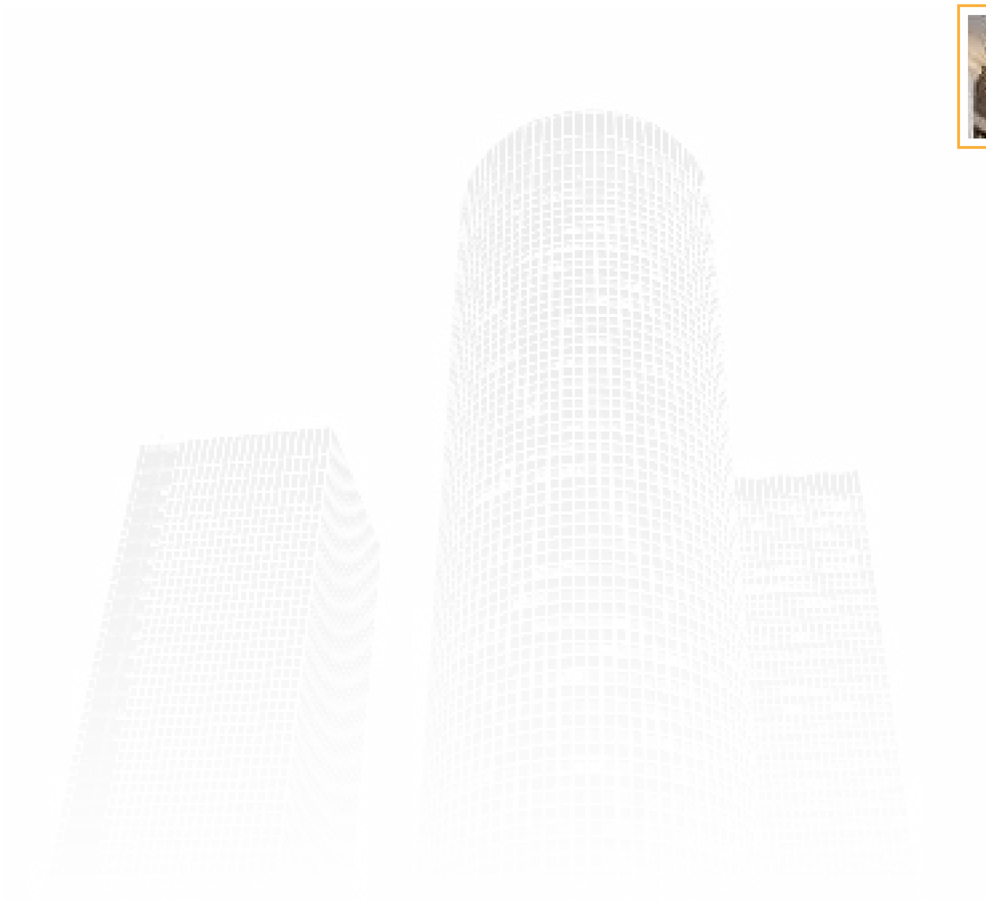
Details of Very Material Valuation

Annex E – Disclosure of Valuation in accordance with Regulation 8B of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

Identification of the object of valuation	Azrieli Tel Aviv Center
Timing of the valuation	March 31, 2016
Value of the object of valuation in the Company's books	NIS 4,987,931 thousands
Identification and characterization of valuator	Ronen Katz of Greenberg Olpiner & Co.
Valuation model used by the valuator	DCF method
Assumptions on which the valuator based the valuation	See Section 9.2.9 of the periodic report as of December 31, 2015

Part B

Update of the Description of the Corporation's Business



AZRIELIGROUP

Azrieli Group Ltd.

Update of the Description of the Corporation's Business Chapter in the Company's Periodic Report as of December 31, 2015 (the "Periodic Report")[1]

In accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports) 5730-1970, following is a description of material developments that have occurred in the Company's business during the three months ended March 31, 2016 and until the Report Release Date, with respect to which developments disclosure has not yet been made in the Periodic Report, according to the order of the sections in the Description of the Corporation's Business chapter in the Periodic Report. It shall be noted that the terms in this chapter shall have the meaning ascribed thereto in the Periodic Report, unless otherwise expressly provided.

In this chapter: the "**Report Release Date**" – May 25, 2016; the "**Date of the Statement of Financial Position**" and the "**Report Date**" – March 31, 2016. "**Board of Directors' Report**" – the Board of Directors' Report on the State of the Company's Affairs for the nine and three months ended March 31, 2016**.**

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

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

For details with respect to (1) an agreement for the purchase of property in Holon; (2) completion of a transaction for the purchase of the "Yedioth Ahronoth Building" (the expansion of the Tel Aviv Azrieli Center); (3) an agreement for the purchase of a senior housing home and a retail center in Ra'anana; (4) a winning bid in a tender for the purchase of leasehold rights designated for Senior Housing in Rishon LeZion;(5) an agreement for the purchase of digital commerce business; (6) financing transactions; (7) an agreement for the sale of Sonol; (8) receipt of a permit for publication of a shelf prospectus; (9) changes in the office of an executive officers; and (10) class actions; see Section 1.1.1 of Chapter A of this report.

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

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

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

For details regarding the holdings of interested parties in the Company see immediate report dated April 7, 2016 (Ref.: 2016-01-043786), which is incorporated herein by way of reference.

For details with respect to changes that occurred in the holdings of The Azrieli Foundation, an interested party in the Company, see the Company's immediate reports dated March 29, 2016, March 30, 2016 and April 3, 2016 (Ref.: 2016-01-016773, 2016-01-018678 and 2016-01-023424), which are incorporated herein by way of reference.

For details with respect to changes that occurred in the holdings of Mr. Menachem Einan, a Director in the Company, see the Company's immediate report of April 3, 2016 (Ref.: 2016-01-024156), included herein by way of reference.

3. Dividends

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

On May 4, 2016, the Company paid a dividend to its shareholders in the total amount of approx. NIS 400 million. For details, see Section 1.5(b) of Chapter A of this Report.

4. Properties under Development

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

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, *inter alia*, lease-out of additional areas in Azrieli Sarona Center and receipt of an occupancy permit for the car parks, completion of the Azrieli Holon Center project and receipt of an occupancy permit for the entire project, promotion of a senior housing project in Modi'in, opening of the Urbanica store in Azrieli Tel Aviv Mall and renovation of Azrieli Jerusalem Mall (Malcha) and Hanegev Mall.

5. Land Reserves (Additional Details)

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

As of the Report Date, the transaction for the purchase of land for expansion of Azrieli Tel Aviv Center (Yediot Aharonot) was closed and possession of the lot was handed over to the Company. As of the Report Release Date, the Company began the work of evacuation of the building for the purpose of its demolition.

In April 2016, the deposit of the zoning plan was approved subject to the conditions of the District Committee. Furthermore, a building permit application was submitted for a senior housing home in Lehavim, as well as an application for building permits for office towers with respect to two of the four lots purchased in Holon.

Pi-Glilot Land

As of the Report Release Date, the Company has engaged in an agreement for the sale of the Pi-Glilot land. For further details, see Section 1.1.1 of Chapter A of this Report.

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

6. Developments pertaining to Azrieli Tel Aviv Center

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

Azrieli Towers in Tel Aviv

(Data according to 100%) (*)	For the Quarter Ended March 31, 2016	For the Year Ended December 31, 2015
Value of property (NIS in thousands)	2,826,199	2,821,819
NOI in the period (NIS in thousands)	52,030	206,354
Revaluation profits (losses) in the period (NIS in thousands)	(1,031)	24,643
Average occupancy rate in the period (%)	~100%	100%
Rate of return (%)	7.4%	7.3%
Average rent per sqm per month (NIS) (**)	102	101

(*) As of March 2016, the corporation's share in the property is 100%.
(**) The figure does not include the rent of the hotel which is located at the Square Tower in Azrieli Center in Tel Aviv. Had the hotel's rent been included, the average rent per sqm per month in Q1/2016 would have been approx. NIS 97 per sqm.

A valuation for this property was published in the Company's financial statements as of December 31, 2015, and the appraiser's estimation that there have been no material changes to the valuation, is attached hereto in a separate file.

7. Sonol

Update to Section 11.18.5 of the Description of the Corporation's Business chapter

The Fuel Sector Law (Promotion of Competition) (Rules pertaining to General Automatic Fueling Devices) 5771-2011 – following the information provided in the Periodic Report with respect to sales of fuel through an automatic fueling device, the commencement date of the implementation of the regulations was postponed from April 1, 2016 by the Supreme Court, with the consent of the

State, until the results of the hearing of the fuel companies' petition against the beginning of the implementation of the said regulations.

Update to Section 11.16.4 of the Description of the Corporation's Business chapter – Supergas

Credit Facilities

As of shortly before the signing of the Report, Sonol has short-term and long-term credit facilities with commercial banks in the amount of approx. NIS 1,200 million, some of which are guaranteed, whereas some are not guaranteed due to the high credit facility fees. As of March 31, 2016, the used credit balances amounted to approx. NIS 905 million.

8. Additional Business

Update to Section 13.3.1 of the Description of the Corporation's Business chapter – Investment in Leumi Card

Credit Data Service Law, 5775-2015

On October 12, 2015, the said bill was published, which was intended to replace the existing law, as part of the implementation of the recommendations of the committee for the improvement of the credit data sharing system, which was appointed by the Prime Minister and the Minister of Justice on August 26, 2014. The proposed law prescribes an overall arrangement for the establishment and operation of individuals' credit data sharing system, with a public database of credit data at its center, which shall be established and operated by the Bank of Israel. The law was published on the Official Publications in April 2016. Based on the estimation of Leumi Card, the Company's estimate, at this stage, is that the law has no material effect on the Company.

9. Financing

Update to Section 18.3 of the Description of the Corporation's Business chapter:

Engagement in Loan Agreements

For details regarding loan agreements into which the Company entered with institutional bodies, see Section 1.1.1 of Chapter A of the Report.

10. Non-Bank Financing of the Company

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

Series A Bonds of the Company

During the Report Period, principal and interest payments were made, in accordance with their payment schedules. As of the Report Date, the balance of nominal value of the Company's Series A Bonds is NIS 407 million.

Commercial Paper

In March 2016, the Company expanded a series of unrated CP in the amount of NIS 40 million par value, to a total amount of NIS 190 million, in addition to the existing rated series in the total amount of NIS 480 million par value. As of the Report Date, the Company has two CP series, a rated series at a scope of NIS 480 million and an unrated series at a scope of NIS 190 million.

11. Credit Rating

Update to Section 18.11 of the Description of the Corporation's Business chapter:

On March 29, 2016, Maalot set an AA+ rating for a private loan in the amount of up to NIS 250 million to be taken by the Company. For details, see the Company's immediate report of March 29, 2016 (Ref.: 2016-01-017358), included herein by way of reference.

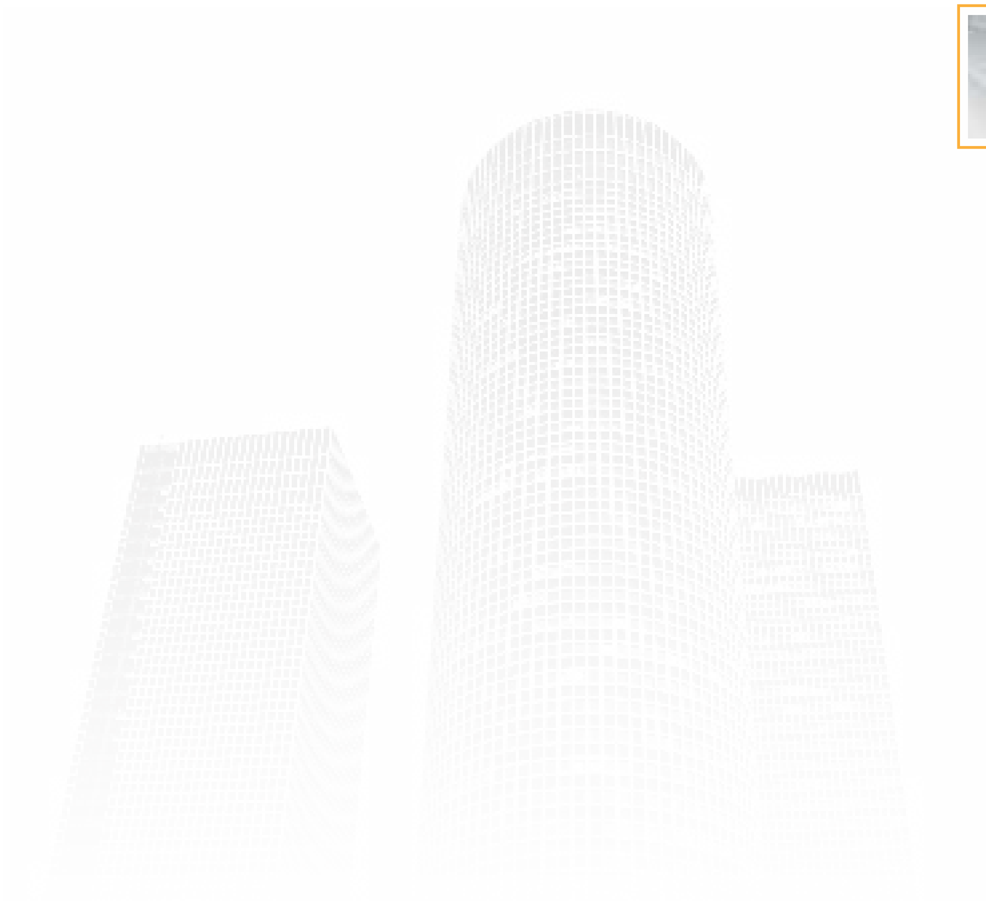
12. Legal Proceedings

For an update in connection with the legal proceedings being conducted against the Group's companies, see Note 3 to the financial statements as of March 31, 2016.

Part C

Consolidated Financial Statements
Dated 31 March 2016



AZRIELIGROUP

Azrieli Group Ltd.

Condensed Consolidated Financial Statements
as of March 31, 2016

(Unaudited)

Azrieli Group Ltd.

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Deloitte.

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

Introduction

We reviewed the attached financial information of **Azrieli Group Ltd.**, the Company and subsidiaries (the "**Group**") which includes the Condensed Consolidated Statements of Financial Position as of March 31, 2016 and the Condensed Consolidated Statements of Profit or Loss and other Comprehensive Income, Changes in Capital and Cash Flows for the three-month period then ended. The Board of Directors and management are responsible for the preparation and presentation of the interim financial information in accordance with IAS 34 "Interim Financial Reporting", and they are responsible for the preparation of interim financial information under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express a conclusion on the interim financial information, based on our review.

We did not review the condensed interim financial information of consolidated companies whose consolidated assets constitute approx. 14.4% of all the consolidated assets as of March 31, 2016, and whose consolidated revenues constitute approx. 54.6% of the total consolidated revenues for the three-month period then ended. The condensed interim financial information of such companies was reviewed by other auditors whose review report was furnished to us and our conclusion, insofar as it relates to the financial information for such companies, is based on the review report of the other auditors.

Scope of the review

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

Conclusion

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

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

Without qualifying our above conclusion, we refer to Note 3 regarding legal claims of significant amounts, in the aggregate, against the Company and consolidated companies, in respect of which a motion for class certification has been filed.

Brightman Almagor Zohar & Co.
Certified Public Accountants
Member of Deloitte Touche Tohmatsu Limited

Tel Aviv, May 24, 2016

Azrieli Group Ltd.
Condensed Consolidated Statements of Financial Position

	As of March 31		As of December 31
	2016	2015	2015
	NIS in thousands		NIS in thousands
	(Unaudited)		
ASSETS			
Current Assets			
Cash and cash equivalents	613,926	586,269	934,724
Short-term deposits and investments	48,837	51,692	36,302
Trade accounts receivable	1,129,250	1,286,098	1,102,160
Other receivables	231,423	175,564	167,227
Inventory	159,940	187,395	173,450
Current tax assets	16,247	7,867	14,894
	2,199,623	2,294,885	2,428,757
Assets of disposal group held for sale	3,499	1,178,490	8,850
Total Current Assets	2,203,122	3,473,375	2,437,607
Non-current Assets			
Investments and loans of associates	75,881	42,654	70,755
Investments, loans and receivables	212,451	193,872	218,321
Financial assets	1,675,603	1,726,213	1,659,927
Long-term receivables in respect of franchise arrangement	47,554	30,478	44,372
Investment property and investment property under construction	21,481,776	19,202,064	20,528,554
Fixed assets	1,053,263	983,405	1,059,657
Intangible assets	338,058	383,210	342,955
Pre-paid long-tern rent	37,314	39,450	36,637
Deferred tax assets	44,071	51,865	46,320
Total Non-current Assets	24,965,971	22,653,211	24,007,498
Total Assets	27,169,093	26,126,586	26,445,105

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Financial Position

(Continued)

	As of March 31		As of Dec. 31
	2016	2015	2015
	NIS in thousands		NIS in thousands
	(Unaudited)		
LIABILITIES AND CAPITAL			
Current liabilities			
Credit from banks and other credit providers	3,650,963	2,898,088	2,030,205
Trade payables	494,882	654,666	524,638
Payables and other current liabilities	411,900	365,592	375,208
Deposits from customers	403,404	107,012	402,066
Provisions	78,604	39,797	77,515
Current tax liabilities	69,519	83,764	110,241
Dividend declared	400,000	320,000	-
	5,509,272	4,468,919	3,519,873
Liabilities of disposal group held for sale	1,039	778,617	3,387
Total current liabilities	5,510,311	5,247,536	3,523,260
Non-current liabilities			
Loans from banks and other credit providers	2,071,681	3,160,207	2,989,456
Bonds	2,462,354	1,509,475	2,962,731
Employee benefits	18,026	20,563	18,981
Other liabilities	53,561	52,070	53,685
Deferred tax liabilities	2,983,286	2,833,681	3,027,164
Total non-current liabilities	7,588,908	7,575,996	9,052,017
Capital			
Ordinary share capital	18,223	18,223	18,223
Share premium	2,518,015	2,518,015	2,518,015
Capital reserves	389,431	475,215	407,396
Retained earnings	11,099,635	10,195,477	10,827,591
Total equity attributable to the shareholders of the parent company	14,025,304	13,206,930	13,771,225
Non-controlling interests	44,570	96,124	98,603
Total Capital	14,069,874	13,303,054	13,869,828
Total Liabilities and Capital	27,169,093	26,126,586	26,445,105

May 24, 2016			
Date of approval of the financial statements	**Danna Azrieli Chairman of the Board**	**Yuval Bronstein CEO**	**Irit Sekler-Pilosof CFO**

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

Azrieli Group Ltd.
Condensed Consolidated Statements of Profit or Loss and of Other Comprehensive Income

	For the three-month period ended March 31		For the year ended December 31
	2016	2015	2015
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Revenues			
From sales, labor and services	897,570	1,114,063	4,464,202
From rent, management and maintenance fees	416,224	383,025	1,622,543
Net gain (loss) from fair value adjustment of investment property and investment property under construction	357,011	(12,929)	180,307
Financing	13,615	22,454	21,008
Other	10,970	4,859	20,476
Total revenues	1,695,390	1,511,472	6,308,536
Costs and Expenses			
Cost of revenues from sales, labor and services	671,134	898,203	3,558,968
Cost of revenues from rent, management and maintenance fees	98,847	85,614	385,098
Sales and marketing	162,621	165,843	678,872
G&A	39,238	42,650	198,563
Share in results of associates, net of tax	2,053	1,833	8,562
Financing	36,875	28,901	173,679
Other	1,702	129	112,349
Total Costs and Expenses	1,012,470	1,223,173	5,116,091
Income before income taxes	682,920	288,299	1,192,445
Taxes on income	(8,539)	(97,106)	(364,780)
Net profit for the period	674,381	191,193	827,665
Other comprehensive income:			
Amounts that will not be classified in the future to profit or loss, net of tax:			
Actuarial gain due to defined benefit plan, net of tax	-	-	(977)
Amounts that were classified or that will be classified in the future to profit or loss, net of tax:			
Change in fair value of financial assets available for sale, net of tax	11,230	66,909	18,172
Translation differences from foreign operations	(37,483)	21,178	1,506
Total	(26,253)	88,087	19,678
Other comprehensive income (loss) for the period, net of tax	(26,253)	88,087	18,701
Total Comprehensive Income for the Period	648,128	279,280	846,366

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

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

	For the three-month period ended March 31		For the year ended December 31
	2016	2015	2015
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Net income for the year attributable to:			
Shareholders of the Company	672,044	187,906	820,991
Non-controlling interests	2,337	3,287	6,674
	674,381	191,193	827,665
Total comprehensive income for the year attributable to:			
Shareholders of the Company	646,959	275,243	839,538
Non-controlling interests	1,169	4,037	6,828
	648,128	279,280	846,366
	NIS	NIS	NIS
Basic and diluted earnings (in NIS) per one ordinary share of par value NIS 0.1 attributable to shareholders of the Company:	5.54	1.55	6.77
Average weighted number of shares used for calculating the basic and diluted earnings per share	121,272,760	121,272,760	121,272,760

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

Azrieli Group Ltd.
Condensed Consolidated Statements of Changes in Capital

For the three-month period ended March 31, 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 the acquisition of non-controlling interests in a consolidated company	Other capital reserves	Retained earnings	Total attributed to shareholders of the Company	Non-controlling interests	Total
	NIS in Thousands										
	(Unaudited)										
Balance as of January 1, 2016	18,223	2,518,015	391,356	30,469	(30,974)	18,641	(2,096)	10,827,591	13,771,225	98,603	13,869,828
Net profit for the period	-	-	-	-	-	-	-	672,044	672,044	2,337	674,381
Change in fair value of financial assets available for sale, net of tax	-	-	11,145	-	-	-	-	-	11,145	85	11,230
Translation differences from foreign operations	-	-	-	(36,230)	-	-	-	-	(36,230)	(1,253)	(37,483)
Total comprehensive income for the period	-	-	11,145	(36,230)	-	-	-	672,044	646,959	1,169	648,128
Dividend to the shareholders of the Company	-	-	-	-	-	-	-	(400,000)	(400,000)	-	(400,000)
Capital reserve for transactions with related parties	-	-	-	-	(28)	-	-	-	(28)	28	-
Investment of non-controlling interests in a subsidiary	-	-	-	-	-	-	-	-	-	2,918	2,918
Acquisition of non-controlling interests in a subsidiary	-	-	-	-	-	7,148	-	-	7,148	(58,148)	(51,000)
Total transactions with shareholders of the Company	-	-	-	-	(28)	7,148	-	(400,000)	(392,880)	(55,202)	(448,082)
Balance as of March 31, 2016	18,223	2,518,015	402,501	(5,761)	(31,002)	25,789	(2,096)	11,099,635	14,025,304	44,570	14,069,874

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

Azrieli Group Ltd.
Condensed Consolidated Statements of Changes in Capital

	For the three-month period ended March 31, 2015										
	Share capital	Share premium	Revaluation fund for financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve for transactions with related parties	Capital reserve from the acquisition of non-controlling interests in a consolidated company	Other capital reserves	Retained earnings	Total attributed to shareholders of the Company	Non-controlling interests	Total
	NIS in Thousands (Unaudited)										
Balance as of January 1, 2015	18,223	2,518,015	373,253	29,054	(30,974)	18,641	(2,096)	10,327,571	13,251,687	96,867	13,348,554
Net profit for the period	-	-	-	-	-	-	-	187,906	187,906	3,287	191,193
Change in fair value of financial assets available for sale, net of tax	-	-	66,909	-	-	-	-	-	66,909	-	66,909
Translation differences from foreign operations	-	-	-	20,428	-	-	-	-	20,428	750	21,178
Total comprehensive income for the period	-	-	66,909	20,428	-	-	-	187,906	275,243	4,037	279,280
Dividend to the shareholders of the Company	-	-	-	-	-	-	-	(320,000)	(320,000)	-	(320,000)
Write-off of non-controlling interest due to disposition of subsidiary	-	-	-	-	-	-	-	-	-	(4,780)	(4,780)
Total transactions with shareholders of the Company	-	-	-	-	-	-	-	(320,000)	(320,000)	(4,780)	(324,780)
Balance as of March 31, 2015	18,223	2,518,015	440,162	49,482	(30,974)	18,641	(2,096)	10,195,477	13,206,930	96,124	13,303,054

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

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

	For the 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 the acquisition of 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 Thousands										
Balance as of January 1, 2015	18,223	2,518,015	373,253	29,054	(30,974)	18,641	(2,096)	10,327,571	13,251,687	96,867	13,348,554
Net income for the year	-	-	-	-	-	-	-	820,991	820,991	6,674	827,665
Change in fair value of financial assets available for sale, net of tax	-	-	18,103	-	-	-	-	-	18,103	69	18,172
Actuarial loss due to defined benefit plan, net of tax	-	-	-	-	-	-	-	(971)	(971)	(6)	(977)
Translation differences from foreign operations	-	-	-	1,415	-	-	-	-	1,415	91	1,506
Total comprehensive income for the year	-	-	18,103	1,415	-	-	-	820,020	839,538	6,828	846,366
Dividend to shareholders of the Company	-	-	-	-	-	-	-	(320,000)	(320,000)	-	(320,000)
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	-	-	(312)	(312)
Write-off of non-controlling interest due to disposition of subsidiary	-	-	-	-	-	-	-	-	-	(4,780)	(4,780)
Total transactions with shareholders of the Company	-	-	-	-	-	-	-	(320,000)	(320,000)	(5,092)	(325,092)
Balance as of December 31, 2015	18,223	2,518,015	391,356	30,469	(30,974)	18,641	(2,096)	10,827,591	13,771,225	98,603	13,869,828

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

Azrieli Group Ltd.
Condensed Consolidated Statements of Cash Flows

	For the three-month period ended March 31		For the year ended December 31
	2016	2015	2015
	NIS in Thousands	NIS in Thousands	NIS in Thousands
	(Unaudited)		
Cash Flows - Current Operations			
Net profit for the period	674,381	191,193	827,665
Depreciation and amortization	26,482	25,972	103,153
Impairment of goodwill	-	-	103,000
Forfeiture of senior housing tenants' deposits	(2,899)	-	(6,311)
Net loss (gain) from fair value adjustment of investment property and investment property under construction	(357,011)	12,929	(180,307)
Financing and other expenses (revenues), net	19,951	(27,049)	140,741
Gain from liquidation of fixed assets, investment property and intangible assets, net	(46)	(3,301)	(1,846)
Share in losses of associates accounted for by the equity method	2,053	1,833	8,562
Change in recording of benefit in respect of share-based payment and employee benefits	-	1,993	2,493
Tax expenses recognized in the income statement	8,539	97,106	364,780
Change in financial assets	-	(192)	116
Loss from realizing investment in subsidiary (Annex A)	-	42	9,437
Income taxes paid, net	(93,013)	(91,638)	(197,601)
Erosion (revaluation) of financial assets designated at fair value through profit and loss	(4,768)	598	(2,715)
Change in inventory	13,510	53,896	67,841
Change in trade and other receivables	(49,289)	(48,699)	137,504
Change in receivables in respect of franchise arrangement	(3,979)	32,593	6,566
Change in trade and other payables	(13,938)	(14,467)	(154,688)
Receipt of deposits from senior housing tenants	7,785	-	25,796
Return of deposits from senior housing tenants	(393)	-	(6,864)
Change in employee provisions and benefits	(342)	(9,699)	13,475
Net cash - current operations	227,023	223,110	1,260,797

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

Azrieli Group Ltd.
Condensed Consolidated Statements of Cash Flows
(Continued)

	For the three-month period ended March 31		For the year ended December 31
	2016	2015	2015
	NIS in Thousands	NIS in Thousands	NIS in Thousands
	(Unaudited)		
Cash flows - Investment Activity			
Proceeds from liquidation of fixed and intangible assets	662	5,361	7,157
Proceeds from liquidation of investment property	4,536	-	2,836
Down payments on account of investment property	(28,447)	(31,289)	(4,815)
Purchase of and investment in investment property and investment property under construction	(613,828)	(335,708)	(1,016,466)
Purchase of fixed and intangible assets	(26,454)	(43,703)	(118,589)
Investment in and granting of loans to associates	(6,113)	(11,818)	(3,435)
Change in short-term deposits	(12,535)	(5,027)	10,049
Change in restricted investments	(106)	-	15,279
Receipt (payment) for settlement of derivative financial instruments, net	855	5,178	(5,304)
Change in financial assets designated at fair value through profit and loss, net	595	253	2,338
Change in marketable securities, net	-	(7,098)	14,874
Granting of long-term loans	(284)	(296)	(44,862)
Collection of long-term loans	10,556	4,334	15,593
Interest and dividend received	15,375	14,578	45,937
Acquisition of companies consolidated for the first time (Annex B)	-	-	(254,661)
Proceeds from liquidation of investments in investee companies, net (Annex A)	-	52,265	415,948
Payments to institutions for the purchase of real estate	(51,387)	(8,226)	-
Proceeds from sale of investments	-	115,174	115,174
Income tax paid for sale of companies	-	(12,114)	(22,745)
Net cash - investment activity	(706,575)	(258,136)	(825,692)

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

Azrieli Group Ltd.
Condensed Consolidated Statements of Cash Flows
(Continued)

	For the three-month period ended March 31		For the year ended December 31
	2016	2015	2015
	NIS in Thousands	NIS in Thousands	NIS in Thousands
	(Unaudited)		
Cash flows - Financing Activity			
Acquisition of non-controlling interests	(51,000)	-	-
Dividend distribution to shareholders	-	-	(320,000)
Repayment of bonds	(52,585)	(66,531)	(406,994)
Bond offering net of issue expenses	-	618,871	2,209,284
Receipt of long-term loans from banks and others	250,000	102,030	112,203
Repayment of long-term loans from banks and others	(124,458)	(196,502)	(876,330)
Short-term credit from banks and others, net	185,877	32,515	(202,735)
Repayment of deposits from customers	(1,262)	(1,684)	(6,034)
Deposits from customers that were received	1,845	2,196	8,802
Dividend to holders of non-controlling interests	-	(125)	(437)
Investment of non-controlling interests in a subsidiary	2,918	-	-
Interest paid	(49,076)	(61,268)	(231,501)
Net cash - Financing Activity	162,259	429,502	286,258
Increase (decrease) in cash and cash equivalents	(317,293)	394,476	721,363
Cash and cash equivalents at beginning of period	934,724	163,578	163,578
Change in net cash classified as disposal group held for sale	590	24,174	50,487
Effect of exchange rate changes on cash balances held in foreign currency	(4,095)	4,041	(704)
Cash and cash equivalents at end of period	613,926	586,269	934,724

(*) For a period of three month which ended on March 31, 2016. Non-cash transactions include other payables in respect of a dividend in the sum of NIS 400,000 thousand (March 31, 2015 – NIS 320,000 thousand), other payables in respect of acquisitions on credit of non-current assets in the sum of NIS 84,484 thousand (March 31, 2015 – NIS 95,442 thousand, December 31, 2015 – NIS 73,667 thousand).

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

Azrieli Group Ltd.
Condensed Consolidated Statements of Cash Flows
(Continued)

	For the three-month period ended March 31		For the year ended December 31
	2016	2015	2015
	NIS in Thousands	NIS in Thousands	NIS in Thousands
	(Unaudited)		
Annex A -			
Proceeds from sale of investment in previously-consolidated Green Anchors Ltd.:			
Working capital (excluding cash and cash equivalents)	-	(2,975)	(2,975)
Fixed and intangible assets, net	-	105	105
Investment property	-	24,081	24,081
Long-term liabilities including current maturities	-	(7,317)	(7,317)
Liabilities for deferred taxes, net	-	(4,365)	(4,365)
Non-controlling interests	-	(4,780)	(4,780)
Loss from liquidation of investment in subsidiary	-	(42)	(42)
	-	4,707	4,707
Proceeds from sale of investment in previously-consolidated Via Maris Desalination (Holdings) Ltd. (see Note 5):			
Working capital (excluding cash and cash equivalents)	-	-	80,488
Investments and loans	-	-	3,799
Receivables in respect of franchise arrangement	-	-	822,932
Fixed and intangible assets, net	-	-	126,037
Long-term liabilities, net	-	-	(697,358)
Liabilities for deferred taxes, net	-	-	(23,481)
Restricted investments	-	-	60,661
Loss from liquidation of investment in subsidiary	-	-	(9,395)
	-	-	363,683
Receivables for the sale of an investment in previously-consolidated S. Super Solar Ltd.	-	47,558	47,558
Total proceeds from the sale of investments, net	-	52,265	415,948
Annex B -			
Acquisition of a company consolidated for the first time – Palace America Senior Housing Ltd.			
Working capital (excluding cash and cash equivalents and short-term deposits)	-	-	10,574
Liabilities for deposits from customers	-	-	284,721
Fixed and intangible assets, net	-	-	(141,927)
Investment property	-	-	(552,083)
Long-term liabilities including current maturities	-	-	54,189
Reserve for deferred taxes, net	-	-	89,865
	-	-	(254,661)

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

Note 1 – General

A. Azrieli Group Ltd. (the "**Company**" and/or the "**Group**") is a company domiciled and incorporated in Israel and whose registered address is 1 Azrieli Center, Tel Aviv. The Company is traded on the TASE and is included in the Tel Aviv 25 Index. The Company has a bond series (Series A) that are included in the TACT-institutional and bond series (Series B and Series C) that were issued to the public. The Group's consolidated financial statements as of March 31, 2016 include those of the Company and of its subsidiaries (jointly, the "**Group**"), as well as the Group's rights in associates and in jointly-controlled entities.

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

As the Company was informed, on April 13, 2015, shares of Mr. David Azrieli OBM in Azrieli Holdings and in a Canadian holding corporation controlled by him ("**David's Holding Corporation**") were distributed from his estate. Following such distribution, each one of Sharon Azrieli, Naomi Azrieli and Danna Azrieli, holds, directly and through David's Holding Corporation, approx. 27.24% of the capital rights in Azrieli Holdings and approx. 33.13% of the voting rights in Azrieli Holdings, and they jointly hold approx. 81.73% of the capital rights in Azrieli Holdings and approx. 99.39% of the voting rights therein. The remainder of Azrieli Holdings' shares are mainly held by the Azrieli Foundation of Canada (an interested party of the Company), which following the distribution of the estate holds (indirectly, through a holding of shares of David's Holding Corporation) approx. 15.93% of Azrieli Holdings' shares, with no voting rights (which constitutes, indirectly, a holding of approx. 8.86% of the capital rights of the Company), in addition to and separately from its direct holding of approx. 8.55% of the capital and voting rights in the Company, (for details regarding the sale of shares that were held by the Azrieli Foundation in the report period, see Note 4F).

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

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

B. These Condensed Consolidated Statements should be reviewed in the context of the Group's annual financial statements as of December 31, 2015, and for the year then ended, and the notes accompanied thereto.

Note 2 – Significant Accounting Policies

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

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

In the preparation of these Interim Financial Statements the Group has applied the accounting policy, rules of presentation and methods of calculation identical to those used in the preparation of its financial statements as of December 31, 2015 and for the year then ended.

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

B. Use of estimates and discretion:

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

The evaluations and discretion used by management to apply the accounting policy and prepare the Consolidated Interim Financial Statements were identical to those used in the preparation of the financial statements as of December 31, 2015.

(2) Further to Note 3(c)1 to the annual financial statements, on March 31, 2016, the Group updated the valuations of an investment property and an investment property under construction in Israel (which are attributed to the retail centers and malls segment and to the office and other space for lease segment).

The valuations were performed by an independent external appraiser, possessing the appropriate professional skills.

The valuation of the land was performed by the comparison method and of the property under construction by discounting the expected cash flows from the property, net of construction cost balance and developer profit. The cap rates used by the appraiser are between 8%-8.5%. The cap rate was determined in consideration of the type of the property, the level of risk and uncertainty with respect to receipt of the expected cash flow, the size of the property and the timing of the completion of the construction.

In regards to the remaining properties, the Company's estimation is that no significant changes occurred in the properties' value compared to the last date on which a valuation was performed.

Note 2 – Significant Accounting Policies (Cont.)

C. Rates of exchange and linkage basis:

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

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

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

	Representative exchange rate of the		Israeli Index	
	The Euro	**The USD**	**"Due"**	**"Known"**
	(1 Euro = NIS)	**(1 USD = NIS)**	**Basis 1993**	**Basis 1993**
Date of the financial statements:				
March 31, 2016	4.286	3.766	218.90	219.35
March 31, 2015	4.274	3.98	220.46	219.79
December 31, 2015	4.247	3.902	221.13	221.35
Rates of change:	%	%	%	%
For the three-month period ended:				
March 31, 2016	0.91	(3.49)	(1.01)	(0.91)
March 31, 2015	(9.55)	2.34	(1.30)	(1.60)
For the year ended				
December 31, 2015	(10.11)	0.33	(1.00)	(0.90)

Note 3 – Contingent Liabilities

Set forth below are details regarding new material claims received (if any), claims that have ended and material changes to existing material claims, if any. No material change has occurred in the remaining claims since the audited financial statement as of December 31, 2015 (see Note 33 to the annual financial statements).

A. Class actions:

The parties	Amount of claim	Nature of claim	Prospects of claim
1. Claim against the Company and a consolidated company.	If not certified as a class action – NIS 4,561. If certified as a class action only in relation to the class of offerees whose shares were subject to a forced purchase – approx. NIS 18 million. If certified as a class action in relation to the entire class of offerees – approx. NIS 157 million.	In August 2013, a motion for an appraisal remedy pursuant to Section 338 of the Companies Law, 5759-1999 and a motion for cancelation of the tender offer, as well as a motion for class certification thereof were filed against the Company and against Canit Hashalom with the Economic Division of the Tel Aviv District Court by a petitioner alleging to have been an offeree in the framework of a full tender offer that was completed by the Company at the end of September 2012, for shares that were held by the public in Granite Hacarmel Investments Ltd. (despite the lapse of the six (6) month period set forth in the law for the filing of a claim for an appraisal remedy). The claim alleges, *inter alia*, that the petitioner was forced to sell his shares to the Company in the tender offer at a price lower than the value of the shares and that the conditions for performance of a forced purchase pursuant to the tender offer were not fulfilled and that therefore it was not possible to delist Granite Hacarmel Investments Ltd.	On April 14, 2016, the Tel Aviv Yafo District Court (the "**Court**") was filed with a motion to approve and enter a judgement on a settlement agreement (the "**Settlement Agreement**") that was signed in respect of the action and the motion for class certification filed by the petitioner (the "**Action**" and the "**Class Plaintiff**", respectively) against the Company and against a subsidiary of the Company. The Settlement Agreement prescribes that without admitting to any of the claims raised by the Class Plaintiff and for settlement purposes only, against the full, complete and final waiver and discharge of the Action, the class of plaintiffs (as defined in the Settlement Agreement) shall be paid immaterial sums. It is clarified, that at this stage, the Settlement Agreement has not yet been approved by the Court as required under the Class Action Law, 5767-2006.

Note 3 – Contingent Liabilities (Cont.)

A. Class actions: (cont.)

The parties	Amount of claim	Nature of claim	Prospects of claim
2. Claim against Sonol and other fuel companies.	A claim and a motion for class certification in the sum of NIS 1 billion, of August 2011, while Sonol's relative share pursuant to its market share is at the alleged rate of 21%.	A claim and a motion for class certification of August 2011, alleging that the fuel companies misled the regulator over the years, and thus loaded on the marketing margin that was collected thereby expenses that they were prohibited from loading. It was further claimed that the fuel companies sold gasoline at a more expensive price than permitted.	The plaintiffs announced their withdrawal from the action, and accordingly, the Court issued a judgement approving such withdrawal.
3. Claim against Sonol and a consolidated company.	A claim and a motion for class certification in the sum of NIS 50 million, of August 2012	A claim and a motion to recognize it as a class action, alleging that Sonol breached a statutory duty under the Business Licensing Regulations (Sanitary Conditions at Gasoline Stations), 5730-1969.	In the estimation of Sonol's management, in reliance on its legal counsel, the chances of the certification motion and the claim being granted are lower than 50%. However, the parties have signed a settlement agreement that has not yet been approved by the Court, in which Sonol committed to an immaterial sum.

Note 3 – Contingent Liabilities (Cont.)

A. Class actions: (cont.)

The parties	Amount of claim	Nature of claim	Prospects of claim
4. Two claims against Sonol.	Two claims and motions (for partially overlapping causes of action) for class certification in the sum of NIS 899.4 million and NIS 1 billion, of 2011.	Two claims against Sonol and a motion for class certification thereof, being litigated at the District Court. One concerns the charging by Sonol of customers which are engaged therewith in a "Dalkan" agreement and who purchase diesel oil. According to the plaintiffs, the prices charged were higher than the prices which Sonol charges the general public, or the prices which were advertised at the fueling stations, contrary to law and/or the Dalkan agreement between the plaintiffs and Sonol. The other claim alleges that Sonol misled those of its customers engaged in a “Dalkan” agreement therewith, and charged them fuel prices which are significantly higher than the prices it charges the general public or the prices which were advertised at the fueling stations, and that Sonol raised the recommended list price of diesel oil regardless of diesel oil cost prices or the price of diesel oil at the station.	On May 4, 2016, the Lod District Court was filed with a settlement agreement signed by Sonol and by the class plaintiffs, whereby Sonol shall refund the Dalkan customers who are defined in the settlement agreement, sums which do not exceed the provision that was made in the financial statements for both such claims. It is noted that the settlement agreement requires the approval of the District Court. At a hearing held at the court on May 10, 2016 on the issue of approval of the settlement agreement, Sonol was asked to produce additional data. At this stage, Sonol is unable to assess the implications of this request on the Court’s decision to approve the settlement agreement filed.

Note 3 – Contingent Liabilities (Cont.)

B. Other claims:

The parties	Amount of claim	Nature of claim	Prospects of claim
1. Various local authorities against Supergas.	Demands in the sum of approx. NIS 66 million.	In 2005-2015, Supergas received demands for the payment of municipal tax (*arnona*) on gas containers, from the Karmiel municipality and from additional municipalities.	In February 2016, a judgment was issued by the Supreme Court in a case conducted between two gas companies and a large number of municipalities, whereby the gas companies are not to be charged municipal tax for the gas containers buried in their areas. Such determination significantly reinforces Supergas's claims regarding the municipal tax payment demands. In view of the foregoing, Supergas's management estimates, in reliance on its legal counsel, that Supergas's chances of defeating the municipal tax demands are higher than 50%.
2. Claim against a consolidated company of GES.	Approx. 5.6 million (in the context of a counter claim of April 2011 in a claim of a subsidiary of GES against the plaintiff in the sum of NIS 5.2 million, for declaratory enforcement remedies and a perpetual injunction, of November 2010).	A claim of 2010 in the sum of NIS 5.2 million, filed by a consolidated company of GES, for the undue termination of an agreement for the operation of the "Ein Bokek" wastewater treatment plant, a current debt and investments in the plant, and a counter claim in the sum of NIS 5.6 million filed by the "Tamar" Regional Council for alleged damage.	The Court appointed a professional expert to examine the professional claims raised by the parties against one another. On March 20, 2016, a draft opinion of the expert was received. However, the proceeding has not yet concluded. In the estimation of GES's management, in reliance on its legal counsel, the chances of the consolidated company of GES being charged with material sums are lower than 50%.

Note 3 – Contingent Liabilities (Cont.)

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

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

Note 4 – Material Events during the Report Period

A. On March 22, 2016, the Company's Board of Directors decided upon the distribution of a dividend in the sum of NIS 400 million (reflecting NIS 3.30 per share), paid on May 4, 2016.

B. 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.

C. On March 6, 2016, the Company's general meeting approved the Company's engagement in an agreement for the purchase of one share of Canit Hashalom Investments Ltd. ("**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 closing of the transaction had no effect on the Company's income statement.

D. 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 and onwards, by a rate of 1.5%, to 25%. As a result of the change in the tax rate, there was a reduction of the deferred tax liability balances in an amount of NIS 170 million and a reduction in the deferred tax asset balances in an amount of NIS 3 million. The update of the deferred tax balances was recorded against deferred tax income in an amount of NIS 162 million, and the other comprehensive income of the Company increased by NIS 167 million.

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

E. On March 23, 2016, a consolidated company (the "**Buyer**") entered into a contingent agreement (the "**Agreement**" or the "**Transaction**") with unrelated third parties (the "**Sellers**"), for the purchase of 100% of the shares of a private company that is 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**").

Below are the main details of the engagement:

- 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 includes approx. 335 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 – for the shares of the Purchased Company, the Buyer will pay a total consideration of NIS 55 million. The full consideration amount will be paid at the closing date of the Transaction, as defined in the Agreement.

- 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.

- Condition precedent – the closing of the Transaction is conditioned on the approval of the Antitrust Commissioner, insofar as required, up to and by no later than 120 days of the execution date of the Agreement..

Subsequent to the date of the balance sheet, on April 13, 2016, the Antitrust Commissioner rendered notice of his consent for effecting the transaction. The Company and the Seller are acting to close the Transaction according to the terms of the Agreement.

F. On March 31, 2016, the Azrieli Foundation Canada, an interested party in the Company, sold approx. 5% of the Company's shares, as part of the preparations towards the indices reform recently announced by TASE.

As a result of the sale, the Azrieli Foundation Canada holds approx. 8.55% of the Company's shares.

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

G. Further to Note 14F to the annual financial statements, on March 31, 2016, the Company paid a sum of NIS 302 million plus VAT, constituting the consideration balance in connection with the purchase of rights 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 on which stands a building slated for demolition, known as the “Yediot Aharonot House”. Possession of the lot was handed-over to the Company at such date. The property was revaluated in the financial statements and recorded at its fair value. For further details, see Note 2B(2).

Note 5 – Disposal Group Classified as Held for Sale

Further to the provisions of Note 9 to the annual financial statements regarding agreements that were signed for the sale of rights in a number of GES Latin America Holding, S.A. (“Latin America”) companies and the closing of the transaction for the sale of Via Maris Desalination (Holdings) Ltd. (“Via Maris”) on June 2, 2015:.

The effect of the Latin American business on the results of operations and the financial position in the consolidated statements is negligible.

Via Maris’s financial results were consolidated and included in the financial statements until the period ended June 30, 2015.

The assets and liabilities of Latin America as of March 31, 2016 and as of December 31, 2015, were presented in the financial statements as a disposal group held for sale.

Via Maris’s assets and liabilities, until the closing of the Transaction, were presented in the financial statements as a disposal group held for sale.

Note 5 – Disposal Group Classified as Held for Sale (Cont.)

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

	As of March 31		As of December 31
	2016	2015	2015
	NIS in thousands	NIS in thousands	NIS in thousands
	Unaudited		
Assets of disposal groups classified as held for sale: (*)			
Cash and cash equivalents	346	27,249	936
Investments in securities and deposits	-	42,587	-
Trade accounts receivable	2,779	63,246	7,347
Other receivables	201	8,437	388
Long-term investments and loans	-	3,653	-
Restricted investments	-	75,745	-
Receivables in respect of franchise arrangement	-	837,584	-
Fixed assets, net	173	18,670	179
Intangible assets, net	-	100,506	-
Deferred tax assets	-	813	-
	3,499	1,178,490	8,850
Liabilities of disposal groups classified as held for sale: (*)			
Trade payables	215	6,022	554
Payables and other current liabilities	730	25,239	1,237
Current tax liabilities	-	2,072	39
Liabilities to banks	94	715,130	1,557
Other long-term liabilities	-	6,822	-
Deferred tax liabilities	-	23,332	-
	1,039	778,617	3,387
Assets of disposal groups classified as held for sale, net	2,460	399,873	5,463

(*) As of March 31, 2015, assets and liabilities of the disposal group are in respect of Via Maris only, as of March 31, 2016 and December 31, 2015 in respect of Latin America only.

Note 5 – Disposal Group Classified as Held for Sale (Cont.)

B. The results and cash flows of the disposal group classified as held for sale were fully consolidated in the income statement and the cash flow statement until the disposal date, as the case may be.

Set forth below is a table of material financial figures in connection with the disposal group's activity:

	For the three-month period ended March 31		For the year ended December 31
	2016	2015	2015
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Sales turnover	488	35,246	78,055
(Loss) income before tax	207	(2,017)	6,361
(Loss) income after tax	207	(903)	6,694

C. **Fair value:**

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

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

	As of March 31, 2015		
	Book value	Fair value Level 2	Figures used in determination of the fair value
	NIS in thousands	NIS in thousands	
Receivables in respect of franchise arrangement	837,584	1,076,910	Cap rate of 2.37%-2.58%
Liabilities to banks	715,130	791,688	Cap rate of 2.52%

Note 6 – Fair Value of Financial Instruments

A. Fair value vs. Book value:

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

	As of March 31, 2016		As of March 31, 2015		As of December 31, 2015	
	Book value	Fair value	Book value	Book value	Fair value	Book value
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
Non-current assets:						
Receivables in respect of franchise arrangement (*)	49,805	59,740	31,692	42,101	45,639	55,074
Current liabilities						
Deposits from customers	105,612	71,520	107,012	72,084	106,825	72,433
Non-current liabilities:						
Loans from banks and other credit providers (*)	3,374,790	3,478,283	3,912,077	4,111,041	3,300,780	3,388,536
Bonds (*)	3,119,812	3,230,274	1,903,543	2,088,274	3,173,645	3,264,573
	6,494,602	6,708,557	5,815,620	6,199,315	6,474,425	6,653,109
Surplus of liabilities over assets	6,550,409) (	6,720,337) (	5,890,940) (	6,229,298) (	(6,535,611)	(6,670,468)

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

Note 6 – Fair Value of Financial Instruments (Cont.)

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

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

	As of March 31		As of Dec. 31
	2016	2015	2015
	%	%	%
Non-current assets:			
Receivables in respect of franchise arrangement	3.15-5.7	2.97	3.31-5.7
Current liabilities:			
Deposits from customers	1.45	1.45	1.45
Non-current liabilities:			
Loans from banks and other credit providers	0.74-4.13	(0.04)-3.9	1.0-4.2
Bonds	0.8-1.55	(0.05)-0.55	1.2-1.6

C. The levels of fair value:

The following table presents an analysis of the financial instruments that are measured at fair value, using an evaluation model.

The various levels were defined as follows:

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

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

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

Note 6 – Fair Value of Financial Instruments (Cont.)

C. The levels of fair value: (cont.)

	As of March 31, 2016			
	Level 1	Level 2	Level 3	Total
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
Financial assets held for trading:				
Securities	506	-	-	506
Foreign currency forward contracts	-	154	-	154
Financial assets available for sale:				
Marketable shares	952,946	-	-	952,946
Non-marketable shares	-	-	693,323	693,323
Financial assets designated at fair value through profit and loss:				
Non-marketable investments	-	29,335	-	29,335
Total financial assets	953,452	29,489	693,323	1,676,264
Financial liabilities:				
Derivatives not used for hedging:				
Foreign currency forward contracts	-	7,334	-	7,334
Total financial liabilities	-	7,334	-	7,334
Total fair value of financial assets and liabilities	953,452	22,155	693,323	1,668,930

Note 6 – Fair Value of Financial Instruments (Cont.)

C. The levels of fair value: (cont.)

	As of March 31, 2015			
	Level 1	Level 2	Level 3	Total
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
Financial assets held for trading:				
Securities	814	-	-	814
Foreign currency forward contracts	-	2,594	-	2,594
Financial assets available for sale:				
Marketable shares	1,043,366	-	-	1,043,366
Non-marketable shares	-	-	658,912	658,912
Financial assets designated at fair value through profit and loss:				
Non-marketable investments	-	23,934	-	23,934
Total financial assets	1,044,180	26,528	658,912	1,729,620
Financial liabilities:				
Derivatives not used for hedging:				
Foreign currency forward contracts	-	240	-	240
Total financial liabilities	-	240	-	240
Total fair value of financial assets and liabilities	1,044,180	26,288	658,912	1,729,380

Note 6 – Fair Value of Financial Instruments (Cont.)

C. The levels of fair value: (cont.)

	As of December 31, 2015			
	Level 1	Level 1	Level 1	Level 1
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
Financial assets held for trading:				
Securities	506	-	-	506
Derivatives not used for hedging:				
Foreign currency forward contracts	-	1,584	-	1,584
Financial assets available for sale:				
Marketable shares	953,652	-	-	953,652
Non-marketable shares	-	-	681,113	681,113
Financial assets designated at fair value through profit and loss:				
Non-marketable investments	-	25,162	-	25,162
Total financial assets	954,158	26,746	681,113	1,662,017
Financial liabilities:				
Foreign currency forward contracts not used for hedging:	-	56	-	56
Total financial liabilities	-	56	-	56
Total fair value of financial assets and liabilities	954,158	26,690	681,113	1,661,961

Note 6 – Fair Value of Financial Instruments (Cont.)

D. Financial instruments that are measured at fair value at level 3:

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

	For the three-month period ended March 31		For the year Ended December 31
	2016	2015	2015
	NIS in Thousands	NIS in Thousands	NIS in Thousands
	(unaudited)		
Financial assets available for sale:			
Balance as of beginning of the year	681,113	658,912	658,912
Total profits (losses) recognized:			
in other comprehensive income	12,210	-	22,201
	693,323	658,912	681,113

Note 7 – Segment Reporting

A. General:

The Company applies the IFRS 8 "Operating Segments" ("IFRS 8"). In accordance with the provisions of the standard, operating segments are identified on the basis of the internal reports in respect of the components of the Group, which are reviewed on a regular basis by the Group’s Chief Operating Decision Makers (“CODM”) for the purpose of the allocation of resources and the evaluation of the performance of the operating segments.

The Company's business activities focus primarily on the income-producing property segment, while most the Group's business activity is in the retail centers and malls segment, primarily in Israel, and in the office and other space for lease segment, primarily in Israel. Furthermore, the Company has an income-producing property in the USA (office space for lease). In addition, the Company engages, through its (indirect) holding in Sonol Israel Ltd., also in another operating segment, which includes oil distillates through direct marketing and fueling and retail complexes (for details regarding an engagement in an agreement for the sale of Sonol, after the balance sheet date, see Note 8A). Furthermore, the Company engages in the development of the senior housing segment, after it completed the purchase of the "Palace" senior home in Tel Aviv, and recently purchased the “Ahuzat Bayit” senior home in Ra’anana. The Company has other businesses such as energy, water and other wastewater (through its holding in Granite Hacarmel Investments Ltd.).

The following are the Company's operating segments:

Segment A – Retail centers and malls in Israel.

Segment B – Office and other space for lease in Israel.

Segment C – Income-producing property in the USA.

Segment D – Sonol (for details regarding an engagement in an agreement for the sale of Sonol, after the balance sheet date, see Note 8A).

Note 7 – Segment Reporting (Cont.)

B. Operating segments:

	For the three-month period ended March 31, 2016 (unaudited)					
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Sonol	Other	Consolidated
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Revenues:						
Total external income	234,278	109,562	54,761	714,131	201,062	1,313,794
Total segment expenses	43,767	18,041	25,252	705,916	157,359	950,335
Segment profit (NOI)	190,511	91,521	29,509	8,215	43,703	363,459
Net profit (loss) from fair value adjustment of investment property and investment property under construction	74,283	288,025	(5,297)	-	-	357,011
Unallocated costs						(21,505)
Financing expenses, net						(23,260)
Other revenues, net						9,268
The Company's share in results of associates, net of tax						(2,053)
Income before income taxes						682,920
Additional information:						
Segment assets (*)	11,328,675	7,507,567	1,996,435	1,886,623	2,032,166	24,751,466
Unallocated assets (**)						2,417,627
Total consolidated assets						27,169,093

(*) Other segments assets include senior housing properties in the sum of NIS 860 million.
(**) Including financial assets available for sale in the sum of approx. NIS 1.6 billion.

Note 7 – Segment Reporting (Cont.)

B. Operating segments (cont.):

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

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

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

Note 7 – 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 in Israel**	**Income-producing property in the USA**	**Sonol**	**Other**	**Consolidated**
	NIS in thousands	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**
Revenues:						
Total external income	931,135	419,607	236,247	3,737,834	761,922	6,086,745
Total segment expenses	183,508	72,122	104,602	3,807,306	661,816	4,829,354
Segment profit (loss) (NOI)	747,627	347,485	131,645	(69,472)(1)	100,106	1,257,391
Net profit (loss) from fair value adjustment of investment property and investment property under construction	122,972	70,294	(28,294)	-	15,335	180,307
Unallocated costs						(95,147)
Financing expenses, net						(152,671)
Other revenues, net						11,127
The Company's share in results of associates, net of tax						(8,562)
Income before income taxes						1,192,445
Additional information as of December 31, 2015:						
Segment assets(2)	11,055,969	6,829,670	2,052,023	1,912,532	1,978,533	23,828,727
Unallocated assets(3)						2,616,378
Total consolidated assets						26,445,105
Capital expenditures	373,734	535,870	48,387	55,612	765,444(4)	1,779,047

(1) Including a goodwill amortization in the sum of NIS 103 million.
(2) Other segment assets include senior housing properties in the sum of NIS 803 million.
(3) Mainly financial assets available for sale in the sum of approx. NIS 1.6 billion.
(4) Including the purchase of the Palace senior home in Tel Aviv in the sum of NIS 694 million.

Note 8 – Material Subsequent Events

A. Further to Note 10E to the annual financial statements, regarding the sale of all of Granite Hacarmel's holdings in Sonol, on April 14, 2016, Granite Hacarmel entered into an agreement with Israel Oil Gas Fund L.P., a limited partnership incorporated in Israel (the "Buyer") for the sale of all of Granite Hacarmel's holdings (100%) in Sonol Israel Ltd. (the "Agreement" and "Sonol", respectively).

The total consideration amounts to NIS 363.5 million, of which NIS 187.5 million shall be paid in cash upon the closing of the transaction (subject to certain adjustments determined in the Agreement); NIS 21 million of the consideration shall be 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 and will be distributed by Sonol up to the closing of the transaction, and 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 will be 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.

Conditions precedent – the closing of the transaction is contingent on conditions precedent which mainly include the receipt of the approval of the Antitrust Commissioner and receipt of third party approvals. The Agreement includes customary terms for the termination thereof.

Buyer's guarantee – to secure the undertakings of the Buyer under the Agreement, other than in connection with the Loan as defined above, the seller was provided, at the execution date of the Agreement, a guarantee for the performance of the closing of the transaction.

Non-competition undertaking – it was further agreed that from the transaction closing date and for a 4-year period, the Company and Granite Hacarmel shall not compete with Sonol's business. The foregoing shall not apply to the activity and business plan of the Supergas group.

Insofar as the transaction shall close and the full consideration shall be received, the Company's results are not expected to be materially affected, either favorably or adversely.

Note 8 – Material Subsequent Events (Cont.)

A. (Cont.)

The transaction does not include Sonol's real estate property in the area of Pi Glilot and Sonol's shares in Pi Glilot Oil and Pipe Terminals Co. Ltd., which holds real estate in the same area. After the date of the Statements of Financial Position, on May 10, 2016, the Company, directly and indirectly through companies controlled thereby, signed sale agreements for the sale of all of the Company's holdings in the Pi Glilot lands and the Pi Glilot shares (which is the owner of lease rights with respect to a land in the Pi Glilot site) to a third party for a total consideration of approx. NIS 130 million.

B. 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, bearing an annual interest at the rate of 1.5%.The repayment of the loan's principal shall commence at the second anniversary of the provision date of the loan and shall be made in 40 equal quarterly installments (the last principal payment shall be made 12 years after the provision date 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 Investments Ltd., a subsidiary wholly owned by the Company, had pledged in favor of the lender, by way of a first-ranking fixed pledge unlimited in sum, the Azrieli Rishonim Center in Rishon LeZion (which is currently under construction), 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 comply with 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"). The Company further undertook to maintain a LTV ratio that shall not exceed 80%. In addition, the agreement includes limitations on the distribution of dividends that correspond with the undertaking set forth in the Bonds' indentures (i.e. that no distribution 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 grant the lender, on the same date, a floating charge of identical ranking and scope (*pari passu*) (such undertaking also exists in the Bonds' indentures). The causes for acceleration are as customary in agreements of such type and in the Bonds' indentures, including a cause pertaining to the acceleration of another substantial debt of the Company.

Note 8 – Material Subsequent Events (Cont.)

C. On May 2, 2016, the Company entered into a credit agreement with an institutional body affiliated neither with the Company nor with its controlling shareholders, for the provision of a loan of NIS 300 million, to be repaid (principal and interest) upon the lapse of six months of the provision date thereof. The loan bears an NIS interest comprising Prime interest minus 0.1%. The loan will be secured by an existing charge on an asset, which was granted to the lender to secure another loan received therefrom. In the context of the loan, the Company undertook to comply with 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 causes for acceleration are as customary in agreements of such type and in the Bonds' indentures, including a cause pertaining to the acceleration of another substantial debt of the Company. The agreement prescribes 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*).

For further details regarding the Financial Covenants, undertakings regarding distribution of dividends and causes for acceleration in the Bonds' indentures, see Note 21B(3) to the annual financial statements.

D. On May 2, 2016, a wholly owned subsidiary of the Company (under organization) (the "Buyer"), entered into an agreement with Buy2 Networks Ltd., a public company whose shares are listed for trade on the Tel Aviv Stock Exchange (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 Buyer shall purchase from the Seller 100% of the shares of Netex New Media 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 assets (tangible and intangible) in the Operating Segment which are directly held by the Seller.

The consideration – in consideration for the purchased business, the Buyer shall pay the Seller a sum of NIS 70 million, subject to adjustments, which, as of the report date, are expected to amount to approx. NIS 8 million, such that the net consideration, as of the report date, is approx. NIS 62 million.

In addition, a sum of approx. NIS 5 million per year will be paid for management services in the Operating Segment that will be 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. In 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.

Note 8 – Material Subsequent Events (Cont.)

D. (Cont.)

On May 18, 2016 the approval of the Antitrust Commissioner was received, and the Company is working towards closing the transaction.

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

Annex to Consolidated Financial Statement

Separate Interim Financial Statement

as of March 31, 2016

(unaudited)

Azrieli Group Ltd.

Separate Interim Financial Statement

as of March 31, 2016

(unaudited)

Prepared pursuant to the provisions of Section 38D of the Securities Regulations

(Periodic and Immediate Reports), 5730-1970

Azrieli Group Ltd.

Separate Interim Financial Statement
as of March 31, 2016

(unaudited)

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Deloitte.

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

Dear Sir/Madam,

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

We have reviewed the separate interim financial statement, which is presented according to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, of **Azrieli Group Ltd.** (the "Company") as of March 31, 2016 and for the three-month period then ended. The separate interim financial statement is the responsibility of the Company's Board of Directors and Management. Our responsibility is to express a conclusion on the separate interim financial statement for such interim period, based on our review.

We did not review the separate interim financial statement from the financial statements of investee companies, the total investments in which amounted to approx. NIS 1,080 million as of March 31, 2016 and the profit from such investee companies amounted to approx. NIS 30 million for the three-month period then ended. The financial statements of these companies were reviewed by other auditors whose reports were furnished to us, and our conclusion, in so far as it is related to the financial statements in respect of those companies, is based upon the review reports of the other auditors.

The Scope of the Review

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

Conclusion

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

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

Brightman, Almagor, Zohar & Co.
Certified Public Accountants

Tel Aviv, May 24, 2016

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Azrieli Group Ltd.

Statement of Financial Position

	As of March 31		As of December 31
	2016	2015	2015
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Assets			
Current assets			
Cash and cash equivalents	445,515	369,330	761,281
Financial assets held for trading	506	814	506
Trade accounts receivable	6,205	7,831	7,375
Other receivables	225,155	128,253	142,801
Total current assets	677,381	506,228	911,963
Non-current assets			
Financial assets	1,585,040	1,660,521	1,581,575
Investment property and investment property under construction	8,401,680	7,243,008	7,565,747
Investments in investee companies	7,222,504	6,545,827	6,909,576
Loans to investee companies	3,467,694	3,266,846	3,413,982
Fixed assets	7,267	5,136	7,147
Receivables	5,680	6,728	5,915
Total non-current assets	20,689,865	18,728,066	19,483,942
Total assets	21,367,246	19,234,294	20,395,905
Liabilities and capital			
Current liabilities			
Credit from banks and other credit providers	2,414,714	1,463,784	1,019,599
Trade payables	54,711	63,747	51,417
Payables and other current liabilities	37,279	29,186	33,778
Declared dividend	400,000	320,000	-
Current tax liabilities	26,248	32,615	37,683
Total current liabilities	2,932,952	1,909,332	1,142,477
Non-current liabilities			
Loans from banks and other credit providers	1,104,417	1,845,736	1,733,284
Bonds	2,090,171	1,105,209	2,579,151
Other liabilities	15,751	15,462	15,595
Deferred tax liabilities	1,196,061	1,148,408	1,151,592
Employee benefits	2,590	3,217	2,581
Total non-current liabilities	4,408,990	4,118,032	5,482,203
Capital			
Share capital	18,223	18,223	18,223
Premium	2,477,664	2,477,664	2,477,664
Capital reserves	429,782	515,566	447,747
Retained earnings	11,099,635	10,195,477	10,827,591
Total capital attributable to shareholders of the Company	14,025,304	13,206,930	13,771,225
Total liabilities and capital	21,367,246	19,234,294	20,395,905

May 24, 2016			
Date of approval of Separate Financial Statement	**Danna Azrieli Chairman of the Board of Directors**	**Yuval Bronstein CEO**	**Irit Sekler-Pilosof Chief Financial Officer**

Azrieli Group Ltd.

Statement of Profit and Loss and Other Comprehensive Income

	For the three-month period ended March 31		For the year ended December 31
	2016	2015	2015
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Revenues			
From rent and management and maintenance fees	114,581	110,032	458,981
Net profit (loss) from fair value adjustment of investment property and investment property under construction	364,915	(10,986)	(18,693)
Financing	24,392	8,019	145,406
Other	9,974	(47)	10,042
Total revenues	513,862	107,018	595,736
Costs and expenses			
Cost of revenues from rent and management and maintenance fees	3,272	2,231	14,395
Sales and marketing	3,388	5,032	25,087
G&A	13,504	14,919	49,072
Financing	8,512	(8,536)	63,307
Total costs and expenses	28,676	13,646	156,861
Income before the Company's share in the profits of investee companies	485,186	93,372	438,875
Share in profits of investee companies, net of tax	244,063	123,076	492,110
Income before income taxes	729,249	216,448	930,985
Income taxes	(57,205)	(28,542)	(109,994)
Net income for the period	672,044	187,906	820,991
Other comprehensive income:			
Amounts that were or will be classified in the future to profit or loss, net of tax:			
Change in fair value of financial assets available for sale, net of tax	1,491	66,909	10,286
Translation differences from foreign operations	(24,778)	15,027	2,940
Share in the other comprehensive income (loss) of investee companies, net of tax	(1,798)	5,401	5,399
Total	(25,085)	87,337	18,625
Amounts that will not be classified in the future to profit or loss, net of tax:			
Actuarial loss due to defined benefit plan, net of tax	-	-	(78)
Other comprehensive income (loss) for the period, net of tax	(25,085)	87,337	18,547
Total comprehensive income for the period	646,959	275,243	839,538

Azrieli Group Ltd.

Statement of Cash Flows

	For the three-month period ended March 31		For the year ended December 31
	2016	2015	2015
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Cash flows - current operations			
Net profit for the period	672,044	187,906	820,991
Depreciation and amortization	240	216	894
Capital loss (profit) from liquidation of fixed assets	26	47	(20)
Net loss (gain) from fair value adjustment of investment property and investment property under construction	(364,915)	10,986	18,693
Financing and other revenues, net	(21,385)	(18,793)	(84,014)
Share in profits of investee companies, net of tax	(244,063)	(123,076)	(492,110)
Expenses for taxes recognized in the income statement	57,205	28,542	109,994
Income tax paid, net	(26,650)	(22,177)	(70,709)
Change in financial assets	-	(157)	151
Change in trade and other receivables	(27,526)	(8,254)	(34,996)
Change in trade and other payables	6,124	17	(6,151)
Change in employee provisions and benefits	9	(5,106)	(11,288)
Erosion (revaluation) of financial assets designated at fair value through profit and loss	(4,768)	598	(2,715)
Change in recording of benefit in respect of share-based payment and employee benefits	-	1,716	2,637
Net cash – current operations	46,341	52,465	251,357
Cash flows - investment activities			
Proceeds from liquidation of fixed assets	239	129	436
Purchase of and investment in investment property and investment property under construction	(443,004)	(133,518)	(445,891)
Down payments on account of investment property	(28,447)	(31,289)	(4,815)
Purchase of fixed assets	(625)	(539)	(3,468)
Investments in investee companies	(77,636)	-	(781)
Change in financial assets designated at fair value through profit and loss, net	595	253	2,338
Granting of long-term loans to investee companies, net	(43,440)	(91,092)	(163,590)
Interest and dividend received	13,021	1,047	31,021
Return of investment in investee company	-	-	1,962
Payments to institutions for the purchase of real estate	(51,387)	(8,226)	-
Net cash - investment activities	(630,684)	(263,235)	(582,788)

Azrieli Group Ltd.

Statement of Cash Flows

	For the three-month period ended March 31		For the year ended December 31
	2016	2015	2015
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Cash flows - financing activities			
Bond offering net of offering expenses	-	618,871	2,209,284
Dividend distribution to shareholders	-	-	(320,000)
Repayment of bonds	(44,183)	(44,183)	(44,183)
Receipt of long-term loans from banks and others	250,000	-	-
Repayment of long-term loans from banks and others	(104,056)	(104,254)	(624,913)
Short-term credit from banks and others, net	190,274	114,994	(53,116)
Deposits from customers, net	275	217	223
Interest paid	(22,404)	(25,548)	(91,927)
Net cash - financing activities	269,906	560,097	1,075,368
Increase (decrease) in cash and cash equivalents	(314,437)	349,327	743,937
Cash and cash equivalents as of the beginning of the period	761,281	19,330	19,330
Effect of exchange rate changes on cash balances held in foreign currency	(1,329)	673	(1,986)
Cash and cash equivalents at end of period	445,515	369,330	761,281

(*) Non-cash transactions, for a period of three months which ended on March 31, 2016, include payables in respect of a NIS 400,000 thousand dividend (March 31, 2015 – NIS 320,000 thousand) and payables in respect of acquisitions on credit of current assets in the amount of NIS 26,981 thousand (December 31, 2015 – NIS 29,666 thousand, March 31, 2015 - NIS 35,303 thousand).

Azrieli Group Ltd.

Notes to the Separate Financial Statement

A. General:

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

This separate financial statement is to be inspected with respect to the Company's separate financial statement as of December 31, 2015, and for the year then ended, and the additional figures that were attached thereto.

B. Definitions:

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

C. Accounting Policy:

The separate financial statement is prepared in accordance with the accounting policy specified in Note B to the Company's separate financial statement as of December 31, 2015 and the year then ended.

D. Material Events during the Reporting Period:

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

E. Material Subsequent Events:

See Note 8 to the Condensed Consolidated Financial Statements which are published with this separate financial statement.

F. Contingent Liability:

The Parties	Amount of the Claim	Nature of the Claim	Chances of the Claim
Claim against the Company and an investee company	If not certified as a class action – NIS 4,561. If certified as a class action only in relation to the class of offerees whose shares were subject to a forced purchase – approx. NIS 18 million. If certified as a class action in relation to all offerees – approx. NIS 157 million.	In August 2013, a motion for an appraisal remedy pursuant to Section 338 of the Companies Law, 5759-1999 and a motion for cancelation of the tender offer, as well as a motion for class certification thereof were filed against the Company and against an investee company with the Economic Division in the Tel Aviv District Court by a petitioner alleging to have been an offeree in the framework of a full tender offer that was completed by the Company at the end of September 2012, for shares that were held by the public in Granite Hacarmel Investments Ltd. (despite the lapse of the six (6) month period set forth by the law for the filing of a claim for an appraisal remedy). The claim alleges, *inter alia*, that the petitioner was forced to sell his shares to the Company in the tender offer at a price lower than the value of the shares and that the conditions for performance of a forced purchase pursuant to the tender offer were not fulfilled and that therefore it was not possible to delist Granite Hacarmel Investments Ltd.	On April 14, 2016, a motion was filed with the Tel Aviv-Jaffa District Court (the "Court") to enter a judgment approving the settlement agreement (the "Settlement Agreement"), which was signed regarding an action and a class certification motion filed by the petitioner (the "Action" and the "Class Plaintiff", respectively), against the Company and against an investee company of the Company. The Settlement Agreement determines that without admitting any of the claims raised by the Class Plaintiff, and for settlement purposes only, against a full, absolute and final waiver and discharge of the Action, the class of plaintiffs (as defined in the Settlement Agreement) will be paid immaterial amounts. It is clarified that at this stage, the Settlement Agreement has not yet received the Court's approval as required pursuant to the provisions of the Class Actions Law, 5766-2006.

Part D

Effectiveness of Internal Control over the Financial Reporting and Disclosure

AZRIELIGROUP

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

Attached please find a quarterly report on the effectiveness of internal control over financial reporting and disclosure pursuant to Regulation 38C(a):

The management, under the supervision of the Board of Directors of Azrieli Group Ltd. (the “Corporation”), is responsible for setting and maintaining proper internal control over financial reporting and disclosure at the Corporation.

For this purpose, the members of management are:

1. Yuval Bronstein, CEO;

2. Irit Sekler-Pilosof, CFO;

3. Michal Kamir, General Counsel and Company Secretary;

4. Yair Horesh, Chief Comptroller for Accounting and Financial Statements.

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

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

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 Annual Report regarding the effectiveness of internal control over financial reporting and disclosure, which was attached to the Periodic Report for the period ended on December 31, 2015 (the "**Most Recent Annual Report on Internal Control**"), the Board of Directors and the management evaluated the corporate's internal control. Based on that evaluation, the Board of Directors and the management concluded that the said internal control, as of December 31, 2015, is effective.

Until the Report Date, no occurrence or issue were brought to the knowledge of the Board of Directors and the management, which might change the evaluation of the internal control effectiveness, as presented in the Most Recent Annual Report on Internal Control.

As of the Report Date, based on the effectiveness evaluation of internal control in the Most Recent Annual Report on Internal Control, and based on information which was brought to the knowledge of the management and the Board of Directors as aforesaid, the internal control is effective.

Statement of Managers:

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

I, Yuval Bronstein, represent that:

1. I have reviewed the quarterly report of Azrieli Group Ltd. (the "Corporation") for Q/1 2016 (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. No occurrence or issue have been brought to my attention, that occurred during the period between the date of the Most Recent Periodic Report and the Report Date herein, which can change the conclusion of the Board of Directors and management with regard to the effectiveness of internal control over the corporation's financial reporting and disclosure.

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

May 24, 2016

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Yuval Bronstein, CEO

Statement of Managers:

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

I, Irit Sekler-Pilosof, represent that:

1. I have reviewed the Interim Financial Statements and other interim financial information included in the reports of Azrieli Group Ltd. (the "Corporation") for Q/1 2016 (the "Reports" or the "Interim Reports");

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

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

4. I have disclosed to the Corporation's auditor and to the Corporation's Board of Directors and the Audit Committee and Financial 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 Interim Financial Statements and the other information included in the Interim Reports, which may reasonably adversely affect the Corporation's ability to gather, process, summarize or report financial information in a manner which casts doubt on the reliability of financial reporting and 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 our supervision, which are designed to ensure that material information in reference to the Corporation, including consolidated companies thereof as defined in the Securities Regulations (Annual Financial Statements), 5770-2010, insofar that it is relevant to the financial statements and other financial information included in the Reports, is presented to me by others at the Corporation and the consolidated companies, particularly during the preparation of the Reports; and -

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

c. No occurrence or issue have been brought to my attention, that occurred during the period between the date of the Most Recent Periodic Report and the Report Date herein, pertaining to the Interim Financial Statements and any other information included in the Interim Reports, which could, in my opinion, change the conclusion of the Board of Directors and management with regard to the effectiveness of internal control over the corporation's financial reporting and disclosure.

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

May 24, 2016

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Irit Sekler-Pilosof , CFO