

Azrieli Group Ltd.
(the “Company”)

January 27, 2016

Israel Securities Authority
Via Magna

Tel Aviv Stock Exchange Ltd.
Via Magna

Re: An immediate report concerning the calling of an annual and special general meeting of the Company in accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the “Reports Regulations”), the Securities Regulations (Transaction between a Company and a Controlling Shareholder thereof), 5761-2001 (the “Controlling Shareholder Regulations”), and the Companies Law, 5759-1999 (the “Companies Law”).

In accordance with the Reports Regulations and the Companies Law, the Company hereby gives notice with respect to the calling of an annual and special general meeting of the shareholders of the Company (the “**General Meeting**”), which shall convene on Sunday, March 6, 2016, at 16:00 (Israel time), at the Company's offices at the Azrieli Center, Tel Aviv (Floor 48, Round Tower) (the “**Company's Offices**”). Telephone for inquiries: 03-6081383.

1. The issues on the agenda

- 1.1. Approval of the Company's engagement in an agreement for the purchase of one share of Canit Hashalom Investments Ltd. from Azrieli Foundation (Israel) (R.A.).
- 1.2. Reappointment of the directors presently serving on the Company's board of directors (other than outside directors) for an additional term of office until the end of the Company's next annual meeting of the Company's shareholders (unless the office shall have been previously terminated in accordance with the provisions of the Companies Law or the Company's articles of association). Voting shall be carried out separately for each one of the directors.
- 1.3. Reappointment of the accounting firm Deloitte - Brightman, Almagor, Zohar & Co. as the Company's auditors until the end of the Company's next annual general meeting.
- 1.4. Discussion of the audited annual financial statements of the Company for the year ended on December 31, 2014, and of the board of directors' report on the state of the Company's affairs for the year ended on December 31, 2014.

2. Summary of the transaction

Approval of the Company's engagement in an agreement for the purchase of one share of Canit Hashalom Investments Ltd., a subsidiary held by the

Company at a rate of approx. 99.1%, from Azrieli Foundation (Israel) (R.A.), in consideration for NIS 51 million, a purchase following which, if approved, the Company shall hold 100% of the issued share capital of Canit Hashalom Investments Ltd., all as specified in Part B of the invitation report below.

3. **Name of the controlling shareholder holding a personal interest in the transaction**

Ms. Danna Azrieli (Chairman of the Board of the Company), Ms. Naomi Azrieli and Ms. Sharon Azrieli (directors of the Company), are deemed controlling shareholders of the Company (collectively: the "**Directors Who Are Controlling Shareholders**"), by virtue of an indirect holding of Company shares through Azrieli Holdings Inc. ("**Azrieli Holdings**"), and by virtue of a shareholder agreement regulating the relationship of the shareholders of Azrieli Holdings, all as specified in Section 7.11 of Part B of the invitation report below. For the nature of the personal interest, see Section 4 below.

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

Ms. Danna Azrieli, Ms. Sharon Azrieli and Ms. Naomi Azrieli, may be deemed as having a personal interest in the transaction contemplated in Section 1.1 above, due to their service on the Company's board of directors and on the board of Azrieli Foundation (Israel) (R.A.).

5. **Required majority**

5.1. The majority required for approval of the resolution specified in Section 1.1 above is, in accordance with the provisions of Section 275 of the Companies Law, a majority of all of the votes of the shareholders present at the general meeting, provided that one of the following is also met: (a) the majority vote count in the general meeting shall include a majority of all of the votes of shareholders who do not hold a personal interest in the approval of the transaction, who participated in the vote (the count of votes of all of the votes of the aforesaid shareholders shall exclude the abstaining votes); (b) all of the dissenting votes among the shareholders mentioned in subparagraph (a) above shall not exceed a rate of two percent (2%) of all of the voting rights in the Company.

5.2. The required majority for approval of the resolutions listed in Sections 1.2-1.4 above is a simple majority of all of the votes of the shareholders present, who are entitled to vote and who voted therein.

6. **Legal quorum**

The legal quorum for opening the discussion at the meeting shall consist of one or more shareholders, who is/are present in person or by proxy or via voting card (including an electronic voting card), and holding or representing

at least fifty one percent (51%) of the voting rights in the Company. If two hours shall have elapsed from the time scheduled for the meeting and no legal quorum is present, 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 of directors in a notice to the shareholders. The Company shall give notice of the adjournment of the meeting and the date of the holding of the adjourned meeting through an immediate report.

If no legal quorum is present at the adjourned meeting as aforesaid, legal quorum shall consist of one or more shareholders, who is/are present in person or by proxy or via voting card (including an electronic voting card), and holding or representing at least forty percent (40%) of the voting rights in the Company, unless the general meeting shall have been 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 convened pursuant to the demand of shareholders as aforesaid, legal quorum shall consist of at least one shareholder, who is present at the adjourned meeting in person or by proxy or via voting card (including an electronic voting card).

7. **Inspection of documents**

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

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Specification of the issues on the agenda of the general meeting:

1. **Approval of the Company's engagement in an agreement for the purchase of one share of Canit Hashalom Investments Ltd. ("Canit Hashalom") from Azrieli Foundation (Israel) (R.A.)**

Proposed language of the resolution: To approve the Company's engagement with the Foundation in an agreement for the purchase of the Contribution Share.

For additional details regarding this resolution see Part B of this Report below.

2. **Appointment of directors**

Approval of the reappointment of the directors presently serving on the Company's board of directors (other than outside directors) for an additional term of office until the end of the Company's next annual meeting of the Company's shareholders, unless the office shall have been previously terminated in accordance with the provisions of the Companies Law or the Company's articles of association (the "**Additional Term of Office**"):

- 2.1. Ms. Danna Azrieli (Chairman of the board).

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

2.2. Ms. Sharon Azrieli.

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

2.3. Ms. Naomi Azrieli.

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

2.4. Mr. Joseph Ciechanover (independent director).

Proposed language of the resolution: To approve the reappointment of Mr. Joseph Ciechanover as a director of the Company for an Additional Term of Office.

2.5. Ms. Tzipora Carmon (independent director).

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

2.6. Mr. Oran Dror (independent director).

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

Each one of the aforesaid directors has signed a statement as required under Section 224B of the Companies Law, and in such context the independent directors declared that they qualify under paragraphs (1) and (2) of the definition "Independent Director" in Section 1 of the Companies Law. The directors' statements are attached hereto as **Annex A**, and they may be further inspected at the Company's registered office.

Details regarding the aforesaid directors are incorporated herein by reference to the details provided according to Regulation 26 of the Reports Regulations in Part D of the periodic report for 2014, as released (amended version) on May 7, 2015 (Reference No. 2015-01-015303) (hereinafter: the "**2014 Periodic Report**"). As of the calling date of the meeting, no changes transpired in the details of said directors since the date of the 2014 Periodic Report, other than the details pertaining to the "occupation in the last five years and other corporations wherein he serves as director" in regards of Messrs. Joseph Ciechanover and Oran Dror, and therefore the updated details shall be provided below:

Name of the director	Occupation in the last five years and other corporations wherein he serves as director
Joseph Ciechanover	Consultant for Etgar 2 Fund by way of the Atidim Funds Management Co. Ltd. Director at Harel Investments, Insurance and Financial Services Ltd., Mifal HaPaysis and at the Israel Museum. Chairman and CEO of Atidim Funds Management and I.Y.Z Ltd. Member of the associations: the Jacob Isler Foundation, the Dayan Center – Tel Aviv University, the Elie Wiesel Foundation, R.A. and the National Science Foundation NPO.
Oran Dror	CEO and director of Dror Liat Investment Ltd. (a company he controls); CEO and director of N.B.X. e-Service Solutions Ltd. (a company he controls); VP at VATBox Ltd. (through Dror Liat Investment Ltd.); CEO of IncrediPlay Ltd.; Executive director and VP Telecom - MEA regional management of Microsoft International; Executive director and VP Sales at Microsoft Israel.

The salary and terms of office of each of the directors, as the case may be, shall remain unchanged, including the continued effect of the letters of exemption and indemnification given to them (as the case may be) and their inclusion within the officers' insurance policy of the Company. For additional details see subsections 6 and 7 of Section 1 of Chapter E of the 2014 Periodic Report.

3. **Appointment of an auditor**

In accordance with the Company's articles of association, the Company's board of directors has been authorized, after receipt of the recommendation of the Company's audit committee, to determine the auditor's fee for audit functions and for additional services according to the nature and scope of the services provided and to be provided to the Company. For details regarding the fee paid to the auditor for 2014, see Section 7 of the corporate governance report within the Company's periodic report as of December 31, 2014.

Proposed language of the resolution: Approval of the reappointment of the accounting firm Deloitte - Brightman, Almagor, Zohar & Co. as the Company's auditors until the end of the Company's next annual general meeting.

4. **Discussion of the audited annual financial statements of the Company for the year ended on December 31, 2014, and of the board of directors' report on the state of the Company's affairs for the year ended on December 31, 2014**

Discussion of the audited annual financial statements of the Company for the year ended on December 31, 2014, and of the board of directors' report on the state of the Company's affairs for the year ended on December 31, 2014. Said reports are included in the 2014 Periodic Report which may be inspected on the ISA distribution site at: <http://www.magna.isa.gov.il> and on the website of the Tel Aviv Stock Exchange Ltd. at: <http://maya.tase.co.il>. No vote shall be held regarding this issue, but only a discussion.

Part A – Additional Details Regarding the General Meeting

5. The required majority at the General Meeting for approving the issues on the agenda

5.1. The majority required for adopting the resolution specified in Section 1 above is, in accordance with the provisions of Section 275 of the Companies Law, a majority of all of the votes of the shareholders present at the general meeting, provided that one of the following is also met:

5.1.1. the majority vote count in the general meeting shall include a majority of all of the votes of shareholders who do not hold a personal interest in approving the transaction, who participated in the vote (the count of votes of all of the votes of the aforesaid shareholders shall exclude the abstaining votes);

5.1.2. all of the dissenting votes among the shareholders mentioned in subsection 5.1.1 above shall not exceed a rate of two percent of all of the voting rights in the Company.

5.2. The required majority for approval of the resolutions specified in Sections 2 and 3 above is a simple majority of all of the votes of the shareholders present, who are entitled to vote and who voted therein.

5.3. In accordance with the provisions of Section 276 of the Companies Law, prior to the vote, each shareholder wishing to participate in the vote on Resolution No. 1, will be required to notify the Company whether or not he holds a personal interest in the approval of the resolution. Should a shareholder fail to provide said notice, he shall not vote at the meeting and his vote shall not be counted. It is noted that the notification obligation regarding the existence or absence of a personal interest as aforesaid, applies also to a shareholder wishing to participate in the vote through a proxy for the vote. This provision shall also apply to a proxy or attorney of a shareholder of the Company.

6. Procedures of the Meeting and the Vote

6.1. Voting Method

A shareholder who is registered as a shareholder in the Company's shareholder register (a "**Registered Shareholder**") is entitled to vote at the meeting either personally (participation at the meeting), through an attorney, through a voting card as defined in Section 87 of the Companies Law, the form of which is attached hereto ("**Voting Card**"). A shareholder pursuant to Section 177(1) of the Companies Law (i.e. - 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) ("**Unregistered Shareholder**"), may vote in the methods specified above, as well as through an electronic voting card that will be delivered to the

Company via the electronic voting system which is operated in accordance with Title B of Chapter G2 of the Securities Law, 5728-1968 (“**Electronic Vote**”, “**Electronic Voting System**” and “**Electronic Voting Card**”, respectively).

6.2. Meeting Time; Adjourned Meeting; Record Date

The General Meeting shall convene on Sunday, March 6, 2016, at 16:00, at the Company’s Offices.

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

The legal quorum for opening the discussion at the meeting shall consist of one or more shareholders, who is/are present in person or by proxy or via voting card (including an electronic voting card), and holding or representing at least fifty one percent (51%) of the voting rights in the Company. If two hours shall have elapsed from the time scheduled for the meeting and no legal quorum is present, 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 of directors in a notice to the shareholders. The Company shall give notice of the adjournment of the meeting and the date of the holding of the adjourned meeting through an immediate report. If no legal quorum is present at the adjourned meeting as aforesaid, legal quorum shall consist of one or more shareholders, who is/are present in person or by proxy or via voting card (including an electronic voting card), and holding or representing at least forty percent (40%) of the voting rights in the Company, unless the general meeting shall have been 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 convened pursuant to the demand of shareholders as aforesaid, legal quorum shall consist of at least one shareholder, who is present at the adjourned meeting in person or by proxy or via voting card (including an electronic voting card).

The record date for the determination of the entitlement of a shareholder to vote at the General Meeting as provided in Section 182 of the Companies Law, 5759-1999, and in Regulation 3 of the Companies Regulations (Voting in Writing and Position Statements), 5766-2005 (“**Written Voting Regulations**”), is the end of the trading day at the TASE on Thursday, February 4, 2016 (the “**Record Date**”).

6.3. Attorney for the Vote

A shareholder may appoint an attorney to participate and vote in his stead, who need not be a shareholder of the Company.

The appointment of a representative or attorney to participate and vote at the meeting on behalf of the shareholder shall be made in writing,

signed by the shareholder or by his legal attorney authorized therefor in writing, and if the appointing shareholder is a corporation, the power of attorney shall be signed in the same method by which such corporation signs documents which bind it. If the appointing party is a corporation, a lawyer certification whereby the power of attorney was signed in accordance with the articles of association of such corporation, shall be attached to the power of attorney. Voting according to the terms of the power of attorney shall be legal notwithstanding the prior demise of the appointing shareholder or him being declared bankrupt or incompetent or his cancellation of the letter of appointment or transfer of the share in respect of which it was issued, or, if it is a corporation, a liquidator or receiver were appointed therefor, unless a written notice (certified to the satisfaction of the Company's directors) regarding said change shall have been received at the Company's Offices at least one hour prior to the time scheduled for the meeting. However, the Chairman of the General Meeting will be entitled to accept such written notice also in the course of the General Meeting, provided that according to his discretion, there is an adequate reason for the delay in delivering such notice. A letter of appointment of attorney and power of attorney or another certificate (if any) or a copy certified by a notary, shall be deposited at the Company's Offices with the Company's secretariat up to forty-eight (48) hours prior to the time scheduled for the General Meeting, i.e. until March 4 at 16:00. Such a deposit, referring to the time specified for the convening of the meeting, shall be valid also for the purpose of the adjourned meeting.

6.4. Written votes; position statements

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

The voting card and the position statements, within the meaning thereof in Section 88 of the Companies Law, if delivered, may be inspected on the distribution site of the ISA, at: <http://www.magna.isa.gov.il> (the "**Distribution Site**") and on the website of the Tel Aviv Stock Exchange Ltd., at: <http://maya.tase.co.il> (the "**TASE Site**"). Each shareholder is entitled to approach the Company directly and to receive therefrom the language of the voting card and the position statements (if delivered).

A TASE member shall send, free of charge, via e-mail, a link to the language of the voting card and the position statements (if delivered) on the Distribution Site to any shareholder of the Company who is not registered in the shareholders' register of the Company and whose shares are registered with such TASE member, unless the shareholder has given notice that he is not interested therein or that he is interested in receiving voting cards by mail in consideration for payment of a

delivery fee, provided that the notice is given in respect of a specific securities account and on a date prior to the record date.

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

A voting card to which no Confirmation of Ownership was attached (or alternatively the Confirmation of Ownership was not delivered via the Electronic Voting System), or in relation to a Registered Shareholder, to which a photocopy of an I.D. card, passport or certificate of incorporation, as the case may be, was not attached, will be invalid.

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

The last date for delivery of position statements to the Company by the Company's shareholders is up to ten days before the date of the meeting, i.e. by Thursday, February 25, 2016.

6.5. Electronic voting

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

Voting via the Electronic Voting System will be possible from the end of the record date until 6 hours before the time of the convening of the meeting (i.e. until Sunday, March 6, 2016 at 10:00), or until an earlier date that is determined by the ISA, provided that it is no more than 12

hours before the time of the convening of the meeting (the “**System Lockdown Time**”), when the Electronic Voting System will be closed. The vote on the Electronic Voting System may be changed or cancelled until the System Lockdown Time and it will not be possible to change it via the Electronic Voting System after such time.

Pursuant to Section 83(d) of the Companies Law, if a shareholder votes via more than one method, his later vote will be counted, while for this purpose, a vote of a shareholder himself or via proxy shall be deemed later than a vote via a voting card or the Electronic Voting System.

6.6. Confirmation of ownership

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

6.7. Changes to the agenda; the last date for delivery of a request to include an issue on the agenda by a shareholder

After the publication of this Invitation Report, there may be changes to the agenda, including the addition of an issue to the agenda, position statements may be published, and the current agenda and the position statements may be perused in the Company’s reports that shall be released on the Distribution Site and the TASE Site. A request of a shareholder pursuant to Section 66(b) of the Companies Law to include an issue on the agenda of the General Meeting will be delivered to the Company up to seven days after the summoning of the meeting. If such a request is submitted, the issue may be added to the agenda and the details thereof shall appear on the Distribution Site. In such a case, the Company shall publish an amended voting card together with an amended invitation report, no later than seven days after the last date for delivery of a request of a shareholder for the inclusion of an issue on the agenda as aforesaid.

Part B – Purchase of the Canit Hashalom share

Details that are required in relation to resolution number 1 in accordance with the Controlling Shareholder Regulations

7. Description of the main parts of the transaction

General background

- 7.1. In November 2008 (prior to the Company's public offering), and in the context of a process of restructuring of the companies in Azrieli Group and mainly steps for uniting similar activities of the Group that were performed in sister companies and streamlining of the Group's current operations, the Company engaged in an agreement with Nadav Investments Inc. ("**Nadav Investments**")¹. In the context of the aforesaid agreement, Nadav Investments transferred to the Company, in consideration for the allotment of shares in the Company, its shares in part of the companies of the Group (as is) including 113 shares of Canit Hashalom Investments Ltd. ("**Canit Hashalom**") (which constitute approx. 99.1% of the issued and paid up share capital of Canit Hashalom), a subsidiary of the Company that operates in the field of development, management, construction, purchase and rental of retail and office buildings in Israel and in Texas USA, and also holds shares of Granite Hacarmel Investments Ltd. ("**Granite**") which holds companies that operate in the field of oil distillates, water and industrial waste and chemicals and the marketing and supply of LPG and natural gas².

The balance of Canit Hashalom's issued and paid up capital (one share that constitutes approx. 0.9% of Canit Hashalom's issued and paid up capital) remained in the ownership of Mr. David Azrieli OBM ("**Mr. Azrieli**"), formerly the Chairman of the Company's Board of Directors and the controlling shareholder of the Company.

- 7.2. In June 2013, Mr. Azrieli transferred, for no consideration and by way of a contribution, his rights in one share of Canit Hashalom (the "**Contribution Share**" or "**Canit Share**") to the Azrieli Foundation (Israel) (R.A.), a not-for-profit association that is registered in Israel, which actively engages in the promotion of education, medical and scientific research, society, welfare, art and culture in Israel through running of programs and projects, alone and/or together with other organizations, and giving of grants to organizations that operate in

¹ Nadav Investments is a private company incorporated pursuant to Canadian law, which is wholly owned and controlled by Azrieli holdings. For additional details see Section 8.6 below.

² For details on the companies that are held by Granite, a subsidiary wholly held by Canit Hashalom, see Sections 11 and 13.1 of Part A of the 2014 Periodic Report. For details on the companies held by Canit Hashalom in the real estate segment, see Section 1.2.1 and the description which is relevant with respect to the Company's following activity segments: the retail centers and malls in Israel segment, the office and other space for lease in Israel segment, and the income-producing property segment in the USA that is provided in Part A of the 2014 Periodic Report.

fields that are consistent with the objectives of the association (the "Foundation"). The contribution was made pursuant to a deed of contribution and a letter which accompanied it, signed by Mr. Azrieli and addressed to the Foundation, both dated June 9, 2013 (jointly, the "**Contribution Agreement**").

- 7.3. Pursuant to the provisions of the Contribution Agreement, after the lock-up period (that was set at 24 months, which have lapsed as of this date), the Foundation may sell and transfer, pledge or perform any other disposition in relation to the Contribution Share (each, the "**Transfer**") – solely to the Company (the "**Transferability Limitation**") however, a Transfer may be made to third parties that are not the Company or in their favor, following receipt of Mr. Azrieli's written consent thereto. The consideration that will be paid to the Foundation for the Contribution Share will be determined according to a valuation prepared by a valuator whose identity will be determined by the Company.
- 7.4. In the context of the Company's strategic decision to focus on the real estate industry, that includes, *inter alia*, the recent negotiations for the sale of the control of Granite's subsidiaries, the Company has contacted the Foundation, after the expiration of the lock-up period as aforesaid, and announced its wish to purchase the Contribution Share from the Foundation, a purchase pursuant to which the Company will hold 100% of Canit Hashalom's issued share capital.
- 7.5. A resolution is brought before the Company's General Meeting to approve the Company's engagement in an agreement to purchase the Canit Share from the Foundation (the "**Share Purchase Agreement**"), the essence of whose terms will be presented below.

The essence of the main terms and conditions of the Share Purchase Agreement

- 7.6. In accordance with the provisions of the Share Purchase Agreement in which the Company is expected to engage immediately after obtaining the General Meeting's approval for the engagement, the Company will purchase the Canit Share in consideration for NIS 51 million, that will be paid in cash on the agreement closing date.
- 7.7. The Canit Share will be purchased in its condition as is, without the Foundation providing representations with respect to Canit and/or its operations. In the context of the agreement, the Foundation will provide representations that are standard in agreements of this kind with respect to its ownership of the Canit Share, and it being free and clear of any third party right of any kind.
- 7.8. The Share Purchase Agreement will be closed on the date of execution of the agreement and from the time of execution thereof (as aforesaid, shortly following receipt of the General Meeting's approval for the engagement therein) will not include conditions precedent of any kind.

- 7.9. Note in this context that the Canit Share that will be purchased in the context of the agreement constitutes (in view of the fact that it constitutes less than 0.9% of Canit's capital) a negligible asset relative to the Company's business and operations, as provided in Regulation 6(c) of the Controlling Shareholder Regulations.
- 7.10. The closing of the transaction (if and insofar as the same is approved by the General Meeting invited in this Report), is not expected to have an effect on the Company's income statement.
- 7.11. **The name of the Controlling Shareholder of the Company as the term is defined in Section 268 of the Companies Law who has a personal interest in the resolution on the agenda and the nature of his personal interest**

Azrieli Holdings Inc. ("**Azrieli Holdings**") is a private company incorporated pursuant to Canadian Law. As the Company has been informed, Azrieli Holdings is controlled by Sharon Azrieli, Naomi Azrieli and Danna Azrieli, either directly or through Canadian holding corporations. Azrieli Holdings now holds approx. 55.62% of the share capital of the Company directly and through its holding of the entire (100%) share capital of Nadav Investments (as defined above), which is the direct controlling shareholder of the Company, and approx. 61.31%³ of the voting rights in the Company.

Until his demise in July 2014, Mr. David Azrieli OBM held, directly and indirectly, including through a Canadian holding corporation controlled by him (the "**David Holding Corporation**"), approx. 44.77% of the shares of Azrieli Holdings' capital, and all of the voting

³ Azrieli Holdings and the Foundation executed a contribution agreement dated March 13, 2014 (the "**Contribution Agreement**"). Pursuant to the Contribution Agreement, Azrieli Holdings gave the Foundation, by way of a contribution and for no consideration, 6,902,000 ordinary shares of par value NIS 0.1 each of the Company (the "**Contribution Shares**"), which constitute approx. 5.69% of the Company's issued capital. In accordance with the provisions of the Contribution Agreement, the contribution of the Contribution Shares to the Foundation was made subject to 3 terms as follows: 1. The Foundation will hold the Contribution Shares, neither transfer nor perform any other disposition in them, for a period of at least 10 years from the date of execution of the agreement (the "**Limitation Period**"); Upon expiration of the Limitation Period, each transfer of the Contribution Shares by the Foundation will require a resolution with a special majority of at least 75% of the members of the Board of the Foundation (or any other necessary organ), who are entitled to participate in the vote on this resolution (the "**Special Approval**"); 2. Upon expiration of the Limitation Period and subject to receipt of the Special Approval as aforesaid, each future transfer of the Contribution Shares will be subject to a right of first refusal in favor of Azrieli Holdings; 3. All of the voting rights by virtue of the Contribution Shares will remain in the possession of Azrieli Holdings and to this end the Foundation will sign the necessary powers of attorney that will be irrevocable for the duration of the Limitation Period. In the event of a future sale of the Contribution Shares by the Foundation, the aforesaid powers of attorney will expire and the voting rights in the Contribution Shares will pass on to the buyer. Following receipt of the Contribution Shares the Foundation has become an Interested Party in the Company within the definition of such term in the Securities Law, 5728-1968 (the "**Securities Law**"), and pursuant to the provisions of the Contribution Agreement, Azrieli Holdings and the Foundation are deemed as "Joint Holders", within the definition of such term in the Securities Law; With respect to the obligations that pursuant to the Companies Law either apply or refer to controlling shareholders of a company, the Company will treat the Foundation as if it is a controlling shareholder of the Company, together with Azrieli Holdings, even if the same is not called for pursuant to the provisions of the law and so long as no other notice shall have been given by the Company, in an immediate report.

rights in Azrieli Holdings (including the voting rights in his children's shares that were held by him in trust).

Following the demise of Mr. David Azrieli OBM, the shares of Azrieli Holdings previously held by him and his shares in David Holding Corporation were transferred to his estate, and Sharon Azrieli, Naomi Azrieli and Danna Azrieli were appointed as the 3 directors of Azrieli Holdings and of Nadav Investments.

As the Company has been informed, on April 13, 2015, a distribution was made from the estate of Mr. Azrieli OBM of his shares in Azrieli Holdings and in David Holding Corporation. Pursuant to the aforesaid distribution, each of Sharon Azrieli, Naomi Azrieli and Danna Azrieli holds, directly and through David Holding Corporation, approx. 27.24% of the capital rights in Azrieli Holdings and approx. 33.13% of the voting rights in Azrieli Holdings, and together they hold approx. 81.73% of the capital rights in Azrieli Holdings and approx. 99.39% of the voting rights therein. The remaining shares of Azrieli Holdings are held mainly by the Azrieli Foundation of Canada (an interested party in the Company) which pursuant to the distribution of the estate holds (indirectly, through the holding of the shares of David Holding Corporation), 15.93% of the shares of Azrieli Holdings, with no voting rights.

As the Company has been informed, all of the shareholders of Azrieli Holdings are tied up in a shareholder agreement among them (for further details see Section 3.5 of the Company's shelf prospectus dated May 13, 2013) which, *inter alia*, confers upon each of Sharon Azrieli, Naomi Azrieli and Danna Azrieli the right to nominate one of the three directors to the boards of directors of Azrieli Holdings and of Nadav Investments.

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

Ms. Sharon Azrieli, Ms. Naomi Azrieli and Ms. Danna Azrieli may be deemed as having a personal interest in the approval of the resolution to engage in the Share Purchase Agreement due to their holding of office on the Board of the Foundation, the other party to the Share Purchase Agreement.

In view of the aforesaid, and in view of a voluntary resolution adopted by the Company, whereby, with respect to obligations that pursuant to the Companies Law either apply or refer to controlling shareholders of a company, the Company will treat the Foundation as if it is a controlling shareholder of the Company, together with Azrieli Holdings, even if the same is not called for pursuant to the provisions of the law, this resolution is brought for approval by the Company's General Meeting.

7.12. **The manner in which the consideration was determined**

According to the Contribution Agreement, the consideration for the Contribution Share shall be determined according to a valuation that

will be made by a body whose identity shall be determined by the Company.

On July 1, 2015, the Company's audit committee appointed Messrs. Efraim Halevy (outside director) and Prof. Niv Ahituv (outside director) as a special committee of the Company's board of directors with respect to the purchase of the Contribution Share (the "**Committee**"). As per the Committee's choice, the Company retained Giza Singer Even Financial Advisors Ltd., an independent economic expert, for the valuation of Canit Hashalom (the "**Giza Valuation**").

According to the Giza Valuation (which was prepared on the basis of the net asset value of Canit Hashalom as of September 30, 2015) – the value of Canit Hashalom (100%) was estimated in the amount of approx. NIS 6,897 million.

In addition, the Committee contacted Barnea Economic & Financial Consulting Ltd. ("**Barnea**"), which is, to the Company's best knowledge, a company for economic consulting managed by Prof. Amir Barnea who is an independent valuator, and requested a review of the following issues: (a) examine the fairness of the Giza Valuation; (b) determine the fair value of the Canit share, considering its characteristics, which are: non-marketability (since Canit Hashalom is a private company), being a minority share (less than 1% of the issued share capital of Canit Hashalom) and the Transferability Limitation attached thereto; and (c) examine the fairness of the transaction for the purchasing of the Contribution Share by the Company, insofar as it is agreed between the Company and the Foundation.

The Barnea opinion, dated January 24, 2016, which was submitted to the Committee as aforesaid, states the following: (a) the Giza Valuation is within the range of reasonableness, with conservative valuation coefficients; (b) the fair value for the Contribution Share is the relative part which the Share constitutes in the capital of Canit Hashalom (0.877%) of the value of Canit Hashalom as determined in the Giza Valuation, with a deduction of 5%-15%, i.e. the fair value of the Contribution Share is in the range of NIS 50-58 million (the "**Fair Value Range**"); and (c) a transaction for the purchase of the Contribution Share by the Company, insofar as it is agreed between the Company and the Foundation, which shall be executed at a price within the Fair Value Range is a fair transaction from the viewpoint of the Company's minority shareholders.

After further negotiation held between the Committee and the Foundation, the consideration for the transaction was set at NIS 51 million.

It is noted that as aforesaid, the consideration for the transaction is transferred to the Azrieli Foundation (Israel) R.A., which is a philanthropic non-profit organization, and as the Company was informed, its goals are to promote education, medical and scientific research, society, welfare, art and culture in Israel.

7.13. **Required approvals or terms and conditions which were set for the execution of the proposed transaction**

The required approvals for the adoption of the said resolution are the approval of the Company's audit committee, the approval of the Company's board of directors and the approval of the General Meeting convened herein.

The resolution regarding the Company's engagement in the Share Purchase Agreement was first reviewed by the audit committee and the board of directors in June 2015. On July 1, 2015 the Company's audit committee appointed the Committee in order to negotiate with the Foundation, determine the terms and conditions of the transaction, including the proposed price therefor. Furthermore, in that meeting, the audit committee resolved, for purposes of Section 117(1b) of the Companies Law, that there is no room to hold a competitive proceeding prior to the engagement in the Share Purchase Agreement, in view of the provisions of the Contribution Agreement (which was also signed prior to the entry into effect of amendment 22 to the Companies Law) that the sale of the Contribution Share shall be exclusively to the Company. Under the circumstances, the Committee determined that the appointment of the Committee and receipt of a valuation from an independent valuator are deemed as "another proceeding" as this term is defined in Section 117(1b) of the Companies Law.

The Committee held several meetings and negotiated with the representatives of the Foundation. After the receipt of the Giza Valuation, the Committee asked for another opinion regarding *inter alia*, the fairness of the Giza Valuation and the determination of the Fair Value for the Canit Share.

On January 27, 2016, the Company's audit committee convened and approved the engagement in the Share Purchase Agreement. The Company's board of directors approved the engagement in the Share Purchase Agreement at its meeting of January 27, 2016.

7.14. **Transactions of the same type as or similar to the proposed transaction**

To the Company's best knowledge, no transactions of the same type as the transaction were executed between the Company and the controlling parties as aforesaid, or in which the said controlling parties had a personal interest, during the two year prior to the date of approval of the transaction by the board of directors, or which were in effect at the said date of approval.

8. **Names of the directors who participated in the discussions and names of the directors who have a personal interest in the transaction and the nature of their personal interest**

- 8.1. Ms. Danna Azrieli, Ms. Sharon Azrieli and Ms. Naomi Azrieli may be deemed as having a personal interest in the transaction contemplated in Section 1 of the agenda, as they are directors of the Company's board of directors and of the board of the Foundation, and therefore they did not participate in the meeting of the Company's board of directors which approved the engagement in the Share Purchase Agreement. In this respect it is clarified that as of the date of this report, the Foundation's board comprises of eight (8) members and therefore the members of the Azrieli family (Mmes. Danna Azrieli, Naomi Azrieli and Sharon Azrieli) are not a majority of the member of the Foundation's board.
- 8.2. The following directors participated in the meetings of the Company's audit committee and board of directors which approved the engagement in the Share Purchase Agreement: Mr. Joseph Ciechanover (independent director), Ms. Tzipora Carmon (independent director) Mr. Oran Dror (independent director), Prof. Niv Ahituv (outside director) and Mr. Efraim Halevy (outside director).

9. **Summary of the reasons of the audit committee and the board of directors for approval of the engagement in the Share Purchase Agreement**

- 9.1. According to the Company's strategic decision, the Company focuses on the real estate segment, especially in Israel. The Company reviews from time to time business opportunities, including increasing its holdings in companies in which it is a shareholder and which are active in the core of its business.
- 9.2. The Company considers the transaction for the purchasing of the Contribution Share an opportunity to engage in a transaction that will result in its holding of the entire issued share capital of Canit Hashalom, which is a material subsidiary in the Group and is engaged in its core activities, as an opportunity to create value for the Company's shareholders. The reason for the above is that the said purchase of the Share shall allow the Company flexibility in acting upon its assets and the assets of Canit Hashalom, by virtue of being the single shareholder of Canit, and without having to address the interests of minority shareholders in Canit.
- 9.3. In addition, the decision to purchase the Contribution Share shall create synergetic advantages for the Company, in view of the clear synergetic connection between Canit Hashalom, which holds a material part of the real estate assets consolidated in the Company's balance sheet, and the Company's remaining real estate assets, and for that reason too it shall create value for the Company's shareholders.

- 9.4. The equity of Canit Hashalom was examined and determined by a reputable valuator whose opinion was further reviewed by an additional prominent valuator, who also valued the fair value of the Contribution Share. Considering the aforesaid, in view of the Committee's recommendations and pursuant to the thorough, independent and expansive proceeding which was carried out with respect to the engagement in the transaction, the members of the audit committee and the board of directors are of the opinion that the consideration which was determined in the valuation and the consideration for the transaction itself are reasonable and fair.
- 9.5. In view of the aforesaid, the Company's audit committee and board of directors are of the opinion that the engagement of the Company in the transaction is for the benefit of the Company. The audit committee and the board of directors further resolved that the transaction does not include a distribution, as this term is defined in Section 1 of the Companies Law.

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

Under the provisions of Regulation 10 of the Controlling Shareholder Regulations, within twenty one (21) days from the submission of this immediate report, the Israel Securities Authority or an employee authorized thereby for that purpose ("ISA"), may order the Company to provide, within such time as shall be set thereby, explanations, details, information and documents pertaining to the transaction proposed in the sections hereinabove, and also to order the Company to amend this Report in such manner and on such time as shall be determined thereby. 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 as stipulated by the Controlling Shareholder Regulations. The Company shall submit an amendment pursuant to such order, in the manner prescribed by the Controlling Shareholder Regulations, all unless the ISA shall have otherwise ordered. If an order for the postponement of the date of convening of the General Meeting is given, the Company shall give notice of such order via an immediate report.

11. **The Company's representative in charge of the immediate report**

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

12. **Inspection of documents**

A copy of this Report is available for inspection at the Company's Offices, after prior coordination by telephone: 03-6081300, Sundays through Thursdays between 09:00 and 17:00, such until the date of convening of the General Meeting for approval of the resolution on the agenda, and also on the ISA's website at www.magna.isa.gov.il.

**Sincerely,
The Azrieli Group Ltd.**

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

Annex A

Directors' Declarations