

**Azrieli Group Ltd.**  
**(the "Company")**

August 28, 2016

To:  
Israel Securities Authority  
Via Magna

To:  
The Tel Aviv Stock Exchange Ltd.  
Via Magna

Dear Sirs,

**Re: An Immediate Report on the Convening of a Special General Meeting of the Company**

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 and Addition of an Issue to the Agenda), 5760-2000 (the "**Notice of Meeting Regulations**"); the Companies Regulations (Voting in Writing and Position Statements), 5766-2005 (the "**Written Voting Regulations**"); Securities Regulations (Transaction between a Company and a Controlling Shareholder Therein), 5761-2001, ("**Controlling Shareholder Regulations**"); and the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "**Reports Regulations**")

1. **Convening a Special General Meeting**

The Company is hereby pleased to give notice of the convening of a special General Meeting of the Company's shareholders (the "**General Meeting**"), which will be held on **Thursday, October 6, 2016, at 14:00** (Israel time), at the Company's Offices at Azrieli Center, Tel Aviv (the Round Tower – 33rd floor). Telephone number for inquiries: 03-6081383.

2. **Issues on the Agenda**

2.1. **Approval of a updated compensation policy**

Approval of an updated compensation policy for officers of the Company, in accordance with Section 267A of the Companies Law, in the language attached hereto as **Annex A**. For additional details see Section 3 below.

2.2. **Approval of amendment of the Company's articles**

Approval of amendment of the exemption section in the Company's articles, subject to approval of the current compensation policy by the general meeting. For further details, see Section 3.15 below.

2.3. **Approval of an update to the management agreement with the Company's CEO**

Approval of an update to the monthly management fees in the framework of the management agreement with the Company's CEO, Mr. Yuval Bronstein (via a private company fully owned by him), as

specified in Section 4 below, and subject to the approval of the Company's updated compensation policy by the General Meeting.

2.4. Approval of the Extension of the Management Agreement with the (Active) Chairman of the Board of the Company

Approval of the extension of the existing management agreement between the Company and a company controlled by the Active Chairman of the Board of the Company, Ms. Danna Azrieli, as specified in Section 5 below, without any modification of the existing terms and conditions of the engagement with the company controlled by the Chairman of the Board, and in order to create a correlation between the date of approval of the compensation policy and the date of approval of the service agreement.

It is clarified, that if any of issues 2.3 and/or 2.4 on the agenda is not approved, the existing arrangements regarding that matter will remain valid.

3. Approval of adoption of an updated compensation policy for officers at the Company and amendment of the Company's articles

3.1. On December 12, 2012, Amendment 20 of the Companies Law 5759-1999, ("**Amendment 20**") took effect, which regulates the structure of the compensation for officers in public companies and in bond companies, and determines a special process for the approval thereof. Pursuant to Amendment 20, the Company's compensation committee (the "**Compensation Committee**"), the Company's Board of Directors and the Company's General Meeting adopted a compensation policy in September 2013. In December 2014, an update to the said compensation policy (the "**Previous Compensation Policy**") took effect. Three years after the previous policy was first approved, on August 22 and 24, 2016, the Compensation Committee and the Company's Board of Directors, respectively, approved an updated compensation policy (the "**Updated Compensation Policy**" or the "**Policy**"), which is brought for the approval of the General Meeting as specified herein.

3.2. The Updated Compensation Policy was drafted taking into consideration the nature of the Company as a company which is active mainly in the field of income-producing property and its being a company within the largest group of companies in the Israeli economy, which is included in the leading TASE indexes.

3.3. In general, the Updated Compensation Policy reflects the existing situation in the Company with respect to compensation of officers and is based on similar principles to those which stood at the foundation of the Previous Compensation Policy, all while adjusting the Policy to the current legal provisions and to developments on matters addressed by the Policy.

- 3.4. The Updated Compensation Policy is intended to provide a sufficiently broad framework to allow the Company's Compensation Committee, Board of Directors and CEO, as the case may be, to determine, for each one of the officers, a personal compensation plan, according to the needs of the Company and in keeping with the best interests of the Company, its employees and its shareholders and the Company's overall long-term strategy.
- 3.5. The Policy is based on many years of experience in managing the Company, in its field of business and in the business volume, and on determinations deriving from many years of implementing a unique management method which has led the Company to impressive achievements.
- 3.6. The provisions of this Updated Compensation Policy apply only to the Company's officers (as defined in the Companies Law).
- 3.7. Pursuant to Section 267A of the Companies Law, the Updated Compensation Policy is presented for approval by the General Meeting of the Company's shareholders.
- 3.8. As part of the process of formulating the Updated Compensation Policy, the Company's management and external consultants having expertise and experience in the field of compensation, appeared before the Compensation Committee and the Board of Directors. In addition, comparative data with respect to officers in benchmark companies were presented before the Compensation Committee and the Board of Directors.
- 3.9. The participants in the meetings of the Company's Compensation Committee, in which the compensation plan was discussed, were Messrs.: Efraim Halevy (outside director), Prof. Niv Ahituv (outside director), Joseph Ciechanover (independent director), Oran Dror (independent director), and Tzipora Carmon (independent director). On August 24, 2016, the Company's Board of Directors approved the Updated Compensation Policy. The participants in the meeting of the Company's Board of Directors, in which the Policy was approved in accordance with the recommendation of the Compensation Committee, were: Messrs. Menachem Einan, Joseph Ciechanover, Tzipora Carmon, Oran Dror, Efraim Halevy and Prof. Niv Ahituv. Due to their benefitting from the Compensation Policy in a manner that differs from the compensation that is being paid to the remaining directors, Mmes. Danna Azrieli, Naomi Azrieli and Sharon Azrieli did not participate, for cautiousness only, in the Board meeting which approved the updated Compensation Policy. The resolution to adopt the Updated Compensation Policy was unanimously adopted by the Compensation Committee and the Company's Board of Directors.

3.10. Reasons of the Compensation Committee and the Board of Directors for the approval of the Updated Compensation Policy

Following is a summary of the reasons and considerations of the Company's Board of Directors and Compensation Committee in the determination and approval of the Updated Compensation Policy:

3.10.1. The Updated Compensation Policy is intended to assist in achieving the Company's goals, its policy and its long-term work plans, and, *inter alia*, with the following aims:

3.10.1.1. To grant the Company's officers contemplated, fitting and fair compensation, in consideration of their position and responsibilities, taking into account, *inter alia*, the Company's risk management policy.

3.10.1.2. The Company will be able to recruit and retain top-level high-quality senior executives, having specific expertise and professional knowledge, the ability to lead the Company to business success and to cope with the challenges it faces;

3.10.1.3. The officers' compensation will be, *inter alia*, in keeping with the Company's size and the nature of its business.

3.10.2. In formulating the Updated Compensation Policy, consideration was given, *inter alia*, to the Company's customary officer compensation levels and terms of employment in previous years and legislation amendments from the date of approval of the previous policy. It is noted in this context that the group of officers of the Company is a relatively small group, most of which have been employed at the Company for long periods, and it consists of officers who have unique expertise and vast experience in their specific field of occupation.

3.10.3. Furthermore, for the purpose of the Updated Compensation Policy, the compensation terms and conditions of officers of the Company (including the directors), under agreements that were in force prior to the release of this Policy, shall be deemed compatible with the Company's Updated Compensation Policy.

3.11. Manner of Determination of the Compensation – General Principles

When examining and approving an officer's terms of office and employment, the authorized organs at the Company shall address, *inter alia*, the following issues, insofar as they are relevant to the officer:

3.11.1. The officer's education, qualifications, expertise, professional experience and achievements.

- 3.11.2. The officer's position, responsibilities and his expected contribution to achieving the Company's goals.
- 3.11.3. Previous salary agreements of the officer.
- 3.11.4. The terms of employment of holders of parallel positions at the Company.
- 3.11.5. Compensation packages for holders of similar positions in similar companies in the Israeli economy.
- 3.11.6. The ratio between the cost of the terms of office and employment of the officer and the cost of the salary of the other employees of the Company and of contractor employees who are employed at the Company<sup>1</sup>, and, particularly, the ratio relative to the average salary and the median salary of such employees and the effect of the disparities on the working relations at the Company. The Compensation Committee and the Company's Board of Directors have conducted such an examination, as of the date of approval of the Updated Compensation Policy, and have determined that the ratio is reasonable and not expected to affect the working relations at the Company (for additional details see Section 3.6 of the Updated Compensation Policy).
- 3.11.7. In formulating the Policy, it was determined that, with respect to the officers of the Company, the fixed component is required to carry the main weight in the total compensation package of the officers of a company of the Company's type and character. This is based on the view that such a mix has a mitigating effect on the risk profile of the conduct of the officers, relative to a mix in which the weight of the variable compensation (based on numerical targets) is more significant and while considering the fact that the phantom option plan that was set in the Company at the time of the issuance has expired. Updated Compensation Policy does not permit the granting of equity compensation. Furthermore, such a mix encourages action based on long-term vision and considerations and conduct founded upon long-term processes.
- 3.11.8. In the course of the deliberations on formulating the Policy, the Compensation Committee and Board of Directors examined comparative data in respect of several public companies, which are included in the TA-Real Estate-15 and TA-25 indices, insofar as relevant data has been released thereby. The comparative data included compensation paid to senior officers

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<sup>1</sup> "Cost of Salary" – as per the meaning of such term in the First Schedule A of the Companies Law. In the calculation of such ratio, the employees of the Company and the senior officers of the Company shall be included.

in public Israeli companies, which are included in the TA-25 Index, such data being based on the periodic reports for 2015. The data in the aforesaid economic paper included an average and a median of all of the data of the sample companies as well as minimum and maximum figures. The Compensation Committee and the Board of Directors have noted that the purpose of the comparative paper is receipt of indicative information concerning the amounts of compensation customary in the Israeli market, and, due to the limitations thereof, it is not an exact science and therefore constitutes merely one indication within the gamut of considerations before them when considering the Company's best interests and the fair and reasonable compensation.

### 3.12. Details on the Controlling Shareholders of the Company

3.12.1. Azrieli Holdings Inc. ("**Azrieli Holdings**") is a private company, incorporated under Canadian law. The Company was informed that Azrieli Holdings is controlled by Sharon Azrieli, Naomi Azrieli and Danna Azrieli, either directly or via Canadian holding corporations. Azrieli Holdings currently directly and indirectly holds approx. 55.62% of the shares of the Company via its holding of all the share capital of Nadav Investments Ltd. ("**Nadav Investments**"), which is a direct controlling shareholder of the Company, and approx. 61.31% of the voting rights in the Company.

3.12.2. Until his passing in July 2014, Mr. David Azrieli, OBM, held directly and indirectly approx. 44.77% of the share capital in Azrieli Holdings and all the voting rights in Azrieli Holdings (including voting rights in his children's shares held by him in trust).

3.12.3. After the passing of Mr. David Azrieli, OBM, the shares of Azrieli Holdings which were held by him, and his shares in the David's Holdings Corporation, were transferred to his estate, and Sharon Azrieli, Naomi Azrieli and Danna Azrieli were appointed as the 3 directors of Azrieli Holdings and Nadav Investments.

3.12.4. The Company was informed that on April 13, 2015, there was a distribution from the estate of Mr. Azrieli, OBM, of his shares in Azrieli Holdings and in the Canadian holding corporation under his control ("**David Holdings Corporation**"). Following the said distribution, each of Sharon Azrieli, Naomi Azrieli and Danna Azrieli hold, directly and via David Holdings Corporation, approx. 27.24% of the equity rights in Azrieli Holdings, and approx. 33.13% of the voting rights in Azrieli Holdings, jointly they hold approx. 81.73% of the equity rights in Azrieli Holdings and approx. 99.39% of the voting rights therein. The other shares of Azrieli Holdings are held mainly by

the Azrieli Foundation from Canada (an interested party in the Company), which after the estate's distribution holds (indirectly, via the holding of shares of David Holdings Corporation) 15.93% of the shares of Azrieli Holdings, without voting rights (a holding which constitutes, indirectly, a holding of approx. 8.86% of the Company's equity rights) in addition and separately from its direct holdings of 8.55% of the equity and voting rights in the Company.

3.12.5. The Company was informed that all the shareholders of Azrieli Holdings are bound by a shareholders' agreement between them (for additional details, see Section 3.5 of the Company's shelf prospectus of May 13, 2013), which, *inter alia* grants each of Sharon Azrieli, Naomi Azrieli and Danna Azrieli the right to appoint one of the three directors of the Board of Directors of Azrieli Holdings and Nadav Investments.

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

### 3.13. Personal Interest

With respect to the participation of directors in discussions of the Compensation Committee and the Board of Directors and the resolutions thereof, relating to the approval of the Updated Compensation Policy, all the directors who are entitled to identical compensation under the Compensation Policy participated in the discussions of the Compensation Committee and the Board of Directors and voted with respect to the Updated Compensation Policy, notwithstanding the personal interest they have in the adoption of the Company's compensation policy, due to the fact that the Policy also relates to the compensation of directors. Due to benefitting from the Compensation Policy in a manner that differs from the compensation that is being paid to the remaining directors, Messrs. Danna Azrieli, Naomi Azrieli and Sharon Azrieli did not participate, for cautiousness only, in the Board meeting which approved the updated Compensation Policy.

### 3.14. Approvals Required for the Approval of the Updated Compensation Policy

The approvals required in order to approve the said Updated Compensation Policy are the approval of the Compensation Committee and the Company's Board of Directors which were given on August 22 and 24, 2016, respectively, and the approval of the Company's General Meeting which is summoned by this report.

It is noted that pursuant to Section 267A(c) of the Companies Law, the Board of Directors may approve the Updated Compensation Policy even if the General Meeting objects to the approval thereof, if the

Compensation Committee followed by the Board of Directors, resolve, on the basis of detailed reasons and after re-discussing the Updated Compensation Policy, that the approval of the Updated Compensation Policy, notwithstanding the objection of the General Meeting, is in the Company's best interest.

The Company is not a public second-tier subsidiary.

3.15. Amendment of the Company's Articles

Further to the amendment of the reference [to?] the exemption clause in the current compensation policy, the amendment to Company's articles is presented for approval for the purpose of adapting the provisions of the articles to the provisions of the policy in this regard as aforesaid, subject to approval of the current policy by the general meeting, as specified in Section 2.1 above.

The resolution presented for approval is – amendment of Section 30 of the Company's articles, such that it is replaced with the following language:

**“30. Exemption of Officers**

The Company may exempt, in advance and retroactively, an officer thereof from his liability, in whole or in part, for damage due to a breach of the duty of care thereto to the maximum extent permitted by any law, subject to the exemption not applying to any resolution or transaction in which the Company's controlling shareholder or an officer of the Company has a personal interest.”

4. **Approval of an Update to Management Agreement with the Company's CEO**

4.1. The Company's CEO, Mr. Yuval Bronstein, holds office from May 2013. The terms of his employment were approved by the Company's General Meeting of June 20, 2013. For specification on the main terms of office and employment of Mr. Yuval Bronstein (via a company owned by him), see Section 2.4 of Part A of the notice of meeting report as released by the Company on June 6, 2013 (Reference No. 2013-01-058431) (“**Terms of Office Report**”), which is incorporated herein by way of reference. For details on the education and professional experience of Mr. Yuval Bronstein, see Regulation 26A of Part D of the Company's Periodic Report for 2015, released on March 23, 2016, (Reference No. 2016-01-012174) (the “**Company's Periodic Report for 2015**”).

4.2. On August 22 and 24, 2016, the Compensation Committee and the Company's Board of Directors approved, respectively, a raise of



approx. NIS 52 thousand to the monthly management fees paid to Mr. Yuval Bronstein (via a private company owned by him), such that the monthly management fees will be NIS 313 thousand, linked to the index of June 2016 (“**Monthly Management Fees**”). The current monthly management fee to which the Company’s CEO is entitled is NIS 261 thousand (according to the index of June 2016). In view of the aforesaid, the proposed raise to the monthly management fees is at a rate of approx. 20%. The other terms of employment of Mr. Yuval Bronstein remain unchanged.

- 4.3. The aforesaid resolution is subject to the approval of the General Meeting summoned by this report, including the approval of the Update Compensation Policy as detailed in Section 3 above.
- 4.4. The update to the monthly management fees was determined in negotiations between the Company and Mr. Bronstein, and based on the nature and scope of the management services rendered as of this date and in consideration of his experience, his contribution to the Company, the nature and scope of the Company’s current business and the long-term acquaintance of the members of the Board with Mr. Bronstein in the framework of his position as the Company’s CEO.
- 4.5. The terms of the engagement were approved by the Compensation Committee and the Company’s Board of Directors after they examined the criteria listed in Section 267B(a) of the Companies Law, while relating, *inter alia* to the issues specified in Section A of the First Schedule A of the Companies Law. The Company’s Board of Directors and Compensation Committee were presented, *inter alia*, with information and data as follows: personal data regarding Mr. Bronstein’s qualifications, experience and education, his contribution to the Company in the framework of his position as the Company’s CEO, as well as data on the proposed update to the monthly management fees and the other terms of office and employment to which Mr. Bronstein is entitled in accordance with the agreement with him.
- 4.6. The Compensation Committee and the Board of Directors examined comparative data on the terms of employment of CEOs of traded companies, similar to the Company, on the TA-Real Estate-15 Index and the TA-25 Index. The comparative data, as aforesaid, is based on the economic paper prepared for the Company by PWC Consulting Ltd. (the “**Economic Paper**” and the “**Financial Consultants**”, respectively). In the framework of the Economic Paper, as aforesaid, the Financial Consultants included data on the compensation paid to CEOs of public Israeli companies, included on the TA-Real Estate-15 Index and the TA-25 Index, based on the periodic reports for 2015 of such companies, as well as the relevant immediate reports. The data in the Economic Paper, as aforesaid, included an average and a median of all of the data of the sample companies as well as minimum and maximum figures.

- 4.7. The Compensation Committee and the Board of Directors have noted that the purpose of the comparative paper is receipt of indicative information concerning the amounts of compensation customary in the Israeli market, and, due to the limitations thereof, it is not an exact science and therefore constitutes merely one indication within the gamut of considerations before them when considering the Company's best interests and the fair and reasonable compensation.
- 4.8. On the basis of the above information, the Compensation Committee and the Board of Directors determined that the proposed update to the monthly management fees paid to Mr. Bronstein were reasonable and accepted under the circumstances, and reflect a fitting compensation in view of advancement of the Company's long term aims and approved the update for such monthly management fees.
- 4.9. The Reasons of the Compensation Committee and the Board of Directors for approval of the update to the terms of office and employment of Mr. Bronstein

The Compensation Committee and the Company's Board of Directors found that the update to the monthly management fees paid to Mr. Bronstein are in the Company's best interest and are reasonable under the circumstances, for the reasons specified below:

- 4.9.1. Amongst the members of the Board, there is great appreciation of Mr. Bronstein's professional experience and qualifications, which according to the members of the Board are essential to the Company. Additionally, the members of the Board greatly appreciate Mr. Bronstein's great contribution to the Company, its development and its shareholders during his years of office.
- 4.9.2. Since the approval of the management agreement with the Company's CEO, over three years ago, no update was made to the monthly management fees, notwithstanding that the Company's current compensation policy, as a rule, allowed for an annual raise of up to 7%.
- 4.9.3. The members of the Board believe that the update to the monthly management fees are reasonable and accepted under the circumstances, *inter alia* in view of the current scope of the business of the Company, which in recent years is constantly growing, including further to the development of additional businesses in the Company (for instance: the senior housing and new commerce segments) which require managerial input and additional expertise.
- 4.9.4. In 2015 the phantom plan granted to Mr. Bronstein expired. Therefore, and in view of the scope of the variable compensation, which is proportionately lower than the compensation as aforesaid in previous years due to the phantom option plan (the current compensation includes a discretionary

bonus in the scope of up to three monthly payments), the fixed component (the monthly management fees) is the main component in the compensation paid to the Company's CEO.

- 4.9.5. According to the comparative data presented, the total compensation to Mr. Bronstein as the Company's CEO in comparison to the terms of employment of CEOs in traded companies, similar to the Company, on the TA-25 Index, is in the first quartile (the lowest), of the comparison companies and the fixed component (the monthly management fees) is in the fourth quartile of the compensation paid *de facto* to CEOs in the sample companies on the TA-25 Index in 2015. The total compensation to Mr. Bronstein as the Company's CEO in comparison to the terms of employment of CEOs in traded companies on the TA-Real Estate-15 Index, is in the third quartile (similarly to the average) and the fixed component (the monthly management fees) is higher than the compensation actually paid to CEOs in the sample companies in 2015. Due to the fact that the Company is the largest company on the TA-Real Estate-15 Index, which also includes a number of companies significantly smaller than the Company, in the opinion of the Company's Board of Directors, the TA-25 Index is a more relevant benchmark for the Company. It is emphasized that the total compensation for Mr. Bronstein, compared with the companies included in the TA-25 Index, is lower than the medial and also significantly lower than the average of the comparison companies as aforesaid.
- 4.9.6. The Compensation Committee and the Company's Board of Directors even examined the ratio between the proposed monthly management fees to Mr. Bronstein and the cost of the salary of the other employees of the Company, in particular the ratio relative to the cost of the average salary and the cost of the median salary of the other employees of the Company. According to the assessment of the Compensation Committee and the Company's Board of Directors, the said ratios are reasonable and they are not expected to affect the working relations at the Company.
- 4.9.7. In view of the aforesaid, the members of the Compensation Committee and the Board of Directors believe that an update to the monthly management fees paid to Mr. Bronstein is fitting, reasonable and fair, considering the size of the Company, the nature of its business, its long-term targets and the many challenges it faces, and considering the nature of Mr. Bronstein's duties and responsibilities.

#### 4.10. Compensation Details

4.10.1. Below is a breakdown, for simulation purposes only, pursuant to the Sixth Schedule to the Immediate Reports Regulations, of the compensation to which Mr. Bronstein will be entitled in his position as CEO, in terms of annual cost to the Company:

Details of the Compensation Recipient				Compensation in Terms of Annual Cost (NIS in thousands)				
Name	Position	Position Percentage	Percentage of Equity Holding	Management Fees(a)	Bonus	Share-Based Payment	Other	Total
Yuval Bronstein	CEO	100%	-	3,918	Up to 940*	-	**	4,858

(a) The management fee component includes the following components: the cost of monthly management fees, car maintenance and reimbursement of communication and other expenses. Until October 6, 2016, Mr. Bronstein's compensation will be as determined in the management agreement, prior to the amendment thereof. For the first nine months of 2016, this amount will be NIS 2,470 thousand. From the date of the approval of the general meeting, summoned herein, Mr. Bronstein will be entitled to the updated monthly management fees as specified in Section 4.2 above.

\* On the assumption of the granting of a bonus (which is at the discretion of the Company's Board of Directors) in the maximum possible amount.

\*\* In the financial statements for December 31, 2016 the Company shall make a provision of non-capitalized expenses for an update to the adjustment pay to be paid upon Mr. Bronstein's retirement in the amount of NIS 468 thousand. Such provision is a one-time payment, and therefore is not presented in the above table.

4.10.2. Below is a breakdown of the compensation, relating to the terms of Mr. Bronstein's employment, pursuant to the Sixth Schedule to the Immediate Reports Regulations for 2015:

Details of the Compensation Recipient				Compensation in Terms of Annual Cost (NIS in thousands)				
Name	Position	Position Percentage	Percentage of Equity Holding	Management Fees(a)	Bonus	Share-Based Payment (b)	Other	Total
Yuval Bronstein	CEO	100%	-	3,293	652	1,110	34(c)	5,089

- (a) The management fee component includes the following components: the cost of monthly management fees, car maintenance and reimbursement of communication and other expenses.
- (b) Reflects the expense recorded by the relevant company in 2015 for the granting of phantom units. For details on Mr. Bronstein's phantom units see Note 37(c)(6) to the financial statements for 2015 as released on March 23, 2016 (Reference No.: 2016-01-012174).
- (c) Reflects an expense in 2015 for adjustment months at the time of retirement.

5. **Approval of the Extension of the Existing Management Agreement with the Active Chairman of the Board of the Company, Ms. Danna Azrieli**

5.1. **Summary of the terms and conditions of the engagement**

We hereby bring for approval the extension of the existing management agreement of the Company with a company controlled by the Company's (Active) Chairman of the Board of Directors, Ms. Danna Azrieli, who is an indirect controlling shareholder of the Company, for a term of three years, commencing on the day of the receipt of approval of the amendment to the compensation policy by the general meeting, as specified in Section 3 above. For details on the terms and conditions of the existing management agreement with the Chairman of the Board, see the notice of the general meeting report (amended) of December 23, 2014 (Reference No: 2014-01-228996), which is incorporated herein by way of reference (the "**2014 Transaction Report**").

It is emphasized that there is no change in the existing engagement terms and conditions between Ms. Danna Azrieli and the Company and/or in the framework and scope of her position, the services she provides to the Company and her powers, and that bringing the agreement (which was already approved in the General Meeting by the Company's shareholders in December 2014) for further approval now is done in order to simplify and create correlation between the date of approval of the Compensation Policy and the date of approval of the services agreement with Ms. Danna Azrieli. Therefore, it is proposed to approve the extension of the terms of office and employment of the Chairman of the Board for a three-year period beginning from the date of receipt of the General Meeting's approval of the updated Compensation Policy.

5.2. Additional details relating to compensation

Below is a breakdown, pursuant to the Sixth Schedule to the Immediate Reports Regulations, of the compensation paid to Ms. Danna Azrieli in 2015, in terms of annual cost to the Company:

Details of the Compensation Recipient				Compensation for Services				
Name	Position	Position Percentage	Percentage of Equity Holding(*)	Management Fees(**)	Bonus	Share-Based Payment	Other	Total (NIS in thousands)
<b>Ms. Danna Azrieli</b>	Active Chairman of the Board of Directors	100% (***)	55.62	2,806	718	---	---	3,524

(\*) For details see Section 3.12 above.

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

(\*\*\*) As already noted in the 2014 Transaction Report and the 2015 Periodic Report, Ms. Danna Azrieli shall be entitled to continue performing additional activities, including philanthropic activities in which she is involved, from time to time, provided that their performance shall not prejudice the fulfilment of her position with the Company.

5.3. The maximum variable component of the Chairman constitutes approx. 36% of the maximum compensation.

5.4. The ratio between the cost of the existing salary of Ms. Danna Azrieli to the cost of the salary of the other employees of the Company: after being examined by the Compensation Committee and the Board of Directors (and in particular the ratio relative to the average salary and the median salary of the Company's employees) was found to be reasonable and does not deviate from the ratio included in the compensation policy, as specified in Section 3.6 of the Compensation Policy.

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

For details on the indirect controlling shareholders who have a personal interest in the resolution, and the nature of their personal interest, see Section 3.14 above.

## 5.6. Manner of determination of the compensation

- 5.6.1. The terms of engagement in the current management agreement with Ms. Danna Azrieli were determined in negotiations between the Company and Ms. Danna Azrieli, and were based on the nature and scope of the management services and the responsibility entailed thereby, and taking into consideration her unique experience and contribution to the Company. The terms of the engagement in the current management agreement with Ms. Danna Azrieli were approved by the Compensation Committee and the Company's Board after in-depth discussions therein, preparation of data, comparisons and alternative simulations, and the examination *inter alia* of the criteria listed in Section 267B(a) of the Companies Law, while addressing the matters detailed in Parts A and B of the First Schedule A to the Companies Law.
- 5.6.2. In examining the extension of the engagement in the existing management agreement, the Compensation Committee and the Company's Board of Directors examined comparative data on the management fees and the salary paid to active chairmen of boards in benchmark companies in 2015 from a comparison paper that was presented to them, while distinguishing between the various compensation components, data on the average and median of all of the data of the benchmark companies as well as minimum and maximum figures.
- 5.6.3. The Compensation Committee and the Board of Directors noted that the purpose of the comparison papers and the above data is receipt of indicative information concerning the amounts of compensation customary in the Israeli market, and, due to the limitations thereof, it is not an exact science and therefore constitutes merely one indication within the gamut of considerations before them when considering the Company's best interests and the reasonableness and fairness of the proposed compensation to Ms. Danna Azrieli.
- 5.6.4. For the reasons of the Compensation Committee and the Board of Directors for approving the Company's engagement in the management agreement, see Section 5.9 below.

## 5.7. The Required Approvals

The resolution on engagement in the extension of the management agreement was approved by the Compensation Committee and the Company's Board of Directors on August 22, 2016 and August 24, 2016, respectively. Additionally, the resolution requires the approval of the general meeting summoned by this report.

5.8. Similar transactions during the last two years or which are still in effect.

5.8.1. As aforesaid, the Company is a party to the existing management agreement with the Active Chairman of the Board which is effective commencing from January 1, 2015, while the resolution brought for approval is the extension of the management agreement for an additional term, as stated in section 5.1 above.

5.8.2. For details regarding: (1) approval of transactions for the payment of annual compensation and participation compensation for Ms. Naomi Azrieli and Ms. Sharon Azrieli, who serve as directors of the Company; and (2) approval of transactions for the extension of granting indemnity letters to the directors who are controlling shareholders and the inclusion of the Company's controlling shareholders in the Company's directors and officers liability insurance, see immediate reports dated May 25, 2016 with respect to the compensation and the insurance (Ref. No. 2016-01-033138, 2016-01-033144) and December 23, 2014 (Ref. No. 2014-01-228996) with respect to the indemnity, all included herein by way of reference.

5.9. Summary of the reasons of the Compensation Committee and the Board of Directors for approving the resolution

5.9.1. In examining the extension of the management agreement, the Compensation Committee and the Board of Directors examined and took into consideration, *inter alia*, the following parameters:

5.9.1.1. The education, qualifications, expertise, professional experience and achievements of Ms. Danna Azrieli in leading the Company;

5.9.1.2. The position of Ms. Danna Azrieli, her responsibilities, and previous management agreements executed with her;

5.9.1.3. Evaluation of Ms. Danna Azrieli's contribution to the Company's business, performance, goodwill and profitability.

5.9.1.4. The results of the Group's business in recent years and the increase in the scope of its business and assets, considering the business environment and the market conditions and the scope of projects under development, and examination of the proposed terms of office with respect to advancement of the Company's targets, work plans and creating a proper incentive;



- 5.9.1.5. Comparative data with respect to the terms of office of chairmen of boards of other companies included in the benchmark companies, relative to the terms of compensation proposed for Ms. Danna Azrieli.
- 5.9.1.6. The ratio between the fixed and the variable components of the compensation, as well as setting a ceiling for the value of the variable component at the time of its payment;
- 5.9.1.7. The ratio between the proposed terms of office and employment and the salary of the remaining employees of the Company, who are employed by the Company and in particular the ratio to the average salary and the median salary of the employees and the effect of this gap on the employment relationships.
- 5.9.2. The Compensation Committee and the Board of Directors are of the opinion that the education, skills and expertise of Ms. Danna Azrieli as well as her deep knowledge of the Company's business have and will make a significant contribution to the Company's business and the achievement of its goals in her position as Active Chairman of the Company's Board of Directors. The Compensation Committee and the Board of Directors have deep appreciation for the performance of the Chairman of the Company.
- 5.9.3. Based on the findings of the comparison paper and the figures presented to them, the members of the Company's Compensation Committee and Board of Directors have concluded that also in comparison to the common terms of office and employment in 2015 in companies of a similar size and scope of business as the Company, it seems that the terms offered to Ms. Danna Azrieli are reasonable, and even better.
- 5.9.4. The management agreement with a company controlled by Ms. Danna Azrieli, which is currently brought for approval was already duly approved in December 2014, meets the Company's Compensation Policy and bringing it for further approval at this time is in order to match the date of approval of the Company's Compensation Policy with that of the approval of the management agreement with the Company's Chairman of the Board.
- 5.9.5. The Compensation Committee and the Board of Directors are of the opinion that the cost of the terms of office and employment proposed to Ms. Azrieli under the management agreement, and the ratio between the cost of her terms of office and employment and that of the cost of salary of the remaining employees are reasonable and shall not adversely affect the employment relationships in the Company.

5.9.6. Approval of the Company's engagement in the management agreement does not include a distribution, as this term is defined in Section 1 of the Companies Law.

5.10. Names of the directors who participated in the deliberations of the Compensation Committee and Board of Directors for approval of the resolution

5.10.1. The following directors participated in the meeting of the Compensation Committee for approval of the Company's engagement in the management agreement, held on August 22, 2016: Efraim Halevy (outside director), Prof. Niv Ahituv (outside director), Joseph Ciechanover (independent director), Tzipora Carmon (independent director) and Oren Dror (independent director).

5.10.2. The following directors participated in the meeting of the Company's Board of Directors, held on August 24, 2016: Menachem Einan, Efraim Halevy (outside director), Prof. Niv Ahituv (outside director), Joseph Ciechanover (independent director), Tzipora Carmon (independent director) and Oren Dror (independent director).

5.10.3. The resolution to extend the management agreement was adopted unanimously, by both the Compensation Committee and Board of Directors.

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

Ms. Danna Azrieli has a personal interest in the approval of the resolution on the agenda, by virtue of being a party to the engagement in the extension of the management agreement contemplated herein. Naomi and Sharon Azrieli have a personal interest in the approval of the resolution on the agenda by virtue of being the sisters of Ms. Danna Azrieli.

## Additional Details Relating to the General Meeting

### 6. Required Majority

The majority required for adoption of the resolutions specified in Sections 2.1 and 2.3 above, is a majority of all of the votes of the shareholders who are present at the meeting, provided that one of the following is met: (a) the majority vote count in the General Meeting shall include a majority of all of the votes of shareholders who are neither the controlling parties of the Company nor have a personal interest in the approval of the resolution, who participated in the vote; (the count of all 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.

The majority required for adoption of the resolutions specified in Sections 2.2 and 2.4 above is a simple majority of all of the votes of the shareholders who are present at the meeting, provided that one of the following is met: (a) the majority vote count in the General Meeting shall include a majority of all of the votes of shareholders who do not have a personal interest in the approval of the transaction, who participated in the vote (the count of all 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.

### 7. The proceedings at the meeting and the vote

#### 7.1. Manner of voting

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

#### 7.2. Time of meeting; adjourned meeting; record date

The General Meeting shall convene on Thursday, October 6, 2016, at 14:00, at the Company's Offices at Azrieli Center, Tel Aviv (the Round Tower – 33rd Floor).

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 lapsed from the time scheduled for the meeting and no legal quorum is present, the meeting shall be postponed to the third business day after the date of the meeting, at the same time and place, or to a later date and time or a different place, as shall be determined by the Board in a notice to the shareholders. The Company shall give notice of postponement of the meeting and the date of the adjourned meeting through an immediate report. If no legal quorum is present at the adjourned meeting as aforesaid, legal quorum shall consist of one or more shareholders, who is/are present, in person at the adjourned meeting 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 meeting shall have been convened at the demand of shareholders pursuant to the provisions of the Companies Law. If no legal quorum is present at the adjourned meeting that was convened at the demand of the 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 determining entitlement of a shareholder of the Company to vote at the General Meeting as stated in Section 182(b) of the Companies Law, and in Regulation 3 of the Written Vote Regulations, is the end of the trading day at TASE on Sunday, September 4, 2016 (the “**Record Date**”).

### 7.3. Proxy

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

The appointment of a representative or proxy to participate in and vote at the meeting on behalf of the shareholder shall be made in writing, signed by the shareholder or his lawful attorney who was appointed in writing, or, if the principle is a corporation, the power of attorney shall be signed in the same manner in which such corporation signs documents which bind it. If the principle is a corporation, a lawyer’s certification shall be attached to the power of attorney, whereby the power of attorney was signed in accordance with the articles of such corporation. Voting according to the terms of the power of attorney shall be lawful notwithstanding the prior death or declaration of bankruptcy or incapacitation of the principle or cancelation of the letter of appointment or transfer of the share in respect of which it was issued

or, in the case of a corporation, appointment therefor of a liquidator or receiver, unless a written notice (certified to the satisfaction of the Company's directors) regarding the said change is received at the Company's Offices at Azrieli Center, Tel Aviv (the Round Tower – 33<sup>rd</sup> Floor) (the “**Company's Offices**”), at least one hour before the time of the General Meeting. However, the chairman of the General Meeting will be entitled to accept written notice as aforesaid also during the General Meeting, provided that, at his discretion, there is an adequate reason for the delay in delivering such notice. A letter of appointment of a proxy and a power of attorney or another certificate (if any) or a copy certified by a notary, shall be deposited at the Company's Offices with the office of the Company's Secretary up to forty-eight (48) hours before the time of the General Meeting, i.e.: by Wednesday, October 4, 2016 at 14:00. Such deposit, which relates to the date scheduled for the meeting, shall also be valid with respect to the adjourned meeting.

#### 7.4. Voting in writing; 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 provided, 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 contact the Company directly and to receive therefrom the language of the Voting Card and the position statements (if any are provided).

A TASE member shall send, free of charge, via e-mail, a link to the language of the Voting Card and the position statements (if any are provided) on the Distribution Site to any shareholder of the Company who is not registered in the shareholder 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 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 confirmation of ownership via the Electronic Voting System, as stated in this section below.

A Voting Card to which no confirmation of ownership is attached (or alternatively 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.

A shareholder may contact the Company's Offices, up to 24 hours before the time of the convening of the meeting, and after proving his identity to the satisfaction of the Company Secretary or another employee appointed for this purpose, withdraw his Voting Card and his confirmation of ownership.

One or 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 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 Vote Regulations.

The last date for delivery of position statements to the Company by the Company's shareholders is until ten day prior to the date of the General Meeting, i.e.: by Monday September 26, 2016. The last date for delivery of the Board of Director's response to the position statements (if any are provided), if the Board of Directors will choose to submit its response to the above position statements, is no later than 5 days prior to the date of the General Meeting, i.e.: by September 30, 2016. A shareholder may directly contact the Company and receive therefrom, free of charge, the language of the Voting Card and position statements (if any are provided).

#### 7.5. Electronic Voting

As aforesaid, an Unregistered Shareholder is also entitled to vote via the Electronic Voting System. An Unregistered Shareholder is entitled to receive from the TASE member, through which he holds his shares, an identifying number and access code, as well as additional information pertaining to the General Meeting, and following a secure identification process, may vote on the Electronic Voting System. The address of the Electronic Voting System. <http://www.votes.isa.gov.isa>.

Voting via the Electronic Voting System will be possible commencing from the end of the Record Date and until 6 hours before the time of the convening of the General Meeting (i.e.: by Thursday October 6, 2016, at 08:00), or by an earlier time determined by the ISA, but no more than 12 hours before the time of convening of the General Meeting ("**System Closure Time**"), when the Electronic Voting

System will be closed. A vote on the Electronic Voting System can be changed or cancelled until the System Closure Time, and it will not be possible to make a change via the Electronic Voting System after this time.

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

7.6. Notice of Personal Interest or a voter being a controlling party

A shareholder who participates in a vote with respect to the resolutions in Sections 2.1 - 2.3 above, shall mark in Part B of the Voting Card, in the place designated therefor, and if the vote is via the Electronic Voting System – shall mark on the Electronic Voting Card, in the place designated therefore, whether or not he is deemed as having a personal interest in the approval of the resolution on the agenda, and whether or not he is a controlling shareholder of the Company, a senior officer of the Company, or an institutional investor (as they are defined in the Regulations). If the shareholder did not notify, as aforesaid, or did not provide a description of his personal interest (if any) his vote will not be counted.

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

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

7.7. 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 ("**Confirmation of Ownership**"), or alternatively, if he sends to the Company, Confirmation of Ownership via the Electronic Voting System. An Unregistered Shareholder may obtain Confirmation of Ownership from the TASE member through which he holds his shares at a branch of the TASE member or by mail to his address in consideration for a delivery fee only, if he so requests, provided that a request in this regard is given in advance for a specific securities account. An Unregistered Shareholder may also instruct that his

Confirmation of Ownership be delivered to the Company via the Electronic Voting System.

As stated in Section 7.4, the shareholder must deliver, to the Company's Offices, the said Confirmation of Ownership, together with the Voting Card, so that it reaches the Company's Offices no later than four hours before the time of the convening of the meeting, i.e. by Thursday, October 6, 2016, at 10:00.

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

After the release of this notice of meeting 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 inspected in the Company's reports that shall be released on the Distribution and TASE Sites. A request by 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 General 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 notice of meeting 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.

8. **Details of the Company's Representative for Handling the Immediate Report**

The Company's representative for handling this report is Adv. Ran Tal, the General Counsel and Company Secretary, whose address is Azrieli Center, Tel Aviv (the Round Tower- 33<sup>rd</sup> Floor) Telephone number for inquiries: 03-6081383.

9. **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 time 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](http://www.magna.isa.gov.il).

Sincerely,

**Azrieli Group Ltd.**

By: Ran Tal, Adv.

General Counsel and Company Secretary