



CONVENIENCE TRANSLATION FROM HEBREW

Important Notice

Set out below for your convenience is a convenience translation into English of immediate reports on the convening of a special general meeting and a transaction report (the “**Reports**”) of Azrieli Group Limited filed by the Company with the Israel Securities Authority through the MAGNA website (www.magna.isa.gov.il) on May 14, 2013 (ref: 2013-01-062023). **Nothing in this translation constitutes a representation of any kind in relation to the Reports nor should it be regarded as a source for interpretation of the Reports. In the event of a discrepancy or inconsistency between this translation and the Hebrew version of the Reports, the provisions of the Hebrew version shall prevail.**

This translation was neither performed by the Company, nor checked by it, and accordingly, the Company does not undertake that the translation fully, correctly or accurately reflects the Reports and their content. The full and legal version of the Reports, in Hebrew, was released by the Company on May 14, 2013, and may be viewed on the MAGNA website.



Azrieli Group Ltd.

(the "Company")

Date: May 13, 2013

Israel Securities Authority The Tel Aviv Stock Exchange Ltd.
22 Kanfei Nesharim St. 54 Ahad Ha'am St.
Jerusalem 95464 Tel Aviv 65202

Dear Sir/Madam,

An immediate report on the convening of a special general meeting of the Company's shareholders and a Transaction report pursuant to the Securities Regulations (A Transaction between a Company and its Controlling Shareholder), 5761-2001

An immediate report pursuant to the Companies Law, 5759-1999 (the "**Companies Law**"), the Companies Regulations (Notice and Announcement of a General Meeting and a Class Meeting in a Public Company), 5760-2000 (the "**Notice of a Meeting Regulations**"), the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "**Immediate Reports Regulations**") and the Securities Regulations (A Transaction Between a Company and its Controlling Shareholder), 5761-2001 (the "**Regulations for a Transaction Between a Company and its Controlling Shareholder**"), regarding the convening of a special general meeting of the Company's shareholders.

An announcement is hereby made with regard to the convening of a special general meeting of the shareholders of the Company, which shall convene on **Thursday, June 20, 2013, at 10:00** (Israel time), at the Company's offices at Azrieli Center, Tel Aviv (48th floor, the Round Tower) (the "**Company's Offices**"). Telephone for inquiries 03-6081383.

1. **The agenda of the general meeting:**

- 1.1 Approval of the appointment of Ms. Tzipa Carmon as an independent director of the Company for a term of office commencing from the date of approval by the meeting contemplated in this report until the date of the Company's next annual general meeting.
- 1.2 Approval of the appointment of Prof. Niv Ahituv for another office as an outside director of the Company for a three year period commencing from August 24, 2013.



- 1.3 Approval of the appointment of Mr. Efraim Halevy for another office as an outside director of the Company for a three year period commencing from August 24, 2013.
- 1.4 Approval of an update to the management agreement of Mr. Yuval Bronstein in relation to his office as the CEO of the Company.
- 1.5 Approval of the Company's engagement in a management agreement with companies which are wholly owned by Mr. David Azrieli, the controlling shareholder of the Company, to receive management services of Active Chairman of the Board, through Mr. David Azrieli.
- 1.6 Approval of the Company's engagement in a management agreement with a company which is wholly owned by Ms. Danna Azrieli, who is also considered a controlling shareholder of the Company¹, to receive services of Active Vice Chairman of the Board, through Ms. Danna Azrieli.

2. **Essence and main terms of the transaction**

- 2.1 Approval of the Company's engagement in a management agreement with companies which are wholly owned by Mr. David Azrieli, the controlling shareholder of the Company, to receive management services of Active Chairman of the Board, through Mr. David Azrieli, for a three year period commencing from June 3, 2013, all as specified in Section 2 of Part B of this report below.
- 2.2 Approval of the Company's engagement in a management agreement with a company which is wholly owned by Ms. Danna Azrieli, who is also considered a controlling shareholder of the Company², to receive services of Active Vice Chairman of the Board, through Ms. Danna Azrieli, for a three year period commencing from June 3, 2013, all as specified in Section 2.2 of Part B of this report below.

3. **Name of the controlling shareholder who has a personal interest in the transaction and the nature of such interest**

Mr. David Azrieli and his four children are considered as controlling shareholders of the Company by virtue of indirectly holding the Company's shares through Azrieli Holdings Inc. ("**Azrieli Holdings**") and by virtue of the shareholder agreement which regulates the relations of the shareholders of Azrieli, all as specified in Section 4 of Part B of the attached report.

¹ In view of the definition of the terms "holding" and "interested parties" in the Securities Law, 5728-1968, Mr. David Azrieli's four children (Sharon Azrieli, Naomi Azrieli, Danna Azrieli and Rafi Azrieli) are also considered as the "controlling shareholders" for the purpose of the Securities Law and the Companies Law. In this regard see also Section 2 of Part A of this report below.

² See footnote 1 above.



4. **Names of the Company's directors who may be considered as having a personal interest in the approval of the engagement and the nature of their personal interest**

Mr. David Azrieli has a personal interest in the approval of the resolutions which are on the agenda due to his being a party to the engagement in the management agreement contemplated in this report, and due to his being the father of Ms. Danna Azrieli. Ms. Danna Azrieli has a personal interest in the approval of the resolutions which are on the agenda due to her being a party to the engagement in the management agreement contemplated in this report, and due to her being the daughter of Ms. David Azrieli. Naomi and Sharon Azrieli have a personal interest in the approval of the resolutions which are on the agenda due to their being the daughters of Mr. David Azrieli and the sisters of Ms. Danna Azrieli.

5. **The required majority**

5.1 The majority required for the adoption of the resolution which is specified in Section 1.1 of the agenda above is a simple majority of all of the votes of the shareholders who are present and voting at the meeting, without taking into account the abstaining votes.

5.2 The majority required for the approval of each of the resolutions specified in Sections 1.2-1.3 of the agenda above is a simple majority of the shareholders who are entitled to vote and are participating in the vote, provided that one of the following occurs: (1) the majority vote count shall include the majority of all of the votes of the shareholders participating in the vote who are not controlling shareholders in the Company or who have no personal interest in the approval of the appointment contemplated in each of the resolutions specified in Sections 1.2-1.3 of the agenda above, other than personal interest which is not a result of their relations with the controlling shareholder. The count of all of the votes of such shareholders shall not take into account the abstaining votes; (2) the total number of the dissenting votes from among the shareholders mentioned in paragraph (1) above does not exceed the rate of two percent of all of the voting rights in the Company.

5.3 The majority required for approval of the resolution specified in Section 1.4 on the agenda above is an ordinary majority of the shareholders permitted to vote and participating in the vote, provided that one of the following shall be fulfilled: (1) the majority vote count shall include a majority of all of the votes of the shareholders who are participating in the vote, who are not controlling shareholders in the Company or have no personal interest in the approval of the engagement contemplated in the resolution specified in Sections 1.4 of the agenda above. The count of all of the votes of such shareholders



shall not take into account the abstaining votes; (2) the total number of the dissenting votes from among the shareholders mentioned in paragraph (1) above does not exceed the rate of two percent of all of the voting rights in the Company.

5.4 The majority required for the approval of each of the resolutions specified in Sections 1.5-1.6 of the agenda above is a simple majority of the shareholders who are entitled to vote and are participating in the vote, provided that one of the following occurs: (1) the majority vote count shall include a majority of all of the votes of the shareholders who are participating in the vote, who have no personal interest in the approval of the engagement contemplated in each of the resolutions specified in Sections 1.5-1.6 of the agenda above. The count of all of the votes of such shareholders shall not take into account the abstaining votes; (2) the total number of the dissenting votes from among the shareholders mentioned in paragraph (1) above does not exceed the rate of two percent of all of the voting rights in the Company.

6. **Legal quorum, the record date for the purpose of the determination of the shareholders' entitlement to vote at the general meeting:**

The legal quorum for the opening of the discussion at the meeting shall be one shareholder or more who is present in person or through a proxy or a voting card, who holds or represents (or who 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 which was scheduled for the meeting and no legal quorum is present, the meeting shall be postponed to the third day of business after the date of the meeting, to the same time and place or to a later date and time or a different place, as the board of directors will set forth in a notice to the shareholders. The Company shall notify, through an immediate report, on the postponement of the meeting and the date of holding of the adjourned meeting.

If no legal quorum is present at the adjourned meeting as aforesaid, a legal quorum shall consist of one shareholder or more who is present at the adjourned meeting in person or through a proxy or a voting card, who holds or represents (or who hold or represent, if more than one shareholder is present) at least forty percent (40%) of the voting rights in the Company, other than if the meeting was convened at the demand of shareholders pursuant to the provisions of the Companies Law.

If no legal quorum is present at the adjourned meeting which was convened at the demand of the shareholders, as aforesaid, at least one shareholder who is present in person or through a proxy or a voting card at the adjourned meeting shall constitute a legal quorum.



7. **Record date**

The record date for the determination of the entitlement of a shareholder with regard to the right to participate and vote at meetings, as provided in Section 182 of the Companies Law, 5759-1999, is the end of the trading day at the TASE on Tuesday May 21, 2013 (the “**Record Date**”).

8. **Inspection of documents**

A copy of this report, including the annexes hereto, is available for inspection at the Company’s Offices, with prior coordination at: 03-6081300, on Sundays – Thursdays between 09:00 to 17:00 until the date of convening of the general meeting for the approval of the resolution that is on the agenda, and also on the ISA website at www.magna.isa.gov.il.

Azrieli Group Ltd.



Azrieli Group Ltd.

(the "Company")

Date: May 13, 2013

**Israel Securities Authority The Tel Aviv Stock Exchange Ltd.
22 Kanfei Nesharim St. 54 Ahad Ha'am St.
Jerusalem 95464 Tel Aviv 65202**

Dear Sir/Madam,

Re: An immediate report on the convening of a special general meeting of the Company's shareholders and a transaction report pursuant to the Securities Regulations (A Transaction between a Company and its Controlling Shareholder) 5761-2001

General

An immediate report is hereby given pursuant to the Companies Law, 5759-1999 (the "**Companies Law**"), the Companies Regulations (Notice and Announcement of a General Meeting and a Class Meeting in a Public Company), 5760-2000 (the "**Notice of a Meeting Regulations**"), the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "**Immediate Reports Regulations**") and the Securities Regulations (A Transaction Between a Company and its Controlling Shareholder), 5761-2001 (the "**Regulations for a Transaction Between a Company and its Controlling Shareholder**"), regarding the convening of a special general meeting of the Company's shareholders, as specified in this report below.

Part A – Convening of a special general meeting

1. **Date, place and agenda**

The general meeting shall convene on **Thursday, June 20, 2013, at 10:00** (Israel time), at the Company's offices at Azrieli Center (48th floor, the Round Tower) (the "**Company's Offices**"). Telephone for inquiries 03-6081383.

2. **The agenda of the general meeting:**

2.1 **Approval of the appointment of Ms. Tzipa Carmon as an independent director of the Company for a term of office commencing from the date of approval by the meeting contemplated in this report, until the date of the Company's next annual general meeting.**



Pursuant to the provisions of the Company's articles of association, on May 8, 2012, the Company's board of directors appointed Ms. Tzipa Carmon as a director of the Company, commencing from May 19, 2013, until the date of the general meeting contemplated in this report.

Ms. Tzipa Carmon was classified by the Company's board of directors on May 8, 2013, as a director having accounting and financial expertise in accordance with the provisions of the Companies Regulations (Conditions and Tests for a Director with Financial and Accounting Expertise and a Director with Professional Qualifications), 5766-2005 (the "**Companies Regulations**").

On May 8, 2013, the Company's audit committee confirmed that Ms. Tzipa Carmon fulfills the qualification conditions for the appointment of an outside director which are set forth in Section 240(b)-(f) of the Companies Law as is required for the purpose of her classification as an independent director.

For her service as a director at the Company, the Company shall pay Ms. Carmon annual remuneration and participation remuneration as customary at the Company and in accordance with the Companies Regulations (Rules Pertaining to Remuneration and Expenses for an Outside Director), 5760-2000 (the "**Remuneration Regulations**"). The annual remuneration and participation remuneration shall be in the maximum amount for an expert outside director, as specified in the Schedule to the Remuneration Regulations, as amended from time to time. Such amount shall be determined according to the Company's level, as being from time to time which is, as of the date of this report, level E. In addition, Ms. Carmon shall be entitled to a reimbursement of expenses in accordance with the provisions of Regulation 6 of the Remuneration Regulations and the policy which was approved by the Company's audit committee. The compensation committee and the board of directors of the Company approved the aforesaid remuneration for Ms. Tzipa Carmon pursuant to the provisions of Regulation 1A(2) of the Companies Regulations (Relief in Transactions with Interested Parties), 5760-2000 (the "**Relief Regulations**").

Pursuant to the resolution of the Company's board of directors dated May 6, 2010, and in accordance with the approval of the general meeting of the Company of August 15, 2011³, the Company shall give

³ In the context of the Company's general meeting which was held on August 15, 2011, an amendment to the language of the letters of exemption and indemnification which the Company did and does grant to the Company's officers and directors, including the officers and directors of the Company who are considered to be controlling shareholders and/or in the granting of which the controlling shareholders of the Company have a personal interest, as will hold office from time to time, in order to adapt the same to the provisions of Section 56H of the Securities Law, such that the letters of indemnification



Ms. Tzipa Carmon a letter of exemption and indemnification in the Company's current language for all of the officers and directors⁴.

For the details required pursuant to Regulation 26 of the Immediate Reports Regulations with regard to a person who is a candidate for appointment as a director of the Company, see **Annex A** which is attached to this report.

Ms. Carmon's declaration, which was given in accordance with Section 241 of the Companies Law, is available for inspection at the Company's Offices during regular office hours and is attached as **Annex B** to this immediate report.

2.2 Approval of the appointment of Prof. Niv Ahituv for another office as an outside director of the Company for a three year period commencing from August 24, 2013.

On May 8, 2013 the Company's board of directors re-approved the classification of Prof. Ahituv as an outside director having accounting and financial expertise in accordance with the provisions of the Companies Regulations.

For the office of Prof. Ahituv as an outside director of the Company he shall be paid annual remuneration and participation remuneration as customary at the Company and in accordance with the Companies Regulations (Rules Pertaining to Remuneration and Expenses for an Outside Director), 5760-2000 (the "**Remuneration Regulations**"). The annual remuneration and participation remuneration shall be in the maximum amount for an expert outside director, as specified in the Schedule to the Remuneration Regulations, as amended from time to time. Such amount shall be determined according to the Company's level, as being from time to time which is, as of the date of this report, Level E. Pursuant to the provisions of Regulation 7 of the Remuneration Regulations, the payment of remuneration to an outside director in the maximum amount as aforesaid, does not mandate the receipt of approvals of the audit committee, the board of directors and the general meeting of the Company as is required by Section 273 of the Companies Law. In addition, Prof. Ahituv shall be entitled to a

will also include an undertaking to indemnify for a financial liability imposed on the officer for all of the parties injured by the breach in an administrative proceeding as provided in Section 52 BBB(a)(1)(a) of the Securities Law, and for expenses incurred by the officer in relation to an administrative proceeding which was conducted in his regard, including reasonable litigation expenses and in this context, legal fees.

⁴ The Company's aforesaid resolution to grant a letter of exemption and indemnification to directors of the Company and officers as being from time to time is specified in Note 38(d) to the Company's financial statements as of December 31, 2012, as attached to the Company's periodic report for 2012, which was published by the Company on March 20, 2013 (ref. no. 2013-01-011398). The information contained in the aforesaid periodic report is included herein by way of reference.



reimbursement of expenses in accordance with the provisions of Regulation 6 of the Remuneration Regulations and the policy which was approved by the Company's audit committee.

Pursuant to the resolution of the Company's board of directors dated May 6, 2010, and in accordance with the approval of the general meeting of the Company of August 15, 2011, the Company shall give Prof. Ahituv a letter of exemption and indemnification in the Company's current language for all of the officers and directors⁵.

For the details required pursuant to Regulation 26 of the Immediate Reports Regulations with regard to an outside director who is a candidate for re-appointment, the Company refers to Chapter D of the Company's periodic report for 2012, entitled "Additional Details on the Corporation", which was released by the Company on March 20, 2013 (reference: 2013-01-011398). The information in the aforesaid periodic report is incorporated herein by reference. Prof. Ahituv's declaration which was made in accordance with Section 241 of the Companies Law is available for inspection at the Company's Offices during regular office hours and is attached as **Annex B** to this immediate report.

2.3 Approval of the appointment of Mr. Efraim Halevy for another office as an outside director of the Company for a three year period, commencing on August 24, 2013.

On May 8, 2013 the Company's board of directors re-approved the classification of Mr. Efraim Halevy as an outside director having professional qualifications in accordance with the provisions of the Companies Regulations.

For the office of Mr. Halevy as an outside director of the Company, he shall be paid annual remuneration and participation remuneration as customary at the Company and in accordance with the Companies Regulations (Rules Pertaining to Remuneration and Expenses for an Outside Director), 5760-2000 (the "**Remuneration Regulations**"). The annual remuneration and participation remuneration shall be in the maximum amount for an outside director, as specified in the Schedule to the Remuneration Regulations, as amended from time to time. Such amount shall be determined according to the Company's level, as being from time to time which is, as of the date of this report, level E. pursuant to the provisions of Regulation 7 of the Remuneration Regulations, the payment of remuneration to an outside director in the maximum amount as aforesaid, does not mandate the receipt of approvals of the audit committee, the board of directors and the general meeting of the Company as is required by Section 273 of the

⁵ See footnotes 3-4 above.



Companies Law. In addition, Mr. Halevy shall be entitled to a reimbursement of expenses in accordance with the provisions of Regulation 6 of the Remuneration Regulations and the policy which was approved by the Company's audit committee.

Pursuant to the resolution of the Company's board of directors dated May 6, 2010, and in accordance with the approval of the general meeting of the Company of August 15, 2011, the Company shall give Mr. Halevy a letter of exemption and indemnification in the Company's current language for all of the officers and directors⁶.

For the details required pursuant to Regulation 26 of the Immediate Reports Regulations with regard to an outside director who is a candidate for re-appointment, the Company refers to Chapter D of the Company's periodic report for 2012, entitled "Additional Details on the Corporation", which was released by the Company on March 20, 2013 (reference: 2013-01-011398). The information in the aforesaid periodic report is incorporated herein by reference.

Mr. Halevy's declaration which was given in accordance with Section 241 of the Companies Law is available for inspection at the Company's Offices during regular office hours and is attached as **Annex B** to this immediate report.

2.4 **Approval of an update to the management agreement with Mr. Yuval Bronstein in relation to his office as the CEO of the Company, commencing from May 1, 2013.**

Mr. Bronstein held office as the CFO of the Company since 2007. On April 2, 2013, the Company's compensation committee and board of directors approved the appointment of Mr. Yuval Bronstein as CEO of the Company and an update to the terms of his office and employment as the CEO of the Company, effective from May 1, 2013. Mr. Bronstein holds office in the position of the Company's CEO (through a private company which is wholly owned by him) in a full-time (100%) position commencing from May 1, 2013.

Below are the main updates to the terms of the employment which are offered to Mr. Yuval Bronstein:

2.4.1 **The Consideration:** Fixed monthly management fees in the amount of NIS 255,000, linked to the rate of increase of the Consumer Price Index for February 2013, as published on March 15, 2013 (the "**Management Fees**"). The monthly management fees paid to Mr. Bronstein as CFO were, as of March 31, 2013, approx. NIS 216 thousand (linked) (approx.

⁶ See footnotes 3-4 above.



NIS 209 thousand (nominal)), such that the update of the monthly management fees for Mr. Bronstein is approx. NIS 40,000 only. In view of Granite Hacarmel Investments Ltd., a company fully controlled by the Company, having become a private company in September 2012, Mr. Bronstein no longer serves as a director of Granite, and is therefore no longer entitled to the directors' fee which was paid to him in 2012.

- 2.4.2 **Adjustment period:** Mr. Bronstein shall be entitled to an adjustment period of nine (9) months (compared to six (6) months in the existing management agreement) and in any case of the termination of his employment agreement, the Company shall pay Mr. Bronstein, for the adjustment period, the entire consideration and related benefits as described above.
- 2.4.3 **Car:** The Company shall make a suitable level 7 car available to Mr. Bronstein. Pursuant to the terms of employment of Mr. Bronstein as CFO, the Company made a level 6 car available to him. The Company shall bear the entire cost of the use of the car.

The other terms of the employment of Mr. Yuval Bronstein remained unchanged, as specified below:

- 2.4.4 **Expenses:** The Company did and shall continue to indemnify Mr. Bronstein (including the management company through which he provides the CEO services as aforesaid) as is accepted in such positions, for out-of-pocket expenses which he will incur in the context of the provision of CEO services to the Company, all according to the Company's procedures and against the presentation of suitable evidence. Such reimbursement of expenses shall not exceed the maximum amount as will be determined from time to time by the audit committee and which it will determine to be appropriate, while noting the Company's activity and the scope thereof.
- 2.4.5 **Cellular telephone:** The Company shall make a cellular telephone available to Mr. Bronstein and shall bear the entire cost and use thereof.
- 2.4.6 **Termination of the agreement and advance notice:** Each party shall be entitled to terminate the agreement, for any reason, subject to the giving of a three (3) month advance written notice.
- 2.4.7 **Phantom Units:** Pursuant to the approval of the Company's board of directors and the general meeting dated May 2010, in the context of his office as the Company's CFO, Mr. Bronstein



was given 82,454 phantom units, exercisable in three equal installments in each of the years 2011-2013 (and until June 2015). Such phantom units shall entitle Mr. Bronstein to monetary compensation deriving from the increase in value of the Company's shares compared to the share price as determined in the tender in which the Company's shares were offered to the public in May 2010, which was NIS 83.25. On the date of granting thereof, the value of the phantom units granted to Mr. Bronstein, was approx. NIS 2.5 million. On the date of approval of the terms of compensation offered by the board of directors (April 2, 2013) (the "**Date of Approval**"), the value of the phantom units was approx. NIS 1.7 million. From the granting date until the Date of Approval, the Company recorded on its books an aggregate amount of approx. NIS 1.7 million for the phantom units which were granted to Mr. Bronstein, and expects to record (subject to the materialization of the assumptions which underlay the value on the granting date) the sum of NIS 0.8 million by June 2015. To clarify, the terms of the phantom units as aforesaid remain entirely unchanged.

3. Compensation details:

3.1 Below is a specification, pursuant to the Sixth Schedule to the Immediate Reports Regulations, of the compensation to which Mr. Bronstein shall be entitled in his position as CEO, in terms of annual cost to the Company (NIS in thousands):

Details of recipient				Compensation in terms of annual cost (NIS in thousands)				
Name	Position	Scope of position	Holding rate of corporation's capital	Management Fees*	Bonus	Share-based payment ***	Other **	Total
Yuval Bronstein	CEO	100%	---	3,199	---	---	15	3,214

*Management fees – the cost of monthly management fees, assuming that the expenses of car maintenance and reimbursement of communication and other expenses shall be the same as the amount paid in 2012.
 ** Reflects a current expense for adjustment fees for 5 years. It shall be clarified that in the first year, the Company shall record a one-time expense in the sum of NIS 1,000 thousand for an update of the adjustment fee.
 *** Inestimable as of the Report Date. In 2012, the value that was recognized on the books was in the sum of NIS 255 thousand.

3.2 Below is a specification of the compensation in relation to the terms of employment of Mr. Bronstein pursuant to the Sixth Schedule to the Regulations (NIS in thousands) for 2012 :

Details of recipient - 2012	Compensation – 2012	
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Name	Position	Scope of position	Holding rate of corporation's capital	Management Fees*	Bonus	Share based payment**	Other	Total
Yuval Bronstein	CFO	100%	---	2,744	---	255	186(***)	3,185

* The Management Fees – cost of monthly management fees, car maintenance expenses and reimbursement of communication expenses in the aggregate sum of approx. NIS 801 thousand and other expenses in the sum of approx. NIS 54 thousand.
 ** Reflects the expense which was recorded by the relevant company in 2012 due to the granting of phantom units.
 *** Reflects compensation for office as a director of Granite Hacarmel and its subsidiaries. His office as a director of Granite ended in October 2012.

3.2.1 **Manner of determination of the compensation**

3.2.1.1 The terms of the engagement with Mr. Bronstein were determined through negotiations between the Company and Mr. Bronstein and were established on the nature and scope of the management services, and while noting his experience and his contribution to the Company and the personal acquaintance of the members of the board of directors with Mr. Bronstein in the context of his position as the Company's CFO. The compensation committee and the board of directors of the Company approved the compensation terms offered to Mr. Bronstein considering also that in the circumstances, such terms constitute an immaterial update of the terms of his employment as the CFO of the Company. The terms of the engagement were approved by the Company's board of directors and compensation committee after they examined the criteria listed in Section 267B(a) of the Companies Law in reference, *inter alia*, to the issues specified in Part A of First Schedule A to the Companies Law.

3.2.1.2 The board of directors of the Company and the compensation committee were presented, *inter alia*, with the following information and figures: personal information with regard to Mr. Bronstein's qualifications, experience and education and in particular, his contribution to the Company and his functioning as CFO of the Company, the compensation terms and mechanism pursuant to Mr. Bronstein's employment agreement as the Company's CFO, the compensation terms and mechanism which are offered to Mr. Bronstein as the Company's CEO.



3.2.1.3 The compensation committee and the board of directors examined comparative data regarding the terms of employment of CEOs of companies traded, similarly to the Company, on the Real Estate 15 Index and on the TA 25 Index. Such comparative data is based on an economic study carried out for the Company by PricewaterhouseCoopers Consulting Ltd. (the "**Economic Consultants**"). In the context of the economic study, as aforesaid, the Economic Consultants included figures on the compensation which is paid to CEOs in Israeli public companies that are included in the Real Estate 15 Index and in the Tel Aviv 25 Index, based on such companies' periodic reports for 2012, as well as on relevant immediate reports. The figures in the economic study as aforesaid included an average and a median of all of the figures of the sample companies and a minimum and a maximum.

3.2.1.4 The compensation committee and the board of directors have noted that the purpose of the comparative study is the receipt of indicative information regarding the scope of compensation prevailing in the Israeli market, and due to its limitations, is not an exact science and therefore constitutes only one indication within the gamut of considerations taken into account by them when considering the benefit of the Company and the fair and reasonable compensation. Based on the aforesaid information the compensation committee and the board of directors determined that the compensation which is offered to Mr. Bronstein is reasonable under the circumstances and reflects proper compensation from the perspective of the promotion of the Company's long-term goals, and approved the terms of his office and his employment as the CEO of the Company.

3.2.2 **The reasons of the compensation committee and board of directors for approving Mr. Bronstein's terms of office and employment**



The compensation committee and the board of directors of the Company found that the terms of the employment are in the best interests of the Company and reasonable under the circumstances of the case, for the reasons specified below:

- 3.2.2.1 In the opinion of the members of the board of directors, while taking into consideration Mr. Bronstein's professional experience and particularly his experience and position which he filled at the Company in recent years as CFO, his qualifications and abilities, Mr. Bronstein has the suitable and appropriate capability to fill the position of the chief executive officer of the Group.
- 3.2.2.2 While taking into consideration Mr. Bronstein's long term of office as CFO and his vast contribution to the Company, its development and its shareholders, during the years of his office, his appointment as CEO of the Company is nothing but the natural and correct continuation of the Company's path.
- 3.2.2.3 The members of the board of directors have much respect for Mr. Bronstein's professional experience and qualifications which, in the opinion of the members of the board, are very essential to the Company and therefore, the directors estimate that while noting the uniqueness of the Company and the importance of intimate familiarity with the unique structure thereof, the appointment of a CEO from among the executive officers of the Group is efficient and correct and in the best interests of the Company.
- 3.2.2.4 The members of the board of directors believe that the terms of the compensation are reasonable and accepted under the circumstances of the case and considering the CEO's role in view of the scope of the Company's activity and it being the largest real estate company in Israel, the scope of its activity which is perpetually growing compared to other companies which are similar to the Company and to the scope of activity thereof, and



compared to the terms of office of the outgoing CEO.

3.2.2.5 The terms of office which have been approved as specified in Section 2.4 above are only an update to the existing terms of office and constitute, in the opinion of the members of the board of directors, a balanced and justified mechanism which does not deviate from accepted mechanisms in respect of CEOs of companies of the Company's magnitude, according to figures which have been presented.

3.2.2.6 In accordance with the comparison data presented, the total compensation offered to Mr. Bronstein as CEO of the Company is in the first (lowest) quartile and the salary cost is in the third quartile of the compensation paid to the CEOs of the sample companies in practice in 2012.

3.2.2.7 The compensation committee and the board of directors of the Company also examined the ratio between the Management Fees offered to Mr. Bronstein and the cost of salary of the Company's other employees, and in particular the ratio relative to the cost of average salary and the cost of median salary of the Company's other employees. The compensation committee and the board of directors of the Company estimate that such ratios are reasonable and are not expected to affect working relations at the Company. In addition, the Compensation Committee and the Board of Directors reviewed the Company's managerial structure and the working relations therein, and noted that the Company's G&A expenses are low compared to other similar companies.

3.2.2.8 The compensation to Mr. Bronstein includes phantom units which were granted to him within the context of Mr. Bronstein's position as CFO and no change has occurred therein (for details on the terms of the phantom units see Section 2.4.7 above). The compensation mechanism through the phantom units links the compensation to continued contribution to the



Company and its results over time and the proportionate part that this component constitutes out of the overall compensation is reasonable and correct both with regard to the management structure of the Company and the nature of Mr. Bronstein's position.

3.2.2.9 In view of all of the aforesaid, the members of the compensation committee and the board of directors believe that the compensation to Mr. Bronstein is reasonable and fair based on the Company's size, long-term goals and the many challenges it faces and considering the nature of the position and the responsibility which is placed on Mr. Bronstein.

3.2.3 **The compensation terms offered to Mr. Bronstein, compared with the compensation terms of the outgoing CEO, Mr. Shlomo Sherf.**

3.2.3.1 Mr. Sherf (through a management company which is wholly owned by him) was entitled to the payment of monthly management fees in the amount of approx. NIS 347 thousand, linked to the Consumer Price Index for January 2011 (monthly management fees of NIS 250,000 (nominal) plus an annual fixed component of NIS 1 million (nominal)), compared to monthly management fees of NIS 255,000 which are offered as payment to Mr. Bronstein as CEO. In addition, in the context of the Company's compensation plan, Mr. Sherf was granted 284,527 phantom units in the total value, as of the granting date, of NIS 9 million, compared to phantom units which were granted to Mr. Bronstein in 2010, in the value, as of the granting date, of NIS 2.5 million.

3.3 The approval of the Company's engagement in a management agreement with private companies which are wholly owned by Mr. David Azrieli, the controlling shareholders of the Company, to receive management services of Active Chairman of the Board, through Mr. David Azrieli, for a three year period commencing from June 3, 2013, all as specified in Section 2.1 of Part B of this report below.



- 3.4 The approval of the Company's engagement in a management agreement with a company which is wholly owned by Ms. Danna Azrieli, who is also considered a controlling shareholder of the Company⁷, to receive services of Active Vice Chairman of the Board, through Ms. Danna Azrieli, for a three year period commencing from June 3, 2013, all as specified in Section 2.2 of Part B of this report below.

4. **Required majority**

- 4.1. The majority required for the resolution specified in Section 2.1 on the agenda, as specified in Part A above is a simple majority of the total votes of the shareholders who attend and vote at the general meeting, excluding the abstaining votes.
- 4.2. The majority required for the approval of each of the resolutions specified in Sections 2.2-2.3 on the agenda, as specified in Part A above, is a simple majority of the shareholders who are entitled to vote and are participating in the vote, provided that either (1) the majority votes shall include the majority votes of shareholders participating in the vote who are not controlling shareholders at the Company or have no personal interest in the approval of the appointment which is the subject matter of each of the resolutions specified in Sections 2.2-2.3 on the agenda as specified in Part A above, excluding a personal interest which is not the result of connections with the controlling shareholder. The majority votes of the said shareholders shall exclude the abstaining votes; (2) the total of dissenting votes among the shareholders mentioned in paragraph (1) above is no more than two percent of the Company's total voting rights.
- 4.3. With respect to Resolution 2.4 on the agenda as specified in Part A above it shall be stated that according to the transition provisions of Amendment 20 to the Companies Law, the approval of the terms of office and employment of a CEO, prior to a company's compensation policy being first determined, shall be according to the provisions of Section 272(c1)(2) of the Companies Law.

The majority required for approval of the resolution specified in Section 2.4 on the agenda in Part A above is an ordinary majority of the shareholders permitted to vote and participating in the vote, provided that one of the following shall be fulfilled: (1) the majority vote count shall include a majority of all of the votes of the shareholders who are participating in the vote, who are not controlling shareholders in the Company or have no personal interest in the approval of the engagement contemplated in the resolution specified in Sections 2.4 of the agenda in Part A above. The count of all of the

⁷ See footnote 1 above.



votes of such shareholders shall not take into account the abstaining votes; (2) the total number of the dissenting votes from among the shareholders mentioned in paragraph (1) above does not exceed the rate of two percent of all of the voting rights in the Company.

It is clarified that with regard to the aforesaid approval by the general meeting the provisions of sub-section 272(c)(3) of the Companies Law shall apply.

- 4.4. The majority required for approval of each of the resolutions specified in Sections 2.5-2.6 on the agenda as specified in Part A above is an ordinary majority of the shareholders permitted to vote and participating in the vote, provided that one of the following shall be fulfilled: (1) the majority vote count shall include a majority of all of the votes of the shareholders who are participating in the vote, who have no personal interest in the approval of the engagement contemplated in each of the resolutions specified in Sections 2.5-2.6 of the agenda as specified in Part A above. The count of all of the votes of such shareholders shall not take into account the abstaining votes; (2) the total number of the dissenting votes from among the shareholders mentioned in paragraph (1) above does not exceed the rate of two percent of all of the voting rights in the Company.

5. **Record date**

The record date regarding a shareholder's entitlement to participate in and vote at the aforesaid General Meeting, pursuant to Section 182 of the Companies Law, 5759-1999, is the close of trading on Tuesday, May 21, 2013, in the Tel Aviv Stock Exchange Ltd. (the "**Record Date**"), and if no trade took place on the Record Date, then the first trading day prior thereto.

6. **Voting method**

Shareholders may vote on all of the resolutions on the aforesaid agenda, either personally or by proxy as well as through a voting card.

A shareholder may appoint a proxy to participate and vote in his stead, whether in a specific general meeting or in the Company's general meetings in general, provided that the proxy appointment document was delivered to the Company at least 48 hours before the date of convening the meeting, unless the Company had waived this right. A proxy does not need to be a shareholder of the Company.

If the proxy appointment document is not for a specific general meeting, then a proxy appointment document which had been deposited prior to one general meeting shall be in effect also for other general meetings thereafter.

The aforesaid shall also apply to a shareholder which is a corporation, which appoints a person to participate and vote in its stead in the general meeting.

A proxy appointment document shall be signed by the shareholder or a person authorized therefor in writing, and if the appointing shareholder is a



corporation, it shall be signed in a method binding the corporation. The Company may require that a written confirmation shall be delivered thereto, to its satisfaction, regarding the power of the signatories to obligate the corporation. A proxy appointment document shall be made in the language specified in the Company's Articles of Association. The Company Secretary or board of directors may accept, as per their discretion, a proxy appointment document in a different language, as long as the modifications are not material. The Company shall only accept original proxy appointment documents, or a copy thereof, provided that it is certified by a notary or a lawyer holding an Israeli license.

Voting according to a proxy appointment document shall be legal notwithstanding the prior death of the appointing shareholder or his incompetence or bankruptcy, or, if it is a corporation – dissolution or cancellation of the proxy appointment document or transfer the share in relation to which it was issued, unless a written notice thereof was received in the Company's Registered Office, prior to the meeting.

Subject to the provisions of any law, the Company Secretary may, as per his discretion, disqualify proxy appointment documents if there is reasonable concern that they are forged or were issued by virtue of shares, under which other proxy appointment documents had been issued.

Pursuant to the Companies Regulations (Proving Share Ownership for Voting at the General Meeting), 5760-2000, a shareholder to whose credit a share is registered with a TASE member, which share is included among the shares registered in the registry in the name of the nominee company of Bank Leumi LeIsrael, who wishes to vote at the general meeting, shall submit to the Company a certification from the TASE Member of his ownership of the share on the Record Date, as required by the said regulations. The aforesaid certification of ownership shall be delivered to the Company at least two business days prior to the date of the General Meeting.

Insofar as the shareholder is registered in the Company's register as such, a copy of an identity card or a certificate of incorporation shall be attached to the proxy appointment document.

7. **Quorum**

Quorum for opening the deliberations in the General Meeting shall be formed upon the presence in person or by proxy or through a voting card, of one or more shareholders, who holds or represents (or who hold or represent, if more than one shareholder is present) at least fifty one percent (51%) of the voting rights in the Company.

If no legal quorum is present two hours after the time scheduled for the meeting, the meeting shall be adjourned to the third business day after the date of the meeting, at the same time and place, or to a later day and time or a different place, as shall be determined by the Company's board in a notice to the shareholders. The Company shall notify by an immediate report the adjournment of the meeting and the date of holding the adjourned meeting.



If no legal quorum is present at the aforesaid adjourned meeting, legal quorum shall be formed upon the presence in the adjourned meeting in person or by proxy or through a voting card of one or more shareholders, who holds or represents (or hold or represent, if more than one shareholder is present) at least forty percent (40%) of the Company's voting rights, other than if the General Meeting was convened pursuant to the demand of shareholders as per the provisions of the Companies Law.

If no legal quorum is present at the adjourned meeting which was convened pursuant to the demand of shareholders as aforesaid, legal quorum shall be formed upon the presence in the adjourned meeting in person or by proxy or through a voting card of at least one shareholder.

8. **Voting through a voting card**

Pursuant to the Companies Regulations (Voting in Writing and Position Statements) 5766-2005, shareholders may vote in the General Meeting in relation to resolutions on the aforesaid agenda through a voting card. The language of the voting card and position statements for the said General Meeting is available at the distribution site of Magna, in www.magna.isa.gov.il and on the TASE website on www.tase.co.il. Voting shall be performed on the second part of the voting card, as published in the ISA distribution site.

A shareholder may turn to the Company directly and receive therefrom, free of charge, the language of the voting card and position statements, or, upon his consent, a link to the language of the voting card on the distribution site.

A TASE member shall send, free of charge, a link to the language of the voting card and the position statement on the distribution site to any shareholder who is not registered in the shareholders register and who holds securities through it, unless the shareholder has notified the TASE member that he is not interested in receiving such a link or that is interested in receiving voting cards by post, for the postage fee only.

A shareholder whose shares are registered with a TASE member is entitled to receive the certification of ownership from the TASE member through which he is holding his shares at any branch of the TASE member or via post to his address for postage fees only, if so requested thereby, provided that such a request is delivered, in advance, to a specific securities account.

The last date for delivery of position statements to the Company: Thursday, May 30, 2013, at 10:00.

The last date for providing the Board's response to position statements, if any such statements are submitted by shareholders and the board shall have chosen to submit its response to such position statements, is: Tuesday, June 4, 2013.

The last date for delivery of voting cards to the Company: Monday, June 17, 2013, at 10:00.



9. **Notice of a personal interest**

A shareholder participating in the vote in relation to each of the resolutions 2.2-2.6 on the agenda as specified in Section 2 of Part B of this Report above, shall notify the Company, prior to his vote – and if the vote is through a voting card – mark in part B of the voting card, on the designated place, whether or not he is deemed to be of 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 or an institutional investor thereof (as they are defined in the ISA Disclosure Directive regarding the voting method of interested parties, senior officers and institutional bodies in general meetings, dated November 30, 2011 – the "**Voting Disclosure Directive**").

If no such notice is submitted by the shareholder, his vote shall not be counted. In the event that a shareholder had voted on the said resolution through proxy, the proxy shall also inform the Company, prior to the voting, whether or not he is deemed to be of personal interest in the approval of the resolutions on the agenda, and whether or not he is a controlling shareholder of the Company, a senior officer or an institutional investor thereof as they are defined in the Voting Method Disclosure Directive. If no such notice is submitted by the proxy, his vote shall not be counted.

In the event that the aforesaid controlling shareholder, senior officer or institutional investor, had voted through a voting card or through a proxy, he shall, in addition, provide the Company (attached to the voting card or the proxy) with the following details:

In relation to the shareholder: full name (in Hebrew and English); I.D. number and type of I.D. number; place of incorporation (in cases of corporations); the passport country (if the I.D. number is a passport number);

In addition, in relation to the proxy (if the voting is made through a proxy): full name; I.D. number and type of I.D. number; the passport country (if the I.D. number is a passport number);

Part B – Details required according to the Securities Regulations (Transaction between a Company and a Controlling Shareholder Thereof), 5761-2001

1. **Preamble**

On May 13, 2013, the Company's board resolved, pursuant to the decision of the Company's compensation committee, in its meetings dated May 5, 2013 and May 8, 2013, and pursuant to the meeting of the Board of Directors dated May 8, 2013, to approve the Company's engagement in the management agreements with the chairman of the Company's board of directors, Mr. David Azrieli, the controlling shareholder of the Company, and with the Vice Chairman of the Company's board of directors, Ms. Danna Azrieli, as specified in Section 2 of Part B of this report below.



2. **Description of the transaction's principles, the name of the parties thereto, dates stipulated in relation thereto and its terms**

2.1. **Management agreement with the Chairman of the Board**

Background: The activity of the Azrieli Group, unique in the Israeli market in terms of both scope and soundness, developed and is continuing to develop, *inter alia*, based on the significant know-how and experience it has accumulated and is continuing to accumulate over the many years in the income-producing real estate market in Israel, while using the experience and expertise of Mr. David Azrieli, who established and founded the Company since it launched its activities in 1983. Mr. Azrieli succeeded in creating, over the years, a headquarters of officers comprising of long time professionals with vast managerial experience, most of whom have been with the Company and the Group's companies for many years.

During the deliberations towards the approval of the agreement, whose terms are proposed for approval herein, the Compensation Committee and the Board of Directors discussed Mr. Azrieli's experience and success, his unique skills, the vision, initiative and the Company's current position as the largest income-producing real estate company in Israel and one of the largest companies in the Israeli market, with extraordinary stability and financial soundness, and the Company's huge development momentum. When approving of the agreement, the Audit Committee and the Board of Directors seriously considered the fact that Mr. Azrieli is a professional with first-rate skills, great experience and expertise with respect to the Company's business segment. His success in leading the company for many years, including through economically challenging periods, attest to his unique skills and the advantage, from the Company's point of view, embodied in his holding office as the Company's Active Chairman. The aforesaid, is added to the review of the proposed bonus mechanism as appropriate and right for measuring the results, and in comparison to parameters and comparative figures of public companies traded in the Real Estate 15 and Tel Aviv 25 indexes, all as specified in this report herein.

The members of the compensation committee and board of directors deemed, based on the above reasons and those specified in section 10 below, that the terms of compensation for Mr. David Azrieli as the Active Chairman, which are proposed for approval herein, are appropriate and proper in view of the scope and nature of the management services rendered by him to the Company, the Company's business goals and the scope of its operations, which are extraordinary in the Israeli market.



2.1.1. **Manner of providing the services:** The management services shall continue to be provided by Mr. David Azrieli to the Company, via private companies that are fully owned by him (the “**Management Company**” and/or Mr. “**David Azrieli**”). The management services shall be provided by Mr. David Azrieli personally and exclusively and he may be assisted by other employees or managers of the Management Company, in such manner that shall not derogate from the Management Company’s obligations under the management agreement and shall also not increase the management agreement’s cost for the Company. Mr. David Azrieli further undertook that the Management Companies shall be companies that are fully owned and controlled by him.

2.1.2. **Scope of the management services:** The management services shall include the following services: active chairman of the Board of Directors, chairman of the executive management in the making of strategic, business and managerial decisions in connection with the development and management of the Group’s properties, business development, financing and budget, goals and examination of new business segments, providing current managerial and professional consulting to the Group’s management and to the managers of the main business segments, identifying and analyzing business opportunities and supporting transactions and acquisitions in Israel and abroad and consulting and supervising development and construction and the business development abroad (the “**Management Services**”). The management services shall be provided at the scope of 80% position.

2.1.3. **Consideration:**

In consideration for the Management Services the Company shall pay Mr. Azrieli (via the Management Company) the following consideration:

2.1.3.1. **A fixed component:** fixed annual management fees in the sum of NIS 4.5 million (nominal) for each calendar year (or its *pro rata* part), linked to the Consumer Price Index for April 2013, which shall be published on May 15, 2013 (the “**Effective Index**”) (the “**Fixed Management Fees**”) (compared to fixed management fees of NIS 8 million (nominal) according to the existing agreement). The Fixed Management Fees shall be paid quarterly, the payment for the fourth quarter being paid 15 days after the date



of approval of the Company's annual audited financial statements.

2.1.3.2. **Reimbursement of expenses:** the Company shall bear all of the Management Company's expenses in providing the Management Services, including hospitality expenses, travel expenses and per diems in Israel and abroad (jointly, the "**Expenses**"), according to the Company's procedures and against presentation of relevant receipts. The aforesaid reimbursement of expenses shall not exceed such maximum sum as shall be determined from time to time by the Audit Committee and found thereby as appropriate, considering the Company's operation and scope thereof.

2.1.3.3. **Car and communication expenses:** in addition, it was agreed that the Company shall provide to the Management Company, for the provision of the Management Services, an executive car fitting for Mr. David Azrieli's duties and the Management Services. The expenses of car maintenance and use shall be paid by the Company. In addition, the Company shall bear the costs of using a land line at the house of a person on the Management Company's behalf as well as a mobile phone held by him (below jointly, the "**Car and Communication Expenses**").

The reimbursement of Car and Communication Expenses shall not exceed the maximum amount as will be determined from time to time by the audit committee and which will be determined thereby as being appropriate, while noting the Company's business and the scope thereof.

2.1.3.4. **Variable component:** the Management Company shall be entitled to an annual bonus, for each calendar year (including for 2013), as derived [from the adjusted profit], as specified below:

The "**Adjusted Profit**" for the purpose of this section, for each calendar year – annual profit before tax, according to the Company's audited



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consolidated annual financial statements, discounting the following sums: (1) dividend received from financial assets available for sale that was included in the annual profit before tax; (2) profit (loss) resulting from revaluation of real estate assets; (3) results of companies which do not engage in the Company's core business (real estate) and were included in the annual profit before tax; (4) linkage differentials accrued on financial obligations; (5) interest expenses at the rate of the actual weighted effective interest for that year of the Company and companies under its control, 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 do not engage in the core business; (6) the total sum of the Management Fees (including bonus) to Mr. David Azrieli for such year as included in the annual pre-tax profit; and (7) profit (loss) of financial assets (marketable securities) held for trade, including interest and dividend therefor.

2.1.3.5. **Bonus threshold:** In a year in which the Adjusted Profit is lower than NIS 565 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 565 million.

2.1.3.6. **Bonus scales:** In a year in which the Adjusted Profit is in the sum of NIS 565 million and up to NIS 765 million – a bonus shall be paid at the rate of 0.75% of the difference between the bonus threshold and the actual Adjusted Profit; In a year in which the Adjusted Profit exceeds NIS 765 million – an aggregate annual bonus shall be paid, as follows:

- (a) For Adjusted Profit in the sum of up to NIS 565 million – no bonus shall be paid;
- (b) For such part of the Adjusted Profit between NIS 565 million and NIS 765 million – a sum at the rate of 0.75% shall be paid.



(c) For such part of the Adjusted Profit exceeding NIS 765 million – a sum at the rate of 1.5% shall be paid.

2.1.3.7. **Maximum bonus ceiling:** the total sum of the annual bonus for each calendar year as aforesaid shall not exceed the sum of NIS 5.5 million (the “**Bonus Ceiling Sum**”). It is expressed that for Mr. Azrieli to be entitled to an annual bonus in the sum of the maximum ceiling, the Company’s Adjusted Profit must amount to about NIS 1,032 million (nominal).

2.1.3.8. **Bonus in a year in which services will be rendered during part of the year only:** should the Management Services be provided to the Company during part of a calendar year, the Management Company will be entitled to a bonus calculated *pro rata* to the annual calculation results, on the basis of a 365 day year, in accordance with that part of the year during which the Management Services were provided and on the basis of the consolidated annual statements for the year in which the agreement commenced or ended.

2.1.3.9. **The bonus payment date:**

The annual bonus shall be paid 15 days after approval of the Company’s consolidated annual financial statements for the relevant year.

In the event that the Management Services were provided to the Company for part of a calendar year, the Management Company shall be entitled to an advance on account of the annual bonus for such year, on the basis of the Adjusted Profit in the previous year, but not more than 50% of the annual bonus in the previous year and pro rata to that part of the year during which the Management Services were provided, on the basis of a 365 day year.

In the event that an advance has been paid as aforesaid, the Company shall carry out adjustments and accounting with regard to the sum of the overall annual bonus and



management fees, when calculating payment of the management fees for Q4 of each year.

2.1.3.10. For a simulation of Mr. David Azrieli's proposed terms of office based on the 2010-2012 figures – see section 3.1 below.

2.1.4. **Repayment clause:** if and insofar as it transpires, *ex post factum*, that the data on which the Company relied in granting the annual bonus as aforesaid to Mr. David Azrieli are erroneous and should be restated in the Company's financial statements, Mr. David Azrieli shall return the Company the difference between the sum of the bonus paid to him based on the erroneous data as aforesaid and the sum of the annual bonus due to him based on the data after such restatement thereof.

2.1.5. **Withdrawal arrangement:** the Management Company may borrow from the Company, by withdrawal from the Company's account, up to the sum of NIS 1 million per calendar year, which shall be recorded in the Company's books as debit and credit. The Management Company shall be required to repay all of the loan sums as aforesaid with the addition of interest pursuant to the Regulations of Minimum Interest Rate Determination for the purpose of Section 3(I) of the Income Tax Ordinance as updated by the Minister of Finance, up to and no later than 60 days after the approval of the date of payment of the annual bonus to the Management Company.

2.1.6. **Term of the agreement:** the management agreement shall take effect from June 3, 2013, and be effective for a term of 3 years after this date, unless its term was extended earlier in the agreement of the parties and subject to obtaining all of the approvals required by law.

2.1.7. **Termination of the agreement:** The chairman of the board of directors waived an adjustment period.

The Agreement will be terminable in the cases specified below:

2.1.7.1. In case of change of control (as such term is defined in the Securities Law), the agreement shall be terminable by the Management Company on the one part and by the Company, through a board resolution on the other part, by a three month advance written notice.

2.1.7.2. The agreement shall be terminable by the Management Company on the one part and by



the Company, through a board resolution on the other part, due to special circumstances, god forbid, which are beyond Mr. David Azrieli's control, for the reason of which he may not be expected to continue providing the Management Services, for a period exceeding nine (9) consecutive months.

- 2.1.7.3. The Company's board of directors may adopt a resolution to immediately terminate the management agreement in any event in which Mr. Azrieli shall have been convicted of embezzlement or another offense involving moral turpitude.
- 2.1.7.4. In any other case not detailed above, the Agreement will be terminable by the Management Company on the one part, and by the Company through a board resolution on the second part, subject to a 30 day advance notice.
- 2.1.8. **Activity Restriction:** - Mr. Azrieli will undertake again in the framework of his engagement in the new management agreement that as long as he provides Management Services to the Company and/or the companies of the Group and for a period of 6 months thereafter, he shall continue to comply with the activity restriction arrangement with the Company, on the same terms as provided in the previous management agreement and as provided in Section 3.2 of Part E of the Company's periodic report for 2012 which was released on March 20, 2013 (reference: 2013-01-011398).
- 2.1.9. **Insurance:** As long as the management agreement is in force, 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 cover for any person from the Management Company with officers insurance on identical terms 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 customary in the market for companies of the business type and segment of the Company.
- 2.1.10. For a comparative table between the terms of the new management agreement and the existing one, see **Annex C** herein.



2.2. **Management agreement with the Vice Chairman of the Board**

- 2.2.1. **Scope of Position:** According to the management agreement, Ms. Danna Azrieli shall provide to the Company (via a management company) services as an Active Vice Chairman of the Board at a scope of an 80% position.
- 2.2.2. **The management services:** the management services shall include Active Vice Chairman of the Board; member of the Company's limited management (the executive) that engages, *inter alia*, in formulating the Company's policy and strategy; consolidating the Company's financial projections; decisions on business development and outlining material transactions; in addition, supervision of existing projects and follow-up on their progress; responsibility for outlining the Company's community relations and representation thereof in conventions in Israel and abroad (the "**Management Services**").
- 2.2.3. **The Consideration:** In consideration for the Management Services the Company shall continue to pay Ms. Danna Azrieli monthly management fees as have been paid to her until now pursuant to the management agreement which exists as of this date (the "**Existing Management Agreement**"). Such monthly management fees are in the amount of NIS 164,711 per month (nominal) linked to the increase of the known index for September 2009. As of March 31, 2012, such amount is NIS 177,262 per month.
- 2.2.4. **Reimbursement of Expenses:** No change from the Existing Management Agreement. The Company shall bear all of the expenses incurred by the management company in providing the Management Services, including hospitality expenses, travel expenses and *per diems* in Israel and abroad, according to the Company's procedures and against presentation of relevant receipts, and up to such maximum sum as shall be determined from time to time by the Company's audit committee and which it will determine to be appropriate while noting the Company's business and the scope thereof.
- 2.2.5. **Car and communication expenses:** No change from the Existing Management Agreement. The Company shall provide to the Management Company, for the provision of the Management Services, an appropriate car of level 7 or higher. The car maintenance and use expenses shall be paid by the Company. In addition, the Company shall bear the costs of the use of a land line at Ms. Danna Azrieli's home as well as a mobile telephone held by her. The reimbursement of the car and



communication expenses shall not exceed the maximum amount as will be determined from time to time by the audit committee and which it will determine to be appropriate while noting the Company's business and the scope thereof.

- 2.2.6. **The Term of the Agreement:** The management agreement shall take effect from June 3, 2013, and be effective for a term of 3 years after this date unless its term was extended earlier upon the parties' agreement and subject to obtaining all of the approvals required by law.
- 2.2.7. **Advance Notice:** No change from the Existing Management Agreement. The agreement shall be terminable by the Management Company on the one part and by the Company, through a board resolution on the other part, subject to a three (3) month advance notice.
- 2.2.8. **Adjustment Fee:** No change from the Existing Management Agreement. Ms. Danna Azrieli is entitled to a nine (9) month adjustment period, and in any case of termination of the management agreement, the Company shall pay Ms. Danna Azrieli, for the adjustment period, the full consideration and related benefits as aforesaid.
- 2.2.9. **Immediate Termination of the Agreement:** The Company's board of directors is entitled to adopt a resolution to immediately terminate the management agreement in any event in which Ms. Danna Azrieli shall have been convicted of embezzlement or another offense involving moral turpitude.
- 2.2.10. **Restriction of Activity:** Ms. Azrieli has undertaken, within her engagement in the new management agreement, that for so long as she provides management services to the Company or to the Group's companies, and for a period of 6 months thereafter, she will continue to maintain the arrangement for restriction of activity with the Company, under the same terms as stipulated in the Existing Management Agreement, and as stipulated in Section 3.2 of Part E of the periodic report of the Company for 2012, which was released on March 20, 2013 (reference: 2013-01-011398)

3. **Details of compensation:**

- 3.1. Below is a simulation of the proposed terms of office for the Chairman of the Board for 2010-2012:



3.1.1. **Simulation on the basis of 2012 figures:**

The Company's annual pre-tax profit in 2012 amounted to about NIS 1,258 million.

The Adjusted Profit for 2012 in accordance with the above formula amounted to about NIS 867 million. Based on these figures, the annual bonus payable to Mr. Azrieli in accordance with the mechanism proposed in the new management agreement would have been about NIS 3 million (compared with the annual bonus actual paid for 2012 of about NIS 14.4 million).

The total compensation payable to Mr. Azrieli for 2012 and in accordance with the new management agreement (in respect of an 80% position) would have been NIS 7.5 million (NIS 4.5 million Fixed Management Fees and a bonus of about NIS 3 million). The total compensation on the basis of a 100% position (adjusting the fixed component only) would have been NIS 8.6 million, compared with about NIS 23 million actually paid under the Existing Management Agreement.

It is clarified that for Mr. Azrieli to be entitled to an annual bonus in the sum of the maximum ceiling, the Company's Adjusted Profit must amount to about NIS 1,032 million.

3.1.2. **Below is a simulation of the proposed terms of office for the Chairman of the Board on the basis of the 2010-2012 figures (in NIS millions and in nominal values) (*):**

		2010	2011	2012
Adjusted profit (**)		668	761	867
Bonus ceiling (80% position)		5.5	5.5	5.5
Fixed component (about 45%)		4.5	4.5	4.5
Bonus	For 565	0	0	0
Bonus	566-765 (0.75%)	0.8	1.5	1.5
Bonus	765 and above (1.5%)	0	0	1.5
Actual total (80% position)		5.3	6.0	7.5

(*) Without reimbursement of expenses component.

(**) For calculation of the Adjusted Profit for bonus purposes – see the definition in section 2.1.3.4 above.

3.2. The total cost of Mr. David Azrieli's Existing Management Agreement in 2012 amounted to about NIS 23,072 thousand:



Details of compensation recipient				Compensation for services (in NIS thousands)				
Name	Position	Scope of position (%)	Percentage holdings of corporation's capital	Management fee (*)	Bonus (**)	Share-based payment	Other	Total (in NIS)
Mr. David Azrieli (via a private company owned by him)	Active Chairman of the Board	100%	71.42%	8,708	14,364	----	----	23,072

(*) The management fee component includes the following components: cost of annual management fees, plus car maintenance expenses and reimbursement of communication expenses, totaling, in the aggregate, about NIS 60 thousand, and other expenses totaling about NIS 800 thousand.

(**) An amount equivalent to 1% of the Company's EBITDA for 2012.

3.3. Following are details, according to the sixth schedule of the Immediate Reports Regulations, of the compensation paid to Ms. Danna Azrieli, pursuant to the Existing Management Agreement, in terms of annual cost to the Company:

Details of compensation recipient				Compensation for services (in NIS thousands)				
Name	Position	Scope of position (%)	Percentage holdings of corporation's capital	Management fee (*)	Bonus (**)	Share-based payment	Other	Total (in NIS)
Ms. Danna Azrieli	Active Vice Chairman of the Board	80%	71.42%	2,319	----	----	124	2,443 (***)

(*) The management fee component includes the following components: cost of annual management fees, plus car maintenance expenses and reimbursement of communication expenses, totaling, in the aggregate, about NIS 197 thousand, and other expenses totaling about NIS 124 thousand. The payment for other expenses primarily includes compensation of directors from Granite that will not exist from 2013 on.



(**) In respect of her term of office as director of Granite Hacarmel and GES and together with a revision of the adjustment provision on retirement. As of October 2012, Ms. Danna Azrieli no longer serves as a director of the aforesaid companies.

(***) Not including cost of compensation in respect of adjustment period.

3.4. The proposed compensation terms for Ms. Danna Azrieli as detailed in this report do not include any change in the commercial terms of the Existing Management Agreement and therefore the 2012 payment figures are similar to the payment figures according to the agreement which is proposed for approval, with the required changes (mostly linkage and expenses).

4. **Name of the controlling shareholder with a personal interest in the transaction and the nature of his personal interest**

Mr. David Azrieli and his four children are deemed the controlling shareholders of the Company, by virtue of indirect holdings of the Company's shares through Azrieli Holdings Inc. ("**Azrieli Holdings**"), and by virtue of a shareholder agreement that governs the relationship of the shareholders of Azrieli as specified below:

To the best of the Company's knowledge, Azrieli Holdings is a private company incorporated under Canadian law. Azrieli Holdings holds all of the share capital of Nadav Investments Inc. ("**Nadav Investments**"), which is the direct controlling shareholder of the Company. Azrieli Holdings is wholly owned and controlled by members of the Azrieli family: Mr. David Azrieli, Chairman of the Company's board of directors, directly and indirectly holds approx. 38.9% of the issued and paid-up share capital of Azrieli Holdings, and his four children directly and indirectly hold the remaining share capital of Azrieli Holdings, as follows: Naomi Azrieli, Sharon Azrieli and Danna Azrieli: approx. 15.7% each, and David Azrieli in trust for Rafi Azrieli: approx. 13.9%. Mr. David Azrieli and his four children, Sharon Azrieli, Naomi Azrieli and Danna Azrieli and David Azrieli in trust for Rafi Azrieli, directly and through companies controlled by them (jointly: the "**Shareholders**") and Azrieli Holdings, as defined above, entered into an agreement dated November 19, 2012, which governs the conduct of Azrieli Holdings and the relationship between the Shareholders, including with respect to the holdings of the Company's shares (through Nadav Investments) (the "**Shareholders Agreement**"). Under the Shareholders Agreement, Mr. David Azrieli was vested with all the voting rights in Azrieli Holdings for his lifetime, including due to Azrieli Holdings shares held by his children, in such manner so that his voting in Azrieli Holdings will be done according to his exclusive discretion.

Mr. David Azrieli has a personal interest in the approval of the resolutions on the agenda, as he is a party to the engagement in the management agreement



contemplated herein and as he is the father of Ms. Danna Azrieli. Ms. Danna Azrieli has a personal interest in the approval of the resolutions on the agenda, as she is a party to the management agreement contemplated herein and as she is the daughter of Mr. David Azrieli.

5. **The manner in which the consideration for the transaction was determined**

5.1. The terms of the engagement with Mr. David Azrieli and Ms. Danna Azrieli were determined in negotiations between the Company and Mr. Azrieli respectively, and were based on the nature and scope of the management services and the responsibility entailed thereby and while taking into account their experience and unique contribution to the Company. The terms of the engagement were approved by the Company's compensation committee and board of directors, after holding many meetings with Mr. Azrieli and Ms. Azrieli, and after intensive deliberations over a considerable number of meetings wherein an examination was performed, *inter alia*, of the criteria listed in Section 267B(a) of the Companies Law, while also addressing the issues specified in Part A of Schedule One A of the Companies Law.

5.2. The compensation committee and board of directors examined, in relation to the proposed compensation terms for Mr. David Azrieli, comparative figures regarding the management fees and salary payable to the active board of directors' chairman in public companies traded on the Real Estate 15 Index and on the TA-15 Index, which were prepared by the financial consultants and distinguished between the various compensation components (on the basis of the 2012 periodic reports and immediate reports of index-traded companies), average and median figures of all the figures of the companies included in the sample and minimum and maximum figures. The financial work neutralized figures regarding relevant officers who worked parts of the year and in a scope of less than 60% of a position, and in relation to the latter an adjustment was made that would reflect the annual salary cost (adjustment of the fixed component only or the capital compensation to the relevant position percentage). In addition, figures were presented of the ratio between the administrative and general expenses of the Company and the relevant comparison companies.

5.3. The compensation committee and board of directors examined, in relation to the proposed compensation terms for Ms. Danna Azrieli, comparative figures between the proposed compensation for Ms. Azrieli and the compensation paid to senior HQ managers⁸ (“**Senior Executives**”) in several public companies traded on the Real Estate 15 Index and the TA-15 Index, insofar as relevant figures were published

⁸ Who are not the chairman of the board of directors or the CEO.



by them. In the absence of comparative figures for a vice chairman of the board of directors, the compensation committee and board of directors believed that it would be correct to examine comparative figures regarding the management fees and salary paid to Senior Executives in companies traded on the Real Estate 15 Index and TA-15 Index. These comparative figures included the compensation paid to Senior Executives in public Israeli companies traded on the TA-25 Index, the figures being based on the periodic reports for 2012 and immediate reports of these companies, insofar as published. The figures in the financial work as aforesaid included the average and median of all the figures of the companies in the sample as well as minimum and maximum figures. In addition, figures were presented regarding the ratio between the administrative and general expenses of the Company and the relevant comparison companies.

- 5.4. The compensation committee and board of directors noted that the object of the comparison is to obtain indicative information of the amounts of compensation customary on the Israeli market, and because of its limitations, is not an exact science and therefore constitutes only one indication of the range of considerations facing them when coming to consider the Company's interests and the fair and reasonable compensation.
- 5.5. See Section 10 below for the reasons of the compensation committee and board of directors for approving the aforesaid engagements.

6. **The approvals required for approval of the engagement**

The Company's engagement in the management agreements as specified in Section 2 of Part B of herein above, is subject to fulfillment of all of the following conditions:

- 6.1. Approval by the Company's compensation committee. Such approval was received in meetings of the compensation committee dated May 5, 2013 and May 8, 2013.
- 6.2. Approval by the Company's board of directors. Such approval was received at the board meeting on May 13, 2013.
- 6.3. Approval by the general meeting of the Company's shareholders, in accordance with the provisions of Section 3 of Part A of this immediate report.

7. **Transactions of the type of the proposed engagement between the Company and its controlling shareholder or that the controlling shareholders thereof has a personal interest in their approval**



In the two years that preceded the date of approval of the transaction by the Company's compensation committee and board of directors, no transactions have been approved of the type of the proposed engagement, or transactions similar thereto, between the Company and the controlling shareholder thereof or transactions in the approval of which the controlling shareholder has a personal interest, or which are still in force and effect, apart from the following:

- 7.1. On the eve of the Company's becoming a public company, in May 2010, the general meeting of the Company's shareholders approved, after receiving the approval of the Company's board of directors, the Company's engagement in an agreement for the provision of management services between the Company and Mr. David Azrieli (through companies owned by him) (the "**Current Management Agreement**"), whereby Mr. David Azrieli provides the Company management services at a full-time (100%) position, including, *inter alia*, services of consultancy, assistance, supervision and control that include leading the Company in its main operating segments, development and architectural planning, consultancy for the management and construction of commercial centers and malls, assistance in identifying acquisition transactions for the Company and so forth. In consideration for the aforesaid management services, the Company paid Mr. David Azrieli annual management fees in the amount of NIS 8 million for each calendar year, linked to the index. In addition to the aforesaid management fees, Mr. David Azrieli is entitled to a yearly bonus in an amount equal to 1% of the Company's EBITDA. Furthermore, Mr. David Azrieli served, for no additional consideration, as Active Chairman of the Company's board of directors. For details with respect to the cost of the Current Management Agreement in 2012, see Section 3.2 of Part B to this Report above. For a comparative table between the terms of the new management agreement and the existing management agreement see **Annex C** to this Report.
- 7.2. On May 1, 2010, on the eve of the Company's becoming a public company, the general meeting of the Company's shareholders approved, after receiving the approval of the Company's board of directors, the Company's engagement in an agreement for the provision of management services between the Company and Ms. Danna Azrieli, whereby Ms. Danna Azrieli provides management services to the Company at an 80%-position, which include, *inter alia*, the services of active vice chairman, assistance in formulating the Company's policy and strategy, assistance in formulating the Company's budget, assistance in negotiations and transactions and so forth. In consideration for the aforesaid management services, the Company paid Ms. Azrieli monthly management fees in the amount of NIS 164,711, linked to the index. For details with respect to the cost of the



Existing Management Agreement in 2012, see Section 3.4 below of Part B of this Report above.

8. **Names of directors of the Company who may be deemed as having a personal interest in the approval of the engagement and the nature of such personal interest**

Mr. David Azrieli has a personal interest in the approval of the resolutions on the agenda, as he is a party to the engagement in the management agreement contemplated herein and as he is the father of Ms. Danna Azrieli. Ms. Danna Azrieli has a personal interest in the approval of the resolutions on the agenda, as she is a party to the engagement in the management agreement contemplated herein and as she is the daughter of Mr. David Azrieli. Naomi and Sharon Azrieli have a personal interest in the approval of the resolutions on the agenda, as they are the daughters of Mr. David Azrieli and the sisters of Ms. Danna Azrieli.

9. **Names of directors who participated in the resolutions of the Company's compensation committee and board of directors**

9.1. The participants in the compensation committee meetings held on May 5, 2013 and May 8, 2013, in which the aforesaid engagement was approved, were Messrs. Mr. Efraim Halevy, outside director, Prof. Niv Ahituv and Mr. Joseph Ciechanover.

9.2. The participants in the board of directors meeting held on May 13, 2013, in which the aforesaid engagement was approved, were Messrs.: Mr. Efraim Halevy, Outside Director, Prof. Niv Ahituv, Outside Director and Mr. Joseph Ciechanover.

10. **The reasons of the compensation committee and board of directors for approval of the transaction**

10.1. Below is a summary of the reasons of the compensation committee and the board of directors of the Company for the approval of the Company's engagement in Mr. David Azrieli's management agreement:

10.1.1. Mr. David Azrieli is the founder of the Company and has been acting as the chairman of the Company's board of directors since 1983. For the past 30 years or so, Mr. David Azrieli has been leading the Company and outlining its activity and development and has had a crucial contribution, both in vision and in practice, to the Company's being, to date, the largest income-producing property company in Israel and one of the largest companies in the Israeli market, with exceptional stability and financial soundness.



- 10.1.2. Mr. Azrieli is a professional of first-rate skills, vast experience and expertise with respect to the Company's operating segment. His success is leading the Company over many years, including during challenging economic periods, attest to his unique qualifications and the advantage, from the Company's perspective, which is embodied in his holding office as Active Chairman of the Board of the Company.
- 10.1.3. The Company's engagement in the management agreement with Mr. David Azrieli is proper and appropriate considering the scope and nature of the management services that Mr. David Azrieli provides to the Company, the Company's business goals, Mr. David Azrieli's unique experience and contribution to the Company, as well as the Company's unique financial and business position and the scope of operation thereof, which is unusual in the Israeli economy.
- 10.1.4. The Company's compensation committee and board of directors also examined the ratio between the cost of the management fees and bonus proposed to Mr. David Azrieli and the salary cost of the other employees of the Company, in particular the relation to the cost of average salary and the cost of median salary of the Company's other employees, and found that the aforesaid ratios are reasonable and are not expected to affect the labor relations in the Company. In addition, an examination was carried out of the G&A expenses of the Company, whose size and scope of operations is exceptional, which are low compared with other companies traded on the Real Estate 15 Index.
- 10.1.5. The total amount of the offered compensation includes components which were intended to ensure Mr. Azrieli's activity for the purpose of maximizing the Company's profits, both in the short term and in the medium and long term. The bonus mechanism which is offered and the total compensation which will be granted to Mr. Azrieli shall not exceed a maximum ceiling which was determined.
- 10.1.6. The amount of the annual bonus offered to Mr. Azrieli derives from the Adjusted Profit calculated on the basis of the annual profit before tax, as recorded in the audited consolidated financial statements for the relevant year and neutralizing almost entirely one-time events, items which are external to the core operations and/or non-cash flow items (as defined in section 2.1.3.4 above). Such fact, together with the existence of a maximum ceiling and a minimal threshold



for bonus entitlement (which is a significant threshold – an adjusted profit of NIS 565 million) and the determination that the bonus shall be paid only due to an adjusted profit which exceeds the minimal threshold - constitute, in the opinion of the compensation committee and the board of directors, a correct expression of the link between the compensation which will be given to Mr. Azrieli and the Group's success in reaching its long term targets and his contribution to such results.

- 10.1.7. The compensation terms include a provision whereby the chairman of the board of directors shall repay or receive, as the case may be, sums paid to him or that were supposed to be paid to him as part of the terms of his service, based on material data that shall have transpired to be erroneous and shall have been restated in the Company's financial statements.
- 10.1.8. The withdrawal arrangement, which also existed in the previous agreement, is a debit and credit arrangement, and together with the automatic mechanism of set-off of the debit and credit from payment of the management fees in respect of Q4 of each year, plus linkage differentials and customary interest pursuant to the income tax regulations each year, has no effect whatsoever on the Company or the results thereof and certainly does not damage the Company.
- 10.1.9. In accordance with the comparative figures that were presented, the overall consideration offered to the Chairman of the Board is within the maximum threshold of compensation actually paid to chairmen in the sample companies in 2012. These figures are consistent with the uniqueness of the Chairman of the Board's contribution to and influence on the Company's activity, as well as the Company's uniqueness in the industry in which it operates so far as its value, scope of activity and business complexity is concerned.
- 10.1.10. The compensation committee and board of directors have confirmed that the engagement under the proposed compensation terms does not constitute a distribution, as per the meaning thereof in the Companies Law, and have further confirmed, after examining the annual cost of the proposed compensation terms compared with data presented to them by the Company's management at a meeting in March 2013, that there is no reasonable concern that the engagement under such compensation terms (in particular, as they are



considerably lower (67% less) (based on the figures of 2012) than the previous compensation terms), adjusting the fixed component to a 100% position, would prevent the Company from fulfilling its existing and foreseeable obligations when due and/or would adversely affect the Company's financial condition, including its capital structure, level of leverage, liquidity condition, the Company's investment plans or its ability to operate within its existing form of operation.

10.1.11. In light of all of the aforesaid reasons, the members of the compensation committee and the board of directors believe that Mr. David Azrieli's offered terms of office are reasonable and fair under the circumstances of the case, considering his position, the level of responsibility which will be imposed on him, his experience, and the level of his expected contribution to the Company and while noting the scope of the current operation thereof, the Company's targets and the many challenges which it faces.

10.1.12. There were no objections in the Company's compensation committee and board of directors to the engagement in the management agreement with Mr. David Azrieli.

10.2. **Below is a summary of the reasons of the compensation committee and the board of directors for approving the Company's engagement in Ms. Danna Azrieli's management agreement:**

10.2.1. Ms. Danna Azrieli was appointed to the position of Active Vice Chairman of the Company's board of directors as of the date of the Company's becoming a public company in May 2010. Ms. Danna Azrieli's *Aliyah* to Israel was accompanied by a commitment to follow in the footsteps of her father, Mr. David Azrieli, in the Company. Ms. Danna Azrieli has expertise, skills and experience in the Company's operating segment.

10.2.2. The Company's engagement in the management agreement with Ms. Danna Azrieli (which is a renewal of the existing agreement, with no change in the commercial terms, is proper and appropriate considering the scope and nature of the Management Services that Ms. Danna Azrieli provides to the Company, the Company's business goals, the experience and contribution of Ms. Danna Azrieli to the Company, and the Company's unique financial and business condition and the Company's scopes of operation, which are exceptional in the Israeli market, and the proposed compensation terms are reasonable and acceptable in the circumstances of the case.



- 10.2.3. The compensation committee and board of directors examined comparative figures regarding the amount of the proposed compensation relative to a company included in the Real Estate 15 Index and TA-25 Index, and found that the compensation offered to Ms. Azrieli does not deviate from what is acceptable for Senior Executives in the comparison companies. The total compensation offered to Ms. Danna Azrieli is within the first quartile (the lowest) of the compensation paid to Senior Executives in the comparison companies.
- 10.2.4. The compensation committee and board of directors of the Company also examined the ratio between the cost of the management fees offered to Ms. Danna Azrieli and the salary cost of the other employees of the Company and in particular the ratio relative to the average salary and the median salary of the Company's employees, and found that the aforesaid ratios are reasonable. In addition, the G&A expenses of Company, whose size and scope of activity are exceptional, are low relative to other companies traded on the Real Estate 15 Index.
- 10.2.5. The retirement terms of the proposed compensation are capped. The compensation committee and board of directors are of the opinion that the retirement terms which have been determined and the compensation periods are reasonable and proper considering the entirety of the considerations and figures presented to them.
- 10.2.6. The compensation committee and board of directors have confirmed that the engagement under the proposed compensation terms does not constitute a distribution, as per the meaning thereof in the Companies Law, and have further confirmed, after examining the annual cost of the proposed compensation terms compared with data presented to them by the Company's management at a meeting in March 2013, that there is no reasonable concern that the engagement under the said compensation terms would prevent the Company from fulfilling its existing and foreseeable obligations when due and/or would adversely affect the Company's financial condition, including its capital structure, level of leverage, its liquidity condition, the Company's investment plans or its ability to operate within its existing form of operation.
- 10.2.7. In view of all of the reasons specified above, the members of the compensation committee and the board of directors



believe that the compensation which is offered to Ms. Danna Azrieli pursuant to the management agreement is reasonable, fair and in the Company's best interest and reflects appropriate and proper compensation considering the Company's goals and the many challenges it faces, Ms. Danna Azrieli's position, qualifications, experience, Ms. Danna Azrieli's contribution to the Company, the scope of the management services, their quality and the responsibility which is imposed on her.

10.2.8. There were no objections in the Company's compensation committee and board of directors to the engagement in the management agreement with Ms. Danna Azrieli.

11. **The power of the Securities Authority**

Under the provisions of Regulation 10 of the Securities Regulations (a Transaction between a Company and its Controlling Shareholder), 5761-2001:

11.1. The Securities Authority or an employee authorized for this purpose thereby (the "ISA") may, within twenty one days as of the submission of this immediate report, order the Company to provide, within such time as shall be set thereby, explanations, specifications, information and documents pertaining to the subject-matters specified in the sections hereinabove, and also to order the Company to amend this report in such manner and on such time as shall be set thereby.

11.2. If an order for the amendment of the report is issued as aforesaid, the ISA may order the postponement of the date of the general meeting to a date no earlier than the elapse of 3 business days and no later than 35 days as of the date of release of the amendment to this immediate report.

11.3. The Company shall submit an amendment pursuant to such order, in the manner prescribed by Regulation 2(a)(1) of the Regulations for a Transaction with a Controlling Shareholder, shall send it to all of the shareholders to whom this immediate report was sent and shall also publish an announcement on this matter, in the manner prescribed by Regulation 2(a)(2) of the Regulations for a Transaction with a Controlling Shareholder, all unless the ISA shall have otherwise ordered.

11.4. If an order for the postponement of the date of the convening of the general meeting is given, the Company shall give notice of such order via an immediate report.

12. **Inspection of documents**



A copy of this report, including the annexes hereto, is available for inspection at the Company's Offices, after prior coordination by telephone: 03-6081300, Sundays through Fridays between 09:00 and 17:00, such until the date of convening of the general meeting for the approval of the resolution on the agenda, and also on the Securities Authority website at www.magna.isa.gov.il.

13. **The Company's representatives in charge of the immediate report**

The Company's representative in charge of this immediate report is Michal Kamir, General Counsel and Company Secretary, whose address is at Azrieli Center, Tel Aviv (floor 48, the Round Tower) (the "**Company's Offices**"), Tel. for inquiries: 03-6081383.

**Sincerely,
The Azrieli Group Ltd.**

**Signed by: Michal Kamir, Adv.
General Counsel and Company
Secretary**



Annex A – Details of Ms. Tzipa Carmon according to Regulation 26 of the Immediate Reports Regulations

Tzipora Carmon	Name:
51528933	I.D. No.:
December 7, 1952	Date of birth:
1 Azrieli Center, Tel Aviv	Address for service of process:
Israeli	Citizenship:
Audit Committee; Compensation Committee; and the Financial Statements Review Committee.	Membership of Board of Directors Committees:
Independent director	Outside Director/Independent Director:
None.	Position held in the Company, a subsidiary, an affiliate of the Company or of an interested party thereof:
May 19, 2013	Commencement date of office as a Director:
MBA with a major in marketing and international commerce. BA in education and sociology from the Hebrew University in Jerusalem.	Education:
1992 to date: manages the company of TC Exports. 2009 to date: member of the board of directors of Delta Galil Industries Ltd.	Occupation in the last five years and specification of other corporations wherein he serves as director:
No	Family relation to another interested party in the Company:
Has expertise in finance and accounting and a professional qualification.	Has expertise in finance and accounting or professional qualification:



Annex B – Directors’ Declarations

[Signed declarations attached]



Annex C – Comparative Summary between the Main Terms of Mr. David Azrieli's Existing Management Agreement and the Main Terms of the New Management Agreement⁹

	Current Agreement	Proposed Agreement
Services	<ul style="list-style-type: none"> • Services of consultancy, assistance, supervision and control; • Leading the Group in its operating segments; • Contribution of his expertise in development and architectural planning; • Consultancy on the management and construction of commercial centers, malls and office towers and creating a varied and quality blend of lessees; • Professional and business support; • Assistance in identifying acquisition transactions; • Assistance in negotiations for acquisitions and mergers; • Supervision over business development and marketing research management; • In addition, services of active chairman of the board were provided for no additional charge. 	<ul style="list-style-type: none"> • Active chairman of the board of directors; • Chairman of the executive management in the area of making strategic, business and managerial decisions in connection with development, management of the Group's assets, business development, financing and budget, targets, examination of new operating segments; • Provision of ongoing managerial and professional consultancy to the Group's management and the managers of the main operating segments; • Identification and analysis of business opportunities and supporting transactions and acquisitions in Israel and abroad; • Consultancy and supervision over development and construction and business development abroad.
Position Scope	100%	80%
Fixed Annual Management Fees	NIS 8.7 million as of March 2013 (NIS 8 million in nominal terms)	NIS 4.5 million (nominal) per year, through management companies, linked to the index. The proposed fixed component represents approx. 45% of the maximum overall compensation.
Annual Bonus	1% of the EBITDA (net of	<u>The proposed index:</u>

⁹ For specification of the terms of the new management agreement see Section 2.1 of Part B of this Report above.



revaluations) (NIS 14.3 million for 2012)

"adjusted profit" neutralizing various influences that are not related to the Company's core business as provided in section 2.1.3.4 above.

- Threshold for bonus receipt – NIS 565 million
- Bonus target brackets up to bonus cap:
 - Between NIS 565 million and NIS 765 million – 0.75% of the difference between 565 and the actual adjusted profit
 - • Above NIS 765 million – 1.5% of the amount exceeding NIS 765 million, plus 0.75% of the difference between 765 and 565.
- Cap - up to 55% of the total overall compensation, i.e. NIS 5.5 million
- Note: average adjusted profit in 2010 to 2012 – NIS 765 million

Repayment of Compensation

-

A clause will be determined for bonus restitution in case it transpires, retroactively, that the data is erroneous and restatement thereof in the financial statements is required.

Term of Agreement

Until June 2, 2013 (inclusive) (in light of Amendment 16)

3 years, until June 2, 2016 (inclusive)

Compensation cap

NIS 24 million (nominal), index-linked

Fixed component – NIS 4.5 million (nominal), index-linked.

Variable component – up to NIS 5.5 million (unlinked).



AZRIELI GROUP