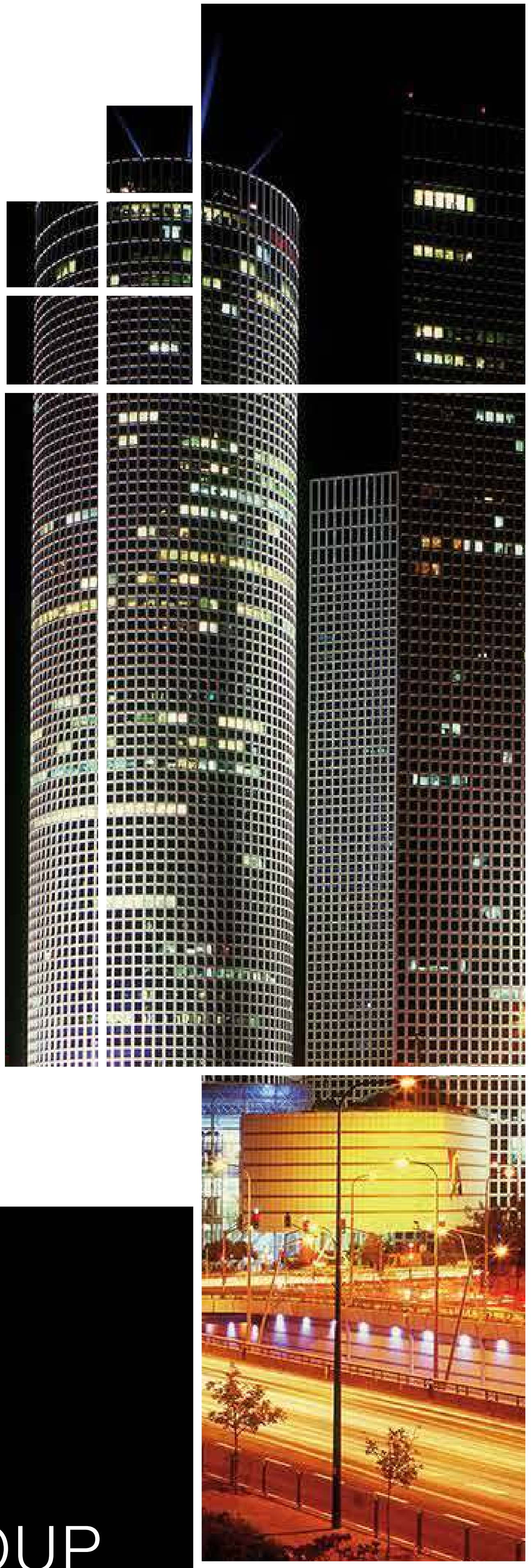
AZRIELI GROUP

Azrieli Group Ltd.

Quarterly Report
Q2/2016
Dated 30 June 2016



Part A Board Report

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

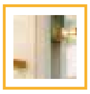
Part C Consolidated Financial Statements Dated 30 June 2016

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

AZRIELI GROUP

Part A

Board Report



Azrieli Group Ltd.

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

for the six and three months ended June 30, 2016

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 six and three months ended June 30, 2016 (the "**Report Period**" and the "**Quarter**" respectively), pursuant to the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "**Regulations**").

The review that shall be presented below is limited in scope and refers to events and changes which occurred in the state of the Company's affairs in the Report Period, whose effect is material, and should be inspected together with the Description of the Corporation's Business Chapter in the periodic report for December 31, 2015, the Financial Statements and the Board of Directors' Report on the state of the Company's affairs for the year ended on the same date (the "Periodic Report for 2015") and the update to the Corporation's Business Chapter and the Financial Statements for June 30, 2016.

Extended standalone statement – the income-producing property business

The Company's management acknowledges the importance of transparency to the investors, the shareholders, the bondholders and analysts and deems all of the above as its partners. Therefore, the Company had decided to adopt a policy whereby, in the Company's Board of Directors' Report, disclosure shall be made regarding a summary of extended standalone financial statements of the Company, i.e. a summary of the Company's balance sheets and income statements on a consolidated basis, presented according to the IFRS, except for the Company's investments in Granite Hacarmel Investments Ltd. ("Granite" or "Granite Hacarmel") and in Azrieli eCommerce Ltd.[1] ("Azrieli eCommerce"), 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 eCommerce, such as trade accounts receivable, inventory, sales etc. The extended standalone statement is attached hereto as Annex C. This Report is not audited or reviewed by the Company's auditors.

[1] Formerly Netex New Media Ltd., a company acquired by the Company in the framework of a transaction for the purchase of business in the eCommerce sector. For details, see Section 1.3 below.

Highlights for the Quarter and half-year ended June 30, 2016 until the Report Release Date(*)

Improvement in the NOI in the Quarter compared with the same quarter
• Approx. 5% growth in the NOI (approx. NIS 321 million) compared with the same quarter last year (approx. NIS 306 million);
Improvement in the same-property NOI in Israel in the Quarter compared with the same quarter
• Approx. 4% growth in the same-property NOI in Israel compared with the same quarter (See Section 1.3.3 of the Report);
FFO from the income-producing property operations
• In the Half-Year – approx. 9% growth in the FFO (NIS 460 million) attributed to the income-producing property operations (see Section 1.3.5 of the Report); • In the Quarter - approx. 7% growth in the FFO (NIS 232 million) attributed to the income-producing property operations (see Section 1.3.5 of the Report);
Net Profit
• Approx. NIS 919 million net profit in the Half-Year, compared with net profit of approx. NIS 437 million in the same Half-Year last year. • Approx. NIS 244 million net profit in the Quarter, compared with net profit of approx. NIS 246 million in the same quarter last year.
Comprehensive Income
• Approx. NIS 270 million comprehensive income in the Quarter, compared with comprehensive income of approx. NIS 257 million in the same quarter last year.
Business Development and Initiation
• In the Report Period, the Company invested approx. NIS 1,767 million in the purchase of properties, development, construction of new properties and the upgrade and betterment of existing properties (see Section 1.3 of the Report).
Disposition of Assets in Granite Hacarmel
• In accordance with the Group's strategy, the Company is examining, on an ongoing basis, the holdings which are not in its core business in the real estate sector. For details regarding the closing of the transaction for the sale of all of Granite's rights in Sonol, see Section 1.3 below.

(*) 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 the projects under construction, 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[2]

The Retail Centers and Malls in Israel Segment – The Company has 16 malls and retail centers in Israel, with a total leasable area of approx. 309 thousand sqm (consolidated and the Company's share) leased to approx. 1,700 tenants;

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

Income-Producing Properties Segment in the U.S. – The Company has 6 income-producing properties in this segment, with a total leasable area of approx. 187 thousand sqm (consolidated) and approx. 177 thousand sqm (the Company's share) leased to approx. 250 tenants (with respect to the purchase of an office building in Austin after the Report Date, see below and Note 8B to the financial statements as of June 30, 2016);

Fueling and Commerce Complexes and Direct Marketing (Sonol) Segment – The Group operates in two sectors, fueling and commerce complexes and direct marketing, through Sonol Israel Ltd. ("**Sonol**"). For details regarding the closing of the transaction for the sale of all of Granit Hacarmel's rights in Sonol (after the date of the financial statement), see Section 1.3 below. In view of the closing of the sale as aforesaid, Sonol is presented as discontinued operations in the report.

The average occupancy rates in the income-producing properties as of the Report Date:

The retail centers and malls in Israel segment: approx. 96%;

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

The income-producing property in the U.S. segment: approx. 82%[4].

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

[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 initial lease-up stages.

[4] In view of the expiration 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, and in view of the period of fit-out of the leased space required by a new tenant who shall lease some of the property. The Company is holding negotiations for the lease of the remaining vacated space.

Additional operations:

Senior housing – see below a specification regarding the senior housing activity;

The eCommerce business – see below a specification regarding the eCommerce business;

Supergas – which is chiefly engaged in the marketing and supply of LPG and natural gas activity;

GES – which is chiefly engaged in sewage and water infrastructures;

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):

	Investment value in the financial statements as of December 31, 2015	Investments during the 6 months ended June 30, 2016	Total investment as of June 30, 2016 before adjustment to changes in fair value during the Report Period	Fair value* of the investment as presented in the financial statements as of June 30, 2016	Change in fair value in the Report Period	Dividend received in the Report Period
Investment in Bank Leumi LeIsrael Ltd. (*)	954	-	954	956	2	-
Investment in Leumi Card Ltd. (**)	603	-	603	603	-	10
Total	1,557	-	1,557	1,559	2	10

*Fair value of the investment in Bank Leumi LeIsrael is determined according to the value of the stock on the Stock Exchange as of June 30, 2016.

**Fair value of the investment in Leumi Card is determined by an independent valuator, according to the valuation as of December 31, 2015.

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 9 projects at various stages of development in Israel. The Azrieli Sarona Center project in Tel Aviv, whose construction is expected to be completed in 2017, expected to include approx. 115,000 sqm of offices and a boutique mall of an area of approx. 11,500 sqm. As of the Report Release Date, several agreements have been signed with tenants for approx. 50% of the leasable office space in this project. In addition, the Company is currently completing the construction of the office tower and mall in Azrieli Rishonim in Rishon Lezion which is expected to open in early

[5] In addition, the Company has negligible investments in venture capital companies, startups and investment funds as specified in the 2015 periodic report.

2017. Azrieli Rishonim is situated near to Route 431 and to the Rishonim train station, which allows considerable accessibility.

An additional project to be constructed on the artery of Menachem Begin North, close to the Azrieli towers, is the Azrieli Town project, which is expected to be completed in 2020. As of the Report Release Date, the Company has signed agreements with respect to space constituting more than one half of the leasable office space. 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 construction of a fourth tower for the Azrieli Tel Aviv Center on the land which the Company purchased from Yedioth Ahronoth and which was handed over to the Company's possession in March 2016. 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 sector, the Company has three plots of land at various development stages (see further details below).

For details with respect to projects under construction, see Section 1.3.1.

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. For further details, see Section 4 of Chapter B of this Report.

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 Modiin. The Company currently has two active senior homes: Palace Tel Aviv, which was purchased in 2015, and Ahuzat Bayit in Raanana, whose purchase was closed in this Quarter. In addition, the Company has two additional projects at construction stages, one in Modiin and the other in Lehavim, which are expected to open in 2018. Another project of the Company, in Rishon Lezion, is at planning stages.

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. As part of this strategy, in August 2016, the Company purchased a property known as Lake Aspen II in Austin, Texas, in the U.S.

eCommerce Activity – 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 and an additional growth engine, 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, 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 of directors, 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, 2015, except as specified below. The business indicators in H1/2016 show that the Israeli market is continuing to grow at the moderate pace of the last two years. In the income-producing property sector in Israel, stability has been preserved both on the level of demand and on the level of rental prices and the occupancy rate, further to the trend that characterized 2015. The (known) CPI recorded a decrease of 0.4% in H1/2016. The Bank of Israel interest rate remained unchanged in H1 at 0.1%. The Prime interest rate is 1.6%.

The Company estimates that in the coming years there may be changes in the competitive balance between the players in the income-producing property sector, *inter alia* due to the opening of new retail centers and the expansion of the supply of retail spaces throughout the country and/or due to the lease-up of office projects, mainly in the Dan Metropolitan Area, which pose challenges to the sector. Recently, there has been an apparent increase in the Company's exposure to the high-tech industry due to the lease of offices to companies from within this sector, which may create exposure.

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 and the suitable mix of businesses and the stable capital structure of the Company contribute to reducing the scope of the exposure of the Group's business to significant crisis and/or instability due to the materialization of any of the Company's risk factors.

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

Closing of the acquisition of a property in Holon

On April 13, 2016, the Company closed the acquisition of all of the ownership rights in a property of a registered area of approx. 53,000 sqm, situated in the Holon industrial zone, with a built-up area of approx. 14,300 sqm of workshops and commercial buildings thereon, which are leased to various tenants, after it received the Antitrust Commissioner's approval, in consideration for NIS 280 million plus VAT. The designation of the land, according to a valid zoning plan, is a special industrial area with a retail front, and includes building rights of approx. 193 thousand sqm above-ground and parking basements[6].

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

On March 31, 2016, closing was performed of the acquisition of the full ownership of land of an area of approx. 8,400 sqm near the Azrieli Tel Aviv center, on which is currently built a building which is slated for demolition known as "Yedioth Ahronoth House"[7].

Closing of the acquisition of a senior home and retail center in Ra'anana

May 25, 2016 saw the closing of the acquisition of 100% of the shares of Ahuzat Bayit Raanana – Senior Housing Ltd.[8], which holds and manages "Ahuzat Bayit", a senior home, and "Park Mall", a retail center in Ra'anana, in consideration for NIS 55 million, which followed the receipt of approval from the Antitrust Commissioner on April 13, 2016. "Ahuzat Bayit" is an active senior home on Ahuza St. in Ra'anana, near the route of Road 531, which includes approx. 335 senior housing units, and LTC units. "Park Mall" is an active retail center near the senior home and there are approx. 20 tenants on an

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[6] For further details, see the Company's immediate reports of March 2, 2016, March 23, 2016 and April 14, 2016 (ref.: 2016-01-039331, 2016-01-012798 and 2016-01-048550, respectively), included herein by way of reference, and Note 4B to the financial statements as of June 30, 2016.

[7] For further details, see the Company's immediate reports of May 22, 2013 and April 3, 2016 (ref.: 2013-01-068386 and 2016-01-023433, respectively), included herein by way of reference, and Section 7.8 of the description of the corporation's business, Chapter A of the 2015 periodic report and Note 4G to the financial statements as of June 30, 2016.

[8] On the date of the transaction, Ahuzat Bayit was a bond company, within the definition of this term in the Companies Law, 5759-1999. On June 29, 2016, Ahuzat Bayit notified of the full and final repayment of Series A Bonds. Upon payment of the early redemption on June 29, 2016, the Company ceased to be a reporting corporation, within the definition of this term in the Securities Law, 5728-1968.

area of approx. 4,500 sqm therein[9].

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

On March 13, 2016, a consolidated company won a tender conducted by the ILA for the acquisition of lease rights in a lot of an area of 3,400 sqm designated for senior housing in the Harakafot neighborhood in East Rishon Lezion, designated for the construction of at least 250 senior housing units and approx. 3,000 sqm of retail, in consideration for NIS 26.6 million. According to the terms and conditions of the tender, the consolidated company paid development expenses of approx. NIS 22 million[10].

Purchase of an office building in Austin, Texas, U.S.A.

In August 2016, a consolidated company purchased an office building (the construction of which was completed in August 2015), located in Austin, Texas, U.S.A., for U.S. $40.5 million. The size of the property is 128,990 sqf (11,984 sqm) and it is occupied by a single tenant with a lease until 2028, with no option for early exit. The property was purchased with an average rate of return for the term of the lease of approx. 8%. For the purpose of the purchase of the property, the consolidated company took a loan in the amount of U.S. $22 million for a period of 7 years, bearing fixed dollar interest of 3.65%.

Closing of the acquisition of eCommerce business

On June 2, 2016 (following the receipt of approval from the Antitrust Commissioner on May 18, 2016), a transaction was closed for the purchase of operations in the eCommerce sector from Buy2 Networks Ltd., a public company whose shares are listed on the Tel Aviv Stock Exchange, in consideration for NIS 70 million, subject to adjustments, such that the net consideration, as of the Report Date, is approx. NIS 62 million. In addition, the Company shall pay approx. NIS 5 million per year for management services in the business sector which will be provided by the seller to the buyer for a period of 24 months[11].

[9] For details, see the Company's immediate reports of March 24, 2016, March 27, 2016, April 13, 2016 and May 25, 2016 (ref.: 2016-01-013692, 2016-01-014163, 2016-01-048331 and 2016-01-034146, respectively), which are included herein by way of reference, and Note 4E to the financial statements as of June 30, 2016.

[10] For details, see the immediate report of March 13, 2016 (ref.: 2016-01-005097), included herein by way of reference.

[11] For further details, see the immediate reports of the Company of May 3, 2016 and June 2, 2016 (ref.: 2016-01-057901 and 2016-01-043209), which are included herein by way of reference.

Financing transactions

Date	Type of financing	Total amount raised (NIS in millions)	Annual interest rate	Duration	Collateral	Comments
July 2016 (after the date of the Financial Statements)	Bond issuance (Series D)	2,194	1.34	7.6	None	According to a shelf offering report published on July 5, 2016 (Ref.: 2016-01-075079), published under the Company's shelf prospectus that was published on May 10, 2016 (ref. no. 2016-01-063049). For further details regarding the Bonds (Series D), see Note 8A to the Financial Statements for June 30, 2016.
May 2016	Private financing from an institutional entity	550	1.5	6.5	Yes	Immediate report dated May 2, 2016 (Ref.: 2016-01-057004) (included by way of reference) and Note 4H to the Financial Statements for June 30, 2016.
May 2016	Private financing from an institutional entity	300	Prime (-)0.1%	0.3	Yes	Immediate report dated May 2, 2016 (Ref.: 2016-01-057553) (included by way of reference) and Note 4I to the Financial Statements for June 30, 2016.
April 2016	Private financing from an institutional entity	250	1.35%	1.7	No	The Company has an undertaking to meet financial covenants identical to the covenants that were set forth in the indentures for the Company's Series B and Series C Bonds (the "**Indentures**"). The agreement includes standard grounds for acceleration, including grounds listed in the Indentures. In addition, the agreement includes an undertaking to not grant a floating charge on the Company's assets, in whole or in part, to any entity whatsoever, unless a floating charge is made at the same time in favor of the lender, identical in rank and scope (*pari passu*).

After the date of the financial statement in July and August 2016, the Group prepaid loans in the sum total of approx. NIS 900 million (of which approx. NIS 300 million were short-term loans and the balance mostly long-term loans which were due in March 2017). Some of the said loans were secured by various collateral. Upon repayment thereof, the Group is acting to remove the collateral.

Shelf prospectus

On May 10, 2016, the Company published a shelf prospectus after receiving a permit from the ISA.

Closing of the sale of Sonol

On July 24, 2016, Granite Hacarmel closed a transaction for the sale of all of its holdings (100%) in Sonol. The transaction was closed without material changes and the majority of the consideration that was due on the closing date was paid[12].

In addition, the Company and Granite sold to other third parties all of their holdings, including through Sonol, in the Pi Glilot land and in the shares of the Pi Glilot company (which holds lease rights in respect of land in the Pi Glilot site), for total consideration of approx. NIS 130 million. These transactions have not yet been closed.

Prior to the closing of the transaction, Sonol made adjustments to the financing agreements with some of the banking corporations that finance its business. Furthermore, after receipt of the consideration, Granite Hacarmel prepaid a long term loan which was secured by a pledge on the shares of Sonol. In view of the aforesaid, Sonol is presented in the Financial Statements as discontinued operations.

Senior Officers

On March 23, 2016, the Company reported the appointment of Mr. Menachem Einan as a director of the Company (Ref.: 2016-01-012291), which is included herein by way of reference. On August 9, the Company's general meeting approved the appointment of Mr. Einan and approved renewal of the office of the outside directors, Messrs. Efraim Halevy and Niv Ahituv, for a third three-year term of office (ref.: 2016-01-100267). During Q2/2016, the service of Mr. Ofer Avram, VP, Head of Offices Segment, and Ms. Michal Kamir, General Counsel, Company Secretary and Internal Enforcement Officer of the Company, came to an end. Messrs. Gideon Avrami (formerly CEO of the management company of Azrieli Jerusalem mall (Malcha)) and Ran Tal were appointed, respectively, in their stead. Concurrently with this Report, the Company will release an updated report on the senior officers.

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[12] For further details, see the Company's reports of June 18, 2015, October 26, 2015, February 2, 2016, April 14, 2016, June 19, 2016 and July 24, 2016 (ref.: 2015-01-050991, 2015-01-141945, 2016-01-021562, 2016-01-048793, 2016-01-052239 and 2016-01-088873), included herein by way of reference, and Note 5 to the financial statements as of June 30, 2016.

Class Actions

On April 14, 2016, a joint motion was filed with the court to enter a judgment approving a settlement agreement in connection with a motion that was filed with the Economic Department at the Tel Aviv District Court against the Company and against the subsidiary, Canit Hashalom, for a class action concerning a full tender offer completed by the Company in September 2012, for shares of the public in Granite Hacarmel. In accordance with the Settlement Agreement, and without admitting any of the claims raised by the class plaintiff, and for settlement purposes only, the class of plaintiffs (as defined in the Settlement Agreement) will be paid NIS 1,250,000 (including the legal fees of the class plaintiff's counsel) against a full, absolute and final waiver and discharge of the action. As of the Report Date, the Settlement Agreement has not yet received the Court's approval as required pursuant to the provisions of the Class Actions Law, 5766-2006[13].

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

1.3.1 **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.

[13] For further details, see the Company's immediate reports of August 8, 2013 and April 26, 2016 (Ref.: 2013-01-113148 and 2016-01-055675, respectively), included herein by way of reference, and Note 3.A to the Financial Statements as of June 30, 2016.

Set forth below is a summary of the data regarding properties under construction and expansions as of June 30, 2016

Name of property	Location	Date of purchase	Usage	Rate of holding	Area of land (in sqm)	Sqm for marketing	Date of commencement of construction	Estimated date of completion	Value of the project on the Company's books as of June 30, 2016 (NIS in millions)	Cost invested (without discounting and tenant adjustments) as of June 30, 2016 (NIS in millions)	Estimated cost of construction including land (NIS in millions)
Azrieli Rishonim	Rishon Lezion	Aug. 2008	Commerce and Offices	100%	19,000	53,000	December 2011	Early 2017	652	610	760-770
Sarona Azrieli Center	Tel Aviv	May 2011	Commerce and Offices	100%	9,400	11,500 115,000	May 2012	Y2017	1,563	1,277	1,600-1,660
Modi'in Senior Housing	Modi'in	June 2014	Senior Housing	100%	10,500	35,000*	April 2015	Y2018	99	96	350-360
Azrieli Town[(1)]	Tel Aviv	October 2012	Commerce, Offices and Residential	100%	10,000	75,000	September 2016 (Estimated)	Y2020	150	150	1,000-1,050
Lehavim senior housing land	Lehavim	December 2014	Senior Housing	100%	28,300	*44,000	Q3/2016 (Estimated)	Y2018	26	25	320-340
Expansion of Azrieli Center Tel Aviv[(2)]	Tel Aviv	May 2013	Commerce, Offices and Residential	100%	8,400	69,000	September 2016 (Estimated)**	Not yet determined	573	407	1,000-1,050

Holon Manor land	Holon	Feb. 2015	Commerce and Offices	100%	6,200	28,000	Not yet determined	Not yet determined	33	35	Not yet determined
Property in Holon Industrial Zone - Lodzia(3)	Holon	April 2016	Commerce and Offices	100%	59,200	220,000	Not yet determined	Not yet determined	322	343	Not yet determined
Rishon Lezion Senior Housing Land	Rishon Lezion	March 2016	Senior housing	100%	3,400	*28,750	Not yet determined	Not yet determined	50	50	Not yet determined
Total						679,250			3,468	2,993	

(1) As of the Report Release Date, the Company has not yet received possession of this property, the data presented relate to the existing zoning plan for the land. It is noted that in November 2014, an addendum to the agreement was signed, whereby the handover date was postponed to August 31, 2016.
(2) On March 31, 2016, the Company received possession of this property, 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. With respect to the property purchased from Lodzia, it was determined that until April 2017, income in respect thereof belongs to the seller.
(*) The figure constitutes the scope of building rights in sqm.
(**) Work has begun for clearance of the premises for the purpose of demolition of the building.

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 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 The NOI (Net Operating Income) index[14]

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

NIS in millions	For the three months ended		For the six months ended		For the year ended
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	December 31, 2015
Retail centers and malls in Israel	193	187	383	367	748
Growth rate	3%		4%		
Office and other space for lease in Israel	92	85	183	168	347
Growth rate	8%		9%		
Income-producing property in the USA	30	34	59	67	132
Growth rate	(12%)		(12%)		
Senior housing	6	-	12	-	11
Total NOI	**321**	**306**	**637**	**602**	**1,238**
Growth rate	5%		6%		
For explanations regarding the change in the NOI, see Sections 1.9.1, 1.9.2 and 1.9.3 below.					

1.3.3 Same property NOI Index[15]

NIS in millions	For the three months ended		For the six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Retail centers and malls in Israel segment	191	187	362	358
Office and other space for lease in Israel segment	92	85	183	168
Income-producing property in the US segment	30	34	59	67
Total	**313**	**306**	**604**	**593**
Growth rate	2%		2%	

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

[15] 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):

	2016		2015		
	Q2	Q1	Q4	Q3	Q2
Same property NOI in all of the periods (*)(**)	313	313	317	310	306
NOI from properties acquired/launched	8	6	6	5	-
NOI from properties sold during the period	-	-	-	-	-
Total NOI for the period	**321**	**319**	**323**	**315**	**306**

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

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[16]) of the Group as of June 30, 2016**:**

	NIS in millions
Total Investment property in the "Extended Standalone" Statement (See Annex C) (*)	22,733
Net of value attributed to investment property under construction	2,892
Net of value attributed to advance payments on account of land purchase	150
Net of the value attributed to land reserves	522
Net of the value attributed to senior housing	1,045
Total value of income-producing investment properties (including fair value of the vacant space)	18,124
Actual NOI for the quarter ended on June 30, 2016	315
Addition to future quarterly NOI (**)	25
Total standardized NOI	340

[16] 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%.

Pro-forma annual NOI based on standardized NOI (excluding senior housing)	1,360
Weighted cap rate derived from income-producing investment property (including vacant space) (***)	7.5%

(*) The data are based on the update of the valuations as of June 30, 2016, and include receivables appearing in the balance sheet item "loans and receivables" in respect of averaging attributed to real estate.

(**) The figure mainly includes estimates for an addition of NOI for vacant spaces not yet leased-up, and space that was and shall be leased-up during 2016 in a full year lease-up for which value was credited in the update of the valuations as of June 30, 2016.
This figure does not constitute a forecast of the Company for the NOI of 2016 and all of its purpose is to reflect the NOI under the assumption of full lease-up for a whole year of all of the income-producing property. In addition, property that will begin producing income at the end of 2016, such as Azrieli Rishonim was not included in the standardized NOI.

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

The Company's estimates mentioned in this Section 1.3.4 includes forward-looking information, as defined in the Securities Law, 5728-1968. This information is uncertain and is based, inter alia, on information regarding a contractual engagement with tenants as of the Report Date, parameters in the calculation of the fair value and the Company's estimates in respect of lease-up of space. The actual results may be materially different to the estimates specified above and the implications thereof for various reasons, including immediate termination of lease agreements or a business crisis of any of the tenants or a change in the parameters for fair value or non-achievement of development or lease-up targets.

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

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.

NIS in millions	For the three months ended		For the six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net profit for the period attributed to shareholders	244	244	916	432
Discounting the net loss (profit) from Granite Hacarmel attributed to shareholders (including amortization of surplus costs)	(4)	1	(24)	(17)
Adjustments to profit: (1)				
Appreciation of investment property	(33)	(53)	(390)	(40)
Depreciation and amortizations	1	1	3	2
Net non-cash flow financing and other revenues	-	(5)	(28)	(44)
Tax expenses (revenues)	15	20	(21)	70
Plus benefit recorded for employee option plan	-	1	-	3
Net of dividend received from financial assets available for sale	-	-	(10)	-
Cash flow due to receipt of deposits from tenants net of return of deposits to tenants(2)	7	-	10	-
Net of revenues from forfeiture of tenants' deposits	(3)	-	(6)	-
Total adjustments to profit	(13)	(36)	(442)	(9)
Plus interest paid for real investments (3)	5	8	10	16
Total FFO attributed to income-producing property operations (4)	**232**	**217**	**460**	**422**

Remarks and assumptions:

1. The adjustments to the profit below do not include adjustments due to Granite Hacarmel since its profits were discounted in full.
2. 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. Had the Company implemented the present FFO calculation method, the FFO for the quarter ended March 31, 2016 would have been NIS 228 million.
3. Calculated according to weighted interest of the Group due to the real investments, which include: Granite Hacarmel, Bank Leumi and Leumi Card, due to 65% of the investments' cost.
4. Which is attributed to the shareholders only.

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	
	June 30, 2016	**June 30, 2015**
Equity attributed to the Company's shareholders in the financial statements	14,294	13,463
Together with a tax reserve due to revaluation of investment property and fixed assets to fair value (net of the minority share)	2,974	2,794
EPRA NAV	**17,268**	**16,257**
EPRA NAV per share (NIS)	**142**	**134**
EPRA NNNAV (NIS in millions)	**As of**	
	June 30, 2016	**June 30, 2015**
EPRA NAV	17,268	16,257
Adjustment of assets' value to fair value (net of the minority)	13	7
Adjustment of the value of financial liabilities to fair value (net of the minority)	(206)	(222)
Net of tax reserve due to revaluation of investment property and fixed assets to fair value (net of the minority share)	(2,974)	(2,794)
EPRA NNNAV	**14,101**	**13,248**
EPRA NNNAV per share (NIS)	**116**	**109**

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 six-month period ended		For the year ended
	June 30, 2016	**June 30, 2015**	**June 30, 2016**	**June 30, 2015**	**December 31, 2015**
Net profit for the period attributed to the shareholders	244	244	916	432	821
Net profit attributed to the shareholders and non-controlling interests	244	246	919	437	828
Basic profit per share from ongoing operations (in NIS)	2.01	1.95	7.58	3.50	7.59
Basic profit (loss) per share from discontinued operations (in NIS)	-	0.06	(0.02)	0.06	(0.82)
Comprehensive income for shareholders and non-controlling interests	270	257	918	536	846

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

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 six months ended June 30, 2016 mainly derives from an increase in the fair value of financial assets available for sale, net of tax of approx. NIS 14 million net of a decrease from translation differences from foreign operations of approx. NIS 15 million. The difference between the comprehensive income and the net income during the three months ending on June 30, 2016 derives mainly from the increase in the fair value of financial assets available for sale, net of tax in an amount of approx. NIS 4 million, in addition to the increase in the translation differences due to foreign business in the amount of approx. NIS 22 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:		Segment profit for the 6 months ended:		**Rate of the segment's profit from the total consolidated net profit in the 3 months ended:**		**Rate of the segment's profit from the total consolidated net profit in the 6 months ended**	
	June 30, 2016	**June 30, 2015**	**June 30, 2016**	**June 30, 2015**	**June 30, 2016**	**June 30, 2015**	**June 30, 2016**	**June 30, 2015**
Retail centers and malls in Israel	193	187	383	367	79%	76%	42%	84%
Office and other space for lease in Israel	92	85	183	168	38%	34%	20%	38%
Income-producing property in the USA	30	34	59	67	12%	14%	6%	15%
Sonol – discontinued operations	11	22	19	22	4%	9%	2%	5%
Others	23	26	67	57	9%	11%	7%	13%
Adjustments	(11)	(22)	(19)	(22)	(4%)	(9%)	(2%)	(5%)
Total attributed profit	338	332	692	659	138%	135%	75%	150%
Changes in fair value	33	54	390	41	13%	22%	42%	9%
Net financing expenses	(45)	(56)	(59)	(60)	(18%)	(23%)	(6%)	(14%)
Tax expenses	(59)	(66)	(66)	(163)	(24%)	(27%)	(7%)	(37%)
Net administrative and other expenses	(23)	(26)	(35)	(47)	(9%)	(10%)	(4%)	(10%)
Income from continuing operations	244	238	922	430	100%	97%	100%	98%
Income (loss) from discontinued operations	-	8	(3)	7	-	3%	-	2%
Net profit for the period	244	246	919	437	100%	100%	100%	100%

The Group's revenues from the operating segments for the six-month period ended June 30, 2016 amounted to approx. NIS 2,763 million, compared with approx. NIS 3,107 million in the same period last year, a decrease of approx. NIS 344 million. The difference is comprised, on the one hand, from a decrease of approx. NIS 321 million in Sonol's revenues (primarily as a result of the decrease in fuel prices) and a decrease of approx. 76 in GES's income as a result of the sale of Via Maris in the same quarter last year, and on the other hand, an increase of approx. NIS 60 million in the revenues of the income-producing property segment and revenues from senior housing, which offset such decrease. As of June 30, 2016, the total assets on the balance sheet was approx. NIS 28.2 billion compared with approx. NIS 26.4 billion as of December 31, 2015, which increase is attributed mainly to investments and revaluations in the income-producing property segments, offset against a decline in cash.

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

	The share of the segment's assets out of the total assets, on a consolidated basis, as of (NIS in millions)		The rate of the segment's assets out of the total assets, on a consolidated basis, as of	
	June 30, 2016	**Dec. 31, 2015**	**June 30, 2016**	**Dec. 31, 2015**
Retail centers and malls in Israel	11,607	11,056	41%	42%
Office and other space for lease in Israel	7,832	6,830	28%	26%
Income-producing property in the USA	2,073	2,052	7%	8%
Sonol	1,837	1,913	7%	7%
Others and adjustments	4,898	4,594	17%	17%
Total	**28,247**	**26,445**	**100%**	**100%**

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

	As of June 30, 2016	As of June 30, 2015	As of Dec. 31, 2015
Current assets	2,942	2,534	2,438
Non-current assets	25,305	22,958	24,007
Current liabilities	5,947	3,974	3,523
Non-current liabilities	7,960	7,958	9,052
Capital attributed to the Company's shareholders	14,294	13,463	13,771
Capital attributed to the Company's shareholders from the total balance sheet (in percent)	**51%**	**53%**	**52%**

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

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

The Item	June 30, 2016	December 31, 2015	Explanations and Comments
Total balance sheet	28,247	26,445	The increase derives mainly from an increase in investment property, net of cash decrease.
Current assets	2,942	2,438	The increase derives from the classification of all of Sonol's assets as current assets, in view of the sale of the business.
Investment property	22,646	20,529	The increase derives from progress of the investments in the projects under construction, purchase of lands and a senior home and revaluations.
Short-term credit	3,233	2,030	The increase derives from taking short term loans and an increase in the maturities of long term loans and bonds.
Loans from banks and from other credit providers	2,580	2,989	The decrease derives from current payments and classification as current maturity, net of new loans taken.
Bonds, net	2,335	2,963	The decrease derives from current payments and classification as current maturity.
Capital	14,340	13,870	The increase derives from the comprehensive income for the period, net of the distribution of dividend.

(a) Liquid Means in the Group

As of June 30, 2016, the cumulative scope of liquid means (cash and cash equivalents and short-term deposits and investments) held by the Group amounted to approx. NIS 547 million. The Company deems its liquid means, the considerable cash flow from current operations and its non-pledged assets (in a total value of approx. NIS 18 billion in addition to approx. NIS 547 million specified above) as significant for its financial strength, for its high financial flexibility due to its non-dependency on the availability of external sources also for the purpose of returning debts and for the ability to use investment opportunities in different periods In Section 18 of the Description of the Corporation's Business Chapter in Chapter A of the 2015 Periodic Report, the Company specified additional issues in connection with the financing activity at the Group[17]. 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.

[17] 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.

Following is a table of non-pledged assets that are available to serve as collateral against the receipt of credit[18]:

Assets	Value of assets as of June 30, 2016 (NIS in millions) as presented in the financial statements
Properties in retail centers and malls in Israel segment	8,990
Properties in the office and other space for lease in Israel segment	6,217
Other Properties	219
Azrieli eCommerce Assets	64
Company's holdings in Leumi Card	603
Company's holdings in Granite Hacarmel	1,003
Company's holdings in Bank Leumi	956
Total	18,052

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 22, 2016	May 4, 2016	NIS 400 million[19]
Leumi Card	February 23, 2016	March 1, 2016	NIS 50 million[20]
Bank Leumi	---	---	---

[18] The real properties in the table do not include real properties held by Granite.

[19] As of June 30, 2016, the Company has retained earnings in the sum of approx. NIS 11.7 billion (including a revaluation fund for financial assets available for sale).

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

(c) Cash flows

	For the six months ended on June 30, 2016 NIS in millions	For the six months ended on June 30, 2015 NIS in millions	Explanations and comments
Net cash flows derived by the Group from current operations	712	603	During the period and the same period, resulted mainly from the operating profit of the income-producing property in the sum of approx. NIS 637 million (approx. NIS 602 million in the same period), and a current cash flow from the Sonol segment which was offset against income taxes paid, and used by the Group mainly for financing investments required for projects under construction, the purchase of land and properties, the distribution of a dividend and the payment of long-term liabilities.
Net cash flows used by the Group for investment activities	(1,353)	(152)	The cash flow in the Report Period was mainly used for the acquisition of and investment in investment property and investment property under construction in the sum of approx. NIS 1,226 million and for the purchase of companies consolidated for the first time. 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 605 million, net of proceeds received from the sale of Via Maris and the solar business in the sum of approx. NIS 526 million
Net cash flows derived by the Group from financing activities	256	165	The increase versus the same period last year mainly derived from an increase in short-term credit in the sum of approx. NIS 320 million in the period over last year, net of an increase of NIS 80 million in the sum distributed as dividend, a decrease in long-term loans and the bond issue in the sum of approx. NIS 130 million and the acquisition of non-controlling interests in the sum of approx. NIS 51 million in the current period.

	For the three months ended on June 30, 2016 NIS in millions	For the three months ended on June 30, 2015 NIS in millions	Explanations and comments
Net cash flows derived by the Group from current operations	485	380	During the quarter and the same quarter, resulted mainly from the operating profit of the income-producing property in the sum of approx. NIS 321 million (approx. NIS 306 million in the same quarter), and a current cash flow from the Sonol segment which was offset against income taxes paid, and used by the Group mainly for financing of investments required for projects under construction, the purchase of land and properties, the distribution of a dividend and the payment of long-term liabilities.
Net cash flows derived from (used for) investment activities	(647)	106	The cash flow in the Report Period was mainly used for the acquisition of and investment in investment property and investment property under construction in the sum of approx. NIS 532 million and for the purchase of companies consolidated for the first time. The cash flow in the same period last year mainly derived from the proceeds received from the sale of Via Maris in the sum of approx. NIS 364 million, offset against acquisition of and investment in investment property and investment property under construction in the sum of approx. NIS 230 million.
Net cash flows derived from (used for) financing activities	94	(265)	The increase versus the same period last year mainly derived from an increase in long-term loans and short-term credit in the sum of approx. NIS 964 million taken during the period compared with last year, net of an increase of NIS 80 million in the sum distributed as dividend, and the bond issue in the sum of approx. NIS 594 million in the same quarter last year.

Following is the composition of the Group's financing sources

	June 30, 2016		December 31, 2015	
	NIS in millions	**% of total balance sheet**	**NIS in millions**	**% of total balance sheet**
Short-term credit and current maturities of loans from banks and other credit providers	3,233	12%	2,030	8%
Long-term credit from banks and other credit providers	2,580	9%	2,989	11%
Long-term bonds	2,335	8%	2,963	11%
Total	**8,148**	**29%**	**7,982**	**30%**

The increase in the sum of approx. NIS 165 million in the Report Period mainly derives from receipt of long-term loans and growth in short-term credit offset against current loan and bond repayments (see 1.3 above regarding the offering of bonds and prepayment of loans and credit after the Report Date). As of the Report Date, the Company has a deficit in the working capital in the sum of approx. NIS 3 billion on a consolidated basis and in the sum of approx. NIS 2.6 billion in the standalone 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 (see Section 1.3 above regarding repayment of loans after the Report Date) in light of its financial strength and/or the scope of its non-pledged assets, and therefore, the Company's board of directors determined, at its meeting of August 24, 2016, after having examined the cash flow sources and the financing of the Company, that the said deficit in the working capital does not affect its ability to repay its liabilities on time.

The Company's estimations mentioned in this Section 1.6 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, 5728-1968, which is based on the Company's estimations with regards to developments in markets, inflation levels and projected cash flows, its financial strength and on the conditions and possibilities for credit raising on the Report Date. Such estimations may not materialize, in whole or in part, or may materialize in a manner that materially differs from the Company's estimations. The principal factors which may affect this are: changes in the capital market which will impact the conditions and possibilities for raising credit, changes in the Company's plans, including use of liquid balances that shall exist for the purpose of utilizing business opportunities, changes in the advantageousness of holding of the various investment avenues or the advantageousness of use of various *financing avenues, exacerbation of the economic situation in Israel or in the U.S. and entry into severe recession, and the Company's or any of the Group's companies' encountering financing or other difficulties, in a manner affecting the Company's cash flow.*

(d) Rating

As of the Report Date, the Company is rated AA+ by Maalot 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 2015. From the date of release of the Periodic Report for 2015 until the date of release of this report, the following updates occurred: to review Maalot's report for a private loan, see the Company's immediate report of March 29, 2016 (Ref.: 2016-01-017358), included herein by way of reference; to inspect Midroog's report for the Series D bonds of the Company, see the Company's immediate report of July 5, 2016 (Ref.: 2016-01-074611), included herein by way of reference; to review Midroog's report for the Series A and Series D bonds, see the Company's immediate report of July 20, 2016 (Ref.: 2016-01-086899), included herein by way of reference.

(e) Liabilities and Financing

Financial liabilities of the Group (except for Granite Hacarmel and Azrieli eCommerce) as of June 30, 2016, in millions of NIS:

	Fixed Interest			Variable Interest		Total		Total
	Index linked	USA Dollar Linked	Not Linked	Sterling Linked	Not Linked	Fixed Interest	Variable Interest	
Short Term Loans	-	-	-	22	1,271	-	1,293	1,293
Long Term Loans	4,951	1,093	253	-	44	6,297	44	6,341
Total	4,951	1,093	253	22	1,315	6,297	1,337	7,634

<u>The date of payment of the Group's financial liabilities (with the exception of Granite Hacarmel) as of June 30, 2016, in NIS in millions</u>:

Year	Principal	Interest	Total
1	3,139	159	3,298
2	595	92	687
3	444	83	527
4	729	71	800
5 forth	2,727	136	2,863
Total	7,634	541	8,175

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 June 30, 2016, short-term loans accounted for approx. 17% of the Group’s total financial liabilities (except for Granite Hacarmel and Azrieli eCommerce). In the Company’s estimation, this rate is low and conservative in light of the low leverage ratio and the sum of the non-pledged assets as specified above.

According to the Company’s policy, from time to time, it considers the opportunities for converting the short-term debt to a long-term debt with fixed interest. The Company’s management considers on an on-going basis the payment sources for financing the existing and expected liabilities as they become due, including with respect to the cash flow and the sum of the non-pledged assets. For details regarding the offering of the Company’s Series D bonds and prepayment of long-term loans and short-term credit which occurred after the date of the Financial Statements, see Section 1.3 of Part A of the report.

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 712 million in the six months ended June 30, 2016, compared with the sum of approx. NIS 603 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 eCommerce) in the Report Period amounted to approx. NIS 43 million in the Report Period, compared with approx. NIS 41 million in the same period last year. The increase mainly derives from an increase in the marketing expenses. The Company's consolidated administrative and marketing expenses (without Granite Hacarmel and Azrieli eCommerce) in the Quarter amounted to approx. NIS 21 million in the Report Period, compared with approx. NIS 18 million in the same period last year.

1.8 The Net Financing Expenses

The Group's net financing expenses in the Report Period amounted to the sum of approx. NIS 59 million, similarly to approx. NIS 60 million in the same period last year. The Group's net financing expenses in Q2/2016 amounted to approx. NIS 45 million, compared with approx. NIS 56 million in the same period last year (a decrease of approx. NIS 11 million). The decrease in the net financing expenses mainly derives from the effect of the change in the rate of the rise in the index on loans and bonds in the Report Period, compared with the same period last year (which derived from a rise of approx. 0.5% in the rate of the rise in the known index in the Report Period compared with a rise of approx. 1.1% 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 67 million, compared with tax expenses in the sum of approx. NIS 163 million in the same period last year. The decline in tax expenses in the Report Period mainly derives from reduction of the corporate tax rate to 25% (which created tax income of approx. NIS 162 million) offset against an increase in the tax expenses in the present period due to the increase in the gain from fair value adjustment of investment property.

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

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

1.10.1 Retail Centers and Malls in Israel Segment

Summary of the segment's business results:

	For the three-month period ended		For the six-month period ended		For the year ended
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	Dec. 31, 2015
	NIS in Millions				
Revenues	238	231	472	452	931
% change	3%		4%		
NOI	193	187	383	367	748
% change	3%		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 above.

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

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

	For the three-month period ended		For the six-month period ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
For the segment's properties owned by the Company as of the beginning of the period[21]	191	187	362	358
For properties whose construction was completed in 2015	-	-	19	9
For properties that were purchased or whose construction was completed in 2016	2	-	2	-
Total	193	187	383	367

[21] 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 lease-up of the second floor of the Ayalon mall and lease-up of the retail space in the Azrieli Holon center, offset against space left vacant in periods of tenant turnover in some of the malls, a real decline in rent at the time of renewal of contracts in some of the properties due to increased competition mainly in the Beer Sheva region and the north (due to the exercise of options by the tenants and/or the execution of new contracts).

<u>The balance of the assets of the retail centers and malls in Israel segment</u> – amounted, on June 30, 2016, to the sum of approx. NIS 11.6 billion, compared with approx. NIS 11.1 billion on December 31, 2015. The change mainly derives from investments in the segment's properties, the purchase of land and the revaluation profits as aforesaid.

<u>Change due to the adjustment of fair value of investment property and investment property under construction of the segment</u>

The gain from fair value adjustment of investment property and investment property under construction of the segment amounted, in the Report Period, to approx. NIS 41 million compared with a gain of approx. NIS 55 million in the same period last year. The assets are presented according to an update to the valuations performed by an independent appraiser as of June 30, 2016, with the exception of the valuations for the land to be used for expansion of Azrieli Tel Aviv center and for the property under construction Azrieli Sarona center which were performed in the previous quarter.

1.10.2 <u>Office and other space for lease in Israel segment:</u>

	For the three-month period ended		For the six-month period ended		For the year ended
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	Dec. 31, 2015
NIS in Millions					
Revenues	110	102	220	204	420
% change	8%		8%		
NOI	92	85	183	168	347
% change	8%		9%		

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

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

	For the three-month period ended		For the six-month period ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Due to the segment's properties owned by the Company as of the beginning of the period[22]	92	85	183	168
Due to properties which were purchased or whose construction was completed in 2015	-	-	-	-
Due to properties which were purchased or whose construction was completed in 2016	-	-	-	-
Total	92	85	183	168

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 continued lease-up of Azrieli Holon Center.

The balance of the Group's investment property in the office and other space for lease in Israel segment – amounted on June 30, 2016 to the sum of approx. NIS 7.8 billion compared with approx. NIS 6.8 billion on December 31, 2015. The change mainly derives from investments in the segment's properties, the purchase of land and revaluation profits as stated below.

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

The gain from the fair value adjustment of investment property and investment property under construction of the segment amounted, in the Report Period, to the sum of approx. NIS 339 million, compared with a loss of approx. NIS 14 million in the same period last year. The assets are presented according to an update to the valuations carried out by an independent appraiser as of June 30, 2016, with the exception of the valuations for the land to be used for expansion of Azrieli Tel Aviv center and for the property under construction Azrieli Sarona center which were performed in the previous quarter.

[22] 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 six-month period ended		For the year ended
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	December 31, 2015
	NIS in millions				
Revenues	55	59	110	120	236
% change	(7%)		(8%)		
NOI	30	34	59	67	132
% change	(12%)		(12%)		

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

	For the three-month period ended		For the six-month period ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Due to the segment's properties owned by the Company as of the beginning of the period[23]	30	34	59	67
Due to properties purchased or whose construction was completed in 2015	-	-	-	-
Total	30	34	59	67

The same property NOI in the income-producing property in the USA segment was negatively affected mainly by the expiration of a contract with a tenant that held an area of approx. 20 thousand sqm in one of the office towers in Houston and the effect of the average exchange rate of the U.S. dollar in the Report Period which was approx. 1% lower than the exchange rate last year.

The investment property balance of the Group in the segment – amounted, on June 30, 2016, to the sum of approx. NIS 2.1 billion, similar to the balance on December 31, 2015.

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

The loss from fair value adjustment of investment property of the segment amounted, in the Report Period, to the sum of approx. NIS 5

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

million, and derived from the decline in the exchange rate of the Pound Sterling in the period.

1.10.4 <u>Sonol segment – discontinued operations:</u>

In view of the sale of Sonol's operations as aforesaid, the Sonol segment was presented in the financial statements as discontinued operations.

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

	For the three-month period ended		For the six-month period ended		For the year ended Dec. 31, 2015	Comments and explanations
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015		
	NIS in millions		NIS in millions		NIS in millions	
Net revenues	875	1,019	1,589	1,910	3,738	The decline in Sonol's revenues in the Report Period compared with the same period last year mainly derived from a decline in fuel prices.
Gross profit	182	178	336	323	658	The rise in the Report Period compared with the same period last year mainly derives from an increase in the quantities of fuels sold and from a decrease in the inventory losses and growth in the profit from the convenience stores.
Operating profit	34	25	40	27	39	The rise in the operating profit in the Report Period compared with the same period last year derives from the rise in the gross profit as aforesaid, and from a decrease in G&A expenses, mainly due to a decrease in legal expenses.
Pre-tax profit	30	10	27	9	13	The increase in the pre-tax profit in the Report Period derives from an increase in the operating profit as aforesaid and from a decrease in financing expenses in the present period compared with the same period last year, mainly due to a lower loss in hedge transactions in the present period compared with the corresponding period.

1.11 <u>Comment regarding forward-looking information</u>

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

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

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

2.1 General

The specification below pertains to the Company and subsidiaries wholly owned thereby as well as material held companies of the Company, whose exposure to market risks may materially affect the Company. The risk management at the Company and at the Group's investee companies is determined and performed directly by their managements. The person in charge of market risk management in the Company is the CFO, Ms. Irit Sekler-Pilosof. In the quarter ended June 30, 2016, no material changes occurred in the risk factors, in the Company's policy on the management of market risks, in the means of supervision or in the implementation of policy, compared with the description in the Board of Directors' Report regarding the state of the corporation's affairs for the year ended December 31, 2015 and in the notes to the Financial Statements for such year.

2.2 Positions in derivatives

The Company's positions in derivatives belong to the Sonol segment which is presented as discontinued operations and was sold after the date of the financial statements and therefore were not specified.

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

In the quarter ended June 30, 2016, no material changes occurred in the analysis of sensitivity tests and the effects on the fair value compared with the description in the Board of Directors' Report regarding the state of the corporation's affairs for the year ended December 31, 2015, with the exception of the analysis of the sensitivity to changes in the cap rate of the investment property as specified in **Annex A** to the Board of Directors' Report below.

2.4 Linkage bases table

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

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

See **Annex D** to the Board of Directors' Report.

The data in the Board of Directors' Report are based on the consolidated financial statements as of June 30, 2016. The financial data and business results of the Company are affected by the financial data and business results of the companies held thereby. In certain cases, details are presented which review events that occurred after the date of the Financial Statements and in proximity to the date of release of the Report, with such fact being stated alongside them (the "Report Release Date") or additional details and data on the Company level only. The materiality of the information included herein was examined from the

Company's viewpoint. In some cases, an additional detailed description was provided in order to give a comprehensive picture of the described topic, which is, in the Company's opinion, material for purposes of this Report.

3. Corporate Governance Aspects

3.1 The Financial Statement Approval Procedure at the Corporation

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

Financial Statement Approval Procedure

The Committee convened on August 22, 2016 to review the Financial Statements for June 30, 2016 and all of its members participated in order to formulate its recommendations to the board of directors regarding approval of the statements. After an advanced draft of the quarterly report, including all parts thereof, and the Company's presentation regarding the main financial results and material issues for discussion were forwarded to the Committee members several days before the date scheduled for the Committee's meeting.

After a discussion was held at the Committee as aforesaid, the participants who are not members of the Committee left the meeting (with the exception of the Company’s CEO, CFO and general counsel), at which point the Committee's chairman put the Committee's recommendation to the Board of Directors to the vote and asked whether any of the Committee members still had any unanswered questions or issues. At the same meeting, the Committee decided to recommend to the Board of Directors to approve the Company's Financial Statements for June 30, 2016. The Committee's recommendations were forwarded to the Board members, at the end of the Committee’s meeting, in preparation for the Board meeting which was held on August 24, 2016.

On August 24, 2016, the Company's board of directors, the corporate organ in charge of governance, approved the Company's Financial Statements for June 30, 2016. For details regarding the members of the Board of Directors, see Section 26 of Chapter D of the Company's Periodic Report for 2015. Advanced drafts of the Financial Statements, the notes thereto, the Board of Directors' Report and the annexes thereto and any report and presentation accompanying the same were sent to the Board members several days before the date scheduled for the Board meeting.

Representatives of the Company's auditor gave their comments and responded, as required, to questions directed to them by the Board members pertaining to material issues deriving from the data presented in the Financial Statements contemplated in the discussion. In the framework of presentation of the statements to the Board of Directors, the material developments in the period and the financial results were reviewed, while comparing to previous periods, during which review questions were answered. In addition, a discussion was held on the working capital deficit and the reasons why it does not indicate a liquidity problem at the Company and therefore does not constitute a warning sign. At the end of the discussion at the Board of Directors, a vote was held during which the Company's Financial Statements for June 30, 2016 were approved and the persons authorized to sign them were empowered. .

3.2 **Acquisition of Canit Hashalom share**

On March 6, 2016, the Company's general meeting approved (after the approval of the Audit Committee and the Company's Board) the Company's engagement with Azrieli Foundation (Israel) R.A. ("**AFI**") in an agreement for the acquisition of Canit Hashalom's share from AFI in consideration for NIS 51 million. The transaction was closed on March 14, 2016. For details, see Part B of the Invitation Report, as released by the Company on January 27, 2016 (Ref.: 2016-01-018823), included herein by way of reference, and Note 4.C to the Financial Statements as of June 30, 2016.

3.3 **Approval of compensation for controlling shareholder directors of the Company**

On May 24, 2016, the Company's Board, after receiving the approval of the Company's Compensation Committee of May 22, 2016, approved the continued payment of the annual compensation and the said participation compensation to Messrs. Naomi Azrieli and Sharon Azrieli, who have served as directors of the Company since June 2010, under the same conditions as were approved in the past, with the exception of linkage (to date, the linked sums amount to NIS 75,175 for annual compensation and NIS 2,660 for participation compensation). In addition, the provisions of Sections 6(a) and 5(b) of the Compensation Regulations will also apply with respect to Naomi and Sharon, and they will be entitled to reimbursement of expenses pursuant to the provisions of Section 6(a) of the Compensation Regulations (including reimbursement for flights, *per diems* and hospitality) and in accordance with the criteria that were approved by the Audit Committee (as being from time to time) in relation to all of the Company's directors and subject to any law. Approval of the compensation as aforesaid is for a period of three years from June 3, 2016. It is further noted that Naomi and Sharon are entitled to letters of indemnification and to D&O insurance under the same conditions to which the Company's other directors are entitled, in accordance with the Company's compensation policy. For further details, see the immediate report that the Company released pursuant to the Companies Regulations (Relief in Transactions with Interested Parties), 5760-2000 (the "**Relief Regulations**") on May 25, 2016 (ref. no.: 2016-01-033138), included herein by way of reference.

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

On May 24, 2016 the Company's board of directors (following the approval of the compensation committee) approved an engagement for renewal of an insurance policy for directors and officers (including from among the Company's controlling shareholders) of the Company and the Company's subsidiaries, apart from Granite Hacarmel which holds an independent D&O insurance policy, from June 3, 2016 until June 2, 2017. The engagement shall be based on the main engagement principles set forth in the Company's approved compensation policy. For further details see the Company's immediate report in accordance with the Relief Regulations of May 25, 2016 (ref. no.: 2016-01-033144), included herein by way of reference.

3.5 **Definition of business**

On May 24, 2016, the Company's Board, after the approval of the Audit Committee of May 22, 2016, approved the Company's Definition of Business Procedure (the "**Procedure**"), which will apply to the Company's directors and to the Company's controlling shareholders. The Procedure determines the types of business in which they will not be able to enter into transactions in Israel and overseas and the manner of disclosure to the Company prior to the engagement in such transactions and the manner of making of the decision by the Company as to whether such transactions are relevant to the Company. The procedure will apply to controlling shareholders and members of the Board at the Company, and will be in effect throughout their term of office as controlling shareholders of the Company and/or members of the Company's Board, whichever is later, and in respect of directors for an additional six-month period thereafter, so long as no other resolution shall have been adopted by the Company's Board, after receiving the decision of the Company's Audit Committee. The Procedure determines that a controlling shareholder and/or director of the Company is prohibited from being either directly or indirectly involved in business activity which may, according to the Companies Law, fall under the definition of a business opportunity of the Company, and in any case which falls under one or more of the activities to which the Procedure applies.

The Procedure regulates the process of approval of performance of the transaction by a controlling shareholder and/or a director, if the Company chooses not to perform such transaction itself. According to the Procedure, a controlling shareholder and/or director is required to present, in writing, to the Company's management and subsequently to the Audit Committee, a transaction outline in connection with a property and/or business which falls under any of the activities according to the Procedure that he is interested in performing, and to forward all of the material relevant to the transaction for their inspection. Only if the Company's management, and subsequently the Audit Committee, shall decide that the proposed business does not interest the Company, will the controlling shareholder and/or director of the Company be free to engage in such transaction.

Due to the complexity of the issues covered by the Procedure, the timetables for performance of transactions and the concern that other bodies may thwart the transaction, decisions according to the Procedure need to be made on short notice and even immediately, all as specified in the Procedure. Therefore, the Audit Committee's decision as to whether to approve the proposed business, or alternatively to return the discussion to the Company's management for the purpose of supplementation of details, will be issued no later than up to 10 business days after the date of presentation of the proposal by such person and receipt of the material and information required, which decision will be made by a majority of members who do not have a personal interest in the decision.

It is clarified that the provisions of the Companies Law and the provisions of supplementary laws such as securities law prevail over the provisions of the Procedure, and therefore the Company is required to seek counsel in each case according to the special circumstances thereof, from the legal aspect, as applicable at such time.

3.6 **Extension of the term of office of the Company’s outside directors**

On August 9, 2016, the general meeting of the Company’s shareholders approved the appointment of the outside directors serving at the Company, Prof. Niv Ahituv and Mr. Efraim Halevy for an additional term of office, third in number. For further details, see an immediate report on the outcome of the meeting of August 9, 2016 (ref: 2016-01-100267).

3.7 **Approval of compensation policy, approval of extension of the chairman’s agreement and update of the CEO's salary**

Shortly after the Report Release Date, the Company shall convene a general meeting for the approval of a new compensation policy for the Company for a period of three years, approval of extension of the chairman’s agreement (with no modification of the effective chairman’s agreement) and approval of an update to the management agreement with the Company's CEO, after receipt of the approval of the Compensation Committee and the Board for all of the said resolutions. The meeting shall further be presented with an amendment to the Company’s Articles of Association, arising from the adoption of the new compensation policy as aforesaid.

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

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

For events and developments in the Report Period, see Chapter B of this Report – updates to the Description of the Corporation's Business Chapter as of December 31, 2015 and Note 4 to the Financial Statements as of June 30, 2016.

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

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

4.3 **Lawsuits**

For details see Note 3 to the consolidated financial statement for June 30, 2016.

4.4 **Disclosure pertaining to Very Material Valuations**

As of the Report Date, no change has occurred in the parameters for the disclosure and attachment of valuations, as published in the Periodic Report for 2015. The Company updated the valuations of its assets in Israel as of June 30, 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, 2015).

As of the Report Date, and after the above determination was checked, it transpires that the very material valuation is in respect of the Azrieli Towers in Tel Aviv (which is included in the valuation of the entire Azrieli Center, along with its components – namely – including the Azrieli Mall) only. This valuation as of June 30, 2016 is attached hereto as **Annex E**.

As of June 30, 2016, the value of the Company's assets whose fair value was determined through a very material valuation (made as of June 30, 2016) was in the sum of approx. NIS 5 billion (which is attributed both to Azrieli Center's towers and Azrieli mall), out of a fair value of investment properties in the sum of approx. NIS 23 billion (approx. 22% of the Company's total investment properties).

4.5 **Subsequent events**

See Note 8 to the Financial Statements.

4.6 **Financial figures attributed to the Company as a parent company**

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

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 June 30, 2016.

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

Date: August 24, 2016

<u>Annex A</u>

Sensitivity Tests - Update

As of June 30, 2016

Annex A – Sensitivity Tests

Sensitivity to Changes in Interests on the Capitalization Rates of Investment Property as of June 30, 2016

	Loss from changes in market factor			Fair value of property	Profit from changes in market factor			Manner of determining value
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Change Rate	Absolute 2% Increase	10% Increase	5% Increase		5% Decrease	10% Decrease	Absolute 2% Decrease	
Weighted Capitalization Rate								
5.75% - 6.50%	(276,090)	(98,747)	(47,691)	1,165,626	70,543	139,514	558,778	Income approach
7% - 7.5%	(2,658,938)	(1,099,276)	(575,779)	11,911,804	637,802	1,340,724	4,740,747	Income approach
7.51% - 8%	(734,742)	(324,034)	(171,873)	3,483,491	180,118	385,217	1,241,278	Income approach
8.01% - 8.5%	(733,991)	(341,203)	(178,661)	3,002,051	197,654	417,112	1,205,946	Income approach
8.51%-9%	(77,246)	(37,335)	(19,431)	1,044,956	21,407	44,818	116,872	Income approach
Investment property and investment property under construction	(4,481,007)	(1,900,595)	(993,435)	20,607,928	1,107,524	2,327,385	7,863,621	

Annex B

Reporting According to

Linkage Bases

As of June 30, 2016

(IFRS 7)

Annex B

Reporting According to Linkage Bases
(IFRS 7)
(NIS thousands)

	As of June 30, 2016					
	Israeli Currency		Foreign Currency		Others	Total
	Non-linked	Index linked	Dollar	Other(1)		
Current Assets						
Cash and cash equivalents	413,939	13,458	60,772	3,874	-	492,043
Short-term deposits and investments	54,712	154	-	-	-	54,866
Trade accounts receivable	288,090	-	2,276	-	-	290,366
Other receivables	34,207	12,223	16,623	-	48,455	111,508
Inventory	-	-	-	-	58,282	58,282
Current tax assets	-	-	-	-	11,435	11,435
Assets of disposal group that is held for sale	892,854	20,839	37,103	-	972,549	1,923,345
Total Current Assets	1,683,802	46,674	116,774	3,874	1,090,721	2,941,845
Non-Current Assets						
Investments and loans of associates	74,949	-	-	-	562	75,511
Investments, loans and receivables	12,502	40,126	-	-	89,045	141,673
Financial assets	1,558,532	-	27,984	-	22,892	1,609,408
Long-term receivables in respect of a franchise arrangement	-	43,252	3,068	-	3,068	49,388
Investment property and investment property under construction	-	-	-	-	22,645,554	22,645,554
Fixed assets	-	-	-	-	427,388	427,388
Intangible assets	-	-	-	-	336,683	336,683
Deferred tax assets	-	-	-	-	19,331	19,331
Total Non-Current Assets	1,645,983	83,378	31,052	-	23,544,523	25,304,936
Total Assets	3,329,785	130,052	147,826	3,874	24,635,244	28,246,781

Annex B

Reporting According to Linkage Bases
(IFRS 7)
(NIS thousands)

(Contd.)

	As of June 30, 2016					
	Israeli Currency		Foreign Currency		Others	Total
	Non-linked	Index linked	Dollar	Other(1)		
Current liabilities						
Credit from banks and other credit providers	1,324,495	1,623,355	263,625	21,829	-	3,233,304
Trade payables	155,275	-	14,858	426	-	170,559
Payables and other current liabilities	101,930	26,666	5,394	287	61,172	195,449
Deposits from customers	44,023	684,229	-	-	-	728,252
Provisions	-	-	-	-	12,158	12,158
Current tax liabilities	-	-	-	-	58,566	58,566
Liabilities of disposal group that is held for sale	950,445	19,501	267,640	-	310,941	1,548,527
Total Current Liabilities	2,576,168	2,353,751	551,517	22,542	442,837	5,946,815
Non-Current Liabilities						
Loans from banks and other credit providers	320,597	1,430,480	828,943	-	-	2,580,020
Bonds	-	2,334,535	-	-	-	2,334,535
Employee benefits	-	-	-	-	7,241	7,241
Other liabilities	5,811	38,674	4,182	-	36	48,703
Deferred tax liabilities	-	-	-	-	2,989,479	2,989,479
Total Non-Current Liabilities	326,408	3,803,689	833,125	-	2,996,756	7,959,978
Total Liabilities	2,902,576	6,157,440	1,384,642	22,542	3,439,593	13,906,793
Total Exposure in the Statement of Financial Position	427,209	(6,027,388)	(1,236,816)	(18,668)	21,195,651	14,339,988

(1) Mainly Pound Sterling.

Annex C

Financial Statements

(Extended Standalone)

As of June 30, 2016

(Unaudited and unreviewed)

Annex C

Extended Standalone Financial Statements

The Company's extended standalone financial statements are the condensed Company's reports presented according to the IFRS, except for the investment in Granite 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 June 30		As of December 31
	2016	2015	2015
	NIS in thousands	NIS in thousands	NIS in thousands
Assets			
Current Assets			
Cash and cash equivalents	466,513	696,368	860,618
Short-term deposits and investments	4,270	632	506
Trade accounts receivable	84,093	38,216	44,478
Other receivables	75,562	75,561	69,023
Current tax assets	5,719	3,791	5,505
Total Current Assets	636,157	814,568	980,130
Non-Current Assets			
Investment in investee companies	1,002,933	1,133,593	952,919
Loans and receivables	139,255	102,600	93,190
Financial assets	1,586,516	1,750,627	1,581,575
Investment property and investment property under construction	22,645,554	19,346,573	20,516,134
Fixed assets	110,913	44,170	111,491
Intangible assets	86,890	-	73,952
Deferred tax assets	835	1,090	835
Total Non-Current Assets	25,572,896	22,378,653	23,330,096
Total Assets	26,209,053	23,193,221	24,310,226

Annex C

Extended Standalone Financial Statements

Balance Sheet: (Cont.)

	As of June 30		As of December 31
	2016	2015	2015
	NIS in thousands	NIS in thousands	NIS in thousands
Liabilities and Capital			
Current Liabilities			
Credit from banks and other credit providers	3,155,508	1,620,050	1,068,409
Trade payables	117,057	197,806	125,455
Payables and other current liabilities	432,196	365,979	362,630
Deposits from senior housing customers	622,462	-	295,241
Current tax liabilities	41,463	75,106	91,778
Total Current Liabilities	4,368,686	2,258,941	1,943,513
Non-Current Liabilities			
Loans from banks and other credit providers	2,509,876	2,905,379	2,872,842
Bonds	1,968,271	1,582,690	2,579,151
Other liabilities	44,678	40,413	42,421
Employee benefits	4,918	3,062	3,420
Deferred tax liabilities	2,975,017	2,845,577	3,001,313
Total Non-Current Liabilities	7,502,760	7,377,121	8,499,147
Capital			
Ordinary share capital	18,223	18,223	18,223
Share premium	2,518,015	2,518,015	2,518,015
Capital reserves	414,378	487,900	407,396
Retained earnings	11,343,769	10,439,162	10,827,591
Total equity attributable to shareholders of the Parent Company	14,294,385	13,463,300	13,771,225
Not-controlling interests	43,222	93,859	96,341
Total Capital	14,337,607	13,557,159	13,867,566
Total Liabilities and Capital	26,209,053	23,193,221	24,310,226

Annex C

Extended Standalone Financial Statements

Income Statement:

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2016	2015(*)	2016	2015(*)	2015(*)
	NIS in thousands	NIS in Thousands	NIS in thousands	NIS in thousands	NIS in Thousands
Revenues:					
From rent, management and maintenance fees	842,554	780,113	422,782	394,828	1,631,581
Net gain from fair value adjustment of investment property and investment property under construction	390,466	41,051	33,455	53,980	179,071
Financing	8,979	7,803	2,744	4,851	8,640
Share in results of held companies, net of tax (*)	30,617	11,167	5,467	(9,248)	21,447
Other	9,943	(49)	(46)	8	9,983
Total Revenues	1,282,559	840,085	464,402	444,419	1,850,722
Costs and Expenses:					
Cost of revenues from rent, management and maintenance fees	200,301	173,495	101,423	87,865	385,222
Sales and Marketing	13,042	11,883	7,033	5,753	34,068
General and Administrative	29,512	29,378	14,367	12,122	60,030
Financing	61,198	49,597	40,653	45,074	110,239
Total Costs and Expenses	304,053	264,353	163,476	150,814	589,559
Income before income taxes	978,506	575,732	300,926	293,605	1,261,163
Expenses for taxes on income	(56,784)	(145,832)	(56,842)	(55,367)	(334,571)
Income from continued operations for the period, including minority	921,722	429,900	244,084	238,238	926,592
Income (loss) from discontinued operations for the period, including the minority(*)	(2,867)	7,082	390	7,551	(98,927)
Net Profit for the period, including the minority	918,855	436,982	244,474	245,789	827,665

(*) Restated due to discontinued operations, see Note 5 to the Consolidated Financial Statements.

Annex D

Designated Disclosure to the Bondholders

Annex D - Designated Disclosure to the Bondholders

Set forth below are details regarding the bonds of the Company that are held by the public:

Series	Date of the Issue	Par Value on the Date of the Issue	Par Value on the Report Date	Par Value on the Report Date, including Linkage	Amount of Interest Accrued by the Report Date	Value in the Financial Statements	Market Cap	Type of Interest	Interest Rate	Principal Payment Dates	Interest Payment Dates	Linkage Terms	Details regarding the Trustee
	NIS in millions												
Series B	February 10, 2015	623.3	1,101.2	1,101.2	1.8	1,091.4	1,094.5	Fixed	0.65	April 1st in the years 2016 to 2025 (inclusive)	From October 1, 2015 and subsequently April 1st and October 1st in the years 2016 to 2025 (inclusive).	Linkage (principal and interest) to the rise in the CPI for December 2014*.	Name of the trust company: Hermetic Trust (1975) Ltd.; Address: 113 Hayarkon St., Tel Aviv; Tel: 03-5544553; Fax: 03-5271039; E-mail address: hermetic@hermetic.co.il Contact person at the trustee: Dan Avnon or Idan Knobel.
	June 23, 2015	600.3											
Series C	Sept. 6, 2015	1,005.1	1,005.1	1,005.1	13.5	997.4	1,045.2	Fixed	1.64	July 1st in the years 2018 to 2027 (inclusive)	From July 1, 2016, twice a year, on January 1st and July 1st in each of the years 2016 to 2027 (inclusive).	Linkage (principal and interest) to the rise in the CPI for July 2015*.	
Total		2,228.7	2,106.3	2,106.3	15.3	2,088.8	2,126.2						

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

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

1. The Series B bond series and the Series C bond series of the Company are material to the Company and are not secured by any collateral.

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

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

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

5. After the date of the Financial Statements, the Company issued a new series of bonds (Series D). For details, see Section 1.3 in Chapter A.

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

Annex E

Update of Azrieli Center Valuation

As of June 30, 2016

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

Identification of the object of valuation	Azrieli Tel Aviv Center
Timing of the valuation	June 30, 2016
Value of the object of valuation in the Company's books	NIS 5,012,900 thousands
Identification and characterization of valuator	Ronen Katz of Greenberg Olpiner & Co.
Valuation model used by the valuator	DCF method
Assumptions on which the valuator based the valuation	See Section 9.2.9 of the periodic report as of December 31, 2015

Updated Comprehensive Land Valuation – "Azrieli Center"

1 Azrieli Center, Tel Aviv

August 22, 2016
Our reference: 3415-15

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

Updated Comprehensive Land Valuation - "Azrieli Center"

1 Azrieli Center, Tel Aviv

As per your request, further to our opinion no. 3415-14, which was prepared as of effective date December 31, 2015, we have examined the value of the property as of effective date June 30, 2016.

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

The undersigned visited the property on July 10, 2016.

The methodology of the valuation was not changed relative to the previous opinion.

Since the date of preparation of the opinion to date, several changes have occurred in the property:

1. **General**

- As of the effective date, occupancy of the premises is full, with the exception of an area of approx. 220 sqm for storerooms (we have been informed that negotiations are being conducted in respect of the lease of such space) and approx. 762 sqm for offices in the Round Tower (we have been informed that after the effective date, the space was leased to two tenants).

- In Q2/2016, the "Urbanica" store and the new Zara store were opened to the general public (in the area formerly occupied by Hamashbir).

2. **Calculation**

Income from electricity and management services – we discounted the net income from electricity and management at a cap rate that is 2% higher than the property's weighted cap rate, reflecting all of the risks deriving from such activity.

In July 2016, a new parking standard took effect, which substantially reduced the number of parking spaces that may be constructed in new projects in the vicinity of the contemplated property. As a result thereof, in the short term, the demand for parking spaces in the vicinity of the contemplated property, in general, and specifically at the contemplated property, is expected to grow (it appears that the trend is expected to change once the light rail train shall have been completed). A rise in the asking prices for parking spaces is observable and the subscription fees in parking lots in the area have increased.

In view of the foregoing, we reduced the cap rate for the parking lot by approx. 0.25%, compared to our previous opinion.

Item	Area for Marketing in sqm	Annual Income	Cap Rate	Value
Mall rent - large areas	15,703	NIS 26,890,000	6.75%	NIS 398,370,000
Mall rent – the other areas	19,806	NIS 95,730,000	7.0%	NIS 1,367,570,000
Market rent – vacant commercial storerooms	220	NIS 320,000	7.5%	NIS 4,266,000
Mall – Additional income from revenues and temporary stalls		NIS 6,950,000	8.0%	NIS 86,870,000
Rent from offices - longstanding contracts, including Bezeq	68,491	NIS 77,700,000	7.0%	NIS 1,110,000,000
Rent from offices – the other contracts	62,363	NIS 88,520,000	7.5%	NIS 1,180,200,000
Market rent – from vacant offices	762	NIS 1,090,000	8.0%	NIS 13,600,000
Rent from the hotel	18,000	NIS 13,900,000	7.0%	NIS 198,500,000
Rent from leased storerooms		NIS 2,260,000	7.75%	NIS 29,100,000
Net income from the parking lot		NIS 34,940,000	7.25%	NIS 481,900,000
Total		NIS **348,300,000**		NIS **4,870,376,000**
Net income from electricity and management		NIS 20,230,000	9.2%	NIS 221,060,000
Investments in the property, including leasehold improvements				- NIS 71,500,000
Deduction of transportation task				- NIS 7,000,000
Total, rounded off				NIS **5,012,900,000**

The total value indicates an average value of approx. NIS 50,000 per sqm for retail areas, an average value of approx. NIS 17,500 per sqm for offices, and a value of approx. NIS 150,000 per parking space. These figures are consistent with market data.

Sensitivity analysis:

Examination of sensitivity to changes in the cap rate:

	6.50%	7.00%	7.50%
Value of the Property	NIS 5,116,100,000	NIS 5,012,900,000	NIS 4,923,400,000

Examination of sensitivity to changes in the rent of the other retail areas in the mall:

	+5%	Current Rent	-5%
	NIS 100,520,000	NIS 95,730,000	NIS 90,940,000
Value of the Property	NIS 5,081,400,000	NIS 5,012,900,000	NIS 4,944,500,000

3. **Valuation**

In view of the aforesaid, our estimate of the market value of the Company's rights in the property (excluding the area used by Azrieli Group itself), on the free market, under the criterion of a willing buyer from a willing seller, free and clear of any debt, charge, mortgage, including third party rights, is around **NIS 5,012,900,000**.

4. **General**

- The value is exclusive of V.A.T.
- We have not addressed taxes applicable, if any, upon a sale of the property.
- We have valued the property in the past for the purpose of inclusion thereof in the Company's financial statements:

Effective Date	Value of the Company's Rights
December 31, 2013	NIS 4,731,600,000
December 31, 2014	NIS 4,841,200,000
December 31, 2015	NIS 4,971,400,000

Sincerely,

[Stamp and signature] Adina Greenberg, Real Estate Appraiser

[Stamp and signature] Ronen Katz, Real Estate Appraiser

Part B

Update of the Description of the Corporation's Business

AZRIELI GROUP

Azrieli Group Ltd.

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

In accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports) 5730-1970, following is a description of material developments that have occurred in the Company's business during the six months ended June 30, 2016 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**" – August 25, 2016; the "**Date of the Statement of Financial Position**" and the "**Report Date**" – June 30, 2016. "**Board of Directors' Report**" – the Board of Directors' Report on the State of the Company's Affairs for the six and three months ended June 30, 2016**.**

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) closing the purchase of property in Holon; (2) closing a transaction for the purchase of the "Yediot Aharonot House" (the expansion of the Tel Aviv Azrieli Center); (3) closing the purchase of a senior home and a retail center in Ra'anana; (4) a winning bid in a tender for the purchase of leasehold rights designated for senior housing in Rishon LeZion; (5) purchase of an office building in Austin, Texas, United States; (6) closing the purchase of digital commerce business; (7) financing transactions, debt raising and shelf prospectus; (8) closing the sale of Sonol; (9) changes in the office of executive officers; and (10) class actions; see Section 1.3 of Chapter A of this report.

[1] As was reported by the Company on March 23, 2016 (Ref. No. 2016-01-012174), included herein by way of reference.

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

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

For details regarding the holdings of interested parties in the Company, see immediate report dated July 7, 2016 (Ref.: 2016-01-076924), which is incorporated herein by way of reference.

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

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

3. Dividends

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

On May 4, 2016, the Company paid a dividend to its shareholders in the total amount of approx. NIS 400 million. For details, see Section 1.6(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-out of additional areas in Azrieli Sarona Center and receipt of an occupancy permit for the parking lots, completion of the Azrieli Holon Center project and receipt of an occupancy permit for the entire project. With respect to the senior housing project in Modi'in, a permit was received for the basement level of the project, and an above-ground building permit was received for most of the residential units. At Azrieli Tel Aviv mall, the Urbanica store has been opened, and renovation of Azrieli Jerusalem (Malcha) mall was commenced and renovation of the Azrieli Beer Sheva mall is nearing completion. As of the Report Release Date, the construction of the “Zappa” club in Azrieli Haifa mall has been completed and the club has been opened to the general public.

5. **Land Reserves (Additional Details)**

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

As of the Report Date, the transaction for the purchase of land for expansion of Azrieli Tel Aviv Center (Yediot Aharonot) was closed and possession of the lot was handed over to the Company. As of the Report Release Date, the Company began the work of evacuation of the building for the purpose of its demolition. In April 2016, the deposit of the zoning plan was approved, subject to the conditions of the District Committee.

With respect to the senior housing land in Lehavim, applications for building permits for the project have been submitted and as of the Report Release Date, a permit was received for foundation and excavation work. With respect to lots purchased by the Company in Holon (including a lot purchased from Lodzia), whose designation is commerce and offices, applications have been filed for building permits for shoring, excavation and basements.

With respect to Azrieli Town (possession has not yet been handed over to the Company), the Company submitted an above-ground building permit in May 2016. As of the Report Release Date, the Company has signed agreements for the lease of 26 thousand sqm of office space in the project, constituting more than one half of the leasable office space in the project.

Pi-Glilot Land

As of the Report Release Date, Granite has engaged in an agreement for the sale of all of its holdings in the Pi-Glilot land. For further details, see Section 1.3 of Chapter A of this Report.

For further details regarding the above projects and in respect of the total investments during the Report Period, which the Group continued to invest in the development and construction of new properties and in the expansion of existing properties, see Section 1.3.1 of the Board of Directors' Report in Chapter A of this report.

6. **Developments pertaining to Azrieli Tel Aviv Center**

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

Azrieli Towers in Tel Aviv

(Data according to 100%) (*)	For the Quarter Ended June 30, 2016	For the Quarter Ended March 31, 2016	For the Year Ended December 31, 2015
Value of property (NIS in thousands)	2,845,593	2,826,199	2,821,819
NOI in the period (NIS in thousands)	51,221	52,030	206,354
Revaluation profits (losses) in the period (NIS in thousands)	14,953	(1,031)	24,643

Average occupancy rate in the period (%)	~100%	~100%	100%
Rate of return (%)	7.2%	7.4%	7.3%
Average rent per sqm per month (NIS) (**)	102	102	101

(*) As of March 2016, the Corporation's share in the property is 100%.
(**) The figure does not include the rent of the hotel which is located at the Square Tower in Azrieli Center in Tel Aviv. Had the hotel's rent been included, the average rent per sqm per month in Q2/2016 would have been approx. NIS 98 per sqm, in Q1/2016 would have been approx. NIS 97 per sqm and in 2015 approx. NIS 97 per sqm.

An update of the valuation for this property as of June 30, 2016, is attached as Annex E to Chapter A of this Report.
<u>Details regarding the valuation</u>

		June 30, 2016	Y2015
The value determined (NIS in thousands)		**2,845,593**	**2,821,819**
Identity of the appraiser[2]		**Ronen Katz of Greenberg Olpiner & Co.**	**Ronen Katz of Greenberg Olpiner & Co.**
Is the appraiser independent?		**yes**	**yes**
Is there an indemnification agreement?		**yes**	**yes**
Date of validity of the valuation (the date to which the valuation pertains)		**June 30, 2016**	**Dec. 31, 2015**
The valuation model		**DCF**	**DCF**
Main Parameters Used for the Valuation			
The valuation according to the Income Approach	Gross leasable area used in the calculation (sqm)[3]	**149,615**	**149,529**
	Representative occupancy rate out of the leasable area for the purpose of valuation (%)[4]	**~100%**	**100%**
	Representative average monthly rent per leased sqm for the purpose of valuation	**100.8**	**100.3**
	Representative NOI for the purpose of valuation (NIS in thousands)[5]	**213,816**	**213,131**
	Annual average periodic expenses for preservation	See in Other main parameters below	

[2] Mr. Ronen Katz is a certified real estate appraiser, with B.A. in Agricultural Economy and Administration in the Agriculture Faculty from the Hebrew University of Jerusalem, and is experienced since 1997 as a real estate appraiser.
[3] Not including area for the Company's own use of approx. 1,520 sqm on the last office floor of the Round Tower.
[4] Represents the ratio of marketed area out of the total area, but in the appraisal, value was taken for vacant areas too.
[5] Including 50% of representative NOI of the parking lot which is included in the property value. (The remaining 50% were included in the valuation of the mall).

	Weighted cap rate used for the valuation	**7.34%**	**7.37%**
	Other main parameters	**Projected investments in the property were depreciated, as well as investments due to contractual undertaking to the City of Tel Aviv. The overall depreciation of the property value due to the aforesaid totaled at approx. NIS 65 million.**	**Projected investments in the property were depreciated, as well as investments due to contractual undertaking to the City of Tel Aviv. The overall depreciation of the property value due to the aforesaid totaled at approx. NIS 68 million.**
Value sensitivity analyses		**Change in value (NIS in thousands)**	**Change in value (NIS in thousands)**
Cap rates	Rise of 0.25%	**(95,802)**	**(94,776)**
	Decline of 0.25%	**102,553**	**101,427**
Average rent per sqm	Rise of 5%	**125,852**	**125,099**
	Decline of 5%	**(125,852)**	**(125,099)**

7. Sonol

With respect to the closing of the sale of Sonol after the date of the Financial Statements, see Section 1.3 of Chapter A herein.

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

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

8. Additional Business

Update to Section 13.2.1 of the Description of the Corporation's Business chapter – Supergas

A poisons permit for the continued operation of the gas farm in Kiryat Ata was extended until June 2, 2017.

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

Final report of the Committee to Increase Competition in Common Banking and Financial Services (the "Strum Committee")

Further to the disclosure made in the 2015 Periodic Report regarding the interim report of the Strum Committee, on July 7, 2016, the Strum Committee released its final report. Based on the report, the Legislative Memorandum for Increasing Competition and Reducing Concentration and Conflict of Interest in the

Banking Market in Israel, 5776-2016 (the "**Legislative Memorandum**") was published, approved by the government on August 2, 2016, and passed the first reading in the Knesset on August 3, 2016. The Legislative Memorandum requires Bank Leumi and Bank Hapoalim, within 3 years, to sell their holdings in the credit card companies held thereby and further prohibits them from operating the issuance of charge cards, clearing charge cards and holding a corporation that operates such issuance or clearing. Upon completion of the sale, and for a 5-year period, the Legislative Memorandum prescribes additional limitations on the activity of Bank Hapoalim and Bank Leumi in the credit card sector.

The Legislative Memorandum for the Supervision of Financial Services (Extra-Institutional Financial Services) (Amendment) Law, 5776-2016 (the "Supervision Law Legislative Memorandum")

On July 13, 2016, the Legislative Memorandum for the Supervision of Financial Services (Extra-Institutional Financial Services) (Amendment) Law, 5776-2016 was published, which concerns the granting of a possibility to certain financial service providers to operate, subject to obtaining the appropriate license, also in the field of issuing charge cards as issuers.

Credit Data Service Law, 5775-2016

During Q2, the process of legislation of the Credit Data Service Law, 5775-2016 was completed, on the issue of information saving for the purpose of delivery thereof to the credit database, and draft regulations were published.

9. Financing

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

Engagement in Loan Agreements

For details regarding loan agreements into which the Company entered with institutional bodies, see Section 1.3 of Chapter A of the Report.

For details regarding prepayment of loans in July, after the date of the Financial Statements, see Section 1.3 of Chapter A of the Report.

10. Non-Bank Financing of the Company

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

Series A Bonds of the Company

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

<u>Series D Bonds of the Company</u>

On July 5, 2016, the Company published a shelf offering report for the issue and listing on TASE of up to NIS 2.2 billion par value of a new Series D bond series by virtue of a shelf prospectus of the Company. On July 7, 2016, the Company announced that according to the results of the issuance, NIS 2.194 billion par value of a Series D bond series had been allotted in consideration for NIS 2.194 billion (NIS 2.177 billion after the attribution of the issuance expenses). For details regarding the Series D Bonds, see Note 8 to the Financial Statements (Part C of the Report).

<u>Commercial Paper</u>

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

11. Credit Rating

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

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

On July 5, 2016 Midroog issued a stable Aa1 rating for the new Series D bond issuance, in a total amount of up to NIS 2.2 billion, to be raised by the Company. For details see the Company's immediate report of March 29, 2016 (Ref. 2016-01-074611), included herein by way of reference.

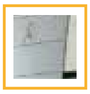
On July 20, 2016 Midroog confirmed a stable Aa1 rating for the Company's Series A and Series D bond series. For details see the Company's immediate report of July 20, 2016 (Ref. 2016-01-086899), included herein by way of reference.

12. Legal Proceedings

For an update in connection with the legal proceedings being conducted against the Group's companies, see Note 3 to the Financial Statements as of June 30, 2016.

Part C

Consolidated Financial Statements
Dated 30 June 2016



AZRIELIGROUP

Azrieli Group Ltd.

Condensed Consolidated Financial Statements
as of June 30, 2016

(Unaudited)

Azrieli Group Ltd.

C o n t e n t s

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 June 30, 2016 and the Condensed Consolidated Statements of Profit or Loss and other Comprehensive Income, Changes in Capital and Cash Flows for periods of six and three months then ended. The Board of Directors and management are responsible for the preparation and presentation of the financial information for these interim periods in accordance with IAS 34 "Interim Financial Reporting", and they are responsible for the preparation of financial information for these interim periods under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express a conclusion on the financial information for these interim periods, based on our review.

We did not review the condensed interim financial information of consolidated companies whose consolidated assets constitute approx. 13.8% of all the consolidated assets as of June 30, 2016, and whose consolidated revenues from continued operations constitute approx. 9.8% and approx. 8.6%, respectively, of the total consolidated revenues for the periods of six and three months then ended and whose consolidated revenues from discontinued operations, constitute approx. 45.2% and approx. 47.8%, respectively, of the total consolidated revenues for the periods of six and three months then ended. The condensed interim financial information of such companies was reviewed by other auditors whose review report was furnished to us and our conclusion, insofar as it relates to the financial information for such companies, is based on the review report of the other auditors.

Scope of the review

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

Conclusion

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

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

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

Tel Aviv, August 24, 2016

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Azrieli Group Ltd.

Condensed Consolidated Statements of Financial Position

	As of June 30		As of December 31
	2016	2015	2015
	NIS in thousands		NIS in thousands
	(Unaudited)		
ASSETS			
Current Assets			
Cash and cash equivalents	492,043	827,037	934,724
Short-term deposits and investments	54,866	62,125	36,302
Trade accounts receivable	290,366	1,285,332	1,102,160
Other receivables	111,508	169,424	167,227
Inventory	58,282	182,201	173,450
Current tax assets	11,435	7,833	14,894
	1,018,500	2,533,952	2,428,757
Assets of disposal group held for sale	1,923,345	-	8,850
Total Current Assets	2,941,845	2,533,952	2,437,607
Non-current Assets			
Investments and loans of associates	75,511	45,809	70,755
Investments, loans and receivables	141,673	218,082	218,321
Financial assets	1,609,408	1,816,319	1,659,927
Long-term receivables in respect of franchise arrangement	49,388	34,638	44,372
Investment property and investment property under construction	22,645,554	19,397,493	20,528,554
Fixed assets	427,388	985,557	1,059,657
Intangible assets	336,683	373,279	342,955
Pre-paid long-term rent	-	40,366	36,637
Deferred tax assets	19,331	46,609	46,320
Total Non-current Assets	25,304,936	22,958,152	24,007,498
Total Assets	28,246,781	25,492,104	26,445,105

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

Azrieli Group Ltd.
Condensed Consolidated Statements of Financial Position
(Continued)

	As of June 30		As of Dec. 31
	2016	2015	2015
	NIS in thousands		NIS in thousands
	(Unaudited)		
LIABILITIES AND CAPITAL			
Current liabilities			
Credit from banks and other credit providers	3,233,304	2,648,850	2,030,205
Trade payables	170,559	672,796	524,638
Payables and other current liabilities	195,449	385,991	375,208
Deposits from customers	728,252	108,022	402,066
Provisions	12,158	51,225	77,515
Current tax liabilities	58,566	106,966	110,241
	4,398,288	3,973,850	3,519,873
Liabilities of disposal group held for sale	1,548,527	-	3,387
Total current liabilities	5,946,815	3,973,850	3,523,260
Non-current liabilities			
Loans from banks and other credit providers	2,580,020	3,039,315	2,989,456
Bonds	2,334,535	1,983,699	2,962,731
Employee benefits	7,241	19,440	18,981
Other liabilities	48,703	51,884	53,685
Deferred tax liabilities	2,989,479	2,864,173	3,027,164
Total non-current liabilities	7,959,978	7,958,511	9,052,017
Capital			
Ordinary share capital	18,223	18,223	18,223
Share premium	2,518,015	2,518,015	2,518,015
Capital reserves	414,378	487,900	407,396
Retained earnings	11,343,769	10,439,162	10,827,591
Total equity attributable to the shareholders of the parent company	14,294,385	13,463,300	13,771,225
Non-controlling interests	45,603	96,443	98,603
Total Capital	14,339,988	13,559,743	13,869,828
Total Liabilities and Capital	28,246,781	25,492,104	26,445,105

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

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

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

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2016	2015 (*)	2016	2015 (*)	2015 (*)
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		(Unaudited)		
Revenues:					
From sales, labor and services	336,947	424,018	147,526	199,323	732,349
From rent, management and maintenance fees	836,492	775,597	420,268	392,572	1,622,543
Net gain from fair value adjustment of investment property and investment property under construction	390,466	41,051	33,455	53,980	179,071
Financing	13,804	14,368	4,286	(1,421)	18,144
Other	11,941	5,912	975	2,567	16,008
Total revenues	1,589,650	1,260,946	606,510	647,021	2,568,115
Costs and Expenses:					
Cost of revenues from sales, labor and services	203,001	283,802	90,066	131,865	480,606
Cost of revenues from rent, management and maintenance fees	200,235	173,468	101,388	87,854	385,098
Sales and marketing	74,188	74,047	37,401	35,545	155,842
G&A	47,227	50,596	23,890	23,367	101,631
Share in results of associates, net of tax	3,840	3,205	1,787	1,372	8,562
Financing	72,602	74,132	49,207	54,362	145,210
Other	41	8,434	41	8,362	8,918
Total Costs and Expenses	601,134	667,684	303,780	342,727	1,285,867
Income before income taxes	988,516	593,262	302,730	304,294	1,282,248
Taxes on income	(66,794)	(163,362)	(58,646)	(66,056)	(355,656)
Income from continuing operations	921,722	429,900	244,084	238,238	926,592
Income (loss) from discontinued operations (after tax) (see Note 5)	(2,867)	7,082	390	7,551	(98,927)
Net profit for the period	918,855	436,982	244,474	245,789	827,665
Other comprehensive income:					
Amounts that will not be classified in the future to profit or loss, net of tax:					
Actuarial gain due to defined benefit plan, net of tax	-	-	-	-	(977)
Amounts that were classified or that will be classified in the future to profit or loss, net of tax:					
Change in fair value of financial assets available for sale, net of tax	14,795	132,321	3,565	65,412	18,172
Translation differences from foreign operations	(15,408)	(33,334)	22,075	(54,512)	1,506
Total	(613)	98,987	25,640	10,900	19,678
Other comprehensive income (loss) for the period, net of tax	(613)	98,987	25,640	10,900	18,701
Total Comprehensive Income for the Period	918,242	535,969	270,114	256,689	846,366

(*) Restated due to discontinued operations, see Note 5.

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

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

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2016	2015	2016	2015	2015
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		(Unaudited)		
Net income for the year attributable to:					
Shareholders of the Company	916,178	431,591	244,134	243,685	820,991
Non-controlling interests	2,677	5,391	340	2,104	6,674
	918,855	436,982	244,474	245,789	827,665
Total comprehensive income for the year attributable to:					
Shareholders of the Company	916,040	531,613	269,081	256,370	839,538
Non-controlling interests	2,202	4,356	1,033	319	6,828
	918,242	535,969	270,114	256,689	846,366
	NIS	NIS	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	7.58	3.50	2.01	1.95	7.59
Discontinued operations	(0.02)	0.06	-	0.06	(0.82)
	7.56	3.56	2.01	2.01	6.77
Average weighted number of shares used for calculating the basic and diluted earnings per share	121,272,760	121,272,760	121,272,760	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 six-month period ended June 30, 2016 (Unaudited)

	Share capital	Share premium	Revaluation fund for financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve for transactions with related parties	Capital reserve from the acquisition of non-controlling interests in a consolidated company	Other capital reserves	Retained earnings	Total attributed to shareholders of the Company	Non-controlling interests	Total
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	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 period	-	-	-	-	-	-	-	916,178	916,178	2,677	918,855
Change in fair value of financial assets available for sale, net of tax	-	-	14,710	-	-	-	-	-	14,710	85	14,795
Translation differences from foreign operations	-	-	-	(14,848)	-	-	-	-	(14,848)	(560)	(15,408)
Total comprehensive income for the period	-	-	14,710	(14,848)	-	-	-	916,178	916,040	2,202	918,242
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 June 30, 2016	18,223	2,518,015	406,066	15,621	(31,002)	25,789	(2,096)	11,343,769	14,294,385	45,603	14,339,988

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

Azrieli Group Ltd.
Condensed Consolidated Statements of Changes in Capital
Contd.

	For the six-month period ended June 30, 2015 (Unaudited)										
	Share capital	Share premium	Revaluation fund for financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve for transactions with related parties	Capital reserve from the acquisition of non-controlling interests in a consolidated company	Other capital reserves	Retained earnings	Total attributed to shareholders of the Company	Non-controlling interests	Total
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
Balance as of January 1, 2015	18,223	2,518,015	373,253	29,054	(30,974)	18,641	(2,096)	10,327,571	13,251,687	96,867	13,348,554
Net profit for the period	-	-	-	-	-	-	-	431,591	431,591	5,391	436,982
Change in fair value of financial assets available for sale, net of tax	-	-	132,321	-	-	-	-	-	132,321	-	132,321
Translation differences from foreign operations	-	-	-	(32,299)	-	-	-	-	(32,299)	(1,035)	(33,334)
Total comprehensive income for the period	-	-	132,321	(32,299)	-	-	-	431,591	531,613	4,356	535,969
Dividend to the shareholders of the Company	-	-	-	-	-	-	-	(320,000)	(320,000)	-	(320,000)
Write-off of non-controlling interests due to disposition of a subsidiary	-	-	-	-	-	-	-	-	-	(4,780)	(4,780)
Total transactions with the shareholders of the Company	-	-	-	-	-	-	-	(320,000)	(320,000)	(4,780)	(324,780)
Balance as of June 30, 2015	18,223	2,518,015	505,574	(3,245)	(30,974)	18,641	(2,096)	10,439,162	13,463,300	96,443	13,559,743

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

Azrieli Group Ltd.
Condensed Consolidated Statements of Changes in Capital
Contd.

For the three-month period ended June 30, 2016 (Unaudited)

	Share capital	Share premium	Revaluation fund for financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve for transactions with related parties	Capital reserve from the acquisition of non-controlling interests in a consolidated company	Other capital reserves	Retained earnings	Total attributed to shareholders of the Company	Non-controlling interests	Total
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
Balance as of April 1, 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
Net profit for the period	-	-	-	-	-	-	-	244,134	244,134	340	244,474
Change in fair value of financial assets available for sale, net of tax	-	-	3,565	-	-	-	-	-	3,565	-	3,565
Translation differences from foreign operations	-	-	-	21,382	-	-	-	-	21,382	693	22,075
Total comprehensive income for the period	-	-	3,565	21,382	-	-	-	244,134	269,081	1,033	270,114
Balance as of June 30, 2016	18,223	2,518,015	406,066	15,621	(31,002)	25,789	(2,096)	11,343,769	14,294,385	45,603	14,339,988

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

Azrieli Group Ltd.
Condensed Consolidated Statements of Changes in Capital
Contd.

	For the three-month period ended June 30, 2015 (Unaudited)										
	Share capital	Share premium	Revaluation fund for financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve for transactions with related parties	Capital reserve from the acquisition of non-controlling interests in a consolidated company	Other capital reserves	Retained earnings	Total attributed to shareholders of the Company	Non-controlling interests	Total
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
Balance as of April 1, 2015	18,223	2,518,015	440,162	49,482	(30,974)	18,641	(2,096)	10,195,477	13,206,930	96,124	13,303,054
Net profit for the period	-	-	-	-	-	-	-	243,685	243,685	2,104	245,789
Change in fair value of financial assets available for sale, net of tax	-	-	65,412	-	-	-	-	-	65,412	-	65,412
Translation differences from foreign operations	-	-	-	(52,727)	-	-	-	-	(52,727)	(1,785)	(54,512)
Total comprehensive income for the period	-	-	65,412	(52,727)	-	-	-	243,685	256,370	319	256,689
Balance as of June 30, 2015	18,223	2,518,015	505,574	(3,245)	(30,974)	18,641	(2,096)	10,439,162	13,463,300	96,443	13,559,743

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

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

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

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

Azrieli Group Ltd.
Condensed Consolidated Statements of Cash Flows

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2 0 1 6	2 0 1 5	2 0 1 6	2 0 1 5	2 0 1 5
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
	(Unaudited)		(Unaudited)		
Cash Flows - Current Operations					
Net profit for the period	918,855	436,982	244,474	245,789	827,665
Depreciation and amortization	52,881	50,177	26,399	24,205	103,153
Impairment of goodwill	25,227	-	25,227	-	103,000
Forfeiture of senior housing tenants' deposits	(5,699)	-	(2,800)	-	(6,311)
Net gain from fair value adjustment of investment property and investment property under construction	(390,466)	(41,051)	(33,455)	(53,980)	(180,307)
Financing and other expenses, net	59,296	84,647	39,345	89,590	140,741
Gain from liquidation of fixed assets, investment property and intangible assets, net	(137)	(3,399)	(91)	(98)	(1,846)
Share in losses of associates accounted for by the equity method	3,840	3,205	1,787	1,372	8,562
Change in recording of benefit in respect of share-based payment and employee benefits	-	3,114	-	1,121	2,493
Tax expenses recognized in the income statement	75,698	165,853	67,159	68,747	364,780
Change in financial assets	(9)	(10)	(9)	182	116
Loss from realizing investment in subsidiary (Annex A)	-	8,627	-	8,585	9,437
Income taxes paid, net	(136,191)	(118,836)	(43,178)	(27,198)	(197,601)
Erosion (revaluation) of financial assets designated at fair value through profit and loss	(3,564)	(7,338)	1,204	(7,936)	(2,715)
Change in inventory	432	59,090	(13,078)	5,194	67,841
Change in trade and other receivables	67,919	(52,078)	117,208	(3,379)	137,504
Change in receivables in respect of franchise arrangement	(6,523)	16,352	(2,544)	5,865	6,566
Change in trade and other payables	44,116	2,524	58,054	16,991	(154,688)
Receipt of deposits from senior housing tenants	12,778	-	4,993	-	25,796
Return of deposits from senior housing tenants	(5,584)	-	(5,191)	-	(6,864)
Change in employee provisions and benefits	(921)	(5,150)	(579)	4,549	13,475
Net cash - current operations	711,948	602,709	484,925	379,599	1,260,797

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

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

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2016	2015	2016	2015	2015
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
	(Unaudited)		(Unaudited)		
Cash flows - Investment Activity					
Proceeds from liquidation of fixed and intangible assets	1,503	6,120	841	759	7,157
Proceeds from liquidation of investment property	4,536	-	-	-	2,836
Down payments on account of investment property	(6,059)	(1,215)	(5,612)	(725)	(4,815)
Purchase of and investment in investment property and investment property under construction	(1,212,521)	(603,631)	(570,693)	(237,124)	(1,016,466)
Purchase of fixed and intangible assets	(87,011)	(76,699)	(60,557)	(32,996)	(118,589)
Investment in and granting of loans to associates	(8,523)	(14,543)	(2,410)	(2,725)	(3,435)
Change in short-term deposits	(14,800)	(15,642)	(2,265)	(10,615)	10,049
Change in restricted investments	(300)	15,084	(194)	15,084	15,279
Receipt (payment) for settlement of derivative financial instruments, net	725	(5,720)	(130)	(10,898)	(5,304)
Change in financial assets designated at fair value through profit and loss, net	741	2,145	146	1,892	2,338
Change in marketable securities, net	-	14,874	-	21,972	14,874
Granting of long-term loans	(829)	(4,064)	(545)	(3,768)	(44,862)
Collection of long-term loans	14,591	10,634	4,035	6,300	15,593
Interest and dividend received	22,291	28,777	6,916	14,199	45,937
Acquisition of companies consolidated for the first time (Annex B)	(60,864)	(27,048)	(60,864)	(27,048)	(254,661)
Proceeds from liquidation of investments in investee companies, net (Annex A)	-	415,948	-	363,683	415,948
Institutions for the purchase of real estate	(6,600)	-	44,787	8,226	-
Proceeds from sale of investments	-	115,174	-	-	115,174
Tax paid for sale of companies	-	(12,114)	-	-	(22,745)
Net cash - investment activity	(1,353,120)	(151,920)	(646,545)	106,216	(825,692)

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

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

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2016	2015	2016	2015	2015
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
	(Unaudited)		(Unaudited)		
Cash flows - Financing Activity					
Acquisition of non-controlling interests	(51,000)	-	-	-	-
Dividend distribution to shareholders	(400,000)	(320,000)	(400,000)	(320,000)	(320,000)
Repayment of bonds	(393,088)	(390,107)	(340,503)	(323,576)	(406,994)
Bond offering net of issue expenses	-	1,212,426	-	593,555	2,209,284
Receipt of long-term loans from banks and others	1,056,631	112,030	806,631	10,000	112,203
Repayment of long-term loans from banks and others	(173,836)	(313,208)	(49,378)	(116,706)	(876,330)
Short-term credit from banks and others, net	310,908	(9,323)	125,031	(41,838)	(202,735)
Repayment of deposits from customers	(2,918)	(2,874)	(1,656)	(1,190)	(6,034)
Deposits from customers that were received	3,546	3,672	1,701	1,476	8,802
Dividend to holders of non-controlling interests	-	(125)	-	-	(437)
Investment of non-controlling interests in a subsidiary	2,918	-	-	-	-
Interest paid	(96,845)	(127,766)	(47,769)	(66,498)	(231,501)
Net cash - Financing Activity	256,316	164,725	94,057	(264,777)	286,258
Increase (decrease) in cash and cash equivalents	(384,856)	615,514	(67,563)	221,038	721,363
Cash and cash equivalents at beginning of period	934,724	163,578	613,926	586,269	163,578
Change in net cash classified as disposal group held for sale	(55,877)	51,423	(56,467)	27,249	50,487
Effect of exchange rate changes on cash balances held in foreign currency	(1,948)	(3,478)	2,147	(7,519)	(704)
Cash and cash equivalents at end of period	492,043	827,037	492,043	827,037	934,724

(*) Non-cash transactions include a change in other payables in respect of acquisitions on credit of non-current assets for the six- and three-month periods ended June 30, 2016 in the sum of NIS (13,184) thousand and NIS (23,991) thousand, respectively (June 30, 2015 – NIS (25,384) thousand and NIS 30,297 thousand, respectively, and for the year ended December 31, 2015 – NIS (77,446) thousand).

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

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2016	2015	2016	2015	2015
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
	(Unaudited)		(Unaudited)		
Annex A -					
Proceeds from sale of investment in previously-consolidated Green Anchors Ltd.:					
Working capital (excluding cash and cash equivalents)	-	(2,975)	-	-	(2,975)
Fixed and intangible assets, net	-	105	-	-	105
Investment property	-	24,081	-	-	24,081
Long-term liabilities including current maturities	-	(7,317)	-	-	(7,317)
Liabilities for deferred taxes, net	-	(4,365)	-	-	(4,365)
Non-controlling interests	-	(4,780)	-	-	(4,780)
Loss from liquidation of investment in subsidiary	-	(42)	-	-	(42)
	-	4,707	-	-	4,707
Proceeds from sale of investment in previously-consolidated Via Maris Desalination (Holdings) Ltd.:					
Working capital (excluding cash and cash equivalents)	-	79,678	-	79,678	80,488
Investments and loans	-	3,799	-	3,799	3,799
Receivables in respect of franchise arrangement	-	822,932	-	822,932	822,932
Fixed and intangible assets, net	-	126,037	-	126,037	126,037
Long-term liabilities, net	-	(697,358)	-	(697,358)	(697,358)
Liabilities for deferred taxes, net	-	(23,481)	-	(23,481)	(23,481)
Restricted investments	-	60,661	-	60,661	60,661
Loss from liquidation of investment in subsidiary	-	(8,585)	-	(8,585)	(9,395)
	-	363,683	-	363,683	363,683
Receivables for the sale of an investment in previously-consolidated S. Solar Ltd., net	-	47,558	-	-	47,558
Total proceeds from the sale of investments, net	-	415,948	-	363,683	415,948

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 six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2016	2015	2016	2015	2015
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
	(Unaudited)		(Unaudited)		
Annex B -					
Acquisition of a company consolidated for the first time – Palace America Senior Housing Ltd.:					
Working capital (excluding cash and cash equivalents and short-term deposits)	-	-	-	-	10,574
Liabilities for deposits from customers	-	-	-	-	284,721
Fixed and intangible assets, net	-	-	-	-	(141,927)
Investment property	-	-	-	-	(552,083)
Long-term liabilities including current maturities	-	-	-	-	54,189
Reserve for deferred taxes, net	-	-	-	-	89,865
	-	-	-	-	(254,661)
Acquisition of a company consolidated for the first time – Ahuzat Bayit Raanana Senior Housing Ltd., see Note 4E:					
Working capital (excluding cash and cash equivalents and short-term deposits)	(31,361)	-	(31,361)	-	-
Liabilities for deposits from customers	327,655	-	327,655	-	-
Fixed and intangible assets, net	(13,460)	-	(13,460)	-	-
Investment property	(530,627)	-	(530,627)	-	-
Long-term liabilities including current maturities	212,454	-	212,454	-	-
	(35,339)	-	(35,339)	-	-
Acquisition of a company consolidated for the first time – Azrieli eCommerce Ltd. (formerly: Netex New Media Ltd.), see Note 4J:					
Working capital (excluding cash and cash equivalents)	5,025	-	5,025	-	-
Fixed and intangible assets, net	(65,360)	-	(65,360)	-	-
Long-term liabilities including current maturities	35,032	-	35,032	-	-
	(25,303)	-	(25,303)	-	-
Acquisition of a company consolidated for the first time – Bio Clean Air Innovation Ltd.:					
Working capital (excluding cash and cash equivalents)	6,078	-	6,078	-	-
Fixed and intangible assets, net	(7,124)	-	(7,124)	-	-
Reserve for deferred taxes, net	824	-	824	-	-
	(222)	-	(222)	-	-
Down payment on account of the acquisition of a company – Assisted Living Modi'in Ltd.	-	(27,048)	-	(27,048)	-
Total acquisition of companies consolidated for the first time	(60,864)	(27,048)	(60,864)	(27,048)	(254,661)

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

Note 1 – General

A. Azrieli Group Ltd. (the "**Company**" and/or the "**Group**") is a company domiciled and incorporated in Israel and whose registered address is 1 Azrieli Center, Tel Aviv. The Company is traded on the TASE and is included in the Tel Aviv 25 Index. The Group's consolidated financial statements as of June 30, 2016 include those of the Company and of its subsidiaries (jointly, the "**Group**"), as well as the Group's rights in associates and in jointly-controlled entities.

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

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

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

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

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

Note 2 – Significant Accounting Policies

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

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

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

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

(2) The addition to the accounting policy – as a result of the acquisition of "Netex New Media Ltd. (see Note 4J):

- **Intangible Assets**:

  Intangible assets acquired separately, are measured at the time of initial recognition according to the cost plus the direct acquisition costs. An intangible asset deriving from in-house development, shall be recognized if, and only if, the following conditions are proven: technological feasibility of completion of the intangible asset, so that it will be available for use or sale; intention and ability to use the intangible asset or sell it; the manner in which the intangible asset will create future economic benefits, the existence of technological, financial and other required resources, which are available for the completion of the intangible asset, and the ability to reliably measure the expenses therefor, during the development thereof.

  The Group discounts the costs for development of software for self-use, commencing from the date of fulfillment of the criteria for the recognition of an intangible asset deriving from in-house development, as detailed above. The discounting of the costs, as aforesaid, is discontinued when the software is substantially completed and is ready for its designated use. Improvements and upgrades which add functionality to the software are discounted to the cost.

  Following the initial recognition, intangible assets are presented at their cost net of accumulated amortization and net of accumulated impairment losses.

  According to management's assessment, the intangible assets have a defined life span. The assets are amortized over their useful life, as detailed below:

  Software and websites – 5 years.

  Advertisement rights – according to actual utilization.

Note 2 – Significant Accounting Policies (Cont.)

- **Research and Development Expenses**:

  R&D expenses are recorded in the income statement as incurred (other than as provided in the intangible assets section above).

B. Use of estimates and discretion:

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

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

(2) Further to Note 3(C)1 to the annual financial statements, as of June 30, 2016, the Group updated the valuations for some of its investment property in Israel (which are attributed to the retail centers and malls segment, to the office and other space for lease segment and to other segments in the senior housing sector).

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

The valuations for the investment property for lease and under construction were mainly prepared using the method of discounting the expected cash flows from the properties.

The cap rates used by the appraiser are mainly between 6.75% and 8.75%. The cap rates were determined considering the type, designation and location of the property, the amount of the rent versus the market price and the nature of the tenants.

The valuation of the land was performed by the comparison method (for additional details see Note 4G) and of the property under construction by discounting the expected cash flows from the property, net of construction cost balance and developer profit. The cap rates used by the appraiser for the property under construction are between 8%-8.5%. The cap rate was determined in consideration of the type of the property, the level of risk and uncertainty with respect to receipt of the expected cash flow, the size of the property and the timing of the completion of the construction.

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

Note 2 – Significant Accounting Policies (Cont.)

C. Rates of exchange and linkage basis:

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

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

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

	Representative exchange rate of the		Israeli Index	
	Euro	**USD**	**"Due"**	**"Known"**
	(1 Euro = NIS)	**(1 USD = NIS)**	**Basis 1993**	**Basis 1993**
Date of the financial statements:				
As of June 30, 2016	4.2839	3.846	221.13	220.4617
As of June 30, 2015	4.2194	3.769	222.92	222.25
As of December 31, 2015	4.247	3.902	221.13	221.35
Rates of change:	%	%	%	%
For the six-month period ended:				
June 30, 2016	0.87	(1.44)	-	(0.40)
June 30, 2015	(10.69)	(3.09)	(0.20)	(0.50)
For the three-month period ended:				
June 30, 2016	(0.04)	2.12	1.02	0.51
June 30, 2015	(1.27)	(5.30)	1.12	1.12
For the year ended				
December 31, 2015	(10.11)	0.33	(1.00)	(0.90)

Note 3 – Contingent Liabilities

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

A. Class actions:

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

Note 3 – Contingent Liabilities (Cont.)

B. Other claims:

The parties	Amount of claim	Nature of claim	Prospects of claim
Various local authorities against Supergas.	Demands in the sum of approx. NIS 66 million.	In 2005-2015, Supergas received demands for the payment of municipal tax (*arnona*) on gas containers, from the Carmiel municipality and from additional municipalities.	In February 2016, a judgment was issued by the Supreme Court in a case conducted between two gas companies and a large number of municipalities, whereby the gas companies are not to be charged municipal tax for the gas containers buried in their areas. Such determination significantly reinforces Supergas's claims regarding the municipal tax payment demands and several municipalities have also already sent a notice regarding cancelation of the charges. In view of the foregoing, Supergas's management estimates, in reliance on its legal counsel, that Supergas's chances of defeating the municipal tax demands are higher than 50%.

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

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

Note 4 – Material Events during the Report Period

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

B. On April 13, 2016, the Company closed a transaction, that was signed on March 2, 2016, between the Company and Lodzia-Rotex Investment Ltd. (the "**Seller**"), after the Antitrust Commissioner's approval was received, which constituted a condition precedent to the transaction, in connection with the acquisition of all of the ownership rights of the Seller in a property of a registered area of approx. 53,000 sqm, situated in the Holon industrial zone, with a built-up area of approx. 14,300 sqm of workshops and commercial buildings thereon, which are leased to various tenants. In consideration for the property, the Company paid approx. NIS 280 million plus V.A.T. The designation of the land according to the valid zoning plan is a special employment area with a commercial front and it includes building rights for approx. 193 thousand sqm above-ground and as well as parking basements.

The Seller is entitled to all the revenues net of expenses for the management of the property (NOI) in the 12 months from the execution date of the agreement, in the estimated amount of NIS 10 million.

C. On March 6, 2016, the Company's general meeting approved the Company's engagement in an agreement for the purchase of one share of Canit Hashalom Investments Ltd. ("**Canit Hashalom**"), a subsidiary in which the Company held approx. 99.1% from Azrieli Foundation (Israel) (R.A.), in consideration for NIS 51 million. Following the purchase, the Company holds 100% of the issued share capital of Canit Hashalom.

The closing of the transaction had no effect on the Company's income statement.

D. On January 4, 2016, the plenum of the Knesset approved the Law for Amendment of the Income Tax Ordinance (No. 216), 5776-2016, which determined, *inter alia*, a decrease in the corporate tax rate, commencing 2016 and onwards, by a rate of 1.5%, to 25%. As a result of the change in the tax rate, there was a reduction of the deferred tax liability balances in an amount of NIS 170 million and a reduction in the deferred tax asset balances in an amount of NIS 3 million. The update of the deferred tax balances was recorded against deferred tax income in an amount of NIS 162 million, and the other comprehensive income of the Company increased by NIS 167 million.

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

E. On March 23, 2016, a consolidated company (the "**Buyer**") entered into a contingent agreement (the "**Agreement**" or the "**Transaction**") with unrelated third parties (the "**Sellers**"), for the purchase of 100% of the shares of a private company that is a reporting corporation, as defined in the Securities Law, 5728-1968, which holds and manages the "Ahuzat Bayit" senior home and the "Park Mall" retail center in Ra'anana (the "**Purchased Company**").

Below are the main details of the engagement:

- The property – "Ahuzat Bayit" is an active senior home located at Ahuza Street in Ra'anana, in proximity of the route of Road 531, which includes approx. 335 senior housing units and a long-term care unit.

  "Park Mall" is an active retail center located near the senior home, with approx. 20 tenants in an area of approx. 4,500 sqm.

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

- Indemnification – in the context of the engagement, the Buyer undertook that it, jointly with others, will be liable to indemnify the Purchased Company and/or the Company for past activity of the Purchased Company that is unrelated to the senior home and the retail center.

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

On April 13, 2016, the Antitrust Commissioner rendered notice of his consent for effecting the transaction and on May 25, 2016, the transaction was closed.

On June 29, 2016, the Purchased Company ceased to be a reporting corporation, as defined in the Securities Law, 5728-1968.

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

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

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

G. Further to Note 14F to the annual financial statements, on March 31, 2016, the Company paid a sum of NIS 302 million plus VAT, constituting the consideration balance in connection with the purchase of rights in a lot adjacent to the Azrieli Center in Tel Aviv, of an area of approx. 8,400 sqm, at the intersection of Menachem Begin Road and Noah Moses St. in Tel Aviv on which stands a building slated for demolition, known as the "Yediot Aharonot House". Possession of the lot was handed-over to the Company at such date. The property was revaluated in the financial statements as of March 31, 2016, and recorded at its fair value. For further details, see Note 2B(2).

H. On May 24, 2016, a loan was provided to the Company in the sum of NIS 550 million from an institutional body affiliated neither with the Company nor with its controlling shareholders, linked to the CPI, bearing an annual interest at the rate of 1.5%.The repayment of the loan's principal shall commence at the second anniversary of the provision date of the loan and shall be made in 40 equal quarterly installments (the last principal payment shall be made 12 years after the provision date of the loan). The interest on the loan shall be paid on a quarterly basis, until the final repayment date. The Company is entitled to prepay the loan (in whole or in part) against a prepayment fee according to a mechanism defined in the agreement.

To secure repayment of the loan, Canit Hashalom Investments Ltd., a subsidiary wholly owned by the Company, had pledged in favor of the lender, by way of a first-ranking fixed pledge unlimited in sum, the Azrieli Rishonim Center in Rishon LeZion (which is currently under construction), including its rights to receive rent from the property's tenants and its rights under the insurance policies in connection with the property.

In the context of the loan agreement, the Company undertook to comply with the financial covenants that were set forth in the indentures of the Company's Series B and C bonds (the "Bonds"), i.e. a net debt to assets ratio that shall not exceed 60% and equity of no less than NIS 5 billion (the "**Financial Covenants**"). The Company further undertook to maintain a LTV ratio that shall not exceed 80%. In addition, the agreement includes limitations on the distribution of dividends that correspond with the undertaking set forth in the Bonds' indentures (i.e. that no distribution shall be made if as a consequence thereof the equity shall be less than NIS 6 billion and the debt to assets ratio shall exceed 50%). In addition, the Company undertook not to create a floating charge on all or part of the Company's assets, to any entity, unless it shall grant the lender, on the same date, a floating charge of identical ranking and scope (*pari passu*) (such undertaking also exists in the Bonds' indentures). The causes for acceleration are as customary in agreements of such type and in the Bonds' indentures, including a cause pertaining to the acceleration of another substantial debt of the Company.

As of the date of the financial statements, the Company complies with the contractual limitations determined.

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

I. On May 2, 2016, the Company entered into a credit agreement with an institutional body affiliated neither with the Company nor with its controlling shareholders, for the provision of a loan of NIS 300 million, to be repaid (principal and interest) upon the lapse of six months of the provision date thereof. The loan bears an NIS interest comprising Prime interest minus 0.1%. The loan will be secured by an existing charge on an asset, which was granted to the lender to secure another loan received therefrom. In the context of the loan, the Company undertook to comply with the Financial Covenants that were set forth in the indentures of the Company's Series B and C bonds (the "**Bonds**"), i.e. a net debt to assets ratio that shall not exceed 60% and equity of no less than NIS 5 billion. The causes for acceleration are as customary in agreements of such type and in the Bonds' indentures, including a cause pertaining to the acceleration of another substantial debt of the Company. The agreement prescribes that if the Company grants a floating charge to another entity in the future, it shall grant the lender, on the same date, a floating charge of identical ranking and scope (*pari passu*).

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

As of the date of the financial statements, the Company complies with the contractual limitations determined.

J. On May 2, 2016, the Company (the "Buyer"), entered into an agreement with Buy2 Networks Ltd., a public company whose shares are listed for trade on the Tel Aviv Stock Exchange (the "**Seller**"), for the purchase of the Seller's business in the field of eCommerce (the "**Operating Segment**"), as specified below:

The purchased business – according to the agreement, the Buyer shall purchase from the Seller 100% of the shares of Netex New Media Ltd. (whose name was changed on July 14, 2016 to "Azrieli eCommerce Ltd."), a private company wholly owned by the Seller that is engaged in the Operating Segment (whose trade name is "Buy2"), as well as all of the rights in assets (tangible and intangible) in the Operating Segment which are directly held by the Seller.

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

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

In addition, a sum of approx. NIS 5 million per year will be paid for management services in the Operating Segment that will be provided by the Seller to the Buyer during a 24-month period from the closing date of the transaction, payable on a calendar quarter basis throughout the period of the services. In was further agreed that from the closing date of the transaction and for a 4-year period, the Seller shall not compete with the Operating Segment.

On May 18, 2016 the approval of the Antitrust Commissioner was received, and on June 2, 2016, the transaction was closed.

K. On June 7, 2016, the board of directors of consolidated company Ahuzat Bayit Raanana Senior Housing Ltd. resolved to perform full early redemption of its Series A bonds. The total amount paid to the bondholders is in the sum of NIS 209,813 thousand.

Payment of the early redemption was made on June 29, 2016 for the entire balance of the principal of the bonds in circulation. The early redemption of the bonds had a marginal effect on the Group's results.

L. On May 10, 2016, the Company engaged, directly and indirectly through companies controlled thereby, in sale agreements for the sale of all of the Company's holdings in the Pi Glilot lands and the shares of Pi Glilot Oil and Pipe Terminals Co. Ltd. (which is the owner of lease rights with respect to land in the Pi Glilot site), to third parties for a total consideration of approx. NIS 130 million. As of the date of approval of the Financial Statements the transactions were not yet closed.

Note 5 – Discontinued Operations

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

The total consideration amounts to NIS 363.5 million, of which NIS 187.5 million shall be paid in cash upon the closing of the transaction (subject to certain adjustments determined in the Agreement); NIS 21 million of the consideration shall be paid in cash within 18 months of the closing date; a sum of NIS 52.5 million was deducted from the consideration against dividends that were and will be distributed by Sonol up to the closing of the transaction, and NIS 5 million will be paid against the repayment of certain debts of Sonol's debtors.

Note 5 – Discontinued Operations (Cont.)

Of the consideration, a sum of NIS 97.5 million will be paid at the closing date through the assumption of a liability of the Buyer to repay a loan that is secured by a charge on all of the sold shares. The loan will bear an annual interest comprising Prime interest + 1% and shall be paid on a quarterly basis (the "Loan"). The principal of the Loan shall be paid in one installment within 60 months of the transaction closing date. To secure the repayment of the Loan, the Buyer undertook (1) not to effect distributions, as defined in the Companies Law, until the full repayment of the Loan (principal and interest), unless certain cumulative conditions agreed by the parties shall have been fulfilled; and (2) compliance with limitations on changes of control in the Buyer.

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

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

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

On July 24, 2016, the transaction was closed without material modifications, after receipt of the approval of the Antitrust Commissioner. On the closing date, the Buyer paid the majority of the portion of the consideration that was due on the closing date (and will make up the balance of the payment due on the closing date within a short period of time). The balance of the consideration will be paid in accordance with the terms and conditions determined in the Agreement.

The effect on the Company's results is not expected to be material.
The transaction does not include Sonol's real estate property. For additional details see Note 4L.
Further to the aforesaid, in the Statement of Financial Position, Sonol's assets and liabilities as of June 30, 2016, were classified as assets and liabilities of a disposal group held for sale, respectively, and the Sonol operations were classified as discontinued operations.

As of December 31, 2015, Sonol operations were not discontinued operations, the comparative figures for 2015 and for the periods of six months and three months ended on June 30, 2015, were restated in the consolidated income statements, in order to present the discontinued operations separately from the current operations.

Note 5 – Discontinued Operations (Cont.)

B. Set forth below are the results attributed to the discontinued operations:

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2016	2015	2016	2015	2015
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
	(Unaudited)		(Unaudited)		
Results of the discontinued operations:					
Revenues	1,595,571	1,920,643	883,321	1,023,096	3,740,421
Expenses	1,589,537	1,911,070	874,421	1,012,854	3,830,228
Income (loss) before income taxes	6,034	9,573	8,900	10,242	(89,807)
Income taxes	8,901	2,491	8,510	2,691	9,120
Profit (loss) for the period	(2,867)	7,082	390	7,551	(98,927)
Cash flows from discontinued operations:					
Net cash which derived from current operations	186,602	57,484	170,780	55,485	268,603
Net cash (used for operations) which derived from investment activity	14,355	(21,686)	(16,873)	(17,421)	(39,070)
Net cash used for financing activity	(63,925)	(32,130)	(48,129)	(36,571)	(106,350)
Effect of exchange rate fluctuations on cash and cash equivalents balances	(14)	(65)	(18)	(76)	22
Net cash which derived from discontinued operations	137,018	3,603	105,760	1,417	123,205

Note 5 – Discontinued Operations (Cont.)

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

	As of June 30 2016 NIS in Thousands (Unaudited)
Cash and cash equivalents	56,698
Trade accounts receivable	817,176
Trade and other receivables	33,257
Inventory	116,577
Current tax assets	3,913
Long-term loans and investments	71,365
Financial assets available for sale	65,031
Investment property	12,420
Fixed assets, net	624,973
Intangible assets, net,	59,393
Pre-paid long-term lease payments	37,045
Deferred tax assets	24,189
Credit from banks and other credit providers	(677,308)
Trade payables	(377,671)
Other payables, including derivatives	(233,794)
Current tax liabilities	(1,456)
Provisions	(66,637)
Long-term liabilities to banks and other credit providers	(151,797)
Other long-term liabilities	(10,681)
Employee benefits	(12,010)
Deferred tax liabilities	(16,892)
Assets and liabilities classified as disposal group held for sale, net	373,791

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

(**) As of June 30, 2016, the Group has additional assets and liabilities of a disposal group held for sale in the sum of NIS 1,308 thousand and NIS 281 thousand respectively.

Note 6 – Fair Value

A. Fair value vs. Book value:

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

	As of June 30, 2016		As of June 30, 2015		2015As of December 31,	
	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 (*)	52,537	65,703	35,872	42,661	45,639	55,074
Current liabilities						
Deposits from customers	105,790	71,548	108,022	72,734	106,825	72,433
Non-current liabilities:						
Loans from banks and other credit providers (*)	3,868,020	3,979,951	3,778,687	3,923,043	3,300,780	3,388,536
Bonds (*)	2,993,127	3,127,575	2,188,611	2,308,341	3,173,645	3,264,573
	6,861,147	7,107,526	5,967,298	6,231,384	6,474,425	6,653,109
Surplus of liabilities over assets	(6,914,400)	(7,113,371)	(6,039,448)	(6,261,457)	(6,535,611)	(6,670,468)

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

Note 6 – Fair Value (Cont.)

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

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

	As of June 30		As of December. 31
	2016	2015	2015
	%	%	%
Non-current assets:			
Receivables in respect of franchise arrangement	3.01-3.11	4.08	3.31-5.7
Current liabilities:			
Deposits from customers	1.45	1.33	1.45
Non-current liabilities:			
Loans from banks and other credit providers	0.8-3.54	0.15-4.43	1.0-4.2
Bonds	0.82-1.21	0.49-1.33	1.2-1.6

C. The levels of fair value:

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

The various levels were defined as follows:

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

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

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

Note 6 – Fair Value (Cont.)

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

	As of June 30, 2016			
	Level 1	Level 2	Level 3	Total
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
Financial assets held for trading:				
Securities	515	-	-	515
Financial assets available for sale:				
Marketable shares	955,772	-	-	955,772
Non-marketable shares	-	-	625,089	625,089
Financial assets designated at fair value through profit and loss:				
Non-marketable investments	-	27,984	-	27,984
Total fair value of financial assets	956,287	27,984	625,089	1,609,360

Note 6 – Fair Value (Cont.)

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

	As of June 30, 2015			
	Level 1	Level 2	Level 3	Total
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
Financial assets held for trading:				
Securities	632	-	-	632
Financial assets available for sale:				
Marketable shares	1,127,429	-	-	1,127,429
Non-marketable shares	-	-	658,912	658,912
Financial assets designated at fair value through profit and loss:				
Non-marketable investments	-	29,978	-	29,978
Total financial assets	1,128,061	29,978	658,912	1,816,951
Financial liabilities:				
Derivatives not used for hedging:				
Foreign currency forward contracts	-	7,869	-	7,869
Total financial liabilities	-	7,869	-	7,869
Total fair value of financial assets and liabilities	1,128,061	22,109	658,912	1,809,082

Note 6 – Fair Value (Cont.)

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

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

Note 6 – Fair Value (Cont.)

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

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

	For the six-month period ended June 30		For the year Ended December 31
	2016	2015	2015
	NIS in Thousands	NIS in Thousands	NIS in Thousands
	(unaudited)		
Financial assets available for sale:			
Balance as of beginning of the year	681,113	658,912	658,912
Total profits (losses) recognized:			
in other comprehensive income	9,570	-	22,201
	690,683	658,912	681,113

Note 7 – Segment Reporting

A. General:

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

The Company's business activities focus primarily on the income-producing property segment, while most the Group's business activity is in the retail centers and malls segment, primarily in Israel, and in the office and other space for lease segment, primarily in Israel. Furthermore, the Company has an income-producing property in the USA (office space for lease). In addition, the Company engages, through its (indirect) holding in Sonol Israel Ltd., also in another operating segment, which includes oil distillates through direct marketing and fueling and retail complexes (for details regarding the sale of Sonol, see Note 5). Furthermore, the Company engages in additional activities which are classified as other business segments in the senior housing segment (after having completed the purchase of the "Palace" senior home in Tel Aviv, and recently purchased the "Ahuzat Bayit" senior home in Ra'anana), energy, water and other wastewater (through its holding in Granite Hacarmel Investments Ltd.), and has recently acquired an eCommerce business.

The following are the Company's operating segments:

Segment A – Retail centers and malls in Israel.

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

Segment C – Income-producing property in the USA.

Segment D – Sonol (for details regarding the sale of Sonol, see Note 5).

Note 7 – Segment Reporting (Cont.)

B. Operating segments:

	For the six-month period ended June 30, 2016 (unaudited)						
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Sonol (***)	Other	Adjustments	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	472,386	219,746	109,890	1,589,327	371,417	(1,589,327)	1,173,439
Total segment expenses	89,288	36,705	50,822	1,570,191	304,584	(1,570,191)	481,399
Segment profit (NOI)	383,098	183,041	59,068	19,136	66,833	(19,136)	692,040
Net profit (loss) from fair value adjustment of investment property and investment property under construction	40,505	338,975	(5,385)	-	16,371	-	390,466
Unallocated costs							(43,252)
Financing expenses, net							(58,798)
Other revenues, net							11,900
The Company's share in results of associates, net of tax							(3,840)
Income before income taxes							988,516
Segment assets (*)	11,606,989	7,831,715	2,073,940	1,837,237	2,574,889		25,924,770
Unallocated assets (**)							2,322,011
							28,246,781

(*) Other segments assets include senior housing properties in the sum of NIS 1.4 billion.

(**) Mainly financial assets available for sale in the sum of approx. NIS 1.6 billion.

(***) Sonol – segment whose operations are classified as discontinued.

Note 7 – Segment Reporting (Cont.)

	For the six-month period ended June 30, 2015 (unaudited)						
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Sonol(***)	Other	Adjustments	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	451,602	204,304	119,696	1,907,127	424,013	(1,907,127)	1,199,615
Total segment expenses	85,115	36,044	52,310	1,885,068	367,184	(1,885,068)	540,653
Segment profit (NOI)	366,487	168,260	67,386	22,059	56,829	(22,059)	658,962
Net gain (loss) from fair value adjustment of investment property and investment property under construction	55,184	(13,674)	(63)	-	(396)	-	41,051
Unallocated costs							(41,260)
Financing expenses, net							(59,764)
Other expenses, net							(2,522)
The Company's share in results of associates, net of tax							(3,205)
Income before income taxes							593,262
Segment assets (*)	10,843,522	6,509,850	1,981,090	2,208,465	1,628,862		23,171,789
Unallocated assets (**)							2,320,315
							25,492,104

(*) Other segments assets include senior housing properties in the sum of NIS 107 million.

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

(***) Sonol – segment whose operations are classified as discontinued.

Note 7 – Segment Reporting (Cont.)

B. Operating segments: (Cont.)

	For the three-month period ended June 30, 2016 (unaudited)						
	Retail centers and malls in Israel	**Office and other space for lease in Israel**	**Income-producing property in the USA**	**Sonol**	**Other**	**Adjustments**	**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	238,108	110,184	55,129	869,214	164,373	(869,214)	567,794
Total segment expenses	45,521	18,664	25,570	858,293	141,243	(858,293)	230,998
Segment profit (NOI)	192,587	91,520	29,559	10,921	23,130	(10,921)	336,796
Net gain (loss) from fair value adjustment of investment property and investment property under construction	(33,778)	50,950	(88)	-	16,371	-	33,455
Unallocated costs							(21,747)
Financing expenses, net							(44,921)
Other expenses, net							933
The Company's share in results of associates, net of tax							(1,787)
Income before income taxes							302,730

(*) Sonol – segment whose operations are classified as discontinued.

Note 7 – Segment Reporting (Cont.)

B. Operating segments: (Cont.)

	For the three-month period ended June 30, 2015 (unaudited)						
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Sonol(*)	Other	Adjustments	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	230,841	102,477	59,259	1,017,759	199,318	(1,017,759)	591,895
Total segment expenses	44,299	17,809	25,748	996,040	172,902	(996,040)	260,758
Segment profit (NOI)	186,542	84,668	33,511	21,719	26,416	(21,719)	331,137
Net gain (loss) from fair value adjustment of investment property and investment property under construction	65,903	(12,953)	1,030	-	-	-	53,980
Unallocated costs							(17,873)
Financing expenses, net							(55,783)
Other expenses, net							(5,795)
The Company's share in results of associates, net of tax							(1,372)
Income before income taxes							304,294

(*) Sonol – segment whose operations are classified as discontinued.

Note 7 – Segment Reporting (Cont.)

B. Operating segments: (Cont.)

	For the year ended December 31, 2015						
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Sonol(*)	Other	Adjustments	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	931,135	419,607	236,247	3,731,853	767,903	(3,731,853)	2,354,892
Total segment expenses	183,508	72,122	104,602	3,801,325	667,797	(3,801,325)	1,028,029
Segment profit (loss) (NOI)	747,627	347,485	131,645	(69,472)(1)	100,106	69,472	1,326,863
Net profit (loss) from fair value adjustment of investment property and investment property under construction	122,972	70,294	(28,294)	(1,236)	14,099	1,236	179,071
Unallocated costs							(95,148)
Financing expenses, net							(127,066)
Other revenues, net							7,090
The Company's share in results of associates, net of tax							(8,562)
Income before income taxes							1,282,248
Additional information as of December 31, 2015:							
Segment assets(2)	11,055,969	6,829,670	2,052,023	1,912,532	1,978,533		23,828,727
Unallocated assets(3)							2,616,378
Total consolidated assets							26,445,105
Capital expenditures	373,734	535,870	48,387	55,612	(4)765,444		1,779,047

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

Note 8 – Material Subsequent Events

A. In July 2016, the Company issued approx. NIS 2,194.1 million par value registered Series D bonds to the public, on the basis of a shelf prospectus of the Company. The bonds are linked (principal and interest) to the CPI and bear fixed interest at the rate of 1.34% per annum.

The principal shall be paid in 25 equal semi-annual installments on January 5 and July 5 of each of the years 2018 to 2030 (each payment being at the rate of 4% of the par value of the principal from July 5, 2018). The interest will be paid in semi-annual payments from January 5, 2017 of each of the years 2017 to 2030. The bonds were issued without a discount.

The issue proceeds amounted to approx. NIS 2,194 million, and after recording the issue expenses, the net proceeds amounted to approx. NIS 2,177 million. The effective interest rate on the bonds is 1.45% per annum.

On July 5, 2016 Midroog assigned the Series D bonds a stable Aa1 rating.

The bonds are not secured by any collateral.

At the time of the issue, the Company undertook to meet financial covenants and undertakings, mainly as follows:

(1) So long as the Series D bonds are not fully repaid, the Company shall not pledge or place a floating (current) charge on all of the Company's assets and rights, present or future, other than in certain conditions set forth in the Indenture.

(2) Maintenance of minimum equity (equity attributable to the shareholders, excluding minority interests) of at least NIS five billion for two consecutive calendar quarters or more, according to its latest consolidated financial statements.

The ratio between the net financial debt and the net assets, as defined in the Indenture, exceeded 60% for two consecutive calendar quarters or more.

The Indenture provides that, in lieu of the said financial covenants, the Company shall be entitled, at its sole discretion, to place a fixed charge (either itself or through an investee company) in favor of the trustee for the Series D bond holders, on permitted assets in accordance with the definitions set forth in the Indenture (i.e., insofar as the Company pledges permitted assets as aforesaid, and the pledges shall be valid, the Company will not be bound by the said financial covenants).

Note 8 – Material Subsequent Events (Cont.)

(3) The Company shall make no distribution (as the term is defined in the Companies Law) to its shareholders if: (1) the Company's equity (equity attributable to the Company's shareholders, excluding minority interests) according to its latest reported consolidated financial statements, net of the distribution amount, is less than NIS six billion; (2) the ratio between the net financial debt and the net assets of the Company as defined in the Indenture, net of the distribution amount, is more than 50%; (3) grounds for acceleration as defined in the Series D bond Indenture are in place on the date of the resolution to perform the distribution or as a result thereof.

It was further determined that if the Company's Series D bond rating falls below Aa2 of Midroog or its equivalent assigned by another agency that shall rate the bonds, the annual interest rate to be borne by the unpaid balance of the bond principal shall rise. In such a case, the annual interest rate to be added to the interest rate on the bonds will be in the range of 0.25%-1%, in accordance with the rating of the bonds.

The Series D bonds shall further be accelerated upon fulfillment of certain conditions, including: striking off or dissolution of the Company, receivership, delinquency in payments under the bonds, attachments on all or substantially all of the Company's assets, changes of control, fundamental breach of the terms of the bonds or the Indenture, non-compliance with the above financial covenants, performance of a distribution in violation of the restriction on distributions above, suspension of trade in the bonds (other than on grounds of unclarity), a demand for acceleration by financial creditors above NIS 200 million or of another bond series of the Company, discontinuation of the rating of the bonds due to circumstances within the Company's control, a bond rating lower than Baa3, or a sale of a majority of the Company's assets.

B. In August 2016, a consolidated company purchased an office building (the construction of which was completed in August 2015), located in Austin, Texas, U.S.A., for U.S. $40.5 million. The size of the property is 128,990 sqf (11,984 sqm) and it is occupied by a single tenant with a lease until 2028, with no option for early exit.

For the purpose of the purchase of the property, the consolidated company took a loan in the amount of U.S. $22 million for a period of 7 years, bearing fixed dollar interest of 3.65%.

C. In July and August 2016, the Group prepaid loans in the sum of approx. NIS 900 million, some of which were secured by collateral, approx. NIS 300 million of which short-term loans and the balance is mostly long-term loans that were due in March 2017.

Annex to Consolidated Financial Statement

Separate Interim Financial Statement

As of June 30, 2016

(Unaudited)

Azrieli Group Ltd.

Separate Interim Financial Statement
As of June 30, 2016

(Unaudited)

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

Azrieli Group Ltd.

Separate Interim Financial Statement
As of June 30, 2016

(Unaudited)

C o n t e n t s

Deloitte.

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

Dear Sir/Madam,

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

We have reviewed the separate interim financial statement, which is presented according to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, of **Azrieli Group Ltd.** (the "Company") as of June 30, 2016 and for the six- and three-month periods then ended. The separate interim financial statement is the responsibility of the Company's Board of Directors and Management. Our responsibility is to express a conclusion on the separate interim financial statement for such interim period, based on our review.

We did not review the separate interim financial statement from the financial statements of investee companies, the total investments in which amounted to approx. NIS 962 million as of June 30, 2016 and the profit from such investee companies amounted to approx. NIS 51 million and approx. NIS 31 million for the six- and three-month periods then ended, respectively. 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, August 24, 2016

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Azrieli Group Ltd.

Statement of Financial Position

	As of June 30		As of December 31
	2016	2015	2015
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Assets			
Current assets			
Cash and cash equivalents	328,009	574,395	761,281
Financial assets held for trading	515	632	506
Trade accounts receivable	6,058	4,922	7,375
Other receivables	101,256	144,417	142,801
Total current assets	435,838	724,366	911,963
Non-current assets			
Financial assets	1,586,516	1,750,627	1,581,575
Investment property and investment property under construction	8,779,592	7,340,464	7,565,747
Investments in investee companies	7,456,614	6,676,244	6,909,576
Loans to investee companies	3,842,640	3,287,757	3,413,982
Fixed assets	8,032	5,537	7,147
Loans and receivables	5,826	6,562	5,915
Total non-current assets	21,679,220	19,067,191	19,483,942
Total assets	22,115,058	19,791,557	20,395,905
Liabilities and capital			
Current liabilities			
Credit from banks and other credit providers	2,885,536	1,577,898	1,019,599
Trade payables	38,801	74,712	51,417
Payables and other current liabilities	53,457	29,225	33,778
Current tax liabilities	26,329	42,016	37,683
Total current liabilities	3,004,123	1,723,851	1,142,477
Non-current liabilities			
Loans from banks and other credit providers	1,643,588	1,835,093	1,733,284
Bonds	1,968,271	1,582,690	2,579,151
Other liabilities	15,988	15,748	15,595
Deferred tax liabilities	1,185,822	1,168,358	1,151,592
Employee benefits	2,881	2,517	2,581
Total non-current liabilities	4,816,550	4,604,406	5,482,203
Capital			
Share capital	18,223	18,223	18,223
Premium	2,477,664	2,477,664	2,477,664
Capital reserves	454,729	528,251	447,747
Retained earnings	11,343,769	10,439,162	10,827,591
Total capital attributable to shareholders of the Company	14,294,385	13,463,300	13,771,225
Total liabilities and capital	22,115,058	19,791,557	20,395,905

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

Azrieli Group Ltd.

Statement of Profit and Loss and Other Comprehensive Income

	For the six-month period ended June 30		For the three-month period ended June 30		For the year Ended December 31
	2016	2015(*)	2016	2015(*)	2015(*)
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		(Unaudited)		
Revenues:					
From rent and management and maintenance fees	230,234	223,509	115,653	113,477	458,981
Net gain (loss) from fair value adjustment of investment property and investment property under construction	329,949	(42,239)	(34,966)	(31,253)	(18,693)
Financing	75,458	75,148	51,066	67,129	145,406
Other	9,974	2	-	49	10,042
Total revenues	645,615	256,420	131,753	149,402	595,736
Costs and expenses					
Cost of revenues from rent and management and maintenance fees	6,445	5,382	3,173	3,151	14,395
Sales and marketing	7,370	9,203	3,982	4,171	25,087
G&A	25,848	24,375	12,344	9,456	49,072
Financing	37,406	28,418	28,894	36,954	63,307
Total costs and expenses	77,069	67,378	48,393	53,732	156,861
Income before the Company's share in the profits of investee companies	568,546	189,042	83,360	95,670	438,875
Share in profits of investee companies, net of tax	423,266	286,352	175,946	162,807	591,037
Income before income taxes	991,812	475,394	259,306	258,477	1,029,912
Expenses for income taxes	(72,767)	(50,885)	(15,562)	(22,343)	(109,994)
Income from continued operations	919,045	424,509	243,744	236,134	919,918
Income (loss) from discontinued operations (after tax)	(2,867)	7,082	390	7,551	(98,927)
Net income for the period	916,178	431,591	244,134	243,685	820,991
Other comprehensive income:					
Amounts that will be classified in the future to profit or loss, net of tax:					
Change in fair value of financial assets available for sale, net of tax	5,163	132,321	3,672	65,412	10,286
Translation differences from foreign operations	(10,095)	(20,254)	14,683	(35,281)	2,940
Share in the other comprehensive income (loss) of investee companies, net of tax	4,794	(12,045)	6,592	(17,446)	5,399
Total	(138)	100,022	24,947	12,685	18,625
Amounts that will not be classified in the future to profit or loss, net of tax:					
Actuarial loss due to defined benefit plan, net of tax	-	-	-	-	(78)
Other comprehensive income (loss) for the period, net of tax	(138)	100,022	24,947	12,685	18,547
Total comprehensive income for the period	916,040	531,613	269,081	256,370	839,538

(*) Restated due to discontinued operations, see Note 5 to the Consolidated Financial Statements.

Azrieli Group Ltd.

Statement of Cash Flows

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2016	2015	2016	2015	2015
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		(Unaudited)		
Cash flows - current operations					
Net profit for the period	916,178	431,591	244,134	243,685	820,991
Depreciation and amortization	473	435	233	219	894
Capital loss (gain) from liquidation of fixed assets	26	21	-	(26)	(20)
Net loss (gain) from fair value adjustment of investment property and investment property under construction	(329,949)	42,239	34,966	31,253	18,693
Financing and other revenues, net	(45,111)	(40,341)	(23,726)	(21,548)	(84,014)
Share in profits of investee companies, net of tax	(420,399)	(293,434)	(176,336)	(170,358)	(492,110)
Expenses for taxes recognized in the income statement	72,767	50,885	15,562	22,343	109,994
Income tax paid, net	(43,126)	(32,854)	(16,476)	(10,677)	(70,709)
Change in financial assets	(9)	25	(9)	182	151
Change in trade and other receivables	46,062	(26,139)	73,588	(17,885)	(34,996)
Change in trade and other payables	6,322	(6,221)	198	(6,238)	(6,151)
Change in employee provisions and benefits	300	(10,672)	291	(5,566)	(11,288)
Erosion (revaluation) of financial assets designated at fair value through profit and loss	(3,564)	(7,338)	1,204	(7,936)	(2,715)
Change in recording of benefit in respect of share-based payment and employee benefits	-	2,667	-	951	2,637
Net cash – current operations	199,970	110,864	153,629	58,399	251,357
Cash flows - investment activities					
Proceeds from liquidation of fixed assets and intangible assets	35,047	217	34,808	88	436
Purchase of and investment in investment property and investment property under construction	(874,025)	(267,729)	(403,021)	(103,412)	(445,891)
Down payments on account of investment property	(6,059)	(1,215)	(447)	(725)	(4,815)
Purchase of fixed assets and intangible assets	(36,431)	(1,221)	(35,806)	(682)	(3,468)
Investments in investee companies	(77,636)	-	-	-	(781)
Change in financial assets designated at fair value through net profit and loss	741	2,145	146	1,892	2,338
Receipt (granting) of long-term loans to investee companies, net	(401,178)	(69,415)	(357,738)	21,677	(163,590)
Interest and dividend received	26,349	2,111	13,328	1,064	31,021
Return of investment in investee companies	-	-	-	-	1,962
Acquisition of investee companies	(25,323)	-	(25,323)	-	-
Institutions for purchase of real estate	-	-	51,387	8,226	-
Net cash - investment activities	(1,358,515)	(335,107)	(727,831)	(71,872)	(582,788)

Azrieli Group Ltd.

Statement of Cash Flows

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2016	2015	2016	2015	2015
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		(Unaudited)		
Cash flows - financing activities					
Bond offering net of offering expenses	-	1,212,426	-	593,555	2,209,284
Dividend distribution to shareholders	(400,000)	(320,000)	(400,000)	(320,000)	(320,000)
Repayment of bonds	(166,541)	(44,183)	(122,358)	-	(44,183)
Receipt of long-term loans from banks and others	800,000	-	550,000	-	-
Repayment of long-term loans from banks and others	(126,975)	(127,254)	(22,919)	(23,000)	(624,913)
Short-term credit from banks and others, net	663,398	104,228	473,124	(10,766)	(53,116)
Deposits from customers, net	447	318	172	101	223
Interest paid	(44,687)	(44,033)	(22,283)	(18,485)	(91,927)
Net cash - financing activities	725,642	781,502	455,736	221,405	1,075,368
Increase (decrease) in cash and cash equivalents	(432,903)	557,259	(118,466)	207,932	743,937
Cash and cash equivalents at beginning of year	761,281	19,330	445,515	369,330	19,330
Effect of exchange rate changes on cash balances held in foreign currency	(369)	(2,194)	960	(2,867)	(1,986)
Cash and cash equivalents at end of the period	328,009	574,395	328,009	574,395	761,281

(*) Non-cash transactions include a change in the balances of payables and purchases on credit of non-current assets for a period of six and three months in the amount of NIS 8,347 thousand and NIS 5,662 thousand, respectively (for the year ended December 31, 2015 – NIS 433 thousand, and for the period of six and three months ended June 30, 2015 – a sum of NIS 22,235 thousand and NIS 16,165 thousand, respectively).

Azrieli Group Ltd.

Notes to the Separate Financial Statement

A. General:

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

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

B. Definitions:

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

C. Accounting Policy:

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

D. Material Events during the Reporting Period:

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

E. Material Subsequent Events:

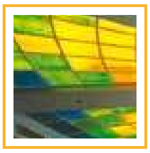
See Note 8 to the Condensed Consolidated Financial Statements which are published with this separate financial statement.

F. Contingent Liability:

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

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, 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 Quarterly Report regarding the effectiveness of internal control over financial reporting and disclosure, which was attached to the Quarterly Report for the period ended on March 31, 2016 (the "**Most Recent Quarterly Report on Internal Control**"), the internal control was found to be 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 found in the Most Recent Quarterly Report on Internal Control;
As of the Report Date, based on the Most Recent Quarterly 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/2 2016 (the "Reports").

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

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

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

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

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

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

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

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

c. No occurrence or issue have been brought to my attention, that occurred during the period between the date of the Most Recent Quarterly 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.

August 24, 2016

____

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/2 2016 (the "Reports" or the "Interim Reports");

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

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

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

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

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

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

   a. Have set controls and procedures, or that such controls and procedures have been set and maintained under our supervision, which are designed to ensure that material information in reference to the Corporation, including consolidated companies thereof as defined in the Securities Regulations (Annual Financial Statements), 5770-2010, 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 Quarterly 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.

August 24, 2016

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Irit Sekler-Pilosof, CFO