

Azrieli Group Ltd.
(the “Company”)

July 4, 2019

To
The Israel Securities Authority

To
Tel Aviv Stock Exchange Ltd.

Via Magna

Via Magna

Re: An Immediate Report on the Convening of an Annual and Special General Meeting of the Company in accordance with the Companies Law, 5759-1999 (the “Companies Law”), the Companies Regulations (Notice and Announcement of General Meetings and Class Meetings in Public Companies and the Addition of an Issue to the Agenda), 5760-2000 (the “Notice of Meeting Regulations”), the Companies Regulations (Voting in Writing and Position Statements), 5766-2005 (the “Voting in Writing Regulations”), Securities Regulations (Transaction between a Company and a Controlling Shareholder thereof), 5761-2001, (“Controlling Shareholder Regulations”) and the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the “Reports Regulations”)

Notice is hereby given (the “**Notice of Meeting Report**”) of the convening of an annual and special general meeting of the Company’s shareholders (the “**Meeting**”), which shall be held on **Sunday, August 11, 2019, at 16:00** (Israel time), in the Company’s offices at Azrieli Center, Tel Aviv (Round Tower, Floor 48), for the adoption of resolutions on the agenda items, as specified below.

Part A – Annual and Special General Meeting

The issues on the agenda of the Meeting and a summary of the proposed resolutions:

1. **Approval of an Updated Compensation Policy**

Proposed resolution: To approve the updated compensation policy for the Company's officers in accordance with Section 267A of the Companies Law, 5759-1999, in the language attached as **Annex A** to the Notice of Meeting Report. For further details, see Part B of the Notice of Meeting Report.

2. **Approval of an update to the management agreement with the Company’s CEO**

Proposed resolution: Subject to the approval of the Company’s updated compensation policy by the Meeting, as set forth in Agenda Item 1, to approve an update to the annual bonus under the management agreement with Mr. Eyal Henkin as the Company's CEO (via a private company wholly owned by him) as specified in Part C of the Notice of Meeting Report.

3. **Approval of an update to and extension of the terms and conditions of the management agreement with the Company's Active Chairman of the Board**

Proposed resolution: To approve the extension of the existing management agreement between the Company and a company controlled by the Company's Active Chairman of the Board, Ms. Danna Azrieli, and subject to the approval of the Company's updated compensation policy by the Meeting, as provided in Agenda Item 1, to approve the update to the terms and conditions of the management agreement, all as specified in Part D of the Notice of Meeting Report.

4. **Approval of the appointment of two new outside directors in the Company**

The office of both outside directors holding office at the Company, Messrs. Efraim Halevy and Niv Ahituv, shall come to an end on August 23, 2019, at which time they will have concluded their third term of office as outside directors of the Company.

4.1. **Approval of the appointment of Mr. Ehud Rassabi as an outside director of the Company**

Following his signing of the declaration mandated by Sections 224B and 241 of the Companies Law, it is proposed to appoint Mr. Ehud Rassabi as an outside director of the Company for an initial term of office of three years, starting from August 23, 2019. Such declaration is attached as **Annex B** to the Notice of Meeting Report.

Mr. Ehud Rassabi was classified by the Company's board of directors (the "board") on July 4, 2019 as having accounting and financial expertise in accordance with the provisions of the Companies Regulations (Conditions and Criteria for Directors having Accounting and Financial Expertise and for Directors having Professional Qualifications), 5766-2005 (the "**Conditions Regulations**"). Furthermore, on such date, the Company's board confirmed that, subject to the approval of his appointment by the Meeting, Mr. Ehud Rassabi would be appointed a member of the audit committee, the compensation committee, the enforcement committee and the financial statements review committee.

For his service as an outside director of the Company, the Company shall pay Mr. Ehud Rassabi annual remuneration and participation remuneration in the amount of the maximum sums for an expert outside director under the Companies Regulations (Rules on Outside Directors' Remuneration and Expenses), 5760-2000 (the "**Remuneration Regulations**"), as being from time to time, and according to the rank to which the Company shall be classified according to the equity thereof as being from time to time, which, as of the date of the Notice of Meeting Report, is Rank E. Mr. Ehud Rassabi will also be entitled to reimbursement of expenses in accordance with

Section 6 of the Remuneration Regulations and with the policy approved by the Company's audit committee.

Furthermore, subject to the approval of his appointment, the Company shall grant Mr. Ehud Rassabi a letter of exemption and indemnification as customary at the Company, in the current language at the Company for all officers and directors who are not controlling shareholders of the Company and/or relatives of theirs, as specified in the Company's immediate report of March 23, 2017 (Ref.: 2017-01-028392), which is incorporated in the Notice of Meeting Report by reference, and Mr. Ehud Rassabi will additionally be insured by a directors and officers' liability insurance as customary at the Company.

Following are details about Mr. Ehud Rassabi in accordance with Sections 26 and 36B(a)(10) of the Reports Regulations:

Name of Candidate for the Office of Outside Director:		Ehud Rassabi
Identification No.:		52017142
Date of Birth:		July 30, 1953
Address for the purpose of Service of Process:		Lipski 2, Tel Aviv
Nationality:		Israeli
Membership of Board Committees:		Subject to his appointment by the Meeting, he will be appointed a member of the audit committee, the compensation committee, the enforcement committee and the financial statements review committee.
Outside Director:		Subject to his appointment by the Meeting
Does he have accounting and financial expertise or professional qualifications:		Has accounting and financial expertise
Expert outside director:		Subject to his appointment by the Meeting
Is he an employee of the Company, a subsidiary, an affiliate of the Company or of an interested party thereof:		No
The date on which he will take the office of director of the Company:		August 23, 2019
Education:		Bachelor's degree, Economics and Accounting, Tel Aviv University, CPA, accredited arbitrator and mediator
His occupation in the past five years:		Self-employed accountant since 1981, volunteer President of Lahav – the

	Bureau of Sole-Proprietors and Businesses (until October 2015), volunteer Active Chairman of the Board of Ilan – Israel Association for Children with Disabilities
Other corporations in which he serves as a director:	Elron Electronic Industries Ltd. (outside director), Gold Bond Group Ltd. (outside director), Electra Ltd. (outside director), Yehuda Steel Ltd. (private company) and a private company owned by him
Family relation to an interested party of the Company:	No
Is he a director deemed by the Company as having accounting and financial expertise for the purpose of compliance with the minimal number set by the board under Section 92(a)(12) of the Companies Law:	Yes

Proposed resolution: To appoint Mr. Ehud Rassabi as an outside director of the Company for an initial term of office of three years, starting from August 23, 2019.

4.2. **Approval of the appointment of Mr. Yossef Shachak as an outside director of the Company**

Following his signing of the declaration mandated by Sections 224B and 241 of the Companies Law, it is proposed to appoint Mr. Yossef Shachak as an outside director of the Company for an initial term of office of three years, starting from August 23, 2019. Such declaration is attached as **Annex C** the Notice of Meeting Report.

Mr. Yossef Shachak was classified by the Company's board on July 4, 2019 as having accounting and financial expertise in accordance with the provisions of the Conditions Regulations. Furthermore, on such date, the Company's board confirmed that, subject to the approval of his appointment by the Meeting, Mr. Yossef Shachak would be appointed a member of the audit committee, the compensation committee, the enforcement committee and the financial statements review committee.

For his service as an outside director of the Company, the Company shall pay Mr. Yossef Shachak annual remuneration and participation remuneration in the amount of the maximum sums for an expert outside director under the Remuneration Regulations, as being from time to time, and according to the rank to which the Company shall be classified according to the equity thereof as being from time to time, which, as of the date of the Notice of Meeting Report, is Rank E. Mr.

Yossef Shachak will also be entitled to reimbursement of expenses in accordance with Section 6 of the Remuneration Regulations and with the policy approved by the Company's audit committee.

Furthermore, subject to the approval of his appointment, the Company shall grant Mr. Yossef Shachak a letter of exemption and indemnification as customary at the Company, in the current language at the Company for all officers and directors who are not controlling shareholders of the Company and/or relatives of theirs, as specified in the Company's immediate report of March 23, 2017 (Ref.: 2017-01-028392), which is incorporated in the Notice of Meeting Report by reference, and Mr. Yossef Shachak will additionally be insured by a directors and officers' liability insurance as customary at the Company.

Following are details about Mr. Yossef Shachak in accordance with Sections 26 and 36B(a)(10) of the Reports Regulations:

Name of Candidate for the Office of Outside Director:	Yossef Shachak
Identification No.:	008025009
Date of Birth:	August 25, 1945
Address for the purpose of Service of Process:	Burla 28, Tel Aviv
Nationality:	Israeli
Membership of Board Committees:	Subject to his appointment by the Meeting, he will be appointed a member of the audit committee, the compensation committee, the enforcement committee and the financial statements review committee.
Outside Director:	Subject to his appointment by the Meeting
Does he have accounting and financial expertise or professional qualifications:	Has accounting and financial expertise
Expert outside director:	Subject to his appointment by the Meeting
Is he an employee of the Company, a subsidiary, an affiliate of the Company or of an interested party thereof:	No
The date on which he will take the office of director of the Company:	August 23, 2019
Education:	Bachelor's degree, Accounting, Hebrew University, CPA
His occupation in the past five years:	Consultant to companies and boards of directors, business mediator and arbitrator, member of the Public Council of the Israel Accounting

	Standards Boards, member of the finance committee of the Israel Cancer Association and board member of private and public companies.
Other corporations in which he serves as a director:	Emilia Development (O.F.G.) Ltd. (Chairman), Tefron Ltd., Southern Properties Capital Ltd. (outside director), Habima National Theatre (outside director), Neve Hon Real Estate Ltd., Yogi Consulting and Investments Ltd. (a private company controlled by him) and Shachak & Co. Properties Ltd. (a private company of which he is a shareholder).
Family relation to an interested party of the Company:	No
Is he a director deemed by the Company as having accounting and financial expertise for the purpose of compliance with the minimal number set by the board under Section 92(a)(12) of the Companies Law:	Yes

Proposed resolution: To appoint Mr. Yossef Shachak as an outside director of the Company for an initial term of office of three years, starting from August 23, 2019.

5. **Approval of the appointment of Mr. Dan Gillerman as an independent director of the Company**

The office of Mr. Joseph Ciechanover as an independent director of the Company came to an end on May 5, 2019, at which time he concluded a nine-year term of office as a director of the Company.

Following his signing of the declaration mandated by Section 224B of the Companies Law, it is proposed to appoint Mr. Dan Gillerman as an independent director of the Company, for a term of office beginning on August 23, 2019 and ending at the close of the next annual meeting of the Company's shareholders, unless the office shall have expired earlier pursuant to the provisions of the Companies Law or the Company's articles of association (the "**Company's Articles**"). Such declaration is attached as **Annex D** to the Notice of Meeting Report.

The Company's audit committee confirmed on July 4, 2019 that Mr. Dan Gillerman satisfies the eligibility conditions prescribed by Section 240(b)-(f) of the Companies Law, as required for the purpose of his classification as an independent director.

Mr. Dan Gillerman was classified by the Company's board on July 4, 2019 as having professional qualifications in accordance with the provisions of the Conditions Regulations. Furthermore, on such date, the Company's board confirmed that, subject to the approval of his appointment by the Meeting, Mr. Dan Gillerman would be appointed a member of the audit committee, the enforcement committee and the financial statements review committee.

For his service as a director of the Company, the Company shall pay Mr. Dan Gillerman annual remuneration and participation remuneration in the amount of the maximum sums for an expert outside director under the Remuneration Regulations, as being from time to time, and according to the rank to which the Company shall be classified according to the equity thereof as being from time to time, which, as of the date of the Notice of Meeting Report, is Rank E. Mr. Dan Gillerman will also be entitled to reimbursement of expenses in accordance with Section 6 of the Remuneration Regulations and with the policy approved by the Company's audit committee.

Furthermore, subject to the approval of his appointment, the Company shall grant Mr. Dan Gillerman a letter of exemption and indemnification as customary at the Company, in the current language at the Company for all officers and directors who are not controlling shareholders of the Company and/or relatives of theirs, as specified in the Company's immediate report of March 23, 2017 (Ref.: 2017-01-028392), which is incorporated in the Notice of Meeting Report by reference, and Mr. Dan Gillerman will additionally be insured by a directors and officers' liability insurance as customary at the Company.

Following are details about Mr. Dan Gillerman in accordance with Sections 26 and 36B(a)(10) of the Reports Regulations:

Name of Candidate for the Office of Outside Director:	Dan Isaac Gillerman
Identification No.:	07132889
Date of Birth:	March 26, 1944
Address for the purpose of Service of Process:	Nehardea 5, Tel Aviv
Nationality:	Israeli
Membership of Board Committees:	Subject to his appointment by the Meeting, he will be appointed a member of the audit committee, the enforcement committee and the financial statements review committee.
Outside Director:	No
Does he have accounting and financial expertise or professional qualifications:	Has professional qualifications
Is he an employee of the Company, a subsidiary, an affiliate of the Company or of an interested party	No

thereof:

The date on which he will take the office of director of the Company:	August 23, 2019
Education:	Bachelor's degree, Political Science and Economics, Hebrew University
His occupation in the past five years:	Chairman of Blackstone Group Israel, CEO of Gillerman Global Ltd., Chairman of the Israeli Opera, member of the Board of Trustees of the Hebrew and the Tel Aviv Universities, member of the Board of Trustees of the Jewish Agency, member of the Board of the Weizmann Institute of Science
Other corporations in which he serves as a director:	Chairman of Nagum Ltd. (a private company)
Family relation to an interested party of the Company:	No
Is he a director deemed by the Company as having accounting and financial expertise for the purpose of compliance with the minimal number set by the board of directors under Section 92(a)(12) of the Companies Law:	No

Proposed resolution: To appoint Mr. Dan Gillerman as an independent director of the Company, for a term of office beginning on August 23, 2019 and ending at the close of the next annual meeting of the Company's shareholders, unless the office shall have expired earlier pursuant to the provisions of the Companies Law or the Company's Articles.

6. **Reappointment of the directors currently holding office as directors of the Company (who are not the outside directors) until the end of the Company's next annual general meeting**

Approval of the reappointment of the following directors currently serving on the Company's board (who are not outside directors), for an additional term of office, until the end of the next annual meeting of the Company's shareholders, unless the office shall have expired earlier pursuant to the provisions of the Companies Law or the Company's Articles (an "**Additional Term of Office**"):

6.1. **Ms. Danna Azrieli (Chairman of the Board)**

Proposed resolution: To approve the reappointment of Ms. Danna Azrieli as a director of the Company for an Additional Term of Office.

6.2. **Ms. Sharon Azrieli**

Proposed resolution: To approve the reappointment of Ms. Sharon Azrieli as a director of the Company for an Additional Term of Office.

6.3. **Ms. Naomi Azrieli**

Proposed resolution: To approve the reappointment of Ms. Naomi Azrieli as a director of the Company for an Additional Term of Office.

6.4. **Mr. Menachem Einan**

Proposed resolution: To approve the reappointment of Mr. Menachem Einan as a director of the Company for an Additional Term of Office.

6.5. **Ms. Tzipora Carmon (independent director)**

Proposed resolution: To approve the reappointment of Ms. Tzipora Carmon as a director of the Company for an Additional Term of Office.

6.6. **Mr. Oran Dror (independent director)**

Proposed resolution: To approve the reappointment of Mr. Oran Dror as a director of the Company for an Additional Term of Office.

Each of the aforesaid directors has signed a declaration as mandated by Section 224B(a) of the Companies Law, and, *inter alia*, the independent directors have declared that they satisfy the provisions of paragraphs (1) and (2) of the definition of “independent director” in Section 1 of the Companies Law. The directors’ declarations are attached as **Annex E** to the Notice of Meeting Report.

For details about the directors whose office is presented for renewal as set forth in Sections 6.1-6.6 above, which details are required pursuant to Sections 26 and 36B(a)(10) of the Reports Regulations, see Part D of the Periodic Report for 2018 released on March 20, 2019 (Ref.: 2019-01-024283) (the “**Company’s Periodic Report for 2018**”), which is incorporated in the Notice of Meeting Report by reference¹.

¹ Under the Company’s current compensation policy, the remuneration of directors of the Company who are not controlling shareholders of the Company and who do not receive a salary or management fees, as serving from time to time, shall be the maximum remuneration as prescribed by the Remuneration Regulations, as updated from time to time, and consistent with the Company’s rank, as being from time to time. For this purpose, it shall be considered whether the director is an expert, according to the definition of expert outside director in the Remuneration Regulations. Furthermore, the aforesaid directors shall be entitled to reimbursement of expenses in accordance with the Remuneration Regulations and with the policy approved by the Company’s audit committee. The remuneration of Ms. Naomi Azrieli and Ms. Sharon Azrieli, who are among the controlling shareholders of the Company, is the remuneration approved by the Company’s audit committee and board in July 2019. For details, see the immediate report of July 4, 2019, which is incorporated in the Notice of Meeting Report by reference. The current remuneration of Ms. Danna Azrieli, the Company’s Chairman of the Board and one of the Company’s controlling shareholders, was most

7. **Reappointment of the accounting firm Deloitte Brightman, Almagor, Zohar & Co. as the Company's auditor until the end of the Company's next annual general meeting**

Under the Company's Articles, the Company's board is authorized, after receiving the recommendation of the Company's audit committee, to set the fees of the auditor for audit functions and additional services according to the nature and scope of the services rendered and to be rendered to the Company. For details with respect to the fees paid to the auditor in respect of 2018, see Section 7 of the Corporate Governance chapter in the Company's Periodic Report for 2018, which is incorporated in the Notice of Meeting Report by reference.

Proposed resolution: To approve the reappointment of the accounting firm Deloitte Brightman, Almagor, Zohar & Co. as the Company's auditor until the end of the Company's next annual general meeting.

8. **Discussion of the audited financial statements and the board of directors' report on the Company's affairs for the year ended December 31, 2018**

The aforementioned reports, which are included in the Company's Periodic Report for 2018, are available for inspection. There shall be no vote on this issue, but only a discussion.

Part B – Further Details with respect to the Approval of an Updated Compensation Policy

9. Presented below are details with respect to the resolution proposed on Item 11 on the agenda of the Meeting – Approval of an Updated Compensation Policy for the Company.

9.1. **General**

9.1.1. The Company's board, after receiving the recommendations of the Company's compensation committee, (the "**Compensation Committee**"), and the Company's general meeting, initially adopted a compensation policy in September 2013. The compensation policy has been updated from time to time, with its most recent update taking effect on October 6, 2016, upon approval by the general meeting of the Company's shareholders (the "**Current Compensation Policy**").

recently approved in a meeting of the Company's shareholders held on October 6, 2016, and it is presented for re-approval and for an update of terms in the Meeting to which the Notice of Meeting Report pertains (as specified in Part D of the Notice of Meeting Report). For details about the current remuneration of Ms. Danna Azrieli, see Note 35(c)(1) to the financial statements as of December 31, 2018, which were included in the periodic report for 2018, which is incorporated in the Notice of Meeting Report by reference. In addition to the directors' remuneration as set forth above, the Company's directors are included in an officers' liability insurance policy and the Company granted them letters of indemnification and exemption, and all subject to the provisions of the Companies Law and the Company's Articles. For details, see Note 35(d) to the financial statements as of December 31, 2018, which were included in the periodic report for 2018, which is incorporated in the Notice of Meeting Report by reference.

- 9.1.2. On July 4, 2019, after receiving the recommendations of the Compensation Committee, the Company's board approved an updated compensation policy (the "**Updated Compensation Policy**" or the "**Policy**"), which is presented for approval by the Meeting, as specified in the Notice of Meeting Report and in accordance with Section 267A of the Companies Law and as specified below.
- 9.1.3. The Policy was drafted taking into consideration the nature of the Company as a company which is active mainly in the sector of income-producing real estate and its being one of the largest companies on the Israeli market, which is listed in the TA-35 Index and in the TA-Real Estate Index.
- 9.1.4. In general, the Policy is mostly based on principles that are similar to the ones that underpinned the Current Compensation Policy, with the Policy modified to conform to the current legal provisions and to the developments on matters addressed by the Policy, as well as to the changes requested in relation to the update of the management agreement with the Company's CEO, as set forth in Item 2 on the agenda of the Meeting and as specified in Part C of the Notice of Meeting Report, and to the changes requested in the terms and conditions of the management agreement with the Company's Active Chairman of the Board, as set forth in Item 3 of the agenda of the Meeting and as specified in Part D of the Notice of Meeting Report.
- 9.1.5. The other changes proposed are intended to provide a sufficiently broad framework to allow the Compensation Committee, board and CEO of the Company, as applicable, to determine a personal compensation plan for each one of the officers, according to the needs of the Company and in keeping with the best interests of the Company, its employees and its shareholders and the Company's overall long-term strategy. They are also intended to modify the terms and conditions of the Company's officers' insurance policy to fit the Company's size and the changes that have occurred in the prices of the premiums of such insurance.
- 9.1.6. The Policy is based on many years of experience in managing the Company, in its business sector and in the business volume, and on determinations deriving from many years of implementing a unique management method which has led the Company to impressive achievements.
- 9.1.7. The provisions of the Policy apply only to the Company's officers (as defined in the Companies Law).
- 9.1.8. The Policy is worded in the masculine form solely for the sake of convenience, and the provisions thereof will apply to women and men alike, without any difference or change.

9.1.9. As part of the process of formulating the Updated Compensation Policy, representatives of the Company's management appeared before the Compensation Committee and the board. In addition, comparative data with respect to officers of comparable companies were presented to the Compensation Committee and the board.

9.1.10. The meeting of the Company's Compensation Committee of July 4, 2019, in which the participants were Messrs. Efraim Halevy (outside director), Niv Ahituv (outside director) and Tzipora Carmon (independent director), discussed the Updated Compensation Policy and resolved to recommend that the Company's board approve the same. In accordance with the recommendation of the Compensation Committee, the meeting of the Company's Board of Directors of July 4, 2019, in which the participants were Messrs. Efraim Halevy, Niv Ahituv, Tzipora Carmon, Oran Dror and Menachem Einan, approved the Updated Compensation Policy. As Ms. Danna Azrieli benefits from the compensation policy in a manner that differs from the compensation paid to the other directors, and as Meses. Naomi Azrieli and Sharon Azrieli are Ms. Danna Azrieli's sisters, they did not participate, solely for the sake of prudence, in the board meeting when it discussed and adopted the Updated Compensation Policy. The resolution to recommend the adoption of the Updated Compensation Policy to the Company's board and the resolution to adopt the Updated Compensation Policy, as applicable, was unanimously adopted both by the Compensation Committee and by the Company's board.

9.2. **The primary differences between the Current Compensation Policy and the Updated Compensation Policy**

Like the Current Compensation Policy, the Updated Compensation Policy is based on primary compensation components as follows: Fixed component, related and social benefits, variable component (bonus), retirement arrangements and exemption, insurance and indemnification. In addition, both the Current Compensation Policy and the Updated Compensation Policy include general provisions.

A summary of the primary changes to the Updated Compensation Policy compared with the Current Compensation Policy is presented below (components with no material change are not mentioned):

9.2.1. **Fixed component for officers**

9.2.1.1. Directors (who do not receive a salary or management fees)

Section 4.1 of the Updated Compensation Policy has been changed such that it applies to all of the directors of the Company (who do not receive a salary or management fees), i.e., both directors who are not controlling shareholders of the Company and directors who are controlling shareholders of the Company. Accordingly, Section 4.2 of the Current Compensation Policy has been omitted.

9.2.1.2. Active Chairman of the Board

The monthly management fees of an Active Chairman of the Board, which are in Section 4.3.1 of the Updated Compensation Policy, have been adjusted to the terms of office proposed in the terms and conditions of the management agreement with the Company's Active Chairman of the Board, as set forth in Item 3 of the agenda of the Meeting and as specified in Part D of the Notice of Meeting Report, such that the cap on monthly management fees has been increased from NIS 225 thousand in the Current Compensation Policy to NIS 250 thousand in the Updated Compensation Policy.

9.2.1.3. CEO

The sum of the cap on the monthly employment cost of the CEO, which is in Section 5.1 of the Updated Compensation Policy, has been updated in accordance with the rate of increase of the Consumer Price Index (CPI) relative to the CPI for the month of June 2016, such that it amounts to NIS 318 thousand in the Updated Compensation Policy (compared with NIS 313 thousand in the Current Compensation Policy)².

9.2.1.4. Other officers

The sums of the cap on the monthly employment cost of the other officers, which are in Section 5.2 of the Updated Compensation Policy, have been updated in accordance with the rate of increase of the CPI relative to the CPI for the month of June 2016, determined in the Current Compensation

² It is clarified that the update of the management agreement with the Company's CEO, as set forth in Item 2 of the agenda of the Meeting and as specified in Part C of the Notice of Meeting Report, includes no change with respect to this component.

Policy, and also reflect an average annual addition at the rate of 4.4% for the most senior officer (who is not a director or a CEO) and of 6.3% for all other officers (other than directors, a CEO or the most senior officer), such that under the Updated Compensation Policy, the cap on the employment cost paid to the most senior officer (who is not a director or a CEO) will not exceed NIS 279 thousand (compared with NIS 241 thousand in the Current Compensation Policy), and the cap on the employment cost paid to all other officers (other than directors, a CEO or the most senior officer) will not exceed NIS 198 thousand (compared with NIS 162 thousand in the Current Compensation Policy)³.

Furthermore, the cap on annual recuperation pay days for officers who are employees (to be distinguished from ones who provide the Company with services through a management company) has been updated in the Updated Compensation Policy to 30 days per year and no less than as prescribed by law (compared with 15 days per year and no less than as prescribed by law in the Current Compensation Policy).

9.2.2. Variable component (bonuses) for officers

9.2.2.1. Officers reporting to the CEO

Section 6.1.1 of the Updated Compensation Policy – The manner in which the annual bonus is determined for officers reporting to the CEO has been changed, such that, according to the Updated Compensation Policy, officers reporting to the CEO will be entitled to the following bonuses, as determined according to the recommendation of the Chairman of the Board and the CEO and approved by the Compensation Committee and the board:

- (a) A discretionary annual bonus the amount of which is up to 6 times the monthly employment cost – up to 3 of which according to an examination of the officer's compliance with criteria to be chiefly based on the officer's contribution to the Company in accordance with his position and the

³ It is noted that the Current Compensation Policy provides for the possibility to add up to 10% to the cap on the monthly employment cost determined therein every year (over and above indexation), yet, as may be seen, this possibility has not been fully used by the Company.

scope of his responsibilities; and up to 3 of which based on measurable targets predetermined by the CEO⁴ (the “**Annual Bonus**”); and additionally –

- (b) A special bonus the amount of which is up to 3 times the gross monthly salary (the “**Special Bonus**”). The Special Bonus shall be granted in special cases, e.g., for the promotion of a transaction or a material strategic or business event or for the completion of a project that was not included in the Group’s work plan. For the avoidance of doubt, an officer may not be granted more than one Special Bonus per calendar year; however, a Special Bonus may be approved and granted during the year on a date which is not the same as the date on which the Annual Bonus is approved or granted.

In the Current Compensation Policy – The amount of the discretionary annual bonus was up to 3 times the officer’s monthly employment cost.

9.2.2.2. **CEO**

Section 6.1.2 of the Updated Compensation Policy – In addition to the entitlement to a discretionary annual bonus the amount of which is up to 3 times the monthly employment cost, as determined in the Current Compensation Policy, entitlement to a measurable bonus has been added, according to the calculation method set forth in Section 10.3.2.2 below.

Accordingly, per the provisions of the Updated Compensation Policy, the total bonuses to which the Company’s CEO shall be entitled (the discretionary bonus plus the measurable bonus) shall not exceed 9 times the CEO’s monthly employment cost (compared with an annual bonus cap in the amount of 3 times the CEO’s monthly employment cost, as being according to the Current Compensation Policy).

9.2.2.3. **Chairman**

⁴ The targets for Y2019 will be determined shortly after the approval of the Updated Compensation Policy, to the extent approved.

Section 6.2 of the Updated Compensation Policy – In order to establish a challenging threshold and brackets for the bonus in relation to such components in the Current Compensation Policy, the sum of the quantitative bonus threshold, the sums of the bonus brackets and also the bonus cap have been updated in the Updated Compensation Policy, as specified in Section 11.2.2 below.

9.2.2.4. Bonus reduction

Section 6.3.1 of the Updated Compensation Policy – The power to decide to reduce an officer's bonus or to grant an officer no bonus at all shall be vested in the Compensation Committee and the board. In the Current Compensation Policy, this power is also conferred upon the CEO and the Chairman of the Board (as applicable).

Furthermore, the Updated Compensation Policy provides that such bonus reduction power shall not apply in relation to the CEO's measurable bonus specified in Section 6.1.2 of the Policy or in relation to the bonus of the Active Chairman of the Board specified in Section 6.2 of the Policy. This change has been made in order for such bonuses not to be deemed discretionary bonuses.

9.2.3. Insurance

In order to allow for an adjustment of the terms and conditions of the Company's officers' insurance policy to the Company's size and to the changes that have occurred in the prices of the premiums of such insurance, the primary changes that have been made are as follows:

9.2.3.1. Section 8.1 of the Updated Compensation Policy – The liability cap in the insurance policies as taken out by the Company from time to time shall not exceed U.S. \$150 million per claim and in the aggregate (compared with a liability cap of up to U.S. \$100 million set under the Current Compensation Policy). It is further provided that the Company will be able to increase the liability cap of any insurance policy over and above such amount, as long as the annual premium for the Company's insurance policies does not exceed the sum specified in Section 9.2.3.2 below.

9.2.3.2. Section 8.3 of the Updated Compensation Policy – The annual insurance premium shall not exceed a

sum of U.S \$500,000, with an ability to increase the premium by up to 10% upon renewal of the insurance policies (compared with the annual premium cap of U.S. \$250 thousand set under the Current Compensation Policy).

9.3. **Reasons of the Compensation Committee and the board for the approval of the Updated Compensation Policy**

Following is a summary of the reasons and considerations of the Compensation Committee and the board of the Company in the determination and approval of the Updated Compensation Policy:

9.3.1. The compensation policy is intended to help achieve the Company's goals, policy and work plans, *inter alia*, in order:

9.3.1.1. To grant the Company's officers sound, proper and fair compensation, considering their positions and their responsibilities;

9.3.1.2. To enable the Company to recruit and retain excellent top-level senior executives, who have specific expertise and professional knowledge and the ability to lead the Company to business success and cope with the challenges faced thereby;

9.3.1.3. For the compensation of officers to correspond, *inter alia*, to the size of the Company and the nature of its business.

9.3.2. The Updated Compensation Policy is intended to maintain the proper balance between the entity-wide view of the Company and its goals, as set from time to time, and the creation of a proper set of incentives in order to recruit and retain excellent executive manpower in senior executive positions for the long term, which is required for the Company's continued business development and success.

9.3.3. In formulating the Updated Compensation Policy, consideration was given, *inter alia*, to the compensation levels and terms of employment of officers at the Company in previous years. It is noted in this context that the Company's officers comprise a relatively small group, most of which has been employed by the Company for long periods of time and consists of officers who have unique expertise and vast experience in their specific occupation.

9.3.4. The Updated Compensation Policy confers no rights upon the Company's officers and the officers shall have no vested right, by virtue of the mere adoption of the Policy, to receive any of the compensation components specified in the Policy. The

compensation components to which an officer is entitled shall only be the ones specifically approved/to be approved for such officer by the Company organs authorized by law for this purpose.

9.4. **Manner of Determination of the Compensation – General Principles**

When examining and approving the Updated Compensation Policy, the Compensation Committee and the board of the Company addressed, *inter alia*, the following issues:

- 9.4.1. Compensation packages for holders of similar positions in similar companies on the Israeli market.
- 9.4.2. The ratio between the cost of the terms of office and employment of the officers and the cost of salary of the other employees of the Company employed with the Company⁵, and particularly the ratio relative to the average salary and the median salary of such employees and the effect of the disparities on the working relations at the Company. The Compensation Committee and the board of the Company have conducted such examination as of the date of approval of the Policy and have determined that the ratio⁶ is reasonable and is not expected to affect the working relations at the Company (for additional details see Section 3.6 of the Updated Compensation Policy).
- 9.4.3. In formulating the Policy, it was determined that, as pertains to the officers of the Company, the Company's policy is that the fixed component, as specified in the Updated Compensation Policy, should carry the main weight⁷ in the total maximum compensation package of the officers in a company of the Company's type and nature. This is based on the view that such a mix has a mitigating effect on the risk profile of the officers' conduct (relative to a mix in which the weight of the variable compensation (based on numeric targets) is more significant) and considering the fact that the phantom option plan established in the Company at the time of the IPO has expired and the Updated Compensation Policy does not provide for a

⁵ "Cost of salary" – within the meaning thereof in Schedule 1A to the Companies Law.

⁶ The calculation of such ratio included the Company's employees and the Company's senior officers who receive consideration for their service as officers (with the exception of directors who receive compensation in accordance with the Remuneration Regulations). For such senior officers, the terms of office included, for the purpose of calculation of the ratio, the maximum variable annual bonus possible, in accordance with the provisions of Sections 6.1.2 and 6.2.3 of the Policy, but without a special bonus, and for the Chairman of the Board – the monthly management fees presented for approval by the Meeting, as specified in Part C of the Notice of Meeting Report, were included.

⁷ In weighting the cost of salary to full time-position terms – at least 68% of the officer's total compensation, excluding a special bonus (for the Chairman of the Board – at least 62% of the total overall compensation, and for the CEO – at least 58% of the total overall compensation). It is clarified that such ratio may change due to indexation differentials.

plan that includes equity compensation. In addition, such a mix encourages action that is based on long-term vision and considerations and conduct that is based on long-term processes.

9.4.4. In the course of the discussions on formulation of the Policy, the Compensation Committee and the board examined comparative data in respect of several public companies which are listed in the TA-35 Index, insofar as relevant data has been released thereby. The comparative data included compensation paid to senior officers in Israeli public companies listed in the TA-35 Index, such data being based on the periodic reports for 2018.

9.5. **Implementation of the Current Compensation Policy**

Throughout the term of the Company's Current Compensation Policy, the Company has fully implemented the same and has not deviated therefrom.

The following tables present details with respect to the ratio between the actual compensation received by the Company's Chairman of the Board and the Company's CEO and the compensation caps established in the Current Compensation Policy, in the years 2016-2018⁸:

9.5.1. **Chairman of the Board**

Compensation Component	2016	2017	2018
Management fees (fixed component)	100%	100%	100%
Bonus	Approx. 70%	100%	100%

9.5.2. **CEO of the Company**

Compensation Component	2016	2017	2018
Management fees (fixed component)	100%	100%	100%
Annual bonus	100%	100%	100%

⁸ The figures in the table represent the ratio (percentage) between the caps established in the Current Compensation Policy and the compensation actually paid.

9.6. **Details regarding the controlling shareholders of the Company**

As of the date of the Notice of Meeting Report, Mses. Sharon Azrieli, Naomi Azrieli and Danna Azrieli are the controlling shareholders of the Company. For details with respect to the rights that grant them control of the Company, including their holdings of voting rights and of the issued and paid-up capital of the Company and voting agreements pertaining to such voting rights, see the immediate report of the status of holdings of interested parties and senior officers of the Company released on April 10, 2018 (Ref.: 2018-01-036073), which is incorporated herein by reference.

9.7. **Personal Interest**

With respect to the participation of directors in discussions of the Compensation Committee and the board and the resolutions thereof in relation to the approval of the Updated Compensation Policy, all of the directors who are entitled to identical remuneration under the Updated Compensation Policy, with the exception of Mses. Sharon Azrieli and Naomi Azrieli, as set forth in Section 9.1.10 above, participated in the discussions of the Compensation Committee and the board and voted with respect to the Updated Compensation Policy, despite the personal interest they have in the adoption of the Company's compensation policy, due to the fact that the Policy also addresses the compensation of directors. As Ms. Danna Azrieli benefits from the compensation policy in a manner that differs from the compensation paid to the other directors, and as Mses. Naomi Azrieli and Sharon Azrieli are Ms. Danna Azrieli's sisters, they did not participate, solely for the sake of prudence, in the board meeting when it discussed and approved the Updated Compensation Policy.

9.8. **Approvals Required for Approval of the Updated Compensation Policy**

The approvals required for the purpose of approval of the Updated Compensation Policy are approval by the Company's board, which was given on July 4, 2019, after receipt of the Compensation Committee's recommendation to approve the Updated Compensation Policy, and approval by the Meeting called by the Notice of Meeting Report.

It is noted that in accordance with Section 267A(c) of the Companies Law, the board may approve the Updated Compensation Policy even if the Meeting objects to the approval thereof, insofar as the Compensation Committee, followed by the board, resolve, based on specified reasons and after re-discussing the Updated Compensation Policy, that approval of the Updated Compensation Policy, despite the objection of the Meeting, is in the Company's best interests ("Approval under Section 267A(c) of the Companies Law").

The Company is not a public second-tier subsidiary.

It is further noted that the Current Compensation Policy will be in force until October 5, 2019, and therefore, insofar as the Current Compensation Policy is not approved by the Meeting and as long as Approval under Section 267A(c) of the Companies Law is not given, the provisions of the Current Compensation Policy shall continue to apply until the end of the term thereof.

Part C – Approval of update to the management agreement with the Company’s CEO

10. Set forth below are details regarding the proposed resolution to approve an update to the Company’s management agreement with the Company’s CEO, Mr. Eyal Henkin (through a private company wholly owned by him) (the “**Company’s CEO**”) with respect to the Annual Bonus, to which he will be entitled.

10.1. **Description of the current terms of office and employment of the Company’s CEO**

The Company’s CEO has served in his position since January 1, 2018. The terms of his office and employment (through a company owned by him) were last approved by the Company’s general meeting on April 30, 2018, and the main terms thereof are as follows:

The consideration: fixed monthly management fees in the sum of NIS 313,000, linked to the rate of the rise in the Consumer Price Index for June 2016, as published in July 2016 (the date of publication of the rate of the index that was determined in the Current Compensation Policy), and which, as of the date of the Notice of Meeting Report, are: NIS 318,000.

The granting of indemnification and exemption conditions in accordance with the compensation policy and as is standard with respect to the Company’s other officers (who are not directors from among the controlling shareholders)⁹, and his inclusion in the Company’s D&O insurance policy.

Car: The Company shall provide the Company’s CEO with an appropriate Group 7 car. The Company shall bear the full cost of the use of the car.

Expenses: The Company shall indemnify the Company’s CEO (including the management company through which he provides the CEO services as aforesaid), as is customary in such positions, for out-of-pocket expenses that he shall incur in the context of provision of CEO services to the Company, all in accordance with the Company’s

⁹ For details regarding the letters of indemnification and exemption that the Company grants to the officers as of the date of the Notice of Meeting Report, see Section 6 of an immediate report regarding a meeting which the Company released on March 23, 2017 (ref.: 2017-01-028392), which is included in the Notice of Meeting Report by way of reference.

procedures and against presentation of appropriate evidence. Such expense reimbursement shall not exceed a maximum amount, as shall be determined from time to time at the Audit Committee, and which shall be determined thereby to be appropriate, considering the Company's operations and the scope thereof.

Mobile phone: The Company shall provide the Company's CEO with a mobile phone and shall bear the full cost thereof and the cost of the use thereof.

Termination of the agreement and prior notice: Each one of the parties will be entitled to terminate the agreement, for whatever reason, subject to giving prior written notice of three (3) months.

Adjustment compensation: In addition to the prior notice period, the Company's CEO will be entitled to adjustment compensation in an amount equal to nine (9) monthly payments of the consideration.

Bonus: In accordance with the Company's Current Compensation Policy, the Company's CEO shall be entitled to an annual bonus, in accordance with the following criteria: the first criterion - assessment of the officer's contribution - the Compensation Committee and the board shall examine (after receipt of the recommendation of the Company's Chairman of the Board) the Company's CEO's meeting of criteria which shall be based mainly on the contribution of the Company's CEO to the Company according to his position and the scope of his responsibility; the second criterion - the amount of the bonus - upon fulfillment of the aforesaid, the Compensation Committee and the board may decide, in relation to the Company's CEO, to grant a bonus in a sum total that shall not exceed a sum of up to 3 times the monthly payment.

10.2. **Details regarding his professional experience and education**

For details regarding the professional experience and education of the Company's CEO, see Section 26A of Chapter D of the Company's Periodic Report for 2018, which is included in the Notice of Meeting Report by way of reference.

10.3. **The modification of the terms and conditions of the management agreement of the Company's CEO that is being presented for the Meeting's approval**

10.3.1. As specified above, in accordance with the terms of his employment, the Company's CEO is entitled to an Annual Bonus, as set forth in the Current Compensation Policy, as specified in Section 10.1 above.

10.3.2. As part of the update of the Current Compensation Policy, which is being presented for the approval of the Meeting contemplated in the Notice of Meeting Report, as specified in

Sections 1 and 9 above, and in particular the change to the Annual Bonus to which the Company's CEO is entitled, as specified in Section 9.2.2.2 above, it is hereby proposed to update the terms and conditions of the management agreement of the Company's CEO such that the Annual Bonus to which he will be entitled will be as determined in the Updated Compensation Policy, which determines as follows (the "**Annual Bonus Update**"):

10.3.2.1. The Company's CEO shall be entitled to a discretionary annual bonus in an amount of up to 3 times the monthly employment cost, according to the recommendation of the Chairman of the Board and as shall be approved by the Compensation Committee and the board, in accordance with the criteria to be determined in advance for each year (the "**Discretionary Bonus**").

10.3.2.2. In addition, the Company's CEO shall be entitled to an annual bonus which shall be based on the two components below and shall be calculated as follows (the "**Measurable Bonus**"):

- a. **Meeting the FFO target** – An operating parameter based on meeting the FFO target determined in the Company's annual work plan, as shall be approved by the Compensation Committee and the board during the first quarter of each year for which the Measurable Bonus is granted (the "**FFO Target**")¹⁰.

A prerequisite for receipt of this bonus component is meeting 90% of the FFO Target. The CEO's entitlement to the bonus shall be calculated in a linear manner in accordance with the extent to which the FFO Target is met, while for fully meeting the FFO Target the CEO shall be entitled to a bonus in the sum of twice the monthly employment cost.

- b. **Meeting the NOI target** – An operating parameter based on meeting the NOI target determined in the Company's annual work plan, as shall be approved by the Compensation Committee and the Company's board during the first quarter of each year for which the

¹⁰ The FFO Target for 2019 shall be determined shortly after approval of the Updated Compensation Policy and approval of the update to the management agreement with the Company's CEO, if approved.

Measurable Bonus is granted (the “**NOI Target**”)¹¹.

A prerequisite for receipt of this bonus component is meeting 90% of the NOI Target. The CEO’s entitlement to the bonus shall be calculated in a linear manner in accordance with the extent to which the NOI Target is met, while for fully meeting the NOI Target the CEO shall be entitled to a bonus in the sum of 4 times the monthly employment cost.

10.3.2.3. It is clarified that in any event, the sum of the Discretionary Bonus together with the Measurable Bonus for the CEO shall not exceed the sum of 9 times the monthly employment cost of the CEO.

10.3.2.4. In accordance with the Updated Compensation Policy, if and insofar as it transpires, post factum, that the figures on which the Company relied at the time of the granting of an annual bonus are wrong and are required to be restated in the Company’s financial statements, then the Company’s CEO shall repay the Company the difference between the bonus amount that was paid to him based on the erroneous figures as aforesaid, and the annual bonus amount to which he is entitled based on the figures after restatement thereof as aforesaid.

10.3.3. On July 4, 2019, the Company’s board and Compensation Committee approved the update to the Company’s management agreement with the Company’s CEO with respect to the Annual Bonus to which he shall be entitled, as aforesaid.

10.3.4. The decision in connection with the update of the Annual Bonus is subject to the approval of the Meeting that is being summoned in the Notice of Meeting Report, including its approval of the Updated Compensation Policy as aforesaid.

10.4. **Additional details presented to the Compensation Committee and the board**

10.4.1. **The ratio between the variable component and the fixed component in the proposed terms of the management agreement**

The ratio between the variable component and the fixed component in the proposed terms of the management

¹¹ The NOI Target for 2019 shall be determined shortly after approval of the Updated Compensation Policy and approval of the update to the management agreement with the Company’s CEO, if approved.

agreement of the Company's CEO is approx. 1:1.37, namely the variable component constitutes approx. 42% of the sum of the maximum compensation.

10.4.2. The ratio between the cost of salary¹² of the Company's CEO and the cost of salary of the Company's other employees¹³: as of the date of the Notice of Meeting Report, and subject to approval of the update to the term and conditions of the management agreement of the Company's CEO, the ratio between the cost of salary of the Company's CEO and the salary of the Company's other employees is approx. 12.1 relative to the average and approx. 31.4 relative to the median, in a calculation of maximum cost according to the proposed terms of office (approx. NIS 6.8 million)¹⁴.

10.4.3. The comparison figures that were prepared for the Company by PwC Consulting Ltd. ("PwC" and the "Comparison Figures", as the case may be) and were presented to the members of the Compensation Committee and the board, attest that:

10.4.3.1. The amount of the current fixed component (NIS 3,917 thousand) is reasonable and lower than the fourth quartile average, which is approx. NIS 4,488 thousand and approx. NIS 4,920 thousand lower than the maximum for a CEO of companies in the TA-35 index;

10.4.3.2. The amount of the proposed variable component (a maximum annual bonus of NIS 2,862 thousand) is reasonable and lower than the average which is NIS 2,993 thousand and lower than the 75% percentile for a CEO at companies in the TA-35 index which is approx. NIS 3,126 thousand;

10.4.3.3. The sum of the proposed maximum total compensation (NIS 6,779 thousand) is lower than the average total annual compensation for a CEO at companies in the TA-35 index, which is approx. NIS 9,728 thousand, and lower than the 75% percentile which is approx. NIS 7,958 thousand.

¹² As this term is defined in Section (3) of Part A of the First Schedule A to the Companies Law.

¹³ According to the following assumptions: (1) the figures were calculated with respect to the Company's employees; (2) part-time positions were standardized to full-time positions; (3) the figures of the updated terms and conditions of the management agreement of the Company's CEO were taken into account.

¹⁴ For the purpose of the aforesaid, the figures are as follows: the number of the Company's employees in Israel plus the officers, even if they are not employees of the Company, is 89. The average annual salary cost (in terms of 100% position) is approx. NIS 553 thousand, and the employees' median monthly salary cost is approx. NIS 213 thousand.

10.5. **Summary of the reasons of the Compensation Committee and the board for approving the update to the terms of office and employment of the Company's CEO**

The Company's board and Compensation Committee found that the update to the variable bonus of the Company's CEO as part of the terms of office and employment proposed to him is fitting, reasonable and fair, considering the size of the Company and the nature of its business, its long-term targets and the many challenges it faces, and considering the nature of his duties and responsibilities, for the reasons specified below:

10.5.1. The proposed amendment is reasonable and accepted in the circumstances, *inter alia* in view of the present scope of the Company's business, which in recent years has been constantly growing, including further to the development of additional segments at the Company (such as: senior housing) which require additional managerial input and expertise.

10.5.2. In accordance with the comparison data that were presented to the members of the Compensation Committee and the board, the total compensation for the Company's CEO, and particularly in view of the increase in the variable component, compared to the terms of employment of CEOs at companies that are traded, similarly to the Company, on the TA-35 Index (with the exception of finance companies and foreign companies), is in the third quartile of the Comparable Companies, and the fixed component (the monthly management fees) is in the fourth quartile of the compensation paid to the CEOs at the Comparable Companies in the TA-35 Index, in practice in 2018. Due to the fact that the Company is one of the largest companies in the Real Estate 15 Index, which also includes several companies significantly smaller than the Company, in the opinion of the members of the Compensation Committee and the board, the TA-35 Index is a more relevant comparison index for the Company. It is emphasized that the total compensation for the Company's CEO, compared with companies that are included in the TA-35 Index, is significantly lower than the average of the Comparable Companies as aforesaid, and is in the third quartile. It is noted that the members of the Compensation Committee and the board were presented also with additional comparison figures, with respect to which too the members of the Compensation Committee and the board found that the total compensation for the Company's CEO is certainly reasonable and is below the average of the companies that were presented in the additional comparison figures.

10.5.3. The members of the Compensation Committee and the board also examined the ratio between the monthly management fees proposed for the Company's CEO and the cost of the salary of

the Company's other employees, and in particular the ratio to the average salary cost and the median salary cost of the Company's other employees. In their estimation, the said ratios are reasonable and are not expected to have an effect on working relations at the Company.

10.6. **Details of the compensation**

Below are details, for simulation purposes only, in accordance with the Sixth Schedule to the Reports Regulations, of the compensation to which the Company's CEO shall be entitled, in terms of annual cost to the Company:

Details of the compensation recipient				Compensation in terms of annual cost (NIS in thousands)			
Name	Position	Scope of position	Rate of holding in capital	Management fees ^(a)	Bonus	Other	Total
Eyal Henkin	CEO	100%	-	3,917	Up to 2,862 ^(b)	-	6,799

- (a) The management fee component includes the following components: monthly management fee cost and/or monthly salary cost, social rights and social and related benefits, as customary, car maintenance and reimbursement of communication and other expenses;
- (b) Assuming the granting of a bonus in the **maximum** possible amount, in accordance with the Updated Compensation Policy, subject to approval thereof by the Meeting.

10.7. **Approvals required for approval of the update to the management agreement with the Company's CEO**

The approvals required for approval of the update to the management agreement with the Company's CEO are the approval of the Company's board and Compensation Committee, which were given, as aforesaid, on July 4, 2019, and the approval of the Meeting that is being summoned in the Notice of Meeting Report.

It is noted that according to Section 272(c1)(1)(c) of the Companies Law, the Compensation Committee and the board may, in special cases, approve an update to the management agreement with the Company's CEO even if the Meeting objects to the approval thereof, if the Compensation Committee, and the board thereafter, so decide, based on detailed reasons and after discussing the transaction again and examining, *inter alia*, the Meeting's objection ("**Approval under Section 272(c1)(1)(c) of the Companies Law**").

The Company is not a public second-tier subsidiary.

It is further noted that the Existing Management Agreement with the Company's CEO is valid and therefore, insofar as the update to the management agreement with the Company's CEO is not approved by the Meeting, and so long as Approval under Section 272(c1)(1)(c) of the Companies Law is not granted, the provisions of the Existing Management Agreement with the Company's CEO shall continue to apply.

Part D – Approval of an update to and extension of the terms and conditions of the management agreement with the Company's Active Chairman of the Board

11. Details shall be presented below with respect to the proposed resolution to approve the update to and extension of the terms and conditions of the Company's management agreement with a company controlled by the Company's Active Chairman of the Board, Ms. Danna Azrieli.

11.1. Summary of the terms and conditions of the engagement

We hereby bring for approval an update to the terms and conditions of the Existing Management Agreement of the Company with a company controlled by the Company's (Active) Chairman of the Board, Ms. Danna Azrieli, who is an indirect controlling shareholder of the Company, for a term of three years which shall commence from the date of the Meeting's approval (the "**Proposed Management Agreement**").

11.1.1. Since July 2014, Ms. Danna Azrieli holds office as Active Chairman of the Board of the Company. Ms. Danna Azrieli's management agreement as chairman of the Company's board was approved by the general meeting of the Company's shareholders on December 28, 2014 and took effect on January 1, 2015.

11.1.2. On October 6, 2016, the general meeting of the Company's shareholders (following the approval of the Company's Compensation Committee and board on August 22, 2016 and August 24, 2016, respectively) approved the extension of the management agreement of Ms. Danna Azrieli as chairman of the Company's board for three more years, starting from the date of the Meeting's approval as aforesaid (Ref.: 2016-01-060735), such that it is valid until October 5, 2019 (the "**Existing Management Agreement**").

11.1.3. To emphasize, there has been no change in the terms and conditions of the engagement in the agreement which was approved in October 2016 versus the agreement that was approved in December 2014, such that, *de facto*, since January 1, 2015, no changes have been made to the terms of the Existing Management Agreement.

11.1.4. Pursuant to the Existing Management Agreement, the Management Services shall be provided to the Company by Ms. Danna Azrieli through a company that is wholly owned by her (in this Part D, the “**Management Company**”). Included in the services to be rendered by the Management Company, Ms. Danna Azrieli shall hold office as Active Chairman of the Company’s board in a full time (100%) position and shall provide to the Company, through the Management Company, the following services: chairman of the Company’s executive management committee, supervision of implementation of strategic decisions, formulation of business and managerial decisions in respect of development and management of the Company's assets, business development, financing and budget, targets and examination of new operating segments, provision of ongoing managerial and professional advice to the Company's management and heads of the principal operating segments, oversight, leading and analysis of business opportunities and leading acquisitions in Israel and overseas, oversight of existing projects and monitoring of their progress, oversight of development and construction and of the business development overseas, responsibility for outlining the Company's ties with the community and its representation in conferences in Israel and overseas (in this Part D, the “**Management Services**”).

11.1.5. Consideration

In consideration for the Management Services the Company shall pay the Management Company the following consideration:

- 11.1.5.1. Fixed component: Annual management fees in the amount of approx. NIS 2.7 million (nominal) (reflecting, as of the date of the Notice of Meeting Report, monthly management fees in the amount of approx. NIS 225 thousand) plus lawful VAT, linked to the increase in the Consumer Price Index for the month of November 2014, which was published on December 15, 2014 (in this Part D: the “**Fixed Management Fees**”) (in the event of a decrease in the Index in a certain month, there shall be no reduction of consideration, however, the decrease shall be deducted from future increases in the Index). The Fixed Management Fees shall be paid in each current calendar month.
- 11.1.5.2. Reimbursement of expenses: The Company shall bear all of the expenses of the Management Company incurred in the provision of the Management Services, including hospitality

expenses, travel expenses and *per diems* in Israel and overseas, all according to the Company's procedures and against the presentation of proper evidence up to a maximal amount as shall be determined by the Company's audit committee, from time to time, and which it will deem appropriate, considering the Company's business and scope thereof.

- 11.1.5.3. Car and communication expenses: The Company shall make available to the Management Company, for the purpose of providing the Management Services, an appropriate grade 7 car. The car maintenance and use expenses shall be paid by the Company. In addition, the Company shall bear the costs of usage of (landline and mobile) telephones and communication by Ms. Danna Azrieli and may grant Ms. Danna Azrieli, from time to time and according to the compensation policy, related benefits, such as a laptop, internet connection, financial and daily newspaper subscriptions, payment for participation in professional conferences, professional literature, advanced studies and more. Reimbursement for car and communication expenses shall not exceed a maximal amount as shall be set forth, from time to time, by the audit committee and which it will deem appropriate, considering the Company's business and scope thereof.

- 11.1.5.4. Variable component: For the Management Services, the Management Company shall be entitled to an annual bonus, for every calendar year, deriving from the Adjusted Profit, as specified below:

The “**Adjusted Profit**” in the context of this section, for each calendar year – annual profit before tax, according to the Company’s audited consolidated annual financial statements, net of the following sums: (1) a dividend received thereby from financial assets available for sale that was included in the annual profit before tax; (2) profit (loss) resulting from revaluation of real properties; (3) results of companies which do not engage in the Company’s core segments (real estate) and were included in the annual profit before tax; (4) linkage differentials accrued on financial liabilities; (5) interest expenses at the

rate of the actual weighted effective interest for that year, of the Company and companies controlled thereby, which engage in the Company's core business, for loans (whether taken or not), at a financing rate of 65% on the historical purchase cost in the books of the investment in companies which are not part of the core business; (6) the total amount of the management fees (including bonus) to Ms. Danna Azrieli for that year as included in the annual profit before tax; and (7) profit (loss) from financial assets (marketable securities) held for trade, including interest and a dividend therefor.

Bonus Threshold: In a year in which the Adjusted Profit is lower than NIS 925 million, there is no bonus entitlement. To clarify, also if the Adjusted Profit is higher than such bonus threshold, no bonus shall be paid due to Adjusted Profit in the sum of up to NIS 925 million.

Bonus brackets: In a year in which the Adjusted Profit is in the sum of NIS 925 million and up to NIS 1,050 million, a bonus shall be paid at the rate of 0.5% of the difference between the bonus threshold and the actual Adjusted Profit; In a year in which the Adjusted Profit exceeds NIS 1,050 million, an aggregate Annual Bonus shall be paid, as follows:

- (a) For Adjusted Profit in the sum of up to NIS 925 million – no bonus shall be paid;
- (b) For such part of the Adjusted Profit between NIS 925 million and NIS 1,050 million – a sum at the rate of 0.5% of the difference between NIS 925 million and NIS 1,050 million shall be paid;
- (c) For such part of the Adjusted Profit exceeding NIS 1,050 million, a sum at the rate of 0.75% of the difference between the Adjusted Profit and NIS 1,050 million shall be paid.

Maximum bonus cap: The total annual bonus for each calendar year as aforesaid shall not exceed the amount of NIS 1.5 million.

In 2018, the Adjusted Profit was approx. NIS 1,258 million and therefore, the total annual bonus to which the Management Company was entitled for the 2018 results was NIS 1,500 thousand.

Bonus in a year in which services will be rendered in part of the year only: If the Management Services shall have been provided to the Company during part of a calendar year, the Management Company shall be entitled to a bonus that shall be calculated according to the proportionate share of the annual calculation results, based on a 365-day year, according to such part of the year in which the Management Services shall have been provided and on the basis of the consolidated annual statements for the year in which the Management Agreement began or ended.

Reimbursement section: If and insofar as it transpires, in retrospect, that the figures on which the Company relied at the time of giving an annual bonus as aforesaid to Ms. Danna Azrieli are incorrect and should be restated in the Company's financial statements, the Management Company shall reimburse the Company for the difference between the bonus amount paid thereto based on the incorrect data as aforesaid and the annual bonus amount to which it is entitled based on the data after restatement thereof as aforesaid.

11.1.5.5. Prior notice: The Existing Management Agreement may be terminated by the Management Company, on one hand, and by the Company, through a board resolution on the other hand, subject to a prior notice of 6 months in advance.

11.1.6. Additional terms and conditions in the Existing Management Agreement:

11.1.6.1. Immediate termination of the Existing Management Agreement: The Company's board may adopt a resolution to terminate the Existing Management Agreement immediately, in any case in which Ms. Danna Azrieli and/or the Management Company have been convicted with an offense involving moral turpitude or fundamentally breached the fiduciary duty

towards the Company and/or the subsidiaries and/or affiliates thereof.

- 11.1.6.2. Definition of business: Ms. Danna Azrieli undertook in the framework of her engagement in the management agreement that as long as she provides Management Services to the Company and/or to the Group's companies, and for a period of 6 months thereafter, as long as not otherwise resolved by the Company's board, she shall not act in the Company's operating segments, as defined below, by way of purchase, investment, consulting, management and/or provision of services, whether directly or indirectly. For purposes of this section, the "Company's Operating Segments" shall mean: (1) development, maintenance and/or management of a retail center and/or mall in Israel, whose area exceeds 12,000 sqm of leasable commercial area; and/or (2) development, maintenance and/or management of leasable office areas in Israel, whose area exceeds 8,000 sqm of leasable commercial area; and/or (3) development, maintenance and/or management of income-producing properties in Israel, combining retail and office areas, whose area exceeds 10,000 sqm of leasable commercial area. The aforesaid notwithstanding, the transactions and/or properties and/or projects specified below, shall not be deemed as using business opportunities of the Company by Ms. Danna Azrieli: (a) holding properties and/or projects owned and/or controlled by Ms. Danna Azrieli, directly and/or indirectly, as of the date of the IPO published by the Company on May 12, 2010; (b) purchase of up to 10% of properties within the Company's operating segments, as aforesaid, and/or purchase of up to 10% of a corporation holding such properties, provided that Ms. Danna Azrieli shall not be actively involved in the management of such property; (c) purchase of holdings in a corporation whose scope of assets in the Company's operating segments does not exceed 10% of the total scope of its assets, and whose scope of income from business in the Company's operating segments in the year preceding the purchase date does not exceed 10% of the total scope of its income; (d) holdings in a corporation as provided in Sub-section (c) above, even if after the purchase, which was made according to

the provisions of Sub-section (c) above, the scope of assets in the Company's operating segments and/or the scope of its income from business in the Company's operating segments exceed 10% of the total scope of its income; and/or (e) performance of transactions and/or purchase of properties and/or projects and/or activities in the residential real-estate in Israel segment. Ms. Danna Azrieli has business in the overseas real-estate segment, and her above undertaking applies only to the business in Israel. Nevertheless, it is clarified that if and insofar as Ms. Danna Azrieli will wish to operate in one or more of the Company's operating segments, which are not part of the above-specified transactions, in such manner as may create a business, legal or other impediment to the performance of certain transactions and acts by the Company and/or the Group's companies, she undertakes to present the outline of the proposed transaction to the Company's audit committee. In such case, if the Company's audit committee will resolve that the Company is not interested in the proposed transaction, Ms. Danna Azrieli shall be allowed to execute the proposed transaction, whether herself or through companies owned by her, without this being deemed as using a business opportunity of the Company. The aforesaid shall not derogate from the fiduciary duty of any director of the Company, under Section 254 of the Companies Law.

11.1.6.3. Insurance: As long as the Existing Management Agreement is valid, the Company shall, at its own expense, include in the annual insurance policy covering the liability of directors and officers, if existing and duly approved, insurance coverage for any person on behalf of the Management Company with officers insurance on terms that are identical to the maximum terms applicable to officers of the Company, and it shall further ensure to maintain valid insurance up to seven years after the expiry of the service provision period pursuant to the management agreement, of such type and scope as accepted in the market for companies of the business type and segment of the Company.

11.1.6.4. Exemption and indemnification: The Company shall provide the Management Company and/or

Ms. Danna Azrieli with a letter of exemption and indemnification in the accepted language that is granted to the other officers of the Company, all subject to the provisions of the Companies Law and the approvals required thereunder, the Company's Articles and the compensation policy.

11.2. **The changes proposed to the terms and conditions of the Existing Management Agreement pursuant to the Proposed Management Agreement**

The changes that are hereby proposed in the Proposed Management Agreement come down to an update of the fixed component, which is specified in Section 11.1.5.1 above, and an update of the variable component, which is specified in Section 11.1.5.4 above, as follows:

11.2.1. Update of the fixed component:

It is hereby proposed to increase the fixed component, such that after the change, the annual management fees will be in the sum of NIS 3 million (nominal) (which constitute, as of today, monthly management fees in the sum of approx. NIS 250 thousand) plus lawful VAT, linked to the increase in the consumer price index for the month of April 2019, which was published on May 15, 2019 (the “**Proposed Fixed Management Fees**”) (in the case of a decline in the index in a specific month, there shall be no reduction of the consideration, however, the reduction shall be deducted from future increases in the index). The Proposed Fixed Management Fees shall be paid every current calendar month.

As provided in Section 11.1.3 above, the Fixed Management Fees have not changed since January 1, 2015, and the said update reflects an average increase of approx. 2.1% per year in this component.

11.2.2. Update of the variable component:

In view of the growth in the Company's financial results compared with these figures on the date of the engagement in the original management agreement (2014) and on the date of the last approval of the Existing Management Agreement (2016), it is hereby proposed to change the variable component, such that the quantitative threshold for a bonus is updated, the bonus brackets are updated and the bonus cap is updated, in order to create a threshold and brackets that fit the Company's results, in the following manner:

Bonus threshold: In a year in which the Adjusted Profit is lower than NIS 1,015 million, there is no bonus entitlement. To

clarify, also if the Adjusted Profit is higher than such bonus threshold, no bonus shall be paid due to Adjusted Profit in the sum of up to NIS 1,015 million.

Bonus brackets: In a year in which the Adjusted Profit is in the sum of NIS 1,015 million and up to NIS 1,140 million, a bonus shall be paid at the rate of 0.5% of the difference between the bonus threshold and the actual Adjusted Profit; In a year in which the Adjusted Profit exceeds the amount of NIS 1,140 million, an aggregate annual bonus shall be paid, as follows:

- (a) For Adjusted Profit in the sum of up to NIS 1,015 million – no bonus shall be paid;
- (b) For such part of the Adjusted Profit between NIS 1,015 million and NIS 1,140 million – a sum at the rate of 0.5% of the difference between NIS 1,015 million and NIS 1,140 million shall be paid;
- (c) For such part of the Adjusted Profit exceeding NIS 1,140 million, a sum at the rate of 0.75% of the difference between the Adjusted Profit and NIS 1,140 million shall be paid.

Maximum bonus cap: The total annual bonus for each calendar year as aforesaid shall not exceed NIS 2 million.

It is noted that the Company attaches considerable importance to the creation of a link between the Company's performance and the compensation paid to the Management Company, and therefore, the new variable component brackets are based on long-term performance and ensure that the amount of the variable component corresponds with the Company's results.

To emphasize, over and above the aforesaid, the Proposed Management Agreement contains no further change in the existing terms of the engagement between the Management Company and the Company and/or the framework of its duties, scope of position, services it renders to the Company and its powers, versus the Existing Management Agreement.

11.3. **Additional details relating to compensation**

Below is a specification, for the purpose of simulation only, pursuant to the Sixth Schedule to the Reports Regulations, of the compensation to which the Management Company will be entitled, in terms of annual cost to the Company:

Name	Position	Position Percentage (%)	Percentage of Equity Holding (%)	Management Fees(***)	Bonus (****)	Share-Based Payment	Other	Total
The Management Company	Active Chairman of the Board	100(*)	(**)	3,211	2,000	-	-	5,211

(*) To clarify, Ms. Danna Azrieli may continue to perform additional activities, including philanthropic activities in which she is involved, from time to time, provided that their performance shall not prejudice the fulfillment of her duties at the Company.

(**) For details on control at the Company see Section 9.6 above.

(***) The management fee component includes the following components: the cost of monthly management fees and social benefits, such as car maintenance and reimbursement of communication and other expenses.

(****) Assuming payment of the maximum bonus possible, pursuant to the Updated Compensation Policy, subject to its approval by the Meeting.

11.4. Additional details that were available to the Compensation Committee and the board

11.4.1. The ratio between the variable component and the fixed component in the terms of the Proposed Management Agreement

The ratio between the variable component and the fixed component in the terms of the Proposed Management Agreement is approx. 1:1.6 i.e., the variable component constitutes approx. 38% of the maximum compensation amount.

11.4.2. The ratio between the cost of the salary¹⁵ of the Management Company and the cost of the salary of the Company's other employees¹⁶

As of the date of the Notice of Meeting Report and subject to the approval of the update to the terms of the Proposed Management Agreement, the ratio between the cost of the salary of the Management Company and the salary of the Company's other employees, relative to the average is approx. 8.8 and relative to the median is approx. 23.5, in a maximum cost calculation according to the proposed terms of office (approx. NIS 5.2 million).

¹⁵ As such term is defined in Section (3) of Part A of First Schedule A to the Companies Law.

¹⁶ According to the following assumptions: (1) The figures were calculated relative to the Company's employees; (2) Part-time positions were standardized to full-time positions; (3) The figures of the Proposed Management Agreement were used.

11.4.3. Simulation for 2018 of the proposed terms of the management agreement (based on the financial results of the Company in 2018)¹⁷:

	2018
Adjusted profit	1,258
Total compensation cap (100% position)	5
Fixed component 60%	3
Bonus for NIS 1,015 million	0
Bonus for NIS 1,015-1,140 million (0.5%)	0.6
Bonus for 1,140 million and up (0.75%)	0.9
Total variable component	1.5
Total fixed + variable component	4.5

11.4.4. Comparison paper figures with respect to compensation figures of active chairmen among a sample of Israeli comparable companies¹⁸ for 2018 (the “**Comparable Companies**”) from a comparative study prepared by PwC and presented to the members of the Compensation Committee and the board, attest that:

- 11.4.4.1. The amount of the proposed fixed component (NIS 3,211 thousand) is reasonable and lower than the maximum (approx. NIS 4,000 thousand) for chairmen of TA-35 Index companies;
- 11.4.4.2. The amount of the proposed variable component (maximum annual bonus of NIS 2,000 thousand) is almost identical to the maximum variable component in TA-35 Index companies (NIS 1,930 thousand);
- 11.4.4.3. The proposed maximum total compensation (NIS 5,211 thousand) is lower than the maximum total annual compensation in TA-35 Index companies (approx. NIS 6,311 thousand). It is noted that the actual total compensation according to the simulation presented for 2018 is even lower than the said comparison.

11.5. Name of the controlling shareholder and nature of his personal interest

For details with regard to the controlling shareholders who have a personal interest in the resolution see Section 9.6 above, and with regard to the nature of their personal interest, see Section 11.11 below.

¹⁷ In NIS millions and in nominal values.

¹⁸ Israeli public companies that are traded on the Tel Aviv Stock Exchange Ltd. in the TA-35 Index, in which an active chairman of the board holds office, other than financial companies and foreign companies.

11.6. **Manner of determination of the consideration**

11.6.1. The terms of the engagement in the Proposed Management Agreement with the Management Company were determined in negotiations between the Company and Ms. Danna Azrieli, and were based on the nature and scope of the Management Services and the responsibility entailed thereby, and taking into consideration her experience and unique contribution to the Company. The terms of the engagement in the Proposed Management Agreement were approved by the Compensation Committee and the Company's board, following in-depth discussions thereon, preparation of data, comparisons and a simulation, and the examination, *inter alia*, of the criteria listed in Section 267B(a) of the Companies Law, while addressing the matters specified in Parts A and B of First Schedule A to the Companies Law.

11.6.2. In examining the extension of the engagement in the Existing Management Agreement and the updating thereof according to the Proposed Management Agreement, the Compensation Committee and the board of the Company examined comparative data on the management fees and the salary paid to active board chairmen in the Comparable Companies in 2018 from the comparison paper and from other companies' data, while distinguishing between the various compensation components¹⁹, averages of all the Comparable Companies' figures, and minimum and maximum figures.

11.7. **The approvals required for approval of the extension and updating of the management agreement**

The resolution on the engagement in the Proposed Management Agreement was approved by the Compensation Committee and the board of the Company on July 4, 2019. Additionally, the resolution requires the approval of the Meeting that is convened pursuant to the Notice of Meeting Report.

It is noted that the Existing Management Agreement between the Company and the Management Company is valid until October 5, 2019 and therefore, insofar as the Proposed Management Agreement will not be approved by the Meeting, the provisions of the Existing Management Agreement shall continue to apply until expiration thereof.

¹⁹ The value of share-based compensation refers to economic value on the grant date divided by the number of vesting years.

11.8. **Similar transactions in the last two years or which are still valid**

As aforesaid, the Company is a party to the Existing Management Agreement with the Management Company, which is effective commencing from January 1, 2015.

11.9. **Summary of the reasons of the Compensation Committee and the board for approving the resolution**

11.9.1. In examining the updating and extension of the management agreement, the members of the Compensation Committee and the board examined and took into consideration, *inter alia*, the following parameters:

- 11.9.1.1. The education, qualifications, expertise, professional experience and achievements of Ms. Danna Azrieli in leading the Company;
- 11.9.1.2. The duties of Ms. Danna Azrieli, her responsibilities, and her expected continued contribution to achieving the Company's goals;
- 11.9.1.3. The terms and conditions of the Existing Management Agreement;
- 11.9.1.4. An assessment of Ms. Danna Azrieli's contribution to the Company's business, performance, goodwill and profitability.
- 11.9.1.5. The results of the Group's business in recent years and the increase in the scope of its business and assets, considering the business environment and the market conditions and the scope of projects under development, and examination of the terms and conditions of the Proposed Management Agreement with respect to advancement of the Company's targets, work plans and creating a proper incentive;
- 11.9.1.6. Comparative data with respect to the terms of office of active board chairmen of other companies that were included in the Comparable Companies and other companies, relative to the terms of the compensation that are proposed for the Management Company in the framework of the Proposed Management Agreement;
- 11.9.1.7. The ratio between the fixed and the variable components of the compensation, as well as determining a cap for the value of the variable component at the time of its payment;

- 11.9.1.8. The fact that the Fixed Management Fees under the Existing Management Agreement have not been updated since they were approved by the Company's general meeting in December 2014. Furthermore, the rate of the increase in the Fixed Management Fees from December 2014 until the date of the Notice of Meeting Report, reflects a very moderate annual increase rate of approx. 2.1% only
- 11.9.1.9. The ratio between the terms and conditions of the Proposed Management Agreement and the salary of the other employees of the Company who are employed by the Company and in particular, the ratio to the average salary and the median salary of the employees and the effect of this gap on the employment relations.
- 11.9.2. The members of the Compensation Committee and the board of the Company are of the opinion that the education, qualifications, expertise of Ms. Danna Azrieli as well as her deep knowledge of the Company's business and the vast experience she acquired in the context of her position as chairman of the board of the Company, did and will make a significant contribution to the Company's business and the achievement of its goals.
- 11.9.3. Based on the findings of the comparison paper and the data on the compensation of active chairmen of the boards of the Comparable Companies, and other companies, which were presented to them, the members of the Compensation Committee and board of the Company have concluded that also in comparison to the accepted terms of office and employment in the Comparable Companies and other companies, it is clear that the terms and conditions of the Proposed Management Agreement are reasonable and accepted.
- 11.9.4. The members of the Compensation Committee and the board have found that the proposed ratio between the fixed and the variable components creates fair and proper compensation with the aim of encouraging the chairman of the board of the Company to maximize the Company's profits and promote its business goals.
- 11.9.5. With regard to the proposed variable component, the members of the Compensation Committee and the board found great importance in creating a close link between the Company's performance and the compensation of the chairman of the board of the Company.

11.9.6. The members of the Compensation Committee and the board also noted that the toughening of the threshold for entitlement to the variable component and raising the brackets of entitlement to the variable component correspond with the Company's current results and set challenging goals based on long-term performance in such manner that ensures conformance between the amount of the variable component and the Company's performance.

11.9.7. The members of the Compensation Committee and the board are of the opinion that in view of Ms. Danna Azrieli's significant contribution to the Company, her deep knowledge of the Company's business and her vast experience, the cost of the terms of the Proposed Management Agreement, and the ratio between the cost of the terms of the Proposed Management Agreement and the cost of the salary of the other employees are reasonable and do not adversely affect the employment relations in the Company.

11.9.8. The approval of the Company's engagement in the Proposed Management Agreement does not include a distribution, as such term is defined in Section 1 of the Companies Law.

11.10. Names of the directors who participated in the deliberations of the Compensation Committee and the board for approval of the resolution

11.10.1. The meeting of the Company's Compensation Committee held on July 4, 2019, which was participated by Messrs. Efraim Halevy (outside director), Niv Ahituv (outside director) and Ms. Tzipora Carmon (independent director), deliberated the Company's engagement in the Proposed Management Agreement and a resolution to approve the same was adopted. According to the resolution of the Compensation Committee, at the meeting of the Company's board, held on July 4, 2019, which was participated by Messrs. Efraim Halevy, Niv Ahituv, Tzipora Carmon, Oran Dror and Menachem Einan, the Company's engagement in the Proposed Management Agreement was approved.

11.10.2. The resolution to engage in the Proposed Management Agreement was adopted unanimously by both the Compensation Committee and the board of the Company.

11.11. Names of the directors who have a personal interest in the resolution, and the substance of such personal interest

Ms. Danna Azrieli has a personal interest in the approval of the resolution on the agenda, by virtue of being a party to the engagement

in the Proposed Management Agreement contemplated in the Notice of Meeting Report. Mses. Naomi Azrieli and Sharon Azrieli have a personal interest in the approval of the aforesaid resolution by virtue of being the sisters of Ms. Danna Azrieli.

Part E - Additional Details about the Meeting

12. The required majority

- 12.1. The majority required at the Meeting for approval of the resolution specified in Section 1 above on the agenda is a majority of all the votes of the shareholders present at the Meeting, provided that one of the following is also fulfilled: (a) The majority vote count at the Meeting includes a majority of all of the votes of the shareholders who are neither the Company's controlling shareholders nor have a personal interest in the approval of the compensation policy, who are participating in the vote (the count of all of the votes of the said shareholders shall exclude the abstaining votes); (b) The dissenting votes among the shareholders mentioned in Subsection (a) above do not exceed two percent (2%) of all of the voting rights in the Company.
- 12.2. The majority required at the Meeting for approval of the resolution specified in Section 2 above on the agenda is a majority of all the votes of the shareholders present at the Meeting, provided that one of the following is also fulfilled: (a) The majority vote count at the Meeting includes a majority of all of the votes of the shareholders who are neither the Company's controlling shareholders nor have a personal interest in the approval of the resolution, who are participating in the vote (the count of all of the votes of the said shareholders shall exclude the abstaining votes); (b) The dissenting votes among the shareholders mentioned in Subsection (a) above do not exceed two percent (2%) of all of the voting rights in the Company.
- 12.3. The majority required at the Meeting for approval of the resolution specified in Section 3 above on the agenda is a simple majority of all the votes of the shareholders present at the Meeting, provided that one of the following is fulfilled: (a) The majority vote count at the Meeting includes a majority of all of the votes of the shareholders who do not have a personal interest in the approval of the transaction, who are participating in the vote (the count of all of the votes of the said shareholders shall exclude the abstaining votes); (b) The dissenting votes among the shareholders mentioned in Subsection (a) above do not exceed two percent (2%) of all of the voting rights in the Company.
- 12.4. The majority required at the Meeting for approval of the resolutions specified in Sections 4.1-4.2 above on the agenda is a simple majority of the shareholders who are entitled to vote and who participate in the vote, provided that one of the following is fulfilled: (a) The majority vote count at the Meeting includes a majority of all of the votes of the shareholders who are neither the Company's controlling shareholders nor have a personal interest in the approval of the appointment, with

the exception of a personal interest other than as a result of his ties with the controlling shareholder, who are participating in the vote (the count of all of the votes of the said shareholders shall exclude the abstaining votes); (b) The dissenting votes among the shareholders mentioned in Subsection (a) above do not exceed two percent (2%) of all of the voting rights in the Company.

12.5. The majority required at the Meeting for approval of the resolutions specified in Sections 5, 6.1-6.6 and 7 above on the agenda is a simple majority of all of the votes of the shareholders who are entitled to vote and voted at the Meeting. It is noted that, as of the date of the Notice of Meeting Report, the Company's controlling shareholders (Mss. Sharon Azrieli, Naomi Azrieli and Danna Azrieli) hold approx. 61.31% of the Company's voting rights²⁰, which rate confers the majority required to adopt the resolutions specified in Sections 5, 6.1-6.6 and 7 above on the agenda

12.6. As aforesaid, in Section 8 on the agenda above, no vote shall be held, only a discussion.

13. **Meeting and Voting Procedures**

13.1. **Manner of voting**

A shareholder who is registered as a shareholder in the Company's shareholders' register (a "**Registered Shareholder**") is entitled to vote at the Meeting in person (participation in the meeting), by proxy, via a voting card within the meaning thereof in Section 87 of the Companies Law, whose language is attached hereto ("**Voting Card**"). A shareholder pursuant to Section 177(1) of the Companies Law (i.e. a person to whose credit a share is registered with a TASE member, which share is included among the shares registered in the shareholders' register in the name of the transfer agent) ("**Unregistered Shareholder**") may vote using the methods specified above, as well as via an electronic voting card to be delivered to the Company via the electronic voting system which operates in accordance with Title B of Chapter G2 of the Securities Law, 5728-1968 ("**Electronic Vote**", "**Electronic Voting System**" and "**Electronic Voting Card**", respectively).

13.2. **Date of the meeting; adjourned meeting; record date**

The Meeting shall convene on Sunday, August 11, 2019, at 16:00, at the Company's offices at the Azrieli Center, Tel Aviv (Round Tower – Floor 48).

The discussion at the Meeting may be opened only if a legal quorum is present upon the opening of the Meeting.

²⁰ For details regarding the control of the Company, see Section 9.6 above.

The legal quorum for opening the discussion at the Meeting shall be one or more shareholders, who is/are present in person or by proxy or via a Voting Card (including an Electronic Voting Card), and holds or represents (or hold or represent, if more than one shareholder is present) at least fifty-one percent (51%) of the voting rights in the Company. If two hours shall have lapsed from the time scheduled for the Meeting and no legal quorum is present, the Meeting shall be postponed to the third business day after the date of the Meeting, to the same time and place, or to a later date and time or a different place, as shall be determined by the board in a notice to the shareholders. The Company shall give notice of postponement of the Meeting and the date of the adjourned meeting through an immediate report. If no legal quorum is present at the adjourned meeting as aforesaid, legal quorum shall be one or more shareholders, who is/are present, in person at the adjourned meeting or by proxy or via a Voting Card (including an Electronic Voting Card), and holds or represents (or hold or represent, if more than one shareholder is present) at least forty percent (40%) of the voting rights in the Company, unless the Meeting shall have been convened upon the request of shareholders pursuant to the provisions of the Companies Law. If no legal quorum is present at the adjourned meeting that was convened upon the request of the shareholders as aforesaid, legal quorum shall be at least one shareholder, who is present at the adjourned meeting in person or by proxy or via a Voting Card (including an Electronic Voting Card).

The record date determining entitlement of a shareholder of the Company to vote at the Meeting as provided in Section 182(b) of the Companies Law and in Section 3 of the Voting in Writing Regulations, is the trading day on TASE which falls on Thursday, July 11, 2019 (the “**Record Date**”).

13.3. **Proxy**

A shareholder may appoint a proxy to vote in his stead, who need not be a shareholder of the Company.

The appointment of a representative or proxy to participate and vote at the Meeting on behalf of the shareholder shall be in writing, signed by the shareholder or by his lawful representative who was appointed in writing, or if the principal is a corporation, the proxy shall be signed in the same manner in which such corporation signs documents that bind it. If the principal is a corporation, attorney certification shall be attached to the proxy, whereby the proxy was signed in accordance with the articles of association of such corporation. Voting according to the terms and conditions of the proxy shall be lawful notwithstanding the prior demise or declaration of bankruptcy or incapacitation of the principal or his having canceled the letter of appointment or transferred the share in respect of which it was granted, or, in the case of a corporation, appointment therefor of a liquidator or receiver, unless a written notice (certified to the satisfaction of the Company’s directors) regarding the said change shall have been

received at the Company's offices at Azrieli Center, Tel Aviv (Floor 48, Round Tower) (the "**Company's Offices**") at least one hour before the time of the Meeting. However, the chairman of the Meeting may accept written notice as aforesaid also during the Meeting, provided that, at his discretion, there is an adequate reason for the delay in delivery of such notice. A letter of appointment of a proxy and a power of attorney or another certificate (if any) or a copy certified by a notary, shall be deposited at the Company's Offices with the Company's secretaries up to forty-eight (48) hours before the time of the Meeting, namely until August 9, 2019 at 16:00. Such a deposit, referring to the time scheduled for the Meeting, shall be valid also with respect to the adjourned meeting.

13.4. **Voting in writing; position statements**

A shareholder may vote at the Meeting for approval of the resolutions on the agenda also via a Voting Card. A written vote will be made via the second part of the Voting Card, attached hereto.

The Voting Card and the position statements, within the meaning thereof in Section 88 of the Companies Law, insofar as provided, may be inspected on the distribution site and on the TASE website. Each shareholder may approach the Company directly and receive therefrom the language of the Voting Card and the position statements (insofar as provided).

A TASE member shall send, free of charge, via e-mail, a link to the language of the Voting Card and the position statements (if provided) on the distribution site to any shareholder of the Company who is not registered in the shareholders' register of the Company and whose shares are registered with such TASE member, unless the shareholder shall have given notice that he is not interested therein or that he is interested in receiving Voting Cards by mail in consideration for payment of a delivery fee, provided that the notice was given in respect of a specific securities account and on a date prior to the Record Date.

The Voting Card and the documents that must be attached thereto, as specified in the Voting Card, must be delivered to the Company's Offices (including via registered mail) together with the Confirmation of Ownership (and with respect to a Registered Shareholder – together with a photocopy of an I.D. card, passport or certificate of incorporation, as the case may be) up to four (4) hours before the time of convening of the Meeting. For this purpose, the "delivery date" is the date on which the Voting Card and the documents attached thereto arrive at the Company's Offices. In addition, a shareholder who is not registered will be entitled to deliver the Confirmation of Ownership via the Electronic Voting System, as stated in this section below.

A Voting Card to which no Confirmation of Ownership is attached (or alternatively the Confirmation of Ownership was not delivered via the

Electronic Voting System), or in relation to a Registered Shareholder, to which no photocopy of an I.D. card, passport or certificate of incorporation, as the case may be, is attached, will be invalid.

A shareholder may contact the Company's Offices, up to twenty-four (24) hours before the time of convening of the Meeting, and after having proven his identity to the satisfaction of the Corporate Secretary or another employee appointed for this purpose, withdraw his Voting Card and his Confirmation of Ownership.

One of more shareholders holding shares at a rate constituting five percent or more of the sum total of the voting rights in the Company (i.e. 6,063,638 shares), and any person holding such a rate out of the sum total of the voting rights which are not held by the Company's controlling shareholder (i.e. 2,345,902 shares), is entitled, after the convening of the Meeting, to inspect the Voting Cards and the voting records, via the Electronic Voting System, that reached the Company, as specified in Section 10 of the Voting in Writing Regulations.

The last date for delivery of position statements to the Company by the Company's shareholders is up to ten days before the date of the Meeting, i.e. by August 1, 2019. The last date for delivery of the board's response to position statements (if provided), if and insofar as the board chooses to submit its response to the said position statements, is no later than five (5) days before the date of the Meeting, i.e. by August 6, 2019. A shareholder may contact the Company directly and receive therefrom, free of charge, the language of the Voting Card and the position statements (if provided).

13.5. **Electronic voting**

As aforesaid, an Unregistered Shareholder may vote also via the Electronic Voting System. An Unregistered Shareholder is entitled to receive from the TASE member through which he holds his shares, an I.D. no. and an access code, as well as additional information in connection with the Meeting, and after a secure identification process, he may vote on the Electronic Voting System. The address of the Electronic Voting System is: <http://www.votes.isa.gov.il>.

Voting via the Electronic Voting System will be possible from the end of the Record Date until six (6) hours before the time of the convening of the Meeting (i.e. until Sunday, August 11, 2019 at 10:00), or until an earlier time to be determined by the ISA, provided that it is no more than twelve (12) hours before the time of convening of the Meeting (the "**System Lockdown Time**"), when the Electronic Voting System will be closed. The vote via the Electronic Voting System may be changed or cancelled until the System Lockdown Time, and it will not be possible to change it via the Electronic Voting System after such time.

Pursuant to Section 83(d) of the Companies Law, if a shareholder shall have voted via more than one method, his later vote will be counted,

while for this purpose, a vote of a shareholder, in person or by proxy, shall be deemed later than a vote via a Voting Card or the Electronic Voting System.

13.6. **Notice of the existence of a personal interest or the voter's being a controlling shareholder**

A shareholder who participates in the vote on the resolutions in Sections 1, 2, 3 and 4 above shall mark in Part B of the Voting Card, in the place designated therefor, and if the vote is via the Electronic Voting System – shall mark on the Electronic Voting Card, in the place designated therefor, whether or not he is deemed as having a personal interest in the approval of the resolution on the agenda, and whether or not he is a controlling shareholder of the Company, a senior officer of the Company, or an institutional investor (as defined in the Voting in Writing Regulations). If a shareholder shall not have given notice, as aforesaid, or shall not have provided a description of his personal interest (if any), his vote will not be counted.

If a controlling shareholder, senior officer or institutional investor shall have voted, as aforesaid, via a Voting Card, he will specify, on the Voting Card, the following additional details:

Full name (in Hebrew and in English); I.D. no. and type of I.D. no.; place of incorporation (in the case of a corporation); country of passport (if the I.D. no. is a passport number).

13.7. **Confirmation of ownership**

An Unregistered Shareholder will be entitled to participate in the Meeting only if he delivers to the Company, before the Meeting, an original certificate from the TASE member with which his right to the share is registered, regarding his ownership of the Company's shares on the Record Date, in accordance with the form in the Schedule to the Companies Regulations (Proof of Ownership of a Share for Purposes of Voting at a General Meeting), 5760-2000 (the "**Confirmation of Ownership**"), or alternatively, if he sends the Company Confirmation of Ownership via the Electronic Voting System. An Unregistered Shareholder may obtain the Confirmation of Ownership from the TASE member through which he holds his shares at a branch of the TASE member or by mail to his address in consideration for a delivery fee only, if he so requests, provided that a request in this regard is given in advance for a specific securities account. An Unregistered Shareholder may also instruct that his Confirmation of Ownership be delivered to the Company via the Electronic Voting System.

As stated in Section 13.4 above, the Confirmation of Ownership as aforesaid, together with the Voting Card, must be delivered by shareholders to the Company's Offices, such that it arrives at the Company's Offices no later than four (4) hours before the time of convening of the Meeting, i.e. by Sunday, August 11, 2019 at 12:00.

13.8. **Changes to the agenda; the last date for delivery of a request to include an item on the agenda by a shareholder**

After publication of the Notice of Meeting Report, there may be changes to the agenda, including the addition of an item to the agenda, position statements may be published, and the current agenda and the position statements may be perused in the Company's reports that shall be released on the distribution site and the TASE website. A request of a shareholder pursuant to Section 66(b) of the Companies Law to include an item on the agenda of the Meeting will be delivered to the Company up to seven (7) days after the summoning of the Meeting. If a request is submitted as aforesaid, the item may be added to the agenda and the details thereof shall appear on the distribution site, in which case, the Company shall publish an amended Voting Card together with an amended notice report, no later than seven (7) days after the last date for delivery of a request of a shareholder for the inclusion of an item on the agenda as aforesaid.

14. **Authority of the ISA**

14.1. In accordance with the Controlling Shareholder Regulations, within 21 days from the date of submission of the Notice of Meeting Report, the ISA or an employee who it shall have authorized therefor (the "ISA") may instruct the Company to give, within such timeframe as the ISA shall determine, an explanation, specification, information and documents with respect to the engagement specified in Section 3 above of the agenda, and instruct the Company to amend the Notice of Meeting Report with respect to such engagement in such manner and timeframe as it shall determine.

14.2. If an instruction is given to amend the Notice of Meeting Report as aforesaid, the ISA may order postponement of the date of the Meeting to a date no earlier than 3 business days and no later than 35 days from the date of publication of the amendment to the Notice of Meeting Report.

14.3. If the Company is required to amend the Notice of Meeting Report as aforesaid, the Company shall give notice of the amendment.

14.4. If an instruction is given regarding postponement of the date of the Meeting, the Company shall give notice of the instruction in an immediate report.

15. **Details of the Company's representative in charge of the immediate report**

The Company's representative in charge of the Notice of Meeting Report is Adv. Ran Tal, VP, General Counsel and Corporate Secretary, whose address is

at Azrieli Center, Tel Aviv (Floor 48, the Round Tower). Tel. for inquiries: 03-6081383, fax: 03-6081380.

16. **Inspection of documents**

A copy of any document pertaining to the transaction proposed in Section 3 above of the agenda, including the documents that were presented to the Compensation Committee and the board in the context of the process of discussion and adoption of the resolution on the matter, is available for inspection at the Company's Offices, after prior coordination by Tel: 03-6081300, Sundays through Thursdays between 09:00 and 17:00, until the date of convening of the Meeting.

Sincerely,

Azrieli Group Ltd.

Signed on the date of the Notice of Meeting Report by: Adv. Ran Tal, VP, General Counsel and Corporate Secretary.