Azrieli Group Ltd.

Quarterly Report Q1/2017

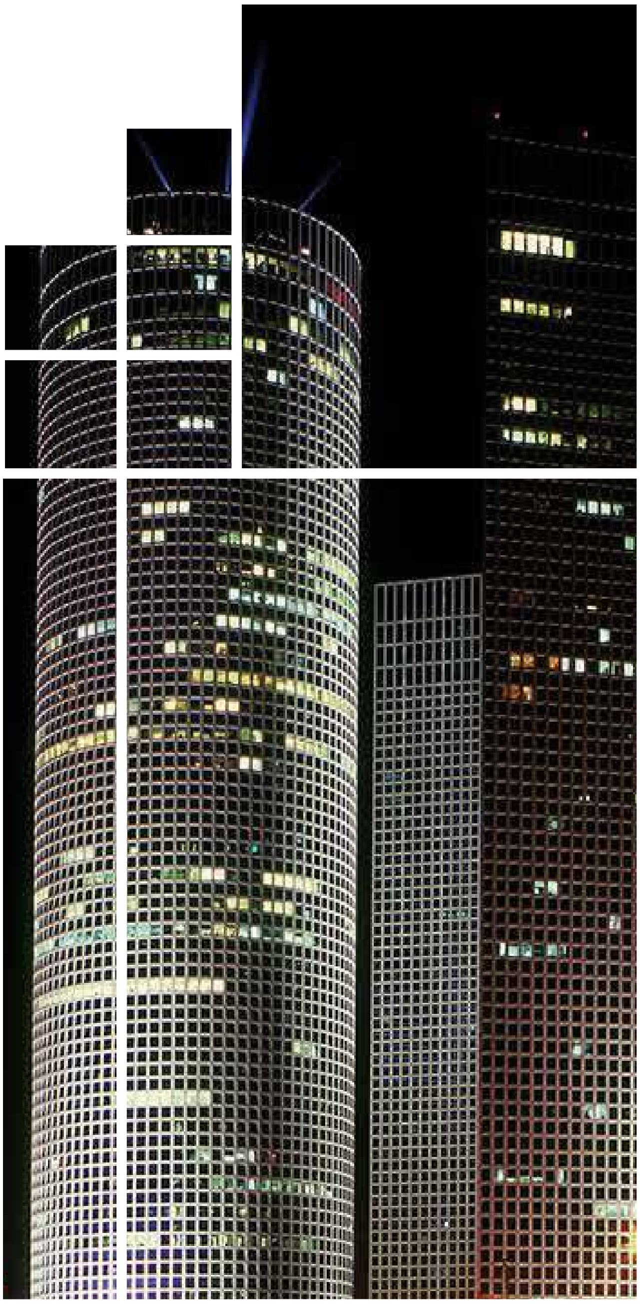
Dated 31 March 2017

Part A Board Report

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

Part C Consolidated Financial Statements Dated 31 March 2017

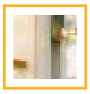
Part D Effectiveness of Internal Control over the Financial Reporting and Disclosure



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, 2017

The board of directors of Azrieli Group Ltd. (the "**Company**"); the Company together with all corporations directly and/or indirectly held thereby shall hereinafter be referred to as: the "**Group**" or "**Azrieli Group**") hereby respectfully submits the Board of Directors' Report for the three months ended March 31, 2017 (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, 2016, 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 2016") and the update to the Corporation's Business Chapter and the Financial Statements for March 31, 2017.

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 investments in Granite Hacarmel Investments Ltd. ("Granite" or "Granite Hacarmel") and in Azrieli E-Commerce Ltd.[1] ("Azrieli E-Commerce"), which are presented based on the book value instead of the consolidation of their 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 and Azrieli E-Commerce, such as trade accounts receivable, inventory, sales etc. The extended standalone statement is attached hereto as Annex A. This Report is not audited or reviewed by the Company's auditors.

[1] Formerly Netex New Media Ltd., a company acquired by the Company in the framework of a transaction for the purchase of an ecommerce business.

Highlights for the Quarter ended March 31, 2017 until the Report Release Date(*)

Improvement in NOI in the Quarter compared with the corresponding quarter
• An increase of approx. 6% in NOI (approx. NIS 338 million) compared with the same quarter last year (approx. NIS 319 million).
Improvement in same-property NOI in Israel in the Quarter compared with the corresponding quarter
• An increase of approx. 3% in same-property NOI in Israel compared with the corresponding quarter (see Section 1.3.3 below).
FFO from income-producing property operations
• An increase of approx. 11% in FFO in the Quarter (NIS 253 million), which is attributed to the income-producing property operations (see Section 1.3.5 below).
Net Profit
• Net profit in the Quarter was approx. NIS 241 million, compared with a net profit of approx. NIS 674 million in the same quarter last year.
Adjusted Net Profit
• An increase of approx. 5% in the adjusted net profit (net profit, net of the real estate revaluation effects net of tax and the tax rate reduction), which totaled approx. NIS 253 million in the Quarter, compared with approx. NIS 242 million in the same quarter last year. Net of the Index effects on the financing expenses in this Quarter and in the same quarter last year, the adjusted net profit increased by approx. 8%.
Business Development and Enterprise
• In the Report Period, the Company invested approx. NIS 255 million in development, the construction of new properties and the betterment of existing properties (see Section 1.3.1 below). • Construction of the Rishonim Mall has been completed, and the mall was opened to the public during March 2017. As of the Report Date, lease-up of the offices in the project had begun.

(*) In the above highlights, the Company included the main issues specified in this Report below. With respect to forward-looking information, including in respect of the progress of projects under development, see Section 1.3.1 below.

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

1.1 Key Data from the Description of the Corporation's Business

Summary of the Group's operating segments as of the Report Date

As of the Report Date, the Group's business activity focuses on the various real estate sectors, while the majority 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. The Group also operates in the senior housing segment, in the Granite segment (which mainly includes activities in the fields of energy, water and sewage) and the Group has other activities of ecommerce and minority holdings in financial corporations. In view of the closing of the transaction for the sale of the Group's holdings in Sonol, commencing from the quarterly report as of June 30, 2016, Sonol's operations became discontinued operations, according to GAAP, and are presented in the Company's income statements separately from the continued operations (see Note 4 to the Financial Statements). In view of the aforesaid, the Company has begun reporting on its operations in the Granite segment as a separate business segment, as defined in GAAP. In addition, from the quarterly report as of September 30, 2016, the Company's business in the senior housing segment has begun to be described in the Company's financial statements as a separate business segment in view of the establishment and expansion of the business and investment in development projects in the segment. The senior housing segment and the Granite segment are deemed as separate operating segments for purposes of the quarterly and periodic reports of the Company.

As of the Report Release Date, the Company reports five business segments to the public:

- **The Retail Centers and Malls in Israel Segment** – The Company has 17 malls and retail centers in Israel, with a total leasable area of approx. 329 thousand sqm leased to approx. 1,900 tenants;

- **Office and Other Space for Lease in Israel Segment** – The Company has 12 income-producing properties in this segment in Israel, with a total leasable area of approx. 421 thousand sqm leased to approx. 550 tenants;

- **Income-Producing Properties Segment in the U.S.[2]** – The Company has 7 income-producing properties in this segment, with a total leasable area of approx. 199 thousand sqm (consolidated) and approx. 189 thousand sqm (the Company's share) leased to approx. 250 tenants;

[2] The "Company's share" – net of minority holdings in certain companies.

- ☒ **Senior Housing Segment** – The Company has 2 active senior homes of a built-up above-ground area of approx. 49 thousand sqm which include approx. 559 senior housing units, and three projects under development and construction for the construction of approx. 840 residential units of a total area of approx. 107 thousand sqm;

- ☒ **Granite Segment** – The Company holds through Granite Hacarmel 100% of the rights in Supergas Israeli Gas Distribution Company Ltd. ("**Supergas**") which engages in the marketing of energy substitutes; and 100% (through Granite Hacarmel) of GES Global Environmental Solutions Ltd. ("**GES**") which engages in the treatment of water, wastewater and chemicals.

<u>The average occupancy rates in the income-producing properties as of the Report Release Date</u>:

- ☒ The retail centers and malls in Israel segment: approx. 97%;

- ☒ The office and other space for lease in Israel segment: approx. 99%[3];

- ☒ The income-producing property in the U.S. segment: approx. 83%[4];

- ☒ The senior housing segment in Israel: approx. 99%;

<u>Additional operations</u>:

- ☒ The ecommerce business – see below a specification regarding the ecommerce business;

- ☒ Financial investments[5] - an investment in Bank Leumi Le-Israel Ltd. and in Leumi Card Ltd. See below changes in investments in the Report Period (NIS in millions):

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[3] Excluding the 2 buildings of Phase B in the Azrieli Holon Center, which were opened in late-2015 and at the end of Q1/2016 and are in lease-up stages and the offices in the Rishonim project.

[4] In view of the conclusion of a contract with a tenant which held 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. As of the Report Date, part of the space has been leased and the Company is conducting negotiations for the lease of the remaining space.

[5] In addition, the Company has negligible investments in venture capital companies, startups and investment funds as specified in the 2016 periodic report.

	Investment value in the financial statements as of December 31, 2016	Investments (sale proceeds) during the three months ended March 31, 2017	Total investment as of March 31, 2017 before adjustment to changes in fair value during the Report Period	Fair value* of the investment as presented in the financial statements as of March 31, 2017	Change in fair value in the Report Period	Dividend received in the Report Period
Investment in Bank Leumi Le-Israel Ltd. (*)	1,040	(16)	1,024	1,033	9	-
Investment in Leumi Card Ltd. (**)	562	-	562	562	-	10
Total	1,602	(16)	1,586	1,595	9	10

*Fair value of the investment in Bank Leumi Le-Israel is determined according to the value of the stock on the Stock Exchange as of March 31, 2017.

**Fair value of the investment in Leumi Card is determined by an independent valuator, according to the valuation as of December 31, 2016.

The Group's growth engines:

Development of income-producing properties - As the Company has reported in the past, the Company is focusing on its core business of real estate. The Group's main growth engine is the development of income-producing property projects: malls, offices, income-producing properties in the U.S. and senior housing. As of the Report Date, the Company has 8 projects at various stages of development in Israel.

The Azrieli Sarona project in Tel Aviv, including an office tower with a leasable area of approx. 118,000 sqm, whose construction is expected to be completed in Q3/2017, and a boutique mall of an area of approx. 11,500 sqm, whose construction is expected to be completed in 2018. As of the Report Release Date, the project is in advanced marketing stages, while in respect of 95% of the leasable office space, lease agreements were signed or advanced stage drafts were exchanged (out of which, contracts were signed in respect of approx. 65% of the leasable office space). In addition, in relation to approx. 85% of the leasable retail space, lease agreements have been signed and/or advanced-stage drafts have been exchanged.

On the Report Date, the Company completed the construction of the office tower and mall in Azrieli Rishonim in Rishon LeZion, and in March 2017 the mall was opened to the general public, and as of the Report Release Date, lease-up of the office tower has begun. In relation to approx. 85% of the leasable office space in the project, lease agreements have been signed or advanced-stage drafts exchanged (out of which, contracts have been signed in relation to approx. 60% of the leasable office space). Azrieli Rishonim is situated near to Route 431 and to the Rishonim train station, which allows for considerable accessibility to the complex.

An additional project to be constructed on the artery of Menachem Begin North, close to the Azrieli towers, is the Azrieli Town project. On August 31, 2016, the Company received possession of this lot and its construction is expected to be completed in 2020. As of the Report Release Date, the Company has signed agreements to lease approx. 26 thousand sqm of office space in the project, constituting more than one half of the leasable office space in the project. As of the Report Release Date, the Company is promoting a zoning plan for the addition of rights for offices and residences. In addition, the Company has several additional projects at development and construction stages, for which no completion date has yet been scheduled: expansion of the Azrieli Tel Aviv mall and the construction of a fourth tower for the Azrieli Tel Aviv center on the land which the Company purchased from Yediot Aharonot and which was handed over to the Company's possession in March 2016. In March 2017, the Company began the demolition of the building on the land. In addition, in Holon the Company purchased a number of plots of land for the development of the industrial and commercial area, close to the Azrieli Holon center. In the senior housing segment, the Company has three plots of land at various development stages (see further details below).

For details with respect to the projects under construction, see Section 1.3.1 below and Section 4 of Chapter B of the report (Update of the Description of the Corporation’s Business as of March 31, 2017).

Betterment of properties – The Company acts for the promotion and betterment of existing properties, including by way of the addition of retail space and leasable office space.

Senior Housing - As the Company has reported in the past, the Company from time to time looks into expanding its business, including entry into related real estate sectors. Thus, in 2014, the Company began to develop the senior housing segment, with the purchase of land for senior housing in Modi’in. The Company currently has two active senior homes: Palace Tel Aviv, which was purchased in 2015, and Palace Ra’anana (formerly Ahuzat Bayit, Ra’anana), whose purchase was closed in Q2/2016. In addition, the Company has three projects under development and construction for the construction of approx. 840 residential units of a total area of approx. 107 thousand sqm.

Expansion of the overseas office sector - As a development company, the Company from time to time examines growth targets for the expansion of its business, and explores opportunities, *inter alia* for the purchase of income-producing property and land for development also overseas.

Ecommerce business – Further to the Company’s reports whereby it is continuing to look into business opportunities in connection with expansion of its business to additional segments which are in line with its business strategy, while gaining a foothold in the world of digital commerce which is gaining momentum in Israel and worldwide and creation of an additional growth engine, with the aim of creating a consumer experience, concurrently with the development of its core business in traditional commerce, the Company purchased business in the field of electronic commerce (ecommerce) from Buy2 Networks Ltd.

*The Company's estimates stated in this section, inter alia in connection with the dates for completion of the construction and the scopes of the projects, are forward-looking information, as defined in the Securities Law, 5728-1968 (the "**Securities Law**"), which is based on subjective estimates of the Company as of the Report Date, and there is no certainty that they will materialize, in whole or in part, or they may materialize in a materially different manner, inter alia due to factors beyond its control, including changes in market conditions, changes in the Company's plans, the time that shall be required for approval of the building plan for construction.*

1.2 Business Environment – Income Producing Real Estate Operation

In the estimation of the Company's Board, no material change has occurred in the business environment in which the Group operates, as described in the Board of Directors' Report as of December 31, 2016, except as specified below. The indicators of the economic activity in the first three months of 2017 show that the Israeli market is continuing to grow. The real gross domestic product, after deduction of the effect of seasonality, increased by approx. 1.4% (in annual terms) in the first three months of 2017. Private consumption expenditure dropped approx. 1.6% (in annual terms) in Q1/2017, meaning a decrease of 3.4% in expenditure per capita. The unemployment rate is low at approx. 4.2%. In the income-producing property sector in Israel, stability has been preserved both in terms of demand and in terms of rental prices and the occupancy rate, further to the trend that characterized 2016. The (known) CPI remained materially unchanged in the first three months of 2017. The Bank of Israel interest rate remained unchanged in the first three months at 0.1%. The Prime interest rate is 1.6%.

The Company's management estimates that the broad dispersion of the portfolio of properties owned thereby, the active current management and maintenance of the properties, their being located mainly in high-demand areas, the high business positioning of the properties and the Company's investments in the betterment of 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, 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.

The Company's above estimations regarding changes in the income-producing property in Israel sector and their effect on the Company's results are merely subjective estimations and constitute forward-looking information within the definition of the term in the Securities Law. Actual effects and results may materially differ from the aforesaid estimations and what they imply, for various reasons, including the further intensification of competition, a decline in demand and a deterioration of the economic situation in Israel.

1.3 Summary of Developments in and after the Report Period, until the Release Date

Financing transactions

Date	Financing Type	Total Amount Raised (NIS in millions)	Nominal Annual Interest Rate	Duration as of the Date of the Expansion	Collateral	Comments
March 2017	Expansion of the Series B bond series	Approx. 223	0.65	4.4	None	According to a shelf offering report published on March 29, 2017 (Ref.: 2017-01-032703), published under the Company's shelf prospectus that was published on May 11, 2016 (Ref.: 2016-01-063049). For further details regarding the Series B-D bonds, see Note 3B to the Financial Statement for March 31, 2017.
March 2017	Expansion of the Series C bond series	Approx. 182	1.64	5.5	None	
March 2017	Expansion of the Series D bond series	Approx. 960	1.34	6.8	None	

Senior Officers

On March 21, 2017, Mr. Gali Gana ended his term of office as the Company's Internal Auditor, and in his stead the Company's Board appointed Mr. Moshe Cohen to the position.

On May 23, 2017, the Company's Board adopted a resolution to appoint Mr. Menachem Einan, a regular director, as a member of the Audit, Compensation and Enforcement Committees of the Board of Directors.

Receipt of a tax assessment

On December 5, 2016, the Tax Authority issued, for the Company and Canit Hashalom, tax assessments to the best of judgment (the "**Assessment**") in a total sum of approx. NIS 170 million for 2011-2014 (inclusive). It is noted that a tax liability is included in the Company's financial statements in respect of parts of the sum of the Assessment[6]. The Company disputes the positions of the Tax Authority and believes, *inter alia*, in reliance on its professional advisors, that it has sound claims against these positions, and therefore filed, in January 2017, an objection to the Assessment.

For details regarding the Company's strategy and the forecast for its activity, see Sections 26 and 27 of Chapter A of the Periodic Report for 2016 which was published on March 22, 2017 (Ref.: 2017-01-026958).

* * *

[6] For details, see the Company's immediate report of December 6, 2016 (Ref.: 2016-01-136948), included herein by way of reference.

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 2016 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.

1.3.1 **Developments in Enterprise 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, 2017

Name of Property	Location	Purchase Date	Usage	Holding Rate	Land Area (sqm)	Marketable Space (sqm)	Construction Commencement Date	Estimated Completion Date	Project Value in the Company's Books as of March 31, 2017 (NIS in millions)	Cost Invested (excluding discounting and tenant fit-out) as of March 31, 2017 (NIS in millions)	Estimated Construction Cost, including Land (NIS in millions)
Azrieli Sarona	Tel Aviv	May 2011	Retail and Offices	100%	9,400	11,500 118,000	May 2012	Y2018 (retail) Q3/2017 (offices)	1,831	1,504	1,600-1,660
Palace Modi'in Senior Housing	Modi'in	June 2014	Senior Housing	100%	10,500	35,000*	April 2015	Y2018	207	199	360-370
Azrieli Town(1)	Tel Aviv	October 2012	Retail, Offices and Residential	100%	10,000	75,000	September 2016	Y2020	487	301	1,060-1,110
Palace Lehavim senior housing	Lehavim	December 2014	Senior Housing	100%	28,300	Phase A – 32,000* Phase B – 12,000	August 2016	Phase A - Y2019 Phase B – To be determined	38	36	360-370
Expansion of Azrieli Tel Aviv center(2)	Tel Aviv	May 2013	Retail, Offices and Residential	100%	8,400	69,000	September 2016 **	To be determined	599	411	1,000-1,050
Holon Manor land	Holon	Feb. 2015	Retail and Offices	100%	6,200	28,000	Q2/2017 (estimated)	Y2020	33	36	220-240

Property in Holon Industrial Zone - Lodzia(3)	Holon	April 2016	Retail and Offices	100%	59,200	220,000	December 2017 (estimated)	To be determined	326	347	To be determined
Rishon Lezion Senior Housing Land	Rishon Lezion	March 2016	Senior housing and retail	100%	3,400	*28,750	To be determined	To be determined	50	50	390-400
Total						629,250			3,571	2,884	

(1) The data presented relate to the existing zoning plan for the land.
(2) The data presented relate to the existing zoning plan for the land.
(3) Includes another plot of land (approx. 6,200 sqm, and in relation thereto marketing areas of approx. 27,000 sqm) originally purchased in an ILA tender, which constituted part of the Holon Manor land.
(*) The figure constitutes the scope of the building rights in sqm. With respect to the Rishon Lezion senior housing land, the figure includes an area of approx. 3,000 sqm for retail.
(**) In September 2016, work began for clearance of the premises for the purpose of demolition of the building, and in March 2017, the work for demolition of the building began.

During the Report Period, the Company continued the work on development and construction of its properties specified above, and obtaining the app*rovals required for the continued development thereof, according to the planned timetables and without significant delays. In addition, progress was made in negotiations for the lease of the space under construction, in relation to dozens of thousands of sqm. For further details, see Sections 4-5 of Chapter B of this Report.*

The Company's estimates stated in this Section 1.3.1, 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 under construction or the outcome 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.*

1.3.2 NOI (Net Operating Income) index[7]

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 the senior housing segment.

NIS in millions	For the three months ended		For the year ended
	March 31, 2017	March 31, 2016	December 31, 2016
Retail centers and malls in Israel	199	191	779
Growth rate	4%		
Office and other space for lease in Israel	96	92	369
Growth rate	4%		
Income-producing property in the USA	32	30	124
Growth rate	7%		
Senior housing	11	6	29
Growth rate	83%		
Total NOI	**338**	319	**1,301**
Growth rate	6%		
For explanations regarding the change in the NOI, see Sections 1.10.1, 1.10.2, 1.10.3 and 1.10.4 below.			

1.3.3 Same property NOI Index[8]

NIS in millions	For the three months ended	
	March 31, 2017	March 31, 2016
Retail centers and malls in Israel segment	194	191
Office and other space for lease in Israel segment	96	92
Income-producing property in the US segment	29	30
Senior housing segment	7	6
Total	**326**	**319**
Growth rate	2%	

[7] As stated in the Board of Directors' Report as of December 31, 2016, 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 maintenance costs to preserve the status quo).

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

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

	2017	2016			
	Q1	Q4	Q3	Q2	Q1
Same property NOI in all of the periods (*)	326	327	320	319	319
NOI from properties acquired/launched	12	11	8	2	-
NOI from properties sold during the period	-	-	-	-	-
Total NOI for the period	**338**	**338**	**328**	**321**	**319**

(*) Same-property NOI includes the figures for Azrieli Holon Center, which has been under lease-up during all periods and lease-up of which has not yet been completed.

1.3.4 Weighted cap rate

Following is a calculation of the weighted cap rate derived from the entire income-producing property (excluding senior housing[9]) of the Group as of March 31, 2017**:**

	NIS in millions
Total Investment property in the "Extended Standalone" Statement (See Annex A) (*)	**23,936**
Net of value attributed to investment property under construction	**3,169**
Net of the value attributed to land reserves	**506**
Net of the value attributed to senior housing	**1,088**
Total value of income-producing investment properties (including fair value of the vacant space)	**19,173**
Actual NOI for the quarter ended on March 31, 2017	**327**
Addition to future quarterly NOI (**)	**38**
Total standardized NOI	**365**
Pro-forma annual NOI based on standardized NOI (excluding senior housing)	**1,460**
Weighted cap rate derived from income-producing investment property (including vacant space) (***)	**7.6%**

(*) According to valuations received as of December 31, 2016. (As of the Report Date, the Company has not performed new valuations for the income-producing property included in this calculation). The figure includes receivables appearing in the balance

[9] Since the value 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 8.75%.

sheet item "loans and receivables" in respect of averaging attributed to real estate.

(**) The figure includes adjustment to the NOI, as included in the valuations as of December 31, 2016, and therefore includes, *inter alia*, additional NOI for vacant space not yet fully leased-up, and space that was leased-up during Q1/2017 in a full year lease-up.

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

This figure does not constitute a forecast of the Company for the NOI of 2017 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. Furthermore, income-producing properties that will commence producing in H2/2017 (Azrieli Sarona) were not included in the annual standardized NOI.

The Company's estimates mentioned in this Section 1.3.4 includes forward-looking information, as defined in the Securities Law. 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.

1.3.5 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, 2017**	**March 31, 2016**
Net profit for the period attributed to shareholders	**240**	672
Discounting the net profit, net from Granite Hacarmel and from Azrieli E-Commerce attributed to shareholders (including amortization of surplus costs)	**(20)**	(20)
Adjustments to profit: (1)		
Depreciation (appreciation) of investment property	**15**	(357)
Depreciation and amortizations	**2**	2
Net non-cash flow financing and other revenues	**(17)**	(28)
Tax expenses (income)	**22**	(36)
Net of dividend received from financial assets available for sale	**(10)**	(10)
Cash flow due to receipt of deposits from tenants net of return of deposits to tenants(2)	**22**	3
Net of revenues from forfeiture of tenants' deposits	**(5)**	(3)
Total adjustments to profit	**29**	(429)
Plus interest paid for real investments (3)	**4**	5
Total FFO attributed to income-producing property operations (4)	**253***	**228**

Remarks and assumptions:

(1) The adjustments to the profit below do not include adjustments due to Granite Hacarmel and Azrieli E-Commerce since their results were discounted in full.

(2) The FFO calculation changed such that deposits of the tenants in the senior housing shall be deemed as received or as repaid on the date of execution or expiration of the agreement, as the case may be.

(3) Calculated according to weighted interest of the Group due to the real investments, which include: Granite Hacarmel, Azrieli E-Commerce Bank Leumi and Leumi Card, due to 65% of the investments' cost.

(4) Which is attributed to the shareholders only.

(*) Including income of approx. NIS 10 million in respect of apartments in Palace Ra'anana which were leased-up for the first time. In addition, including growth in interest expenses in view of the scope of the financing round that was performed in Q3/2016 to refinance loans of the Group which were repaid toward the end of Q1/2017. Refinancing of the existing loans by the debt raised in 2016 is expected to increase the FFO.

1.3.6 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, 2017	March 31, 2016
Equity attributed to the Company's shareholders in the financial statements	14,976	14,025
Together with a tax reserve due to revaluation of investment property to fair value (net of the minority share)	2,833	2,976
EPRA NAV	**17,809**	**17,001**
EPRA NAV per share (NIS)	**147**	**140**
EPRA NNNAV (NIS in millions)	**As of**	
	March 31, 2017	**March 31, 2016**
EPRA NAV	17,809	17,001
Adjustment of assets' value to fair value (net of the minority)	14	10
Adjustment of the value of financial liabilities to fair value (net of the minority)	(62)	(186)
Net of tax reserve due to revaluation of investment property to fair value (net of the minority share)	(2,833)	(2,976)
EPRA NNNAV	**14,928**	**13,849**
EPRA NNNAV per share (NIS)	**123**	**114**

1.3.7 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, 2017	March 31, 2016	December 31, 2016
Net profit for the period attributed to the shareholders	**240**	672	1,810
Net profit attributed to the shareholders and non-controlling interests	**241**	674	1,808
Basic profit per share (in NIS)	**1.98**	5.54	14.93
Basic profit per share from continued operations (in NIS)	**1.98**	5.57	15.00
Comprehensive income for shareholders and non-controlling interests	**181**	648	1,893

In the Report Period, the Company recorded an increase in the NOI from the real estate operations. On the other hand, the Company recorded a loss from the adjustment of the fair value of investment property, compared with a profit in the same period last year, and an increase in financing expenses as a result of a lower rate of index decrease in the present quarter compared with the same period last year. In addition, in the corresponding period, the Company recorded a one-time tax income due to the tax rate reduction, which did not recur in the present quarter.

b. 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 in the three months ended March 31, 2017 mainly derives from a decrease from translation differences due to foreign operations of approx. NIS 62 million.

1.4 Business Results and Total Assets

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

	Segment profit for the 3 months ended:		Rate of the segment's profit from the total consolidated net profit in the 3 months ended:	
	March 31, 2017	**March 31, 2016**	**March 31, 2017**	**March 31, 2016**
Retail centers and malls in Israel	**199**	191	**83%**	28%
Office and other space for lease in Israel	**96**	92	**40%**	14%
Income-producing property in the USA	**32**	30	**13%**	4%
Senior housing	**11**	6	**5%**	1%
Granite	**40**	37	**16%**	5%
Others	**(4)**	-	**(2%)**	-
Total attributed profit	**374**	**356**	**155%**	**52%**
Changes in fair value	**(15)**	357	**(6%)**	53%
Net financing expenses	**(29)**	(14)	**(12%)**	(2%)
Tax expenses	**(69)**	(8)	**(29%)**	(1%)
Net administrative and other expenses	**(20)**	(14)	**(8%)**	(2%)
Income from continuing operations	**241**	677	**100%**	100%
Loss from discontinued operations	**-**	(3)	**-**	-
Net profit for the period	**241**	**674**	**100%**	**100%**

The Group's revenues from the operating segments for the three-month period ended March 31, 2017 amounted to approx. NIS 676 million, compared with approx. NIS 606 million in the same period last year, an increase of approx. NIS 70 million. The difference chiefly derives from an increase of approx. NIS 35 million in the revenues of the income-producing property segments, and from an increase of approx. NIS 30 million in the revenues of the Granite segment, mostly resulting from an increase in Supergas' revenues. As of March 31, 2017, balance sheet assets totaled approx. NIS 29.3 billion compared with approx. NIS 28.6 billion as of December 31, 2016, which increase is attributed mainly to an increase in cash resulting from the bond issue at the end of the Quarter.

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, 2017	Dec. 31, 2016	March 31, 2017	Dec. 31, 2016
Retail centers and malls in Israel	12,172	12,074	42%	42%
Office and other space for lease in Israel	8,320	8,219	28%	29%
Income-producing property in the USA	2,060	2,176	7%	8%
Senior housing	1,534	1,495	5%	5%
Granite	1,339	1,298	5%	4%
Others and adjustments	3,834	3,321	13%	12%
Total	29,259	28,583	100%	100%

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

	As of March 31, 2017	As of March 31, 2016	As of Dec. 31, 2016
Current assets	2,440	2,203	1,877
Non-current assets	26,819	24,966	26,706
Current liabilities	2,810	5,510	3,315
Non-current liabilities	11,432	7,589	9,952
Capital attributed to the Company’s shareholders	14,976	14,025	15,273
Capital attributed to the Company’s shareholders from the total balance sheet (in percent)	51%	52%	53%

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 characterized by low leverage and significant non-mortgaged properties, provides the Group with available sources for obtaining finance under convenient terms.

1.6 Financial Position, Liquidity and Financing Sources (NIS in Millions)

The Item	March 31, 2017	December 31, 2016	Explanations and Comments
Total balance sheet	**29,259**	28,583	The increase mainly derives from an increase in cash balances as a result of the bond issue at the end of the Quarter and from investment in investment property and investment property under construction.
Current assets	**2,440**	1,877	The increase mainly derives from an increase in cash balances as a result of the bond issue at the end of the Quarter.
Investment property	**23,846**	23,723	The increase derives from progress of the investments in the projects under construction and in the income-producing properties.
Short-term credit	**1,098**	2,083	The decrease derives from the repayment of balances that were classified as current maturities of long-term bonds and loans,
Loans from banks and from other credit providers	**2,603**	2,488	The increase derives from the refinancing of a loan that was repaid and presented on December 31, 2016 as current maturity.
Bonds, net	**5,840**	4,498	The increase derives from a bond issue at the end of the Quarter.
Capital	**15,017**	15,316	The decrease mainly derives from a dividend declaration net of the comprehensive income.

(a) Liquid Means in the Group

As of March 31, 2017, the cumulative scope of liquid means (cash and cash equivalents and short-term deposits and investments) held by the Group amounted to approx. NIS 1,908 million. The Company deems its liquid means, the considerable cash flow from current operations and its unpledged assets (at a total value of approx. NIS 19.7 billion in addition to approx. NIS 1.9 billion 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[10]. 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.

[10] See Section 19 of the Description of the Corporation's Business Chapter in Chapter A of the 2016 Periodic Report for a specification on additional issues in connection with the financing activity at the Group.

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

Assets	Value of assets as of March 31, 2017 (NIS in millions) as presented in the financial statements
Properties in retail centers and malls in Israel segment	**10,252**
Properties in the office and other space for lease in Israel segment	**6,861**
Other Properties (mainly senior housing)	**351**
The Company's holdings in Azrieli E-Commerce	**66**
Company's holdings in Leumi Card	**562**
Company's holdings in Granite Hacarmel	**570**
Company's holdings in Bank Leumi	**1,033**
Total	**19,695**

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

(b) Dividends

	Date of Approval	Date of Payment	Sum
Azrieli Group	March 21, 2017	May 10, 2017	NIS 480 million[11]
Leumi Card	February 22, 2017	March 1, 2017	NIS 50 million[12]
Bank Leumi	---	---	---

[11] As of March 31, 2017, the Company has retained earnings in the sum of approx. NIS 12.5 billion (including a revaluation fund for financial assets available for sale).

[12] The Company's share in the sum of the said dividend is NIS 10 million.

(c) Cash flows

	For the three months ended on March 31, 2017 (NIS in millions)	For the three months ended on March 31, 2016 (NIS in millions)	Explanations and comments
Net cash flows derived by the Group from current operations	**298**	227	In the period and in the corresponding period, they mainly resulted from the operating profit of the income-producing properties in the sum of approx. NIS 338 million (approx. NIS 319 million in the corresponding period), net of income taxes paid.
Net cash flows used by the Group for investment activities	**368**	(707)	The cash flow in the Report Period mainly derived from a decrease in short-term deposits net of sums used for the acquisition of and investment in investment property and investment property under construction in the sum of approx. NIS 256 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 694 million
Net cash flows derived by the Group from financing activities	**485**	162	The increase versus the same period last year mainly derived from the bond issue in the sum of approx. NIS 1,354 million, net of an increase in the repayment of long-term loans and bonds in the sum of approx. NIS 896 million and a decrease in short-term credit in the sum of approx. NIS 166 million.

Following is the composition of the Group's financing sources

	March 31, 2017		December 31, 2016	
	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	1,098	4%	2,083	7%
Long-term credit from banks and other credit providers	2,603	9%	2,488	9%
Long-term bonds	5,840	20%	4,498	16%
Total	**9,541**	**33%**	**9,069**	**32%**

The increase in the sum of approx. NIS 472 million in the Report Period mainly derives from the bond issue net of current loan and bond repayments. As of the Report Date, the Company, on a consolidated basis, has a deficit in the working capital in the sum of approx. NIS 0.4 billion (there is no deficit in working capital in the separate statement), resulting, *inter alia*, 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 soundness and/or the scope of its non-pledged assets, and therefore, the Company's Board determined, at its meeting of May 23, 2017, 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 1.6 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, 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

As of the Report Date, the Company is rated AA+/Stable/ilA-1+ by Ma'alot and Aa1 by Midroog. For details regarding the rating of the bonds, the commercial paper and private loans of the Company, see the Periodic Report for 2016. From the date of release of the Periodic Report for 2016 until the date of release of this report, the following updates occurred: to inspect Ma'alot's rating report on Series B and C Bonds, in the context of expansion of the Series B, C and D Bonds, see the Company's immediate reports of March 27 and 28, 2017 (Ref.: 2017-01-030966, 2017-01-030003, respectively), included herein by way of reference; to inspect Midroog's rating report on Series D Bonds, in the context of expansion of the Series B, C and D Bonds, see the Company's immediate reports of March 27 and 28, 2017 (Ref.: 2017-01-030939, 2017-01-029991, respectively), included herein by way of reference.

(e) Liabilities and Financing

Financial liabilities of the Group (except for Granite Hacarmel and Azrieli E-Commerce) as of March 31, 2017, in millions of NIS:

	Fixed Interest			Variable Interest		Total		Total
	Index-linked	USD-Linked	Not Linked	GBP-Linked	Not Linked	Fixed Interest	Variable Interest	
Short Term Loans	**-**	**-**	**-**	**19**	**641**	**-**	**660**	**660**
Long Term Loans	**7,024**	**1,098**	**250**	**-**	**40**	**8,372**	**40**	**8,412**
Total	**7,024**	**1,098**	**250**	**19**	**681**	**8,372**	**700**	**9,072**

The date of payment of the Group's financial liabilities (with the exception of Granite Hacarmel and E-Commerce) as of March 31, 2017, in NIS in millions:

Year	Principal	Interest	Total
1	**1,005**	**153**	**1,158**
2	**981**	**141**	**1,122**
3	**1,024**	**127**	**1,151**
4	**1,136**	**109**	**1,245**
5 forth	**4,926**	**350**	**5,276**
Total	**9,072**	**880**	**9,952**

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, 2017, short-term loans accounted for approx. 7% of the Group's total financial liabilities (except for Granite Hacarmel and Azrieli E-Commerce). 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 its policy, from time to time, the Company 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. For details regarding expansion of the Company's Series B, C and D Bonds, see Section 1.3 above.

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 298 million in the three months ended March 31, 2017, compared with the sum of approx. NIS 227 million in the same period last year.
- The liquid means and the non-pledged assets as specified in Section 1.6(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.

1.7 General Administrative and Marketing Expenses (Extended Standalone)

The Company's consolidated administrative and marketing expenses (without Granite Hacarmel and Azrieli E-Commerce) in the Report Period amounted to approx. NIS 24 million in the Report Period, compared with approx. NIS 21 million in the same period last year. The increase mainly derives from an increase of approx. NIS 2 million in marketing expenses.

1.8 Net Financing Expenses

The Group's net financing expenses in the Report Period amounted to the sum of approx. NIS 29 million, compared with approx. NIS 14 million in the same period last year (an increase of approx. NIS 15 million). The increase in net financing expenses mainly derives from a decrease in revenues from linkage on loans and bonds resulting from a decrease of approx. 0.2% in the known CPI rate in the Report Period compared with a decrease of approx. 0.9% 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 69 million, compared with tax expenses in the sum of approx. NIS 8 million in the same period last year. The rise in tax expenses in the Report Period is mainly attributed to the reduction of the corporate tax in the corresponding quarter (which created a tax income, as a result of a decrease in the deferred taxes reserve, in the sum of approx. NIS 162 million), net of a decrease in tax expenses in the present period, as a result of the decrease in the adjustment of the fair value of investment properties and a decrease in the current tax rate.

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 1.3.10 of the Board of Directors' Report for December 31, 2016). In addition, the contribution to the results takes into account the Company's share in the results of the company held (indirectly) by the Company, Granite, 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, 2017	**March 31, 2016**	**Dec. 31, 2016**
Revenues	247	234	974
% change	6%		
NOI	199	191	779
% change	4%		

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 1.3.2 of the Board of Directors' Report in the Company's 2016 Periodic Report.

The growth in the NOI mainly derives from the purchase of Azrieli Ra'anana and the Lodzia Complex in the course of 2016.

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

	For the three-month period ended	
	March 31, 2017	**March 31, 2016**
For the segment's properties owned by the Company as of the beginning of the period[13]	194	191
For properties purchased in 2016	5	
For properties that were purchased or whose construction was completed in 2017	-	
Total	199	191

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

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) and was adversely affected by unoccupied space in periods of tenant turnover in some of the malls and by an increase in security and cleaning costs.

The balance of the assets of the retail centers and malls in Israel segment – amounted, on March 31, 2017, to the sum of approx. NIS 12.2 billion, compared with approx. NIS 12.1 billion on December 31, 2016. The change mainly derives from investments in the segment's properties.

Change due to the adjustment of fair value of investment property and investment property under construction of the segment - The loss from fair value adjustment of the segment's investment property and investment property under construction amounted, in the Report Period, to approx. NIS 3 million compared with a gain of approx. NIS 74 million in the same period last year. The properties are presented according to the valuations performed by an independent appraiser as of December 31, 2016.

1.10.2 Office and other space for lease in Israel segment:

Summary of the segment's business results:

	For the three-month period ended		For the year ended
	March 31, 2017	**March 31, 2016**	**Dec. 31, 2016**
Revenues	115	110	447
% change	5%		
NOI	96	92	369
% change	4%		

The increase in revenues and in the NOI derives mainly from growth in revenues from existing leasable office space (mainly the 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, 2017	**March 31, 2016**
Due to the segment's properties owned by the Company as of the beginning of the period[14]	96	**92**
Due to properties which were purchased or whose construction was completed in 2016	-	-
Due to properties which were purchased or whose construction was completed in 2017	-	-
Total	96	**92**

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) and the continued lease-up of Azrieli Holon Center, and was adversely affected by an increase in security and cleaning costs.

The balance of the Group's investment property in the office and other space for lease in Israel segment – amounted on March 31, 2017 to the sum of approx. NIS 8.3 million compared with approx. NIS 8.2 billion on December 31, 2016. The change mainly derives from investments in the segment’s properties.

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

The loss from the fair value adjustment of investment property and investment property under construction of the segment amounted, in the Report Period, to the sum of approx. NIS 9 million, compared with NIS 288 million in the same period last year.

The profit in the same period last year the report mainly derived from the first-time revaluation of properties under development. The properties are presented according to the valuations carried out by an independent appraiser as of December 31, 2016.

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

1.10.3 Income-producing property in the USA segment:

Summary of the business results of the segment:

	For the three-month period ended		For the year ended
	March 31, 2017	**March 31, 2016**	**December 31, 2016**
	NIS in millions		
Revenues	58	55	229
% change	5%		
NOI	32	30	124
% change	7%		

The increase in revenues and in NOI mainly derives from the acquisition of an office building in Austin, Texas, U.S.A., net of the effect of the decrease in the dollar exchange rate.

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

	For the three-month period ended	
	March 31, 2017	**March 31, 2016**
Due to the segment's properties owned by the Company as of the beginning of the period[15]	29	**30**
Due to properties purchased or whose construction was completed in 2016	3	-
Due to properties purchased or whose construction was completed in 2017	-	-
Total	32	**30**

The same property NOI in the income-producing property in the USA segment was negatively affected mainly by a decrease in the average exchange rate of the U.S. dollar, which was approx. 5% lower in the Report Period than the exchange rate in the same period last year.

The investment property balance of the Group in the segment – amounted, on March 31, 2017, to the sum of approx. NIS 2.1 billion, compared with approx. NIS 2.2 billion on December 31, 2016. The change mainly derives from the decrease in the dollar exchange rate as of March 31, 2017 compared with December 31, 2016.

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

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 3 million, compared with a loss of approx. NIS 5 million in the same period last year. The loss in the Report Period mainly derived from the decrease in the GBP exchange rate in the period.

1.10.4 Senior housing segment:

Summary of the segment's business results:

	For the three-month period ended		For the year ended
	March 31, 2017	**March 31, 2016**	**Dec. 31, 2016**
Revenues	32	18	95
% change	78%		
NOI	11	6	29
% change	83%		

The increase in revenues and in the NOI derives mainly from the purchase of Palace Ra'anana during 2016.

Set forth below is the development of the segment's NOI (NIS in millions):

	For the three-month period ended	
	March 31, 2017	**March 31, 2016**
Due to the segment's properties owned by the Company as of the beginning of the period[16]	7	6
Due to properties which were purchased or whose construction was completed in 2016	4	-
Due to properties which were purchased or whose construction was completed in 2017	-	-
Total	11	6

The balance of the Group's investment property in the senior housing segment – amounted, on March 31, 2017, to approx. NIS 1.4 billion, compared with approx. NIS 1.3 billion on December 31, 2016. The change mainly derives from investments in properties under construction.

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

Change from fair value adjustment of investment property and investment property under construction of the segment - The Company had no profit from the fair value adjustment of the segment's investment property and investment property under construction, similarly to the same period last year. The properties are presented according to an update to the valuations that were carried out by an independent appraiser as of December 31, 2016.

1.10.5 Granite segment:

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

	For the three-month period ended		For the year ended Dec. 31, 2016
	March 31, 2017	March 31, 2016	
	NIS in millions		
Revenues	**222**	**189**	653
Segment profit	**40**	**37**	83

Summary of the business results of the Granite Segment:

The increase in revenues and in profit in the Report Period mainly derives from the results of Supergas.

1.10.6 Profit from discontinued operations – Sonol

In July 2016, Granite closed the sale of all of its holdings (100%) in Sonol. According to the provisions of IFRS 5, Sonol's results are restated in the comparison figures for the income statement as discontinued operations. For further details see Note 4 to the Financial Statements as of March 31, 2017.

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, 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.

The data in the Board of Directors' Report are based on the consolidated financial statements as of March 31, 2017. 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.

2. Corporate Governance Aspects

2.1 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 2016.

Financial Statement Approval Procedure

The Committee convened on May 21, 2017 to review the Financial Statements for March 31, 2017 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, 2017. 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 23, 2017.

On May 23, 2017, the Company's board of directors, the corporate organ in charge of governance, approved the Company's Financial Statements for March 31, 2017. For details regarding the members of the Board of Directors, see Section 26 of Chapter D of the Company's Periodic Report for 2016. 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, the Company's Board held a discussion on the working capital deficit. The Board determined that the working capital deficit does not indicate a liquidity problem at the Company in view of its financial soundness and/or the scope of its non-pledged assets. 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, 2017 were approved and the persons authorized to sign them were empowered.

2.2 Amendment and Extension of the validity of letters of indemnification granted to directors who are the controlling shareholders and the granting of an exemption from liability to directors who are the controlling shareholders

On April 27, 2017, the general meeting of the Company's shareholders approved an amendment to and extension of letters of indemnification that were granted to Ms. Danna Azrieli, Ms. Sharon Azrieli and Ms. Naomi Azrieli who are the indirect controlling shareholders of the Company ("**Directors who are the Controlling Shareholders**"), for an additional three-year period, and the granting of an exemption from liability to the Directors who are the Controlling Shareholders from April 27, 2017. For further details, see the notice of meeting report of March 22, 2017 (Ref.: 2017-01-028392), and the immediate report on the outcome of the meeting of April 30, 2017 (Ref.: 2017-01-043866), included herein by way of reference.

2.3 Granting of updated letters of indemnification and exemption to directors of the Company, as shall hold office therein from time to time, apart from directors who are controlling shareholders of the Company and/or their relatives

On April 27, 2017, the general meeting of the Company's shareholders approved the granting of updated letters of indemnification and exemption to directors of the Company, as shall hold office therein from time to time, apart from directors who are controlling shareholders of the Company and/or their relatives. For further details, see the notice of meeting report of March 22, 2017 (Ref.: 2017-01-028392), and the immediate report on the outcome of the meeting of April 30, 2017 (Ref.: 2017-01-043866), included herein by way of reference.

2.4 Approval of payment of compensation to a director

On March 21, 2017, the Company's Board, following the recommendation of the Compensation Committee of March 19, 2017, approved payment of annual compensation and participation compensation to Mr. Menachem Einan, from March 1, 2017, after a previous consulting agreement with Mr. Einan ended on February 28, 2017. The compensation that shall be paid to Mr. Einan is in accordance with the Companies Regulations (Rules on Compensation and

Expenses for an Outside Director), 5760-2000 (the "**Compensation Regulations**"), and in accordance with the Company's compensation policy. The compensation for Mr. Einan was approved pursuant to the Companies Regulations (Relaxations in Transactions with Interested Parties), 5760-2000. For further details, see the Company's immediate report of March 22, 2017 (Ref.: 2017-01-027009), included herein by way of reference.

2.5 Shareholders' agreement

On March 20, 2017, a shareholders' agreement (the "**2017 Agreement**") was signed between Sharon Azrieli, Naomi Azrieli and Danna Azrieli (in person and through companies controlled by them), the indirect controlling shareholders of the Company and directors of the Company (the "**Controlling Shareholders**"). Additional parties to the 2017 Agreement are Azrieli Holdings Inc. ("**Azrieli Holdings**"), a private company incorporated under Canadian law, directly and indirectly, through its holding of the entire share capital of Nadav Investments Inc. ("**Nadav Investments**"), which is the direct controlling shareholder of the company, Nadav Investments , and another Canadian corporation which is a shareholder of Azrieli Holdings and which was, in the past, directly controlled by Mr. David Azrieli OBM (the three of them: the "**Holdings Corporations**"). The 2017 Agreement supersedes a previous shareholders' agreement which was made between the parties, of November 2012 (the "**2012 Agreement**"), and regulates the relationship between the Controlling Shareholders, in person and through the Holdings Corporations, in connection with their rights in the Company. Similarly to the 2012 Agreement, the terms and conditions of the 2017 Agreement include agreements in connection with the sale and transfer of shares in the Company and in the Holdings Corporations, including a lock-up period, right of first refusal, right of first offer, tag along right and an exclusion concerning certain sales of shares (drip) on the Stock Exchange. The 2017 Agreement also prescribes that the manner of exercise of the voting rights in the Company shall be determined by the Controlling Shareholders (by a majority decision), provided that with respect to resolutions for the appointment of directors at the Company, each one of the Controlling Shareholders will be entitled to have the voting rights exercised to appoint one director to be named by her, while the manner of exercise of the voting rights in the Company with respect to resolutions for the appointment of additional directors shall be determined by a majority decision. It is clarified that the 2017 Agreement does not change the identity of the controlling shareholders of the Company (including of Azrieli Holdings) nor their holding rate in the capital and in the voting rights of the Company, and that as of the Report Release Date, Sharon Azrieli, Naomi Azrieli and Danna Azrieli are the Company's Controlling Shareholders. For further details, see the immediate report of March 21, 2017 (Ref.: 2017-01-026388), included herein by way of reference.

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

3.1 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, 2016 and Note 3 to the Financial Statements as of March 31, 2017.

3.2 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.

3.3 Litigation

For details with respect to litigation, see Note 7D to the Consolidated Statement as of March 31, 2017.

3.4 Designated Disclosure to Holders of Series B, Series C, Series D Bonds

See **Annex B** to the Board of Directors’ Report.

3.5 Disclosure pertaining to Very Material Valuations

As of the Report Date, no change has occurred in the parameters for the disclosure and attachment of valuations, as published in the Periodic Report for 2016. The Company updated the valuations of its properties in Israel as of December 31, 2016 (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, 2016).

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, 2016 was attached to the Company's Financial Statements as of December 31, 2016, as released on March 22, 2017 (Ref.: 2017-01-026958) and the appraiser's valuation according to which no material changes had occurred to the valuation, is attached hereto. Details regarding this valuation according to the provisions of Regulation 8B of the Regulations, is attached hereto as **Annex C**.

As of March 31, 2017, the value of the Company's assets whose fair value was determined through a very material valuation (made as of December 31, 2016) was in the sum of approx. NIS 5.1 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 24 billion (approx. 21% of the Company's total investment properties).

3.6 Subsequent events

See Note 7 to the Financial Statements.

3.7 Financial figures attributed to the Company as a parent company

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

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, for their blessed contribution to the Group's achievements in the quarter ended March 31, 2017.

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

Date: May 23, 2017

<u>Annex A</u>

Financial Statements

(Extended Standalone)

As of March 31, 2017

(Unaudited and unreviewed)

Annex A

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 investments in Granite and in Azrieli eCommerce which are presented on the basis of the equity method *in lieu* of consolidation of their 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
	2017	2016	2016
	NIS in thousands	NIS in thousands	NIS in thousands
Assets			
Current Assets			
Cash and cash equivalents	1,829,471	575,824	667,334
Short-term deposits and investments	3,385	506	614,261
Trade accounts receivable	68,232	43,831	69,692
Other receivables	73,214	148,710	103,491
Current tax assets	7,094	7,973	7,480
Total Current Assets	1,981,396	776,844	1,462,258
Non-Current Assets			
Investment in investee companies	793,904	978,492	779,220
Loans and receivables	232,433	93,837	223,873
Financial assets	1,614,302	1,585,040	1,625,453
Investment property and investment property under construction	23,846,256	21,469,356	23,722,736
Fixed assets	129,627	110,798	127,556
Intangible assets	86,022	73,691	86,283
Deferred tax assets	622	833	615
Total Non-Current Assets	26,703,166	24,312,047	26,565,736
Total Assets	28,684,562	25,088,891	28,027,994

Annex A

Extended Standalone Financial Statements

Balance Sheet: (Cont.)

	As of March 31		As of December 31
	2017	2016	2016
	NIS in thousands	NIS in thousands	NIS in thousands
Liabilities and Capital			
Current Liabilities			
Current maturities and credit from banks and other credit providers	1,004,800	2,703,195	2,025,643
Trade payables	129,860	145,473	155,475
Payables and other current liabilities	311,984	375,699	303,139
Deposits from senior housing customers	675,415	297,792	659,024
Declared divided	480,000	400,000	-
Current tax liabilities	29,385	46,739	21,990
Total Current Liabilities	2,631,444	3,968,898	3,165,271
Non-Current Liabilities			
Loans from banks and other credit providers	2,566,084	1,958,143	2,451,115
Bonds	5,501,609	2,090,171	4,149,815
Other liabilities	45,466	42,557	45,250
Employee benefits	5,641	3,429	5,479
Deferred tax liabilities	2,920,220	2,958,198	2,897,567
Total Non-Current Liabilities	11,039,020	7,052,498	9,549,226
Capital			
Ordinary share capital	18,223	18,223	18,223
Share premium	2,518,015	2,518,015	2,518,015
Capital reserves	441,723	389,431	499,528
Retained earnings	11,997,684	11,099,635	12,237,592
Total equity attributable to shareholders of the Parent Company	14,975,645	14,025,304	15,273,358
Not-controlling interests	38,453	42,191	40,139
Total Capital	15,014,098	14,067,495	15,313,497
Total Liabilities and Capital	28,684,562	25,088,891	28,027,994

Annex A

Extended Standalone Financial Statements

Income Statement:

	For the three-month period ended March 31		For the year ended Dec. 31
	2017	2016	2016
	NIS in thousands	NIS in thousands	NIS in Thousands
Revenues:			
From rent, management and maintenance fees	453,388	422,272	1,754,982
Net gain (loss) from fair value adjustment of investment property and investment property under construction	(14,954)	357,011	710,578
Financing	7,962	6,235	39,188
Share in results of held companies, net of tax	20,638	(*)22,650	21,781
Other	10,001	9,989	10,395
Total Revenues	477,035	818,157	2,536,924
Costs and Expenses:			
Cost of revenues from rent, management and maintenance fees	115,365	98,878	445,613
Sales and Marketing	8,130	6,009	39,921
General and Administrative	15,395	15,145	64,621
Financing	36,633	20,545	134,697
Total Costs and Expenses	175,523	140,577	684,852
Income before income taxes	301,512	677,580	1,852,072
Taxes on income	(61,008)	58	(35,400)
Income from continued operations for the period, including minority	240,504	677,638	1,816,672
Loss from discontinued operations for the period, including the minority(*)	-	(3,257)	(8,501)
Net Profit for the period, including the minority	240,504	674,381	1,808,171

(*) The comparison figures were restated due to discontinued operations (for further details see Note 4 to the Consolidated Financial Statements).

<u>Annex B</u>

Designated Disclosure to the Bondholders

Annex B - 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	1,330.1	1,330.1	3.6	1,313.4	1,303.2	Fixed	0.65	April 1 in the years 2016 to 2025 (inclusive)	From October 1, 2015 and subsequently April 1st and October 1st in the years 2016 to 2025 (inclusive).	Linkage (principal and interest) to the rise in the CPI for December 2014*.	Name of the trust company: Hermetic Trust (1975) Ltd.; Address: 113 Hayarkon St., Tel Aviv; Tel: 03-5544553; Fax: 03-5271039; E-mail address: hermetic@hermetic.co.il Contact person at the trustee: Dan Avnon or Idan Knobel.
	June 23, 2015	600.3											
	March 30, 2017	228.8											
Series C	Sept. 6, 2015	1,005.1	1,184.1	1,184.1	4.7	1,177.4	1,201.7	Fixed	1.64	July 1 in the years 2018 to 2027 (inclusive)	From July 1, 2016, twice a year, on January 1st and July 1st in each of the years 2016 to 2027 (inclusive).	Linkage (principal and interest) to the rise in the CPI for July 2015*.	
	March 30, 2017	179.0											
Series D	July 7, 2016	2,194.1	3,177.7	3,177.7	9.9	3,126.6	3,096.6	Fixed	1.34	From July 5, 2018 twice a year on January 5 and July 5 of each of the years 2018 through 2030	From January 2017 twice a year on January 5 and July 5 of each of the years 2017 through 2030	Linkage (principal and interest) to the rise in the CPI for May 2016*.	
	March 30, 2017	983.6											
Total		5,814.2	5,691.9	5,691.9	18.2	5,617.4	5,601.5						

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

** The Market Cap includes also the expansion of the B, C & D bond series as of March 30, 2017 which were listed on April 3, 2017.

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

1. The Series B Bonds, the Series C Bonds and the Series D Bond of the Company are material to the Company and are not secured by any collateral.

2. The Company will be entitled, at its sole discretion, to perform (partial or full) early redemption of the Series B Bonds, the Series C Bonds and the Series D Bonds. For details, see Section 9.2 of the terms and conditions overleaf in the indenture for the Series B Bonds (the "**Indenture for the Series B Bonds**"), which was attached to the shelf offering report that was published by the Company on February 8, 2015 (ref.: 2015-01-027136) and Section 9.2 of the terms and conditions overleaf in the indenture for the Series C Bonds (the "**Indenture for the Series C Bonds**"), which was attached to the shelf offering report that was published by the Company on September 3, 2015 (ref.: 2015-01-112788), and Section 9.2 of the Terms and Conditions Overleaf of the indenture for the Series D Bonds (the "**Indenture for the Series D Bonds**"), which was attached to the shelf offering report released by the Company on July 5, 2016 (ref.: 2016-01-075079), which are included herein by way of reference.

3. At the end of the Reporting Period and 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, the Indenture for the Series C Bonds and the Indenture for the Series D Bonds, and no conditions establishing grounds for acceleration of the Series B, Series C Bonds and Series D Bonds have been fulfilled.

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

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

Series	Name of Rating Company	Rating Set on the Date of the Issue	Rating Set as of the Report Release Date	Date of Issuance of the Current Rating	Additional Ratings Set between the Date of the Issue and the Report Date	
					Rating	Date of Rating
Series B	Maalot	AA+ stable	AA+ stable	March 28, 2017[1]	-	-
Series C	Maalot	AA+ stable	AA+ stable	March 28, 2017[1]		
Series D	Midroog	Aa1/stable outlook	Aa1/stable outlook	March 28, 2017[2]		

[1] For Ma'alot's rating report on the Company's Series B and C Bonds, see the Company's immediate report of March 28, 2017 (Ref.: 2017-01-030966), which is included herein by way of reference.

[2] For Ma'alot's rating report on the Company's Series D Bonds, see the Company's immediate report of March 28, 2017 (Ref.: 2017-01-030939), which is included herein by way of reference.

Annex C

Very Material Valuation

Annex C – 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, 2017
Value of the object of valuation in the Company's books	NIS 5,065,023 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, 2016

[Greenberg Olpiner & Co. Letterhead]

May 17, 2017
Our Reference: B3415-16

To
Canit Hashalom Investments Ltd.
1 Azrieli Center, Tel Aviv

Update of Comprehensive Land Valuation – "Azrieli Center"

1 Azrieli Center, Tel Aviv

Per your request, we have examined the value of the property as of the effective date of March 31, 2017 (the "**Effective Date**").

According to the statement of the rights holders in the property, no change has occurred in the rights in the property (sale) nor have planning changes taken place (approval of zoning plans, variances, court rulings, etc.).

We have examined the market cap rates (unchanged in the quarter), revenues from signed lease agreements and the Company's forecast of projected revenues.

In view of the aforesaid, there has been no change in the underlying assumptions and the methodology of the current valuation has not changed in comparison with the valuation conducted on December 31, 2016.

In view of the aforesaid, the findings are that no material change has occurred in the value of the property as of the Effective Date, compared with the value of the property determined as of the effective date of December 31, 2016.

The value of the property as of the Effective Date – NIS **5,065,023,000**.

We agree to our opinion being published as part of the financial statements of the Company and/or Azrieli Group Ltd., to be released to the public.

Sincerely,

[Signature + Stamp: Ronen Katz, Land Appraiser and Economist]

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, 2016 (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, 2017 and until the Report Release Date, with respect to which 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 24, 2017; the "**Date of the Statement of Financial Position**" and the "**Report Date**" - March 31, 2017; "**Board of Directors' Report**" – the Board of Directors' Report on the State of the Company's Affairs for the three months ended March 31, 2017. The "**Company's Shelf Prospectus**" – a shelf prospectus which the Company published which bears the date May 11, 2016 (Ref.: 2016-01-063049).

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

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

For details with respect to (1) debt raising; and (2) changes in the office of senior officers; see Section 1.3 of Chapter A of this Report.

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 the immediate report dated April 6, 2017 (Ref.: 2017-01-038022), included herein by way of reference. For details with respect to changes that occurred in the holdings of Mr. Menachem Einan, a director of the Company, see the

[1] As was reported by the Company on March 22, 2017 (Ref. No. 2017-01-026958), included herein by way of reference.

Company's immediate report of January 1, 2017 (Ref.: 2017-01-000042), included herein by way of reference. For details regarding changes that occurred in the holdings of Mr. Joseph Ciechanover, a director of the Company, see the Company's immediate report of April 30, 2017 (Ref.: 2017-01-043860), which is included herein by way of reference.

3. Dividends

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

On May 10, 2017, the Company paid a dividend to its shareholders in the total amount of approx. NIS 480 million. For details, see Section 1.6(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-up of additional areas in Azrieli Sarona, such that in relation to 95% of the leasable office space, lease agreements have been signed or drafts at advanced stages exchanged (of which, in relation to approx. 65% of the leasable office space, contracts have been signed). In April 2017, a Form 4 (not for habitation) was received for the office tower. In addition, in relation to approx. 85% of the leasable retail space, lease agreements have been signed and/or advanced-stage drafts have been exchanged.

During the Report Period, the construction of the Azrieli Rishonim mall and the office tower was completed, and a habitation form was received for the project. The mall has been opened to the general public and on the Report Release Date lease-up of the office tower had begun. In relation to approx. 85% of the leasable office space in the project, lease agreements have been signed or advanced-stage drafts exchanged (of which, in relation to approx. 60% of the leasable office space, contracts have been signed).

Azrieli Town – in April 2017, the local committee approved the application for an above-ground permit for the project and the Company is acting for fulfillment of the conditions determined in the approval for receipt of the permit.

5. Land Reserves (Additional Details)

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

A property in the industrial zone in Holon – Lodzia – in March 2017, the local committee approved the application for a demolition, excavation and shoring permit for the project, and the Company is acting for fulfillment of the conditions set forth in the approval for receipt of the permit.

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 1.3.1 of 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, 2017	For the Year Ended December 31, 2016
Value of property (NIS in thousands)	2,882,428	2,877,555
NOI in the period (NIS in thousands)	52,245	208,841
Revaluation profits (losses) in the period (NIS in thousands)	(1,881)	53,485
Average occupancy rate in the period (%)	100%	100%
Rate of return (%)	7.3%	7.3%
Average rent per sqm per month (NIS) (*)	104	104

(*)The figure does not include the rent of the hotel which is located in the Square Tower in Azrieli Center in Tel Aviv. Had the hotel's rent been included, the average rent per sqm per month in Q1/2017 would have been approx. NIS 99 per sqm, and in 2016 would have been approx. NIS 99 per sqm.

The valuation for this property was published in the Company's financial statements as of December 31, 2016 and the appraiser estimates that no material changes have occurred in the valuation, attached hereto in a separate file.

7. Additional Operations

Investments in financial assets available for sale in the banking and finance segment - Section 14.2 of the Description of the Corporation's Business Chapter

Update to Section 14.2.1 of the Description of the Corporation's Business Chapter – Investment in Leumi Card:

Privacy Protection Regulations (Information Security), 5777-2017

On May 8, 2017, the Privacy Protection Regulations (Information Security), 5777-2017 were approved by the Constitution, Law and Justice Committee. The purpose of the Regulations is, *inter alia*, to prescribe information security principles related to the management and use of information in databases, based on internationally accepted information security standards, all with the purpose of protecting the rights of the subjects of the information in the databases against abuse of the information about them. The Regulations prescribe a series of provisions related to the definition of risks and their periodic update, the placement of information security procedures according to the sensitivity of the database, and also address the physical aspects of the maintenance of the database and the need to secure it.

Update of Section 14.2.2 of the Description of the Corporation's Business Chapter

For an update with respect to the disagreement with Bank Leumi, see Note 7A to the Financial Statements (Part C of the Report).

8. Financing

Non-Bank Financing for the Company

Update of Section 19.5 of the Description of the Corporation's Business Chapter:

Commercial Paper
As of the Report Release Date, the Company has two CP series, a rated series in the sum of approx. NIS 451 million (after it repaid, during the quarter, approx. NIS 14 million) and an unrated series in the sum of NIS 190 million.

Series A bonds of the Company
On March 31, 2017, the Company's Series A bonds were repaid.

Series B bonds of the Company
On March 29, 2017, the Company published a shelf offering report for the offering and listing on TASE of up to NIS 263 million par value which were offered by way of expansion of the Series B bond series of the Company, by virtue of the Company's shelf prospectus. On March 30, 2017, the Company announced that according to the results of the offering, another approx. NIS 229 million par value of Series B bonds were allotted in consideration for approx. NIS 223 million (approx. NIS 221 million after attribution of offering expenses).

As of the Report Date, the par value balance of the Company's Series B bonds in circulation is NIS 1,330 million.

For details regarding the Series B bonds, see Note 3B to the Financial Statements (Part C of the report).

Series C bonds of the Company
On March 29, 2017, the Company published a shelf offering report for the offering and listing on TASE of up to NIS 220 million par value which were offered by way of expansion of the Series C bond series of the Company, by virtue of the Company's shelf prospectus. On March 30, 2017, the Company announced that according to the results of the offering, another approx. NIS 179 million par value of Series C bonds were allotted in consideration for approx. NIS 182 million (approx. NIS 180 million after attribution of offering expenses).

As of the Report Date, the par value balance of the Company's Series C bonds in circulation is NIS 1,184 million.

For details regarding the Series C bonds, see Note 3B to the Financial Statements (Part C of the report).

Series D Bonds of the Company

On March 29, 2017, the Company published a shelf offering report for the issue and listing on TASE of up to NIS 1,090 million par value which were offered by way of expansion of the Series D bond series of the Company, by virtue of the Company's shelf prospectus. On March 30, 2017, the Company announced that according to the results of the issue, another approx. NIS 984 million par value of Series D bonds were allotted in consideration for approx. NIS 960 million (approx. NIS 952 million after attribution of the issue expenses).

As of the Report Date, the par value balance of the Company's Series D bonds in circulation is NIS 3,178 million.

For details regarding Series D Bonds, see Note 3B to the Financial Statements (Part C of the Report).

9. Credit Rating

Update of Section 19.12 of the Description of the Corporation's Business Chapter:

On March 27, 2017, Midroog issued a stable Aa1 rating for the Series D Bonds, which are rated by Midroog in the context of the expansion of Series B, C and D Bonds in a total amount of up to NIS 800 million. For details see the Company's immediate report of March 27, 2017 (Ref. 2017-01-029991), which is included herein by way of reference. On March 28, 2017, Midroog updated the said rating, such that the total amount for the expansion of Series B, C and D Bonds is NIS 1,100 million. For details see the Company's immediate report of March 28, 2017 (Ref.: 2017-01-030939), included herein by way of reference.

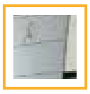
On March 27, 2017, Ma'alot issued an AA+ rating for Series B and Series C Bonds, which are rated by Ma'alot, in the context of the expansion of Series B, C and D Bonds in a total amount of up to NIS 800 million. For details see the Company's immediate report of March 27, 2017 (Ref. 2017-01-030003), which is included herein by way of reference. On March 28, 2017, Ma'alot updated the said rating, such that the total amount for the expansion of Series B, C and D Bonds is NIS 1,580 million. For details see the Company's immediate report of March 28, 2017 (Ref.: 2017-01-030966), included herein by way of reference.

10. Legal Proceedings

For an updated with respect to the legal proceedings conducted against companies of the Group, see Note 7D to the Financial Statements as of March 31, 2017.

Part C

Consolidated Financial Statements
Dated 31 March 2017


AZRIELIGROUP

Azrieli Group Ltd.

Condensed Consolidated Financial Statements
as of March 31, 2017

(Unaudited)

Azrieli Group Ltd.

Contents

Deloitte.

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

Introduction

We reviewed the attached financial information of **Azrieli Group Ltd.**, the Company and subsidiaries (the "**Group**") which includes the Condensed Consolidated Statements of Financial Position as of March 31, 2017 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 financial information for these interim periods in accordance with IAS 34 "Interim Financial Reporting", and they are responsible for the preparation of information for these interim periods under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express a conclusion on the financial information for these interim periods, based on our review.

We did not review the condensed interim financial information of consolidated companies whose consolidated assets constitute approx. 3% of all the consolidated assets as of March 31, 2017, and whose consolidated revenues constitute approx.33% 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 reports were furnished to us and our conclusion, insofar as it relates to the financial information for such companies, is based on the review reports 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.

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

Tel Aviv, May 23, 2017

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Azrieli Group Ltd.

Condensed Consolidated Statements of Financial Position

	As of March 31		As of December 31
	2017	2016	2016
	NIS in thousands (Unaudited)		NIS in thousands
ASSETS			
Current Assets			
Cash and cash equivalents	1,861,734	613,926	714,988
Short-term investments and deposits	46,142	48,837	658,286
Trade accounts receivable	343,060	1,129,250	288,376
Other receivables	111,835	231,423	137,092
Inventory	59,753	159,940	60,478
Current tax assets	16,777	16,247	17,201
	2,439,301	2,199,623	1,876,421
Assets of disposal group held for sale	665	3,499	781
Total Current Assets	2,439,966	2,203,122	1,877,202
Non-current Assets			
Investments and loans of associates	77,506	75,881	79,473
Investments, loans and receivables	342,162	212,451	339,768
Financial assets	1,702,185	1,675,603	1,713,336
Long-term receivables in respect of franchise arrangement	54,353	47,554	52,483
Investment property and investment property under construction	23,846,256	21,481,776	23,722,736
Fixed assets	449,577	1,053,263	445,187
Intangible assets	326,328	338,058	333,097
Prepaid long-term rent	-	37,314	-
Deferred tax assets	20,251	44,071	19,950
Total Non-current Assets	26,818,618	24,965,971	26,706,030
Total Assets	29,258,584	27,169,093	28,583,232

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 December 31
	2017	2016	2016
	NIS in thousands		NIS in thousands
	(Unaudited)		
LIABILITIES AND CAPITAL			
Current liabilities			
Current maturities and credit from banks and other credit providers	1,098,323	3,650,963	2,082,564
Trade payables	203,981	494,882	218,633
Payables and other current liabilities	192,582	411,900	199,918
Deposits from customers	779,883	403,404	764,003
Provisions	12,498	78,604	12,498
Current tax liabilities	42,936	69,519	37,428
Declared dividend	480,000	400,000	-
	2,810,203	5,509,272	3,315,044
Liabilities of disposal group held for sale	87	1,039	169
Total current liabilities	2,810,290	5,510,311	3,315,213
Non-current liabilities			
Loans from banks and other credit providers	2,602,872	2,071,681	2,487,888
Bonds	5,840,253	2,462,354	4,498,260
Employee benefits	8,237	18,026	8,139
Other liabilities	45,466	53,561	45,250
Deferred tax liabilities	2,934,905	2,983,286	2,912,691
Total non-current liabilities	11,431,733	7,588,908	9,952,228
Capital			
Ordinary share capital	18,223	18,223	18,223
Share premium	2,518,015	2,518,015	2,518,015
Capital reserves	441,723	389,431	499,528
Retained earnings	11,997,684	11,099,635	12,237,592
Total equity attributable to the shareholders of the Company	14,975,645	14,025,304	15,273,358
Non-controlling interests	40,916	44,570	42,433
Total Capital	15,016,561	14,069,874	15,315,791
Total Liabilities and Capital	29,258,584	27,169,093	28,583,232

May 23, 2017			
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 Dec. 31
	2017	2016(*)	2016 (*)
	NIS in thousands		NIS in thousands
	(Unaudited)		
Revenues			
From sales, labor and services	224,676	189,421	660,795
From rent, management and maintenance fees	451,583	416,224	1,744,621
Net gain (loss) from fair value adjustment of investment property and investment property under construction	(14,954)	357,011	710,578
Financing	12,983	9,518	49,061
Other	10,204	10,966	14,116
Total revenues	684,492	983,140	3,179,171
Costs and Expenses			
Cost of revenues from sales, labor and services	148,792	112,935	419,153
Cost of revenues from rent, management and maintenance fees	115,343	98,847	445,486
Sales and marketing	42,862	36,787	171,773
G&A	24,672	23,337	104,310
Share in results of associates, net of tax	1,686	2,053	8,439
Financing	41,516	23,395	159,124
Other	92	-	5,191
Total Costs and Expenses	374,963	297,354	1,313,476
Income before income taxes	309,529	685,786	1,865,695
Taxes on income	(69,025)	(8,148)	(49,023)
Income from continuing operations	240,504	677,638	1,816,672
Loss from discontinued operations (after tax)	-	(3,257)	(8,501)
Net profit for the period	240,504	674,381	1,808,171
Other comprehensive income:			
Amounts that will not be carried in the future to the income statement, net of tax:			
Actuarial loss due to defined benefit plan, net of tax	-	-	(17)
Amounts that were carried or will be carried in the future to the income statement, net of tax:			
Change in fair value of financial assets available for sale, net of tax	2,185	11,230	95,944
Translation differences from foreign operations	(61,919)	(37,483)	(11,392)
Total	(59,734)	(26,253)	84,552
Other comprehensive income (loss) for the period, net of tax	(59,734)	(26,253)	84,535
Total Comprehensive Income for the Period	180,770	648,128	1,892,706

(*) Restated due to discontinued operations, see Note 4.

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

(Continued)

	For the three-month period ended March 31		For the year ended December 31
	2017	2016	2016
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Net income for the year attributable to:			
Shareholders of the Company	240,092	672,044	1,810,018
Non-controlling interests	412	2,337	(1,847)
	240,504	674,381	1,808,171
Total comprehensive income for the year attributable to:			
Shareholders of the Company	182,287	646,959	1,895,013
Non-controlling interests	(1,517)	1,169	(2,307)
	180,770	648,128	1,892,706
	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:			
Continuing operations	1.98	5.57	15.00
Discontinued operations	-	(0.03)	(0.07)
	1.98	5.54	14.93
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, 2017										
	Share capital	Share premium	Revaluation fund for financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve for transactions with related parties	Capital reserve from transactions with non-controlling interests in a consolidated company	Other capital reserves	Retained earnings	Total attributed to shareholders of the Company	Non-controlling interests	Total
	NIS in Thousands										
	(Unaudited)										
Balance as of January 1, 2017	18,223	2,518,015	487,215	19,622	(31,002)	25,789	(2,096)	12,237,592	15,273,358	42,433	15,315,791
Net profit for the period	-	-	-	-	-	-	-	240,092	240,092	412	240,504
Change in fair value of financial assets available for sale, net of tax	-	-	2,185	-	-	-	-	-	2,185	-	2,185
Translation differences from foreign operations	-	-	-	(59,990)	-	-	-	-	(59,990)	(1,929)	(61,919)
Total comprehensive income for the period	-	-	2,185	(59,990)	-	-	-	240,092	182,287	(1,517)	180,770
Dividend to the shareholders of the Company	-	-	-	-	-	-	-	(480,000)	(480,000)	-	(480,000)
Total transactions with shareholders of the Company	-	-	-	-	-	-	-	(480,000)	(480,000)	-	(480,000)
Balance as of March 31, 2017	18,223	2,518,015	489,400	(40,368)	(31,002)	25,789	(2,096)	11,997, 684	14,975,645	40,916	15,016,561

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 transactions with 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 Cha

(Continued)

	For the Year ended December 31, 2016										
	Share capital	Share premium	Revaluation fund for financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve for transactions with related parties	Capital reserve from transactions with non-controlling interests in a consolidated company	Other capital reserves	Retained earnings	Total attributed to shareholders of the Company	Non-controlling interests	Total
	NIS in Thousands										
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 year	-	-	-	-	-	-	-	1,810,018	1,810,018	(1,847)	1,808,171
Change in fair value of financial assets available for sale, net of tax	-	-	95,859	-	-	-	-	-	95,859	85	95,944
Actuarial loss due to defined benefit plan, net of tax	-	-	-	-	-	-	-	(17)	(17)	-	(17)
Translation differences from foreign operations	-	-	-	(10,847)	-	-	-	-	(10,847)	(545)	(11,392)
Total comprehensive income for the year	-	-	95,859	(10,847)	-	-	-	1,810,001	1,895,013	(2,307)	1,892,706
Dividend to the shareholders of the Company	-	-	-	-	-	-	-	(400,000)	(400,000)	-	(400,000)
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	-	-	(175)	(175)
Capital reserve for transactions with related parties	-	-	-	-	(28)	-	-	-	(28)	28	-
Investment of non-controlling interests in a subsidiary	-	-	-	-	-	-	-	-	-	4,432	4,432
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)	(53,863)	(446,743)
Balance as of December 31, 2016	18,223	2,518,015	487,215	19,622	(31,002)	25,789	(2,096)	12,237,592	15,273,358	42,433	15,315,791

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
	2 0 1 7	2 0 1 6	2 0 1 6
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Cash Flows - Current Operations			
Net profit for the period	240,504	674,381	1,808,171
Depreciation and amortization	16,398	26,482	87,530
Impairment of intangible assets	-	-	32,199
Forfeiture of senior housing tenants' deposits	(5,160)	(2,899)	(16,835)
Net loss (profit) from fair value adjustment of investment property and investment property under construction	14,954	(357,011)	(710,578)
Net financing and other expenses	12,698	19,951	113,617
Net profit from disposition of fixed assets, investment property and intangible assets	(160)	(46)	(529)
Share in losses of associates accounted for by the equity method	1,686	2,053	8,439
Tax expenses recognized in the income statement	69,025	8,539	57,927
Change in financial assets	(189)	-	(66)
Loss from disposition of investment in subsidiary (Annex A)	-	-	5,634
Income taxes paid, net	(42,603)	(93,013)	(241,560)
Erosion (revaluation) of financial assets designated at fair value through profit and loss	3,843	(4,768)	(3,927)
Change in inventory	725	13,510	(1,764)
Change in trade and other receivables	(41,954)	(49,289)	(3,586)
Change in receivables in respect of franchise arrangement	(1,675)	(3,979)	(11,035)
Change in trade and other payables	8,494	(13,938)	92,904
Receipt of deposits from senior housing tenants	37,193	7,785	101,112
Return of deposits from senior housing tenants	(15,639)	(393)	(27,839)
Change in employee provisions and benefits	144	(342)	163
Net cash - current operations	298,284	227,023	1,289,977

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
	2017	2016	2016
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Cash flows - Investment Activity			
Proceeds from liquidation of fixed and intangible assets	469	662	2,796
Proceeds from liquidation of investment property	-	4,536	4,536
Down payments on account of investment property	-	(28,447)	-
Purchase of an investment in investment property and investment property under construction	(256,048)	(613,828)	(2,007,517)
Purchase of fixed and intangible assets	(18,681)	(26,454)	(118,437)
Investment in and granting of loans to associates	(2,040)	(6,113)	(16,789)
Change in short-term deposits	612,334	(12,535)	(618,163)
Change in restricted investments	302	(106)	(301)
Receipt (payment) for settlement of derivative financial instruments, net	-	855	725
Change in financial assets designated at fair value through profit and loss, net	-	595	5,389
Granting of long-term loans	(1,143)	(284)	(2,634)
Collection of long-term loans	3,477	10,556	16,350
Interest and dividend received	11,396	15,375	27,550
Proceeds from disposition of financial assets available for sale	16,686	-	79,714
Acquisition of companies consolidated for the first time (Annex B)	-	-	(61,294)
Net proceeds from disposition of investments in investee companies (Annex A)	859	-	116,339
Institutions for purchase of real estate	-	(51,387)	(6,600)
Net cash – investment activity	367,611	(706,575)	(2,578,336)

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
	2017	2016	2016
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Cash flows - Financing Activity			
Acquisition of non-controlling interests	-	(51,000)	(51,000)
Dividend distribution to shareholders	-	-	(400,000)
Repayment of bonds	(495,386)	(52,585)	(409,867)
Bond offering net of issue expenses	1,353,526	-	2,176,535
Receipt of long-term loans from banks and others	244,355	250,000	1,139,994
Repayment of long-term loans from banks and others	(577,184)	(124,458)	(885,117)
Short-term credit from banks and others, net	20,366	185,877	(308,757)
Repayment of deposits from customers	(1,561)	(1,262)	(4,145)
Received deposits from customers	2,010	1,845	5,802
Dividend to holders of non-controlling interests	-	-	(175)
Investment of non-controlling interests in a subsidiary	-	2,918	4,432
Interest paid	(61,589)	(49,076)	(198,180)
Net cash - financing activity	484,537	162,259	1,069,522
Increase (decrease) in cash and cash equivalents	1,150,432	(317,293)	(218,837)
Cash and cash equivalents at beginning of period	714,988	934,724	934,724
Change in net cash classified under disposal group held for sale	78	590	833
Effect of exchange rate changes on cash balances held in foreign currency	(3,764)	(4,095)	(1,732)
Cash and cash equivalents at end of period	1,861,734	613,926	714,988

(*) For the three-month periods ended on March 31, 2017 and March 31, 2016, non-cash transactions include a change in payables in respect of dividend in the amount of NIS 480,000 thousand and NIS 400,000 thousand, respectively, and on March 31, 2016, payables in respect of on-credit purchases of non-current assets in the sum of NIS 9,592 thousand. For the year ended on December 31, 2016, non-cash transactions included a change in receivables in respect of the sale of investment in an investee company in the sum of NIS 125,088.

Azrieli Group Ltd.

Condensed Consolidated Statements of Cash Flows

(Continued)

	For the three-month period ended March 31		For the year ended December 31
	2017	2016	2016
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Annex A -			
Proceeds from sale of investment in Sonol Israel Ltd., a previously consolidated company:			
Working capital (excluding cash and cash equivalents)	-	-	(183,085)
Investments and loans	-	-	73,246
Fixed and intangible assets, net	-	-	684,366
Prepaid long-term rent	-	-	37,045
Investment property	-	-	12,420
Deferred tax assets	-	-	7,100
Employee provisions and benefits	-	-	(72,094)
Long-term liabilities including current maturities	-	-	(311,938)
Loan granted in respect of sale of investment	-	-	(97,500)
Receivables in respect of sale of investment	859	-	(27,587)
Loss from disposition of investment in a subsidiary	-	-	(5,634)
	859	-	116,339
Annex B -			
Acquisition of company consolidated for the first time – Ahuzat Bayit Ra'anana Retirement Home Ltd.:			
Working capital (excluding cash and cash equivalents and short-term deposits)	-	-	(31,361)
Liabilities in respect of deposits from customers	-	-	327,655
Fixed and intangible assets, net	-	-	(13,460)
Investment property	-	-	(530,627)
Long-term liabilities including current maturities	-	-	212,454
	-	-	(35,339)
Acquisition of company consolidated for the first time – Azrieli E-Commerce Ltd. (formerly: Netex New Media Ltd.):			
Working capital (excluding cash and cash equivalents)	-	-	5,025
Fixed and intangible assets, net	-	-	(79,510)
Long-term liabilities including current maturities	-	-	38,099
Payables in respect of purchase of investment	-	-	10,653
	-	-	(25,733)
Acquisition of company consolidated for the first time – Bio Clean Air Innovation Ltd. :			
Working capital (excluding cash and cash equivalents)	-	-	6,078
Fixed and intangible assets, net	-	-	(7,124)
Reserve for deferred taxes, net	-	-	824
	-	-	(222)
	-	-	(61,294)

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

Note 1 – General

A. Azrieli Group Ltd. (the "**Company**") is a company domiciled and incorporated in Israel and whose registered address is 1 Azrieli Center, Tel Aviv. The Company is traded on the TASE and is included in the "Tel Aviv 35" Index. The Group has publicly offered bond series (Series B, Series C and Series D). The Group's consolidated financial statements as of March 31, 2017 include those of the Company and of its subsidiaries (jointly, the "**Group**"), as well as the Group's rights in associates and in jointly-controlled entities.

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

As the Company has been 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.

As the Company has been informed, on March 20, 2017, a shareholders' agreement (the "**2017 Agreement**") was signed between Sharon Azrieli, Naomi Azrieli and Danna Azrieli (in person and through companies controlled by them), the indirect controlling shareholders of the Company and directors thereof (the "**Controlling Shareholders**"). Additional parties to the 2017 Agreement are Azrieli Holdings, Nadav Investments and David's Holding Corporation (the three: the "**Holding Corporations**"). The 2017 Agreement replaces and substitutes the former shareholders' agreement made by the parties in November 2012 (the "**2012 Agreement**"), and regulates the relations between the Controlling Shareholders, in person and through the Holding Corporations, in connection with their rights in the Company.

Note 1 – General (Contd.)

Similarly to the 2012 Agreement, the terms of the 2017 Agreement include agreements regarding the sale and transfer of shares in the Company and in the Holding Corporations, including a lock-up period, right of first refusal, right of first offer, tag along right and an exclusion concerning certain sales of shares (drip) on the Stock Exchange. The 2017 Agreement further prescribes that the manner of use of the voting rights in the Company will be determined by the Controlling Shareholders (by a majority vote), provided however, that in respect of resolutions to appoint directors of the Company, each one of the Controlling Shareholders shall have the right to use the voting rights to appoint one director who will be determined by her, whereas the manner of use of the voting rights in the Company regarding resolutions to appoint additional directors, will be adopted by a majority vote. It is clarified that the 2017 Agreement does not change the identity of the controlling shareholders of the Company (including of Azrieli Holdings) nor their holding rate in the capital and in the voting rights of the Company, and that as of the Report Date, Sharon Azrieli, Naomi Azrieli and Danna Azrieli are the Company's controlling shareholders.

B. These Condensed Consolidated Statements should be reviewed in the context of the Group's Annual Financial Statements as of December 31, 2016, and for the year then ended, and the notes attached 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, 2016 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:

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.

Note 2 – Significant Accounting Policies (Contd.)
B. Use of estimates and discretion (Contd.)

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, 2016.

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	Index in Israel	
	USD	"For"	"Known"
	(NIS to 1 Dollar)	1993 Basis	1993 Basis
Date of the financial statements:			
As of March 31, 2017	3.632	220.91	220.24
As of March 31, 2016	3.766	218.90	219.35
As of December 31, 2016	3.845	220.68	220.68
Change rates:	%	%	%
For the three-month period ended:			
March 31, 2017	(5.54)	0.10	(0.20)
March 31, 2016	(3.49)	(1.01)	(0.91)
For the year ended:			
December 31, 2016	(1.46)	(0.20)	(0.30)

Note 3 – Material Events during the Report Period

A. On March 21, 2017, the Company's Board of Directors decided upon the distribution of a dividend in the sum of NIS 480 million (reflecting NIS 3.96 per share), which was paid on May 10, 2017.

B. In March 2017, the Company issued to the public NIS 228.8 million par value of additional Series B bonds at a price of 97.45 *agorot* per NIS 1 par value (a discount of approx. 2.55% relative to their adjusted value), NIS 179.0 million of additional Series C bonds at a price of 101.4 *agorot* per NIS 1 par value (a premium of approx. 1% relative to their adjusted value), and NIS 983.6 million par value of additional Series D bonds at a price of 97.6 *agorot* per NIS 1 par value (a discount of approx. 2.7% relative to their adjusted value), by way of expansion of the bond series, based on a shelf prospectus of the Company. The gross issue proceeds totaled NIS 1,364.6 million, and after attribution of the issue expenses, net proceeds totaled approx. NIS 1,354 million.

For details with respect to the bond series, see Note 21B to the Annual Financial Statements.

Note 4 – Discontinued Operations

On July 24, 2016, a transaction was closed between Granite Hacarmel and Israel Oil & Gas Fund L.P., a limited partnership incorporated in Israel, the general partner of which is controlled by Mr. David Weissman (the "**Buyer**") for the sale of all of Granite Hacarmel's holdings (100%) in Sonol Israel Ltd. (the "**Agreement**" and "**Sonol**", respectively).

For details with respect to the transaction, see Note 8 to the Annual Financial Statements.

The results attributed to the discontinued operations are as follows:

	For the three-month period ended March 31	For the year ended December 31
	2016	2016
	NIS in thousands	NIS in thousands
Results of the discontinued operations		
Revenues	712,250	1,595,571
Expenses	715,116	1,589,537
Profit (loss) before income taxes	(2,866)	6,034
Income taxes	391	8,901
Loss after income taxes	(3,257)	(2,867)
Sale costs and expenses	-	(4,772)
Loss from the sale of discontinued operations, net of tax	-	(862)
Loss for the period	(3,257)	(8,501)
Cash flows from discontinued operations		
Net cash derived from current operations	15,822	186,602
Net cash derived from investment activity	31,228	130,694
Net cash used for financing activity	(15,796)	(63,925)
Effect of exchange rate fluctuations on cash and cash equivalents balances	4	(14)
Net cash derived from discontinued operations	31,258	253,357

Note 4 – Discontinued Operations (Contd.)

Effect of the disposition on the Group's Statements of Financial Position:

	As of March 31, 2016
	NIS in Thousands
Cash and cash equivalents	8,080
Trade accounts receivable	837,026
Trade and other receivables	42,434
Inventory	104,679
Current tax assets	2,677
Long-term loans and investments	72,532
Investment property	12,420
Fixed assets, net	627,187
Intangible assets, net,	85,272
Prepaid long-term rent	38,073
Deferred tax assets	23,431
Credit from banks and other credit providers	(837,989)
Trade payables	(296,959)
Other payables, including derivatives	(244,426)
Current tax liabilities	(4,281)
Provisions	(66,024)
Long-term liabilities to banks and other credit providers	(31,944)
Other long-term liabilities	(11,009)
Employee benefits	(12,504)
Deferred tax liabilities	(11,226)
Assets and liabilities, net	337,449

(*) Inter-company transactions (between the Group and Sonol) were written off from the results of the selling/service-providing company, as applicable. In addition, an asset or a liability referring to an inter-company transaction were written off from the assets or liabilities of the discontinued operations, as applicable.

Note 5 – 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, 2017		As of March 31, 2016		As of December 31, 2016	
	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 (*)	59,226	73,519	49,805	59,740	57,426	70,812
Non-current liabilities:						
Loans from banks and other credit providers (*)	2,841,888	2,876,092	3,374,790	3,478,283	3,243,078	3,271,487
Bonds (*)	6,015,914	6,047,434	3,119,812	3,230,274	5,170,542	5,180,098
	8,857,802	8,923,526	6,494,602	6,708,557	8,413,620	8,451,585
Surplus of liabilities over assets	(8,798,576)	(8,850,007)	(6,444,797)	(6,648,817)	(8,356,194)	(8,380,773)

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

Note 5 – Fair Value of Financial Instruments (Contd.)

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

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

	As of March 31		As of December 31
	2017	2016	2016
	%	%	%
Non-current assets:			
Receivables in respect of franchise arrangement	2.21-3.13	3.15-5.7	3.1
Non-current liabilities:			
Loans from banks and other credit providers	1.07-4.60	0.74-4.13	1.15-4.63

C. Fair value Hierarchy:

The following table presents an analysis of the financial instruments measured at fair value using valuation techniques.

The various levels were defined as follows:

Level 1 – Quoted (unadjusted) prices in active markets for identical instruments.

Level 2 – Inputs other than the quoted market prices included within Level 1 which are directly or indirectly observable (for investments in financial assets designated at fair value through profit and loss, use is made of recent market transactions between a willing buyer and a willing seller).

Level 3 – Inputs that are not based on observable market data.

Note 5 – Fair Value of Financial Instruments (Contd.)
C. Fair Value Hierarchy (Contd.)

	As of March 31, 2017			
	Level 1	Level 2	Level 3	Total
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Financial assets held for trade:				
Securities	761	-	-	761
Financial assets available for sale:				
Marketable shares	1,032,784	-	-	1,032,784
Non-marketable shares	-	87,842	561,701	649,543
Financial assets designated at fair value through profit and loss:				
Non-marketable investments	-	19,858	-	19,858
Total fair value of financial assets	1,033,545	107,700	561,701	1,702,946

Note 5 – Fair Value of Financial Instruments (Contd.)
C. Fair Value Hierarchy (Contd.)

	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 trade:				
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 5 – Fair Value of Financial Instruments (Contd.)

C. Fair Value Hierarchy (Contd.)

	As of December 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 trade:				
Securities	572	-	-	572
Financial assets available for sale:				
Marketable shares	1,040,093	-	-	1,040,093
Non-marketable shares	-	87,842	561,701	649,543
Financial assets designated at fair value through profit and loss:				
Non-marketable investments	-	23,700	-	23,700
Total fair value of financial assets and liabilities	1,040,665	111,542	561,701	1,713,908

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
	2017	2016	2016
	NIS in Thousands	NIS in Thousands	NIS in Thousands
	(Unaudited)		
Financial assets available for sale:			
Balance as of year start	561,701	681,113	681,113
Total profits (losses) recognized:			
In other comprehensive income	-	12,210	(31,529)
Carried to Level 3	-	-	(87,842)
Sales	-	-	(41)
	561,701	693,323	561,701

Note 6 – Segment Reporting

A. General:

The Company applies IFRS 8 "Operating Segments" ("**IFRS 8**"). In accordance with the provisions of the standard, operating segments are identified on the basis of the internal 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 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, and land designated for residential lease in Israel. In addition, the Company is engaged in the income-producing property in the USA segment (office space for lease). The Company is also engaged in the senior housing segment following the closing of the purchase of the "Palace" senior home in Tel Aviv, and purchased the "Palace" senior home in Ra'anana (formerly - "Ahuzat Bayit") in May 2016, and has also purchased rights in three sites on which it is planning and building additional senior homes which are at various stages of development and construction. As of the quarterly report of September 30, 2016, in view of the establishment and expansion of the operation and investment in development projects in this segment, the Company has been reporting its senior housing business as a separate operating segment, within the definition of such term in GAAP. In addition, the Company is engaged, through its holding (100%) in Granite, in the marketing of alternative energy sources (through Supergas Israeli Gas Distribution Company Ltd., held 100% by Granite), and in the field of treatment of water, wastewater and chemicals through its holding (through Granite) in GES Global Environmental Solutions Ltd. In view of the closing of the transaction for the sale of the Group's holdings in Sonol (as of the quarterly report of June 30, 2016, Sonol's business became discontinued operations according to GAAP (for further details, see Note 4)), as of the quarterly report of September 30, 2016, the Company began reporting its business in the Granite segment as a separate operating segment, within the definition of such term in GAAP. In view thereof, the comparison figures for the three-month period ended on March 31, 2016 have been adjusted to reflect the Company's method of segment presentation.

The Company has additional operations classified as other operating segments, including and an ecommerce business which was acquired in June 2016.

Note 6 – Segment Reporting (Contd.)

A. General (Contd.)

The following are the Company's operating segments:

Segment A – Retail centers and malls in Israel.

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

Segment C – Income-producing property in the USA.

Segment D – Senior housing.

Segment E – Granite.

B. Operating segments:

	For the three-month period ended March 31, 2017 (Unaudited)						
	Retail centers and malls in Israel	**Office and other space for lease in Israel**	**Income-producing property in the USA**	**Senior housing**	**Granite**	**Other**	**Consolidated**
	NIS in thousands	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**
Revenues:							
Total external income	247,139	115,088	57,642	31,714	221,531	3,145	676,259
Total segment expenses	48,581	19,551	25,619	21,242	181,035	6,679	302,707
Segment profit (loss) (NOI)	198,558	95,537	32,023	10,472	40,496	(3,534)	373,552
Net loss from fair value adjustment of investment property and investment property under construction	(2,880)	(8,949)	(3,125)	-	-	-	(14,954)
Unallocated costs							(28,962)
Financing expenses, net							(28,533)
Other revenues, net							10,112
The Company's share in results of associates, net of tax							(1,686)
Income before income taxes							309,529
Additional information:							
Segment assets	12,172,458	8,320,387	2,060,121	1,533, 915	1,339,058		25,425,939
Unallocated assets (*)							3,832,645
Total consolidated assets							29, 258,584

(*) Including financial assets available for sale in the sum of approx. NIS 1.6 billion and cash and short-term deposits in the sum of approx. NIS 1.8 billion.

Note 6 – Segment Reporting (Contd.)
B. Operating Segments (Contd.)

	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	Senior housing	Granite	Other	Adjustments (**)	Consolidated
	NIS in thousands	NIS in thousands	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	17,623	189,163	258	-	605,645
Total segment expenses	43,767	18,041	25,252	11,436	151,874	31	-	250,401
Segment profit (NOI)	190,511	91,521	29,509	6,187	37,289	227	-	355,244
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								(13,877)
Other revenues, net								10,966
The Company's share in results of associates, net of tax								(2,053)
Income before income taxes								685,786
Additional information:								
Segment assets	11,328,675	7,507,567	1,996,435	860,093	1,172,073		1,886,623	24,751,466
Unallocated assets (*)								2,417,627
Total consolidated assets								27,169,093

(*) Including financial assets available for sale in the sum of approx. NIS 1.6 billion and cash and short-term deposits in the sum of approx. NIS 0.6 billion.

(**) Segment assets of discontinued operations.

Note 6 – Segment Reporting (Contd.)
B. Operating Segments (Contd.)

	For the year ended December 31, 2016						
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Senior housing	Granite	Other	Consolidated
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Revenues:							
Total external income	973,971	446,810	228,906	94,934	653,249	7,546	2,405,416
Total segment expenses	195,455	77,645	105,354	65,634	570,179	11,597	1,025,864
Segment profit (loss) (NOI)	778,516	369,165	123,552	29,300	83,070	(4,051)	1,379,552
Net profit (loss) from fair value adjustment of investment property and investment property under construction	220,001	517,076	(82,245)	55,746	-	-	710,578
Unallocated costs							(114,858)
Financing expenses, net							(110,063)
Other revenues, net							8,925
The Company's share in results of associates, net of tax							(8,439)
Income before income taxes							1,865,695
Additional information as of December 31, 2016:							
Segment assets	12,074,258	8,218,829	2,176,253	1,494,520	1,297,992		25,261,852
Unallocated assets (*)							3,321,380
Total consolidated assets							28,583,232
Capital investments	639,122	1,037,855	232,676	638,041	43,428		

(*) Mainly financial assets available for sale in the sum of approx. NIS 1.6 billion and cash and short-term deposits in the sum of approx. NIS 1.3 billion.

Note 7 – Material Subsequent Events

A. Further to Note 12(2) to the Annual Financial Statements regarding disagreements between the Company and Bank Leumi Le-Israel Ltd. with respect to the consideration received by Bank Leumi from the sale of Visa Europe Ltd. ("**Visa Europe**"), the parties agreed, in April 2017, that Bank Leumi will transfer the Company a sum of NIS 32,134 thousand which will be recognized as revenues in the statements of Q2/2017. Most of the sum was transferred to the Company in April 2017, and the balance will be transferred subject to Bank Leumi receiving future consideration from the sale transaction of Visa Europe.

B. On April 27, 2017, the general meeting of the Company's shareholders approved an amendment to an extension of the term of letters of indemnification granted to Ms. Danna Azrieli, Ms. Sharon Azrieli, and Ms. Naomi Azrieli, who are indirect controlling shareholders of the Company ("**Directors who are Controlling Shareholders**"), for an additional period of three years, and the grant of exemption from liability to Directors who are Controlling Shareholders, commencing on April 27, 2017.

C. On April 27, 2017, the general meeting of the Company's shareholders approved the grant of updated letters of indemnification and exemption to directors of the Company, as serving therein from time to time, with the exception of Directors who are Controlling Shareholders and/or their relatives.

D. Following Note 33B8 to the Annual Financial Statements regarding an investigation against Supergas regarding a gas incident which occurred in January 2014 in an apartment in the Gilo neighborhood of Jerusalem, on May 4, 2017 Supergas and officers thereof received a notice from the State Attorney that the investigation file in their regard has been closed.

Annex to Consolidated Financial Statement

Separate Interim Financial Statement

As of March 31, 2017

(Unaudited)

<u>Azrieli Group Ltd.</u>

Separate Interim Financial Statement

<u>As of March 31, 2017</u>

<u>(Unaudited)</u>

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

Azrieli Group Ltd.

Separate Interim Financial Statement
As of March 31, 2017

(Unaudited)

Contents

Deloitte.

To
The Shareholders of
the 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, 2017 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 these interim periods, 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 303 million as of March 31, 2017 and the profit from such investee companies amounted to approx. NIS 29 million and 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.

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

Tel Aviv, May 23, 2017

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Azrieli Group Ltd.

Statement of Financial Position

	As of March 31		As of December 31
	2017	2016	2016
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Assets			
Current assets			
Cash and cash equivalents	1,608,815	445,515	453,911
Short-term deposits and investments	761	506	611,540
Trade accounts receivable	6,969	6,205	9,658
Other receivables	87,920	225,155	100,594
Total current assets	1,704,465	677,381	1,175,703
Non-current assets			
Financial assets	1,614,302	1,585,040	1,625,453
Investment property and investment property under construction	9,587,082	8,401,680	9,480,072
Investments in investee companies	8,022,259	7,222,504	7,931,264
Loans to investee companies	3,806,326	3,467,694	3,831,713
Fixed assets	8,666	7,267	8,290
Other receivables	9,396	5,680	8,214
Total non-current assets	23,048,031	20,689,865	22,885,006
Total assets	24,752,496	21,367,246	24,060,709
Liabilities and capital			
Current liabilities			
Current maturities and credit from banks and other credit providers	978,615	2,414,714	1,755,858
Trade payables	47,031	54,711	59,087
Payables and other current liabilities	61,285	37,279	73,341
Deposits from senior housing trade accounts receivables	2,250	-	2,100
Declared dividend	480,000	400,000	-
Current tax liabilities	21,889	26,248	14,427
Total current liabilities	1,591,070	2,932,952	1,904,813
Non-current liabilities			
Loans from banks and other credit providers	1,454,112	1,104,417	1,513,587
Bonds	5,501,609	2,090,171	4,149,815
Other liabilities	16,338	15,751	16,430
Deferred tax liabilities	1,210,339	1,196,061	1,199,334
Employee benefits	3,383	2,590	3,372
Total non-current liabilities	8,185,781	4,408,990	6,882,538
Capital			
Share capital	18,223	18,223	18,223
Share premium	2,477,664	2,477,664	2,477,664
Capital reserves	482,074	429,782	539,879
Retained earnings	11,997,684	11,099,635	12,237,592
Total capital attributable to shareholders of the Company	14,975,645	14,025,304	15,273,358
Total liabilities and capital	24,752,496	21,367,246	24,060,709

May 23, 2017			
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
	2017	2016	2016
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Revenues			
From rent and management and maintenance fees	124,540	114,581	470,795
Net gain, (loss) from fair value adjustment of investment property and investment property under construction	(2,337)	364,915	614,127
Financing	37,978	24,392	188,248
Other	10,001	9,974	10,005
Total revenues	170,182	513,862	1,283,175
Costs and expenses			
Cost of revenues from rent and management and maintenance fees	3,662	3,272	13,541
Sales and marketing	4,551	3,388	23,275
G&A	13,685	13,504	51,486
Financing	22,322	8,512	90,868
Total costs and expenses	44,220	28,676	179,170
Income before the Company's share in the profits of investee companies	125,962	485,186	1,104,005
Share in profits of investee companies, net of tax	142,699	(*)247,320	813,933
Income before income taxes	268,661	732,506	1,917,938
Income tax	(28,569)	(57,205)	(99,419)
Income from continued operations	240,092	675,301	1,818,519
Loss from discontinued operations (after tax)	-	(*)(3,257)	(8,501)
Net income for the period	240,092	672,044	1,810,018
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	2,185	1,491	86,312
Translation differences from foreign operations	(44,331)	(24,778)	(8,950)
Share in the other comprehensive income (loss) of investee companies, net of tax	(15,659)	(1,798)	7,633
Other comprehensive income (loss) for the period, net of tax	(57,805)	(25,085)	84,995
Total comprehensive income for the period	182,287	646,959	1,895,013

(*) Restated due to discontinued operations (for further details, see Note 4 to the Annual Financial Statements).

Azrieli Group Ltd.

Statement of Cash Flows

	For the three-month period ended March 31		For the year ended December 31
	2017	2016	2016
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Cash flows - current operations			
Net profit for the period	240,092	672,044	1,810,018
Depreciation and amortization	293	240	1,327
Capital loss (gain) from liquidation of fixed assets	(1)	26	(5)
Net loss (gain), from fair value adjustment of investment property and investment property under construction	2,337	(364,915)	(614,127)
Financing and other revenues, net	(31,129)	(21,385)	(103,380)
Share in profits of investee companies, net of tax	(142,699)	(244,063)	(805,432)
Expenses for taxes recognized in the income statement	28,569	57,205	99,419
Income tax paid, net	(10,519)	(26,650)	(87,904)
Change in financial assets	(189)	-	(66)
Change in trade and other receivables	24,726	(27,526)	51,069
Change in trade and other payables	(4,552)	6,124	13,549
Change in employee provisions and benefits	11	9	791
Erosion (revaluation) of financial assets designated at fair value through profit and loss	3,843	(4,768)	(3,927)
Receipt of deposits from senior housing tenants	150	-	2,100
Net cash – current operations	110,932	46,341	363,432
Cash flows - investment activities			
Proceeds from liquidation of fixed assets and intangible assets	77	239	35,595
Purchase of an investment in investment property and investment property under construction	(112,914)	(443,004)	(1,262,940)
Down payments on account of investment property	-	(28,447)	-
Purchase of fixed assets and intangible assets	(745)	(625)	(38,060)
Investments in investee companies	(556)	(77,636)	(110,202)
Change in financial assets designated at fair value through net profit and loss	-	595	5,389
Return (granting) of long-term loans for investee companies, net	28,887	(43,440)	(290,088)
Acquisition of investee companies	-	-	(99,110)
Interest and dividend received	13,122	13,021	34,494
Return of investment in investee company	6,538	-	2,312
Proceeds from disposition of financial assets available for sale	16,686	-	79,674
Change in short-term deposits	610,968	-	(610,968)
Payments to institutions for purchase of real estate	-	(51,387)	-
Net cash - investment activities	562,063	(630,684)	(2,253,904)

Azrieli Group Ltd.

Statement of Cash Flows
(Cont.)

	For the three-month period ended March 31		For the year ended December 31
	2017	2016	2016
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Cash flows - financing activities			
Bond offering net of offering expenses	1,353,526	-	2,176,535
Dividend distribution to shareholders	-	-	(400,000)
Repayment of bonds	(487,010)	(44,183)	(166,541)
Receipt of long-term loans from banks and others	-	250,000	800,000
Repayment of long-term loans from banks and others	(328,229)	(104,056)	(769,842)
Short-term credit from banks and others, net	(14,912)	190,274	45,319
Deposits from customers, net	(59)	275	873
Interest paid	(41,354)	(22,404)	(102,905)
Net cash - financing activities	481,962	269,906	1,583,439
Increase (decrease) in cash and cash equivalents	1,154,957	(314,437)	(307,033)
Cash and cash equivalents at beginning of period	453,911	761,281	761,281
Effect of exchange rate changes on cash balances held in foreign currency	(53)	(1,329)	(337)
Cash and cash equivalents at end of the period	1,608,815	445,515	453,911

(*) Non-cash transactions for the three months period ended March 31, 2017 include payables due to dividend in the amount of NIS 480,000 thousand (March 31, 2016 - NIS 400,000 thousand). For the year ended December 31, 2016, non-cash transactions included increase of payables due to purchases on credit of non-current assets in the amount of NIS 4,712 thousand.

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, 2016, 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, 2016 and the year then ended.

D. Material Events during the Reporting Period:

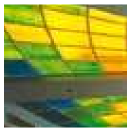
See Note 3 to the Condensed Consolidated Financial Statements which are published with this separate financial statement.

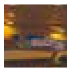
E. Material Subsequent Events:

See Note 7 to the Condensed Consolidated Financial Statements which are published with this separate financial statement.

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. Ran Tal, 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, and 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 Annual Report for the period ended on December 31, 2016 (the "**Most Recent Annual Report on Internal Control**"), the Board of Directors and the management evaluated internal control in the Corporation. Based on such evaluation, the Board of Directors and the management of the Corporation concluded that such internal control for December 31, 2016, 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 brought under the framework of the Most Recent Annual Report on Internal Control;

As of the Report Date, based on the evaluation of the internal control effectiveness on 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 2017 (the "**Reports**").

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

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

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

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

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

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

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

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

c. 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 23, 2017

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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 2017 (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, 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 23, 2017

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Irit Sekler-Pilosof, CFO