Azrieli Group Ltd.

Periodic Report

As of December 31, 2015

Part A Description of the Corporation's Business

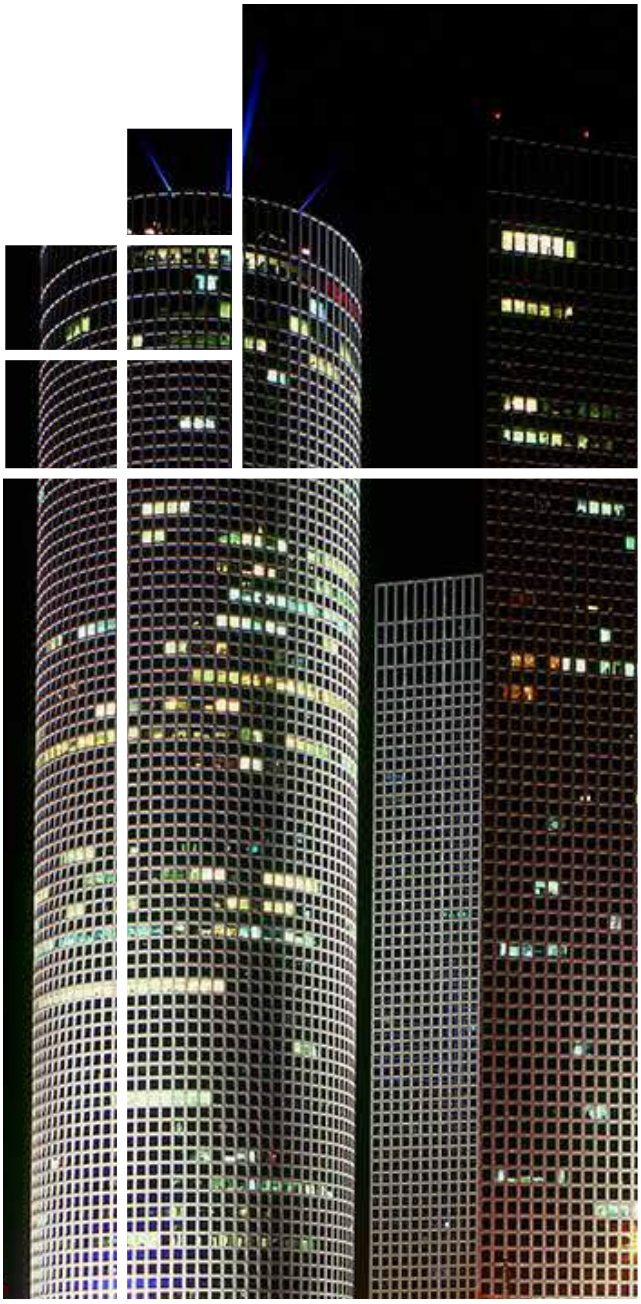
Part B Board Report

Part C Consolidated Financial Statements Dated 31 December 2015

Part D Further Details about the Corporation

Part E Corporate Governance

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



AZRIELI GROUP

NAOMI SHENKAR
LEGAL TRANSLATIONS LTD
תרגומי משפט בע"מ

March 22, 2016

We hereby confirm that we prepared the English translation attached to the financial statements of Azrieli Group Ltd. (the "Statements"), and that the translation is fair.

We hereby express our consent that the translation of the Statements, as well as this confirmation, be included in the annual report of Azrieli Group Ltd.

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Azrieli Group

Part A

Description of the Corporation's Business

Chapter A

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GENERAL DEFINITIONS

Azrieli Group Ltd. hereby respectfully files the Description of the Corporation's Business Report as of December 31, 2015 (the "**Report Date**"), reviewing the description of the Group and development of business thereof, in 2015 (the "**Report Period**") until the Report Release Date. The Report is prepared pursuant to the provisions of Regulation 8a of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Figures appearing in the Report are true as of the Report Date. However, in certain cases details appear in the Report reviewing events which occurred subsequent to the Report Date and soon before the date of release thereof on March 23, 2016 (the "**Report Release Date**") and in such cases the Company states that these are provided as of the Report Release Date.

Materiality

The materiality of the information included in this Report, including a description of the material transactions and/or material projects, is evaluated from the point of view of the Company. It should be clarified that, in a part of the cases, the Company, in its exclusive discretion, decided to expand the description necessary, in order to give a more comprehensive picture of the subject being discussed.

Forward Looking Information

The description of the corporation's business in this Chapter A partly includes forward looking information as defined in the Securities Law. Such information which is presented below and indicated as forward looking information, includes forecasts, assessments, estimates or other information that is deemed as uncertain information which refers to a future event and which relies, inter alia, on publications of the Central Bureau of Statistics, Bank of Israel, other relevant professional entities and in addition, on internal estimates of the Company that are based on statistics, experience and information accumulated by the Company over the years. Actual results may materially differ from those forecasted in the context of the forward looking information as aforesaid, as a result of a large number of factors, including as a result of the risk factors, in whole or in part, as described in Section 27 below, all as will be specified in the specific references to forward looking information later in the chapter. Sentences which include expressions such as "expected", "intends", "estimates", "foresees", "expects" and similar expressions indicate that this is forward looking information. Such information reflects the Company's current point of view regarding future events that are based on estimates and therefore are subject to risk and uncertainty.

Definitions

In this Chapter, the following terms shall bear the meaning stated alongside them:

TASE	The Tel Aviv Stock Exchange Ltd.;
"**Granite Hacarmel"**	Granite Hacarmel Investments Ltd.;
"**Board of Directors' Report**"	The Company's Board of Directors' Report on the State of the Company's Affairs as of December 31, 2015, that is included in Chapter B of the Periodic Report;
"**Periodic Report**" or "**Report**"	The Company's periodic report as of 2015;
"**Financial Statements**"	The consolidated financial statements of the Company as of December 31, 2015 that are included in Chapter C of the Company's Periodic Report;
"**Company**"	Azrieli Group Ltd.;
"**Companies Law**"	The Companies Law, 5759-1999;
"**Securities Law**"	The Securities Law, 5728-1968;
"**Tambour**"	Tambour Ltd.;
"**Midroog**"	Midroog Ltd.;
"**Maalot**"	Standard & Poor's Maalot Ltd.;
"**Nadav Investments**"	Nadav Investments Inc., a private company incorporated under Canadian Law, fully owned and controlled by Azrieli Holdings Inc., a private company incorporated under Canadian Law, which is owned and controlled by Messrs. Sharon Azrieli, Naomi Azrieli and Danna Azrieli.;
"**Sonol**"	Sonol Israel Ltd.;
"**Supergas**"	Supergas Israeli Gas Distribution Company Ltd.;

"**Palace Tel Aviv**"	Palace America – Senior Housing Company Ltd.
"**Granite Group**"	Granite Hacarmel and/or subsidiaries and/or affiliates thereof;
"**Azrieli Group**" or "**Group**"	The Company and/or subsidiaries and/or companies affiliated thereto;
"**Canit Hashalom**"	Canit Hashalom Investments Ltd., a subsidiary of the Company;
"**Prospectus**"	A public offering prospectus published by the Company on May 12, 2010 as amended on May 12, 25 and 30, 2010;
"**Shelf Prospectus**"	The shelf prospectus released by the Company on May 14, 2013;
"**GES**"	G.E.S.- Global Environmental Solutions Ltd.

CHAPTER A: DESCRIPTION OF THE COMPANY'S BUSINESS

PART ONE: DESCRIPTION OF THE GENERAL DEVELOPMENT OF THE COMPANY'S BUSINESS

1. The Company's operations and description of the development of its business

1.1 General

The Company was incorporated on January 6, 1983, as a private company according to the laws of the State of Israel. On June 3, 2010, the Company's shares were issued to the public for the first time and began to be traded on TASE on June 7, 2010, and the Company became a public company, within the meaning thereof in the Companies Law. Commencing from July 1, 2010, the shares of the Company are included in the Tel Aviv 25 Index.

As of the Report Release Date, Azrieli Holdings Inc. ("Azrieli Holdings"), a private company, incorporated under Canadian law, holding directly and indirectly, through its holding of the entire share capital of Nadav Investments, the direct controlling shareholder of the Company, 55.62% of the share capital and 61.31% of the voting rights of the Company[1] in practice and on a fully diluted basis. As the Company has been informed, Azrieli Holdings is controlled by Sharon Azrieli, Naomi Azrieli and Danna Azrieli, whether directly or through Canadian holding corporations. See immediate report regarding interested parties' holdings and changes in interested parties' holdings dated January 7, 2016 (Ref.: 2016-01-005113) included herein by way of reference.

As of the Report Date, the Company is engaged, both on its own and through its subsidiary and investee companies, primarily in the various property segments, with most of the business operations of the Company being in the retail center and mall segment in Israel and in the office and other space for lease segment both in Israel and overseas. In addition, the Company is engaged, through its (indirect) holding in Sonol, also in an additional segment, which comprises the direct marketing of petroleum distillates and fueling and commerce complexes. In the long term, as previously reported by the Company, the Company intends to focus on the core areas of the real estate activity and therefore examines, from time to time, its holdings in the non-real estate segments. According to GAAP, Tambour's operations are presented on the financial statements in comparison figures as discontinued operations. In addition, according to the Company's strategy the Company continued to develop during the year the senior housing operations and has recently acquired Palace Tel Aviv Senior Housing facility.

[1] Including all of the voting rights by virtue of the contribution shares. See Section 3.1 of Chapter A below for details regarding the contribution shares.

Furthermore, the Company has additional operations, such as energy, water and sewage and others (through its holding in Granite Hacarmel) and also holdings of minority interests in financial entities, all of which will be specified below.

As mentioned, the Company belongs to Azrieli Group, the leading real estate group in Israel, which was established by Mr. David Azrieli OBM and led by Ms. Danna Azrieli, Active Chairman of the Company's Board of Directors, who was appointed to her office in July 2014 after many years of serving in key positions in the Group..

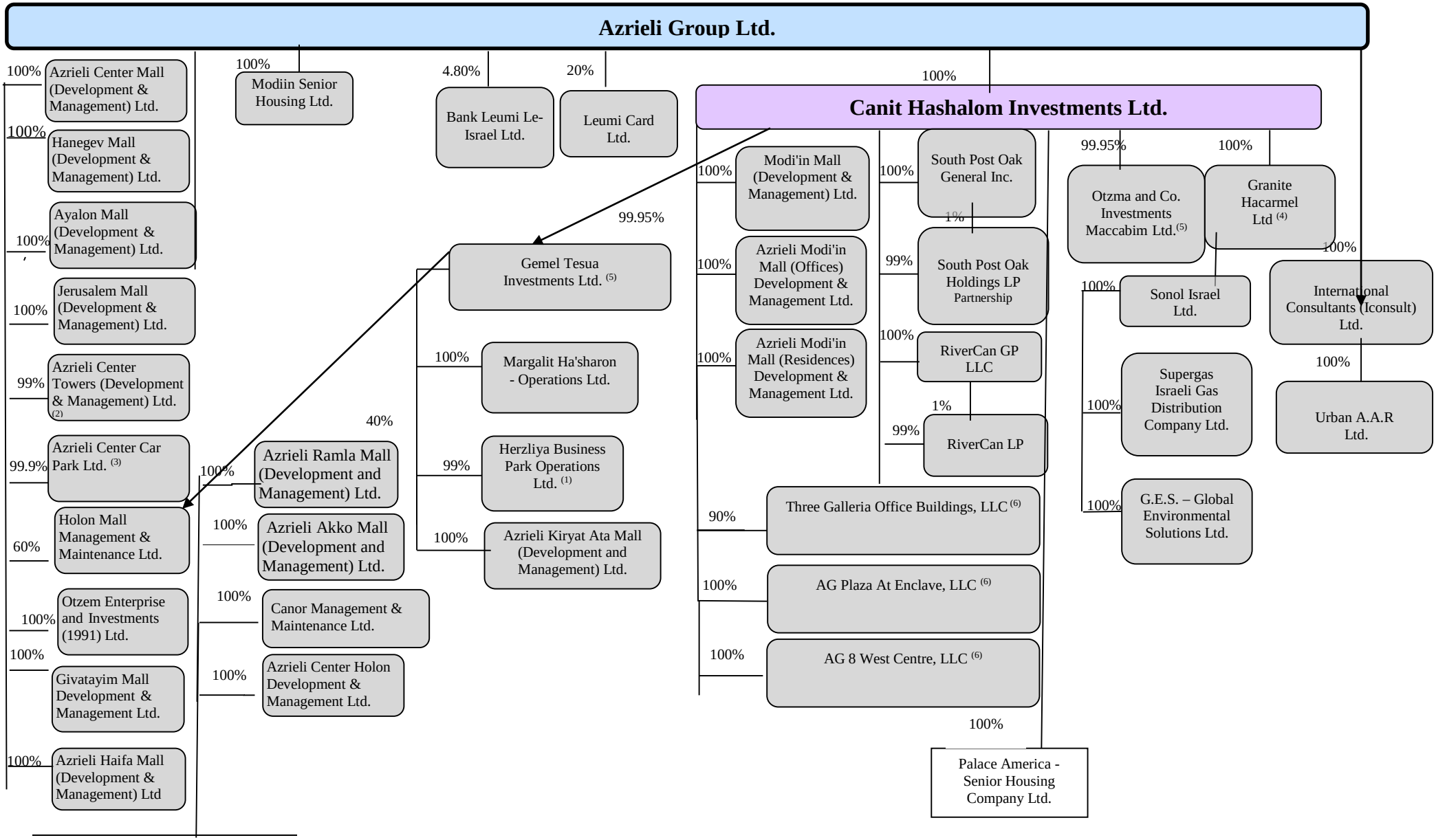
The operations of the Group are carried out by means of a managerial headquarter that is comprised of professionals having a great deal of seniority and managerial experience, most of whom have been associated with the Company and the Group's companies for many years. The Company estimates that the Group, headed by the Chairman of the Board, Ms. Danna Azrieli, as well as the experienced officers and managers in the Company who are considered professional and leading in the field, constitute some of the success factors for the Company's business results. See Section 16 of Chapter A of the Report for additional details in connection with the human capital of the Company.

Commencing from 2008 (transition date January 1, 2007), the Company's financial statements have been prepared according to International Accounting Rules (IFRS), according to which, *inter alia*, the investment property is presented at its fair value.

Chapter A of the Report (this chapter) should be read together with its other parts, including the notes to the Financial Statements.

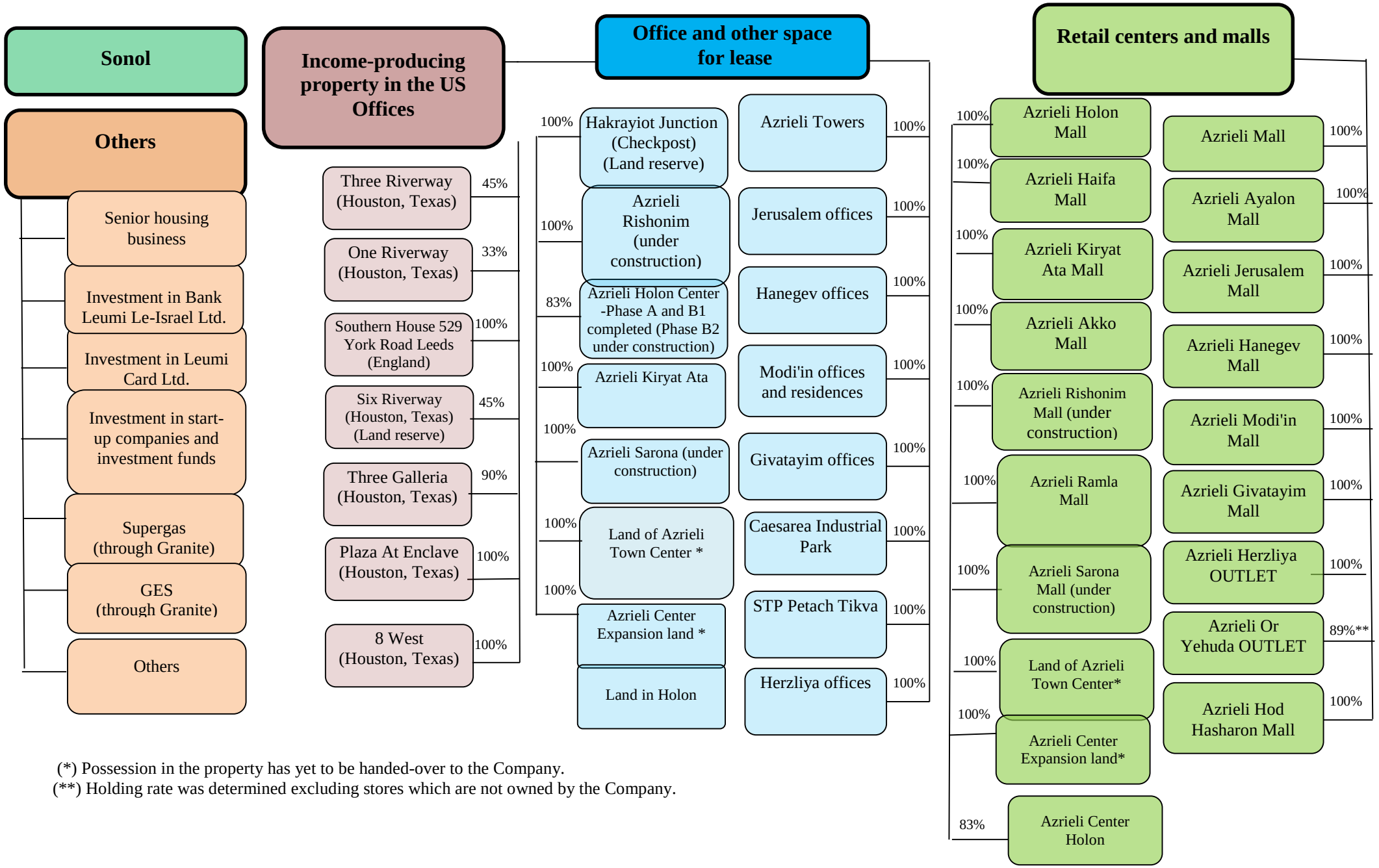
1.2 **A diagram of the structure of main holdings of the Group Companies as of the Report Release Date[2]**

1.2.1 In view of additions to the diagram of the structure of holdings, attached is an updated diagram prior to the Report Release Date, as follows:



[2] The diagram does not include inactive companies as of the Report Release Date.

1.2.2 As of the Report Release Date, the diagram of the holdings of the Group in the properties in final concatenation is as follows:



(*) Possession in the property has yet to be handed-over to the Company.
(**) Holding rate was determined excluding stores which are not owned by the Company.

1.3 Main developments occurring in the Company's structure and business in 2015 and until the Report Release Date

1.3.1 Purchase of income-producing property

(1) Winning of a tender to purchase land designated for retail and offices in the city of Holon: On February 24, 2015, the Company won a tender which was held by the ILA for the purchase of 4 lots designated for employment in the industrial region of the city of Holon, in the total area of 12,400 sqm (the "**Lots**"), in consideration for approx. NIS 64 million. According to the terms of the tender, the Company obtained the approval of the minister in charge for the purchase of two of the Lots in the total area of 7,200 sqm. On the Lots, the Company intends to build an office and retail project in the total scope of up to 55 thousand sqm above ground (subject to the limitations of the zoning plan) and underground parking areas. For further details see the Company's immediate report dated February 24, 2015 (Ref.: 2015-01-037618), included herein by way of reference.

(2) Agreement for the acquisition of a property in Holon: on March 2, 2016 the Company announced (after a previous announcement on the issue of February 2, 2016), that it had engaged in a contingent sale agreement with Lodzia-Rotex Investments Ltd. (the "**Seller**") with respect to the purchase of the entire ownership rights of the Seller in a real estate property in a registered area of approx. 53 thousand sqm located at the Holon Industrial Zone, with approx. 14,300 sqm of built area of retail and workshop buildings leased to various tenants, as well as the assignment of the Seller's entire rights and obligations under lease agreements, executed with respect to areas at the property. The land designation according to a valid zoning plan is a special employment area with a retail front and it includes building rights of approx. 193 thousand sqm above ground and parking basements. In consideration for the property the Company will pay a total of approx. NIS 280 million plus VAT and linkage differentials, if applicable. The transaction is subject to the receipt of the approval of the Antitrust Commissioner. In view of the existence of a condition precedent, as of the Report Date, there is no certainty for closing the transaction. For further details see immediate report of March 2, 2016 (Ref.: 2016-01-039331) included herein by way of reference and Note 14G to the financial statements.

1.3.2 Financing Transactions

(1) Issue of a new Series B bond series and the expansion thereof: On February 8, 2015, the Company published a shelf offering report for the issue and listing on TASE of up to NIS 700 million par value of a new Series B bond series (the "**Shelf Offering Report**"). The Shelf Offering Report was published by virtue of the shelf prospectus. On February 10, 2015, the Company announced that according to the terms of the Shelf Offering Report, approx. NIS 623 million par value of a Series B bond series had been allotted in consideration for approx. NIS 623 million (approx. NIS 619 million after the attribution of the issuance expenses).

On June 23, 2015, the Company allotted additional approx. NIS 600 million par value of Series B Bonds in consideration for raising debt in the sum of approx. NIS 599 million (approx. NIS 594 million after attribution of issue expenses) by way of expansion of the Series B Bond series of the Company in accordance with a shelf offering report released on June 21, 2015 (Ref.: 2015-01-052731), as amended on June 21, 2015 (Ref.: 2015-01-052971) by virtue of the Shelf Prospectus. For further details regarding the Series B bonds, see Note 21B(3) to the Financial Statements and Sections 18.5 and 18.7 of Chapter A of the Report.

(2) Issue of a new Series C Bond series: On September 6, 2015, the Company issued approx. NIS 1 billion par value of a Series C Bond series in consideration for raising debt in the sum of approx. NIS 1 billion (approx. NIS 997 million after attribution of issue expenses) in accordance with a shelf offering report that was released on September 3, 2015 (Ref.: 2015-01-112788) which was released by virtue of the Company's shelf prospectus released on May 14, 2013 (Ref.: 2013-01-061090) (the "**Shelf Prospectus**"). For further details regarding the Series C Bonds, see Note 21B(4) to the financial statements.

(3) Extension of Shelf Prospectus: On May 10, 2015, the Israel Securities Authority (ISA) extended the Company's Shelf Prospectus of May 14, 2013, by 12 additional months, i.e. until May 14, 2016.

1.3.3 **Transactions in connection with the senior housing operations**

(1) Agreement for the acquisition of "Palace Tel Aviv": On July 29, 2015, Canit Hashalom closed the purchase of 100% of the shares of a private company which holds and manages "Palace Tel Aviv", a high-end senior housing home in central Tel Aviv (the "**Acquired Company**"), which includes approx. 231 senior housing units and 4 nursing wings. This followed the receipt of the Antitrust Commissioner's approval of the transaction on July 23, 2015. In consideration for the Acquired Company's shares, Canit Hashalom paid total consideration of approx. NIS 270 million. For further details, see the immediate report of June 17, 2015 (Ref.: 2015-01-050526) and the immediate report of July 30, 2015 (Ref.: 2015-01-085440), included herein by way of reference and Note 14H(3) to the financial statements.

(2) Winning a tender for acquisition of lease rights with senior housing designation in Rishon Lezion: on March 13, 2016, the Company won, through a company controlled thereby, a tender conducted by the Israel Land Authority for the purchase of lease rights in a lot in an area of 3.4 thousand sqm with senior housing designation at the Rakafot Neighborhood in east Rishon Lezion, designated for the building of at least 250 senior housing units and approx. 3,000 sqm for retail, in consideration for a total of NIS 26 million. According to the terms of the tender, the Company is required to pay development costs in the amount of approx. NIS 22 million. For details see immediate report of March 13, 2016 (Ref.: 2016-01-005097) included herein by way of reference.

1.3.4 **Transactions with respect to business of Granite Hacarmel Group**

(1) Agreement for the sale of all of the rights in Via Maris Desalination (Holdings) Ltd. ("Via **Maris**"):

On June 2, 2015, the transaction for the sale of the rights in the Via Maris desalination plant at Palmachim was closed, following the fulfillment of all of the conditions precedent set forth in the agreement. For further details, see Note 9 to the financial statements and the immediate reports of August 7 and 18, 2014 (Ref.: 2014-01-128880 and 2014-01-136566, respectively) and June 2, 2015 (Ref.: 2015-01-038202), included herein by way of reference.

(2) Negotiations for the sale of Sonol: On February 2, 2016, the Company announced that following previous reports of the Company according to which it was examining the liquidation of its holdings in Granite Hacarmel, which are not in its core business in the income-producing property segment, Granite Hacarmel has informed it with respect to the sale of all of Granite's holdings in Sonol, that it is in the midst of advanced negotiations with Mr. Dudi Weisman (through a company controlled by him) and with several other entities at the same time. As of the Report Date, these are in-principle understandings which are not binding and have not yet been perfected into an execution of a binding agreement with any of the entities, including Dudi Weisman and there is no certainty that the negotiations will mature into a detailed agreement and/or that such transaction will be closed, and it is also possible that the agreement which will be executed, if any, will include other conditions than those stipulated above. The Company estimates that the transaction, if and to the extent it shall be closed with any of the aforesaid entities, is not expected to have a material effect on the results and/or profits of the Company. For further details see the Company's reports of October 26, 2015, June 18, 2015, February 2, 2016 (Ref.: 2015-01-141945 and 2015-01-050991, 2016-01-021562 respectively) which are included herein by way of reference.

(3) Termination of negotiations with respect to the sale of Supergas: In the Report Period, the Company held negotiations for the sale of Granite's holdings in Supergas with Tadiran Holdings Ltd. For details, see the report of May 31, 2015 (Ref.: 2015-01-035289), included herein by way of reference. On September 6, 2015, after the negotiations between the parties failed to mature into a binding agreement, the Company announced that the parties have agreed to terminate the negotiations in connection with the purchase of Supergas' shares as aforesaid. For details, see the report of September 6, 2015 (Ref.: 2015-01-114723), included herein by way of reference.

1.3.5 **Additional events**

(1) Class action: on August 8, 2013, a motion was received, which was filed with the Economic Department at the District Court in Tel Aviv, against the Company and against the subsidiary, Canit Hashalom, for an appraisal remedy and a motion to revoke the tender offer, under Section 338 of the Companies Law, in relation to a full tender offer closed by the Company in September 2012 for the shares of the public in Granite Hacarmel. On

February 19, 2015, the Court ruled that the claim for an appraisal remedy has prescribed and summarily dismissed it. The Court did not summarily dismiss the motion on grounds of a misleading detail and ruled that a hearing will be held on this issue. For further details, see the Company's immediate report of August 8, 2013 (Ref.: 2013-01-113148), which is included herein by way of reference and Note 33B.(1) to the financial statements.

(2) Changes in service of officers and approval of the terms of service and employment of the controlling shareholder of the Company:

For details on changes in the office filled by officers of the Company in the Report Period, see specification with respect to Regulations 26 and 26A of Chapter D of this Report and in the Company's reports of March 1, 2015 (Ref.: 2015-01-040498), March 18, 2015 (Ref.: 2015-01-053536) and March 18, 2015 (Ref.: 2015-01-053563) included herein by way of reference .

(3) Termination of agreement to purchase a retail center in Afula:

On January 7, 2015, the Company engaged in a transaction with an unaffiliated third party, to purchase 51% of the rights to a power center which is known by the name G Ba-emek in Afula. On February 5, 2015, the Company received a notice from the seller that the partner holding the balance of the rights to the project has exercised the right of first refusal which was conferred thereon and therefore, the condition precedent to the transaction was not fulfilled and the closing of the purchase of the rights to the retail center by the Company will not be consummated. For details see the Company's immediate reports dated January 7, 2015 and February 5, 2015 (Ref.: 2015-01-006838 and 2015-01-026548, respectively), included herein by way of reference.

(4) Contacts for the acquisition of the Sarona Market food complex:

In November 2015 the Company announced that it was holding contacts with Gindi Holdings Ltd. within which the Company considered the acquisition of the Sarona Market food complex in Tel Aviv, including the parking spaces used thereby, at a price range of NIS 500-550 million. On December 7, 2015 the Company announced that the contacts were discontinued due to commercial and legal disagreements between the parties. For further details see immediate reports from November 29, 2015 (Ref.: 2015-01-166494) and December 7, 2015 (Ref.: 2015-01-174279) respectively, included herein by way of reference.

2. Main operating segments of the Group

As of the Report Date, the business operations of the Group are focused on the real-estate market in Israel, and the Group also operates in the income-producing property segment overseas, as well as in additional segments, including Sonol, through the subsidiary, Granite Hacarmel.

In view of the closing of the transaction for the sale of the Group's holdings in Tambour, from the quarterly statement as of June 30, 2014, Tambour's operations were rendered, according to GAAP, discontinued operations of the Company, presented only in comparison figures (see Note

8 to the financial statements). As of the Report release date, the Company reports to the public on four operating segments:

(1) **The retail centers and malls in Israel segment –** In this operating segment, the Group focuses, primarily, on promoting, constructing, acquiring, renting, managing and maintaining malls and retail centers in Israel. As of the Report Date, the Group owns 15 malls and retail centers in Israel, in a total leasable area of approx. 298 thousand sqm that are leased (the Company's share – approx. 297 thousand sqm) to about 1,700 tenants, with most of the malls and retail centers spread throughout the large cities in Israel. In the framework of this operating segment, the Company provides management services to the retail centers and malls maintained thereby, with the management being performed by the Company and/or designated management companies in relation to each mall or retail center that is owned by the Group, which enters into management agreements with the tenants. All of the malls and retail centers also include car parks (above or underground) which serve the visitors and the potential tenants. See Section 8 of Chapter A of the Report for additional details regarding the retail centers and malls segment.

(2) **The office and other space for lease segment in Israel –** In this operating segment, the Company focuses, primarily, on promoting, constructing, acquiring, renting, managing and maintaining office buildings and parks for offices and high-tech industry, logistic areas and storage in Israel. As of the Report Date, the Group owns 11 income-producing properties in the office and other space for lease segment in Israel, in a total leasable area of approx. 374 thousand sqm (the Company's share is approx. 381 thousand sqm) that are leased to about 550 tenants. Most of the Group's income-producing areas in this operating segment constitute part of the Group's projects which integrate commercial areas, as portrayed in the retail centers and malls segment, and area designated for office and other space for lease. See Section 9 of Chapter A of the Report for additional details regarding the office and other space for lease segment in Israel.

(3) **The income-producing property segment in the U.S.A.** – As of the Report Date, the Group's companies own 6 office properties for lease outside of Israel, in a total leasable area of approx. 187 thousand sqm (the Company's share is approx. 177 thousand sqm) that are leased to about 250 tenants. See Section 10 of Chapter A of the Report for additional details with respect to the income-producing property segment in the U.S.A.

(4) **The fueling and commerce complexes and direct marketing segment (Sonol)** – The Group operates through Sonol in two sectors, fueling and commerce complexes and direct marketing. As of the Report Date, Sonol has 231 public gasoline stations with national presence across the country. In addition, Sonol sells to additional internal gasoline stations, the revenues of which are attributed to the direct marketing sector. As of the Report Date, 187 gasoline stations, which represent approx. 81% of the stations of the Sonol chain, are operated thereby or by operators on its behalf, and the rest are operated through external operators. Approx. 17% of the public gasoline stations in the Sonol chain are owned thereby. With respect to other stations in the Sonol chain, Sonol has other proprietary rights or rights for fuel supply only. For further details with respect to Sonol and its operations, see Section 11 of Chapter A of the Report.

Other properties and business:

In the Report Period, the Company continued the development of the senior housing operations and purchased, in addition to the two land tracts designated for senior homes, also the high-end Tel Aviv Palace Senior Home, as specified in this Report above below. In addition, in March 2016, the Company won a tender for the purchase of lease rights in a lot with senior housing

designation at the Rakafot Neighborhood in east Rishon Lezion. The Group has other businesses, including, *inter alia*, through Granite Hacarmel, Supergas – which mainly engages in the marketing and supply of LPG, GES – which mainly engages in sewage and water infrastructure[3], and investments in entities in the banking and financial segment, investments in venture capital, start-up companies and investment funds. See Section 13 of Chapter A of the Report for additional details.

[3] For details on the closing of an agreement for the sale of the desalination plant in Palmachim, see Section 1.3.4(1) of Chapter A of the Report

3. Investments in the Company's capital and transactions in its shares

3.1 To the best of the Company's knowledge, no investments have been made in the Company's capital over the past two years and no other material transaction has been executed in the Company's shares by an interested party outside of the TASE during the two years preceding December 31, 2015, as well as until this Report Release Date, except as specified below:

Subject of the Report	Report Release Date	Reference[4]
Azrieli Holdings transferred, as a contribution, 6,902,000 Ordinary Shares of the Company, for no consideration, to the association Azrieli Foundation (Israel) (Registered Association) a non-profit association whose assets are designated for donations and the financing of philanthropic activity in Israel ("**Azrieli Foundation Israel**"), subject to the terms and conditions that were determined in a contribution agreement that was executed between Azrieli Holdings and Azrieli Foundation Israel.	March 16, 2014	2014-01-015204
Azrieli Holdings transferred, for no consideration, 460,000 Ordinary Shares of the Company to a foundation registered for charity purposes, domiciled in Canada, whose assets are designated for donations and the financing of philanthropic activity in Israel and in Canada (the "Azrieli Foundation Canada")[5].	March 25, 2014	2014-01-023736
Began to be an interested party by virtue of holdings – Migdal Insurance and Financial Holdings Ltd.	February 12, 2015 and amending report of March 5, 2015	2015-01-030247 2015-01-044836
Azrieli Foundation Canada sold 150,000 Ordinary Shares of the Company in an off-TASE transaction, to investors who are not interested parties of the Company, in order that the public holdings (as such term is defined in the TASE Rules) will be at least 25%.	February 22, 2015 February 25, 2015	2015-01-035629 2015-01-038659
Changes which occurred in corporation holdings through which the controlling shareholders of the Company hold control in the Company[6]	April 15, 2015	2015-01-078715

3.2 As of the Report Release Date, Azrieli Holdings holds 55.62% of the Company's share capital (directly and/or indirectly) and approx. 61.31% of the voting rights, the Azrieli Foundation Canada holds 13.55% of the Company's share capital, and the Azrieli Foundation Israel holds 5.69% of the Company's share capital and no voting rights.

3.3 For details on other, non-material, transactions which were carried out by interested parties of the Company see the Company's current reports.

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[4] All of the reports in this section below are including in this Report by way of reference.

[5] To clarify, as has been relayed to the Company, Mr. David Azrieli OBM or any of his relatives are not deemed controlling shareholders of the Azrieli Foundation Canada, and therefore the foundation shall not be deemed a controlling shareholder of the Company. For further details see the Company's immediate reports of May 19, 2013 (Ref. no.: 2013-01-063904 and 2013-01-063892), of October 27, 2013 (Ref.: 2013-01-175218) and of January 7, 2014 (Ref. no.: 2013-01-007747), included herein by way of reference

[6] For further details regarding the control in the Companysee Regulation 21A of Chapter D of this Report.

3.4 For details on the status of holdings of interested parties in the Company see immediate report of January 7, 2016 (Ref.: 2016-01-005113), included herein by way of reference.

4. Dividends

4.1 Following are details on the dividend distribution during 2014, 2015 and 2016 (until the Report Release Date):

Resolution Date	Distribution Date	Dividend Amount per Share (NIS)	Dividend Amount (NIS in millions)
March 18, 2014	May 7, 2014	2.3088	280
March 16, 2015	May 4, 2015	2.6387	320
March 22, 2016	May 4, 2016	3.2983	400

4.2 The above-specified distributions did not require obtaining a court approval.

4.3 The Company's retained earnings available for distribution as of December 31, 2015 are approx. NIS 11.2 billion (such retained earnings also include the revaluation fund for financial assets available for sale and property revaluation profits).

4.4 For further details on the dividend distribution in the Company and a dividend distribution limitation, see Notes 23B. and 21B(3) to the financial statements.

PART TWO: OTHER INFORMATION

5. Financial information regarding the Company's operating segments

The following presents financial data of the Company, as specified in the Company's financial statements (NIS in thousands) for the years 2013 to 2015:

Y2015:

	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the U.S.A	Sonol	Adjustments*	Consolidated
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Revenues						
Total revenues from outsiders	931,135	419,607	236,247	3,737,834	761,922	6,086,745
Total revenues from other Group operating segments	-	-	-	-	-	-
Total	931,135	419,607	236,247	3,737,834	761,922	6,086,745
Attributed costs						
Costs not representing revenues from other Group operating segments	183,508	72,122	104,602	3,807,306	661,816	4,829,354
Costs representing revenues of other operating segments in the Group	-	-	-	-	-	-
Total	183,508	72,122	104,602	3,807,306	661,816	4,829,354
Profits from operations attributed to operating segment (NOI in the income-producing property segments)	747,627	347,485	131,645	(69,472)	100,106	1,257,391
Variable costs attributed to operating segment	183,508	72,122	104,602	3,403,056	448,894	4,212,182
Fixed costs attributed to operating segment	-	-	-	404,250	212,922	617,172
Rise (decline) in fair value of investment property	122,972	70,294	(28,294)	-	15,335	180,307
Profits from operations attributed to owners of parent company	745,066	344,578	125,853	(68,863)	99,236	1,245,870
Profits from operations attributed to rights which do not confer control	2,561	2,907	5,792	(609)	870	11,521
Total assets attributed to operating segment	11,055,969	6,829,670	2,052,023	1,912,532	1,978,533	23,828,727

*Adjustments to the consolidated derive from intercompany cancellations and from business in the gas, water, senior housing and insurance segments, see Section 13 of this Chapter.

See the Company's Board of Directors' Report in Chapter B of the Report for the explanations of the Board of Directors with respect to the financial data of the Company as it appears in its consolidated financial statements.

Y2014:

	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the U.S.A	Sonol	Adjustments *	Consolidated
	NIS in thousands					
Revenues						
Total revenues from outsiders	877,464	386,954	191,467	4,818,160	857,473	7,131,518
Total revenues from other Group operating segments	---	---	---	---	---	---
Total	877,464	386,954	191,467	4,818,160	857,473	7,131,518
Attributed costs						
Costs not representing revenues from other Group operating segments	167,995	69,039	84,163	4,769,637	783,175	5,874,009
Costs representing revenues of other operating segments in the Group	---	---	---	---	---	---
Total	167,995	69,039	84,163	4,769,637	783,175	5,874,009
Profits from operations attributed to operating segment (NOI in the income-producing property segments)	709,469	317,915	107,304	48,523	74,298	1,257,509
Variable costs attributed to operating segment	167,995	69,039	84,163	4,395,686	590,502	5,307,385
Fixed costs attributed to operating segment	---	---	---	373,951	192,673	566,624
Rise (decline) in fair value of investment property	(89,278)	117,106	8,873	(2,853)	(4,935)	28,913
Profits from operations attributed to owners of parent company	706,909	315,263	101,755	48,097	73,654	1,245,678
Profits from operations attributed to rights which do not confer control	2,560	2,652	5,549	426	644	11,831
Total assets attributed to operating segment	10,595,488	6,134,174	2,026,057	2,207,960	2,654,786	23,618,465

* Adjustments to consolidated derive from intercompany cancellations and from business in the gas, water and insurance segments, see Section 13 of this chapter.

See the Company's Board of Directors' Report in Chapter B of the Report for the explanations of the Board of Directors with respect to the financial data of the Company as it appears in its consolidated financial statements.

Y2013:

	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the U.S.A	Sonol	Adjustments*	Consolidated
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Revenues						
Total revenues from outsiders	873,267	365,195	179,163	5,308,761	1,149,885	7,876,271
Total revenues from other Group operating segments	---	---	---	---	---	---
Total	873,267	365,195	179,163	5,308,761	1,149,885	7,876,271
Attributed costs						
Costs not representing revenues from other Group operating segments	167,933	64,182	80,273	5,206,844	1,011,771	6,531,003
Costs representing revenues of other operating segments in the Group	---	---	---	---	---	---
Total	167,933	64,182	80,273	5,206,844	1,011,771	6,531,003
Profits from operations attributed to operating segment (NOI in the income-producing property segments)	705,334	301,013	98,890	101,917	138,114	1,345,268
Variable costs attributed to operating segment	167,933	64,182	80,273	4,832,409	814,894	5,959,691
Fixed costs attributed to operating segment	---	---	---	374,435	196,877	571,312
Rise (decline) in fair value of investment property	183,874	175,014	69,011	(450)	(2,792)	424,657
Profits from operations attributed to owners of parent company	702,881	298,517	93,935	101,023	136,911	1,333,267
Profits from operations attributed to rights which do not confer control	2,453	2,496	4,955	894	1,203	12,001
Total assets attributed to operating segment	10,122,616	5,608,440	1,518,364	2,333,107	2,765,932	22,348,459

* Adjustments to consolidated derive from intercompany cancellations and from business in the gas, water and insurance segments, see Section 13 of this chapter.

See the Company's Board of Directors' Report in Chapter B of the Report for the explanations of the Board of Directors with respect to the financial data of the Company as it appears in its consolidated financial statements.

6. General environment and the effect of external factors on the Company's business

Following are the assessments of the Company as to the major trends, events and developments in the macroeconomic environment of the Company, which to the best of its knowledge and estimates, have or are anticipated to have an effect on the business results or the developments in the Group's operating segments. For details with respect to regulatory restrictions on the Company, see Section 22 of Chapter A of the Report.

The estimates of the Company below in this section and in this Report are based, *inter alia*, on data published and not independently examined by the Company. Every reference appearing in this section should be considered data not under the control of the Company and uncertain, and it is based, *inter alia*, on data published by the Bank of Israel, as specified below.

6.1 The business in Israel

As a company operating in the Israeli market, with its various industries, the Company is exposed to macro-economic changes in the condition of the economy in general and in the real estate industry, in particular. The central economic factors affecting the business of the Company and the Group companies in Israel are specified below.

Israel	**For the Year Ended on**		
	Dec. 31, 2015	**Dec. 31, 2014**	**Dec. 31, 2013**
Macroeconomic parameters *			
Gross Domestic Product (PPP)*	**$281.8Billion**	**$268.3 billion**	**$257.5 billion**
Product per Capita (PPP)*	**$33,658**	**$33,136**	**$32,404**
Growth rate in the Domestic Product (PPP)*	**3.5%**	**4.2%**	**4.9%**
Growth Rate in the Product per Capita (PPP)*	**1.6%**	**2.3%**	**3%**
Inflation Rate **	**(1.0)%**	**(0.2)%**	**1.8%**
Return on long term domestic governmental debt * (NIS)**	**2.1%**	**2.5%**	**3.8%**
Rating of long term governmental debt ** (domestic rating)**	**A+/STABLE**	**A+/STABLE**	**AA-/STABLE**
Rating of long term governmental debt (international rating) ****	**A+/STABLE**	**A+/STABLE**	**A+/STABLE**
Exchange Rate of domestic currency compared to the Dollar as of the last day of the year**	**3.902**	**3.889**	**3.471**

* Source: the International Monetary Fund website, World Economic Outlook Database- www.inf.org
It should be noted that in 2015, the figures for 2013 and 2014 were also updated.
** Source: the Bank of Israel website - www.boi.gov.il
*** Source: yield on government debt, the Bank of Israel website: www.boi.org.il
**** Source: S&P rating report at www.standardandpoors.com

6.1.1 General

(1) Political-security situation – The Company's business is affected by the political-security situation in Israel. The Company's management estimates that significant and long-term deterioration in the political security situation may cause a decline in the business in malls and retail centers, decline in demands and a decrease in prices in the income-producing property segment. In the second half of 2015, there have been terrorist attacks in various regions in the country, which caused a certain, temporary, slowdown in the business of some of the Company's malls, in

which, as of the Report Release Date, it appears that business is getting back to normal.

(2) Credit availability and cost – Changes in financing cost and availability and the scope of available credit in the banking and non-banking system affect the real estate industry and the profitability thereof. As a result of the implementation of structural reforms implemented in recent years in the capital market (such as the Bachar Reform, the pension reform and the tax reform) the banks ceased being the main credit providers to the business sector, and a non-banking credit market had developed, constituting an alternative for financing assets and projects. The local capital market too, constitutes a source for the raising of funds to finance the Company's business activity, whether in shares or in bonds. Due to the financial strength of the Company, its accessibility to sources of bank financing, and the relatively low scope of pledges on properties, taking into consideration the extent of business thereof, the Company estimates that no material difficulties are anticipated in raising the financing required thereby.

(3) Fluctuations in the inflation rate, the Consumer Price Index and the interest rates – The real estate industry is exposed to risks deriving from changes in the inflation rate, the Consumer Price Index and interest rates. The Company finances most of its business operations by means of loans linked to the Consumer Price Index or linked to the prime interest or to the Bank of Israel interest. In addition, most of the Company's revenues from rent are also linked to the Consumer Price Index. The Consumer Price Index decreased in 2015 by 1% versus a decrease of 0.2% during 2014. At the end of 2015, the inflation expectations for the capital market in 2016 were at a rate of (-0.2%), and the expectations derived from the banks' internal interest rates were at a level of (-0.4%)[7]. The prime interest decreased in 2015 by 0.15% (from 1.75% as of December 31, 2014 to 1.60% on December 31, 2015). The Bank of Israel interest decreased in 2015 by 0.15% (from 0.25% as of December 31, 2014 to 0.10% as of December 31, 2015).

(4) Fluctuations in the exchange rate of the U.S. dollar – Changes in the exchange rate of the dollar have a marginal effect on the growth rate of the Consumer Price Index in Israel and on the economic results of the Company, the functional currency of which for operations outside of Israel is, for the most part, the U.S. dollar. In 2015, the dollar remained almost unchanged versus the NIS.

6.1.2 **Effects on the income-producing property in Israel segment**

(1) The income-producing property in Israel segment – For a description of the trends related to the income-producing property in Israel segment, in relation to each of the Company's business segments, see Sections 8.1 and 9.1 below.

[7] Bank of Israel, press release, January 25, 2016, the Monetary Committee decided to leave the interest for March 2016 at the level of 0.1%, the Bank of Israel website http://www.boi.org.il/he/NewsAndPublications/PressReleases/Pages/25-01-2016-InterestRate.aspx.

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(2) The rate of growth and consumption per capita in Israel - In real terms, in 2015 a moderate growth trend in the Israeli market continued, and the real activity attests to the continuation in growth, although at a more moderate rate than the growth rate in previous years. The gross domestic product (GDP) increased by approx. 2.3%[8] in 2015, compared with 2.6% in 2014. In addition, high level of employment was maintained and the unemployment rate was 5.2% in the end of 2015. In this year, the expense for private consumption increased by 4.5% after an increase of 3.7% in 2014. Net of the population growth by 2.0%, the expense for private consumption per capita grew by 2.4%. However, Israel is highly affected by developments in global economy and the local economy will continue to be affected by the slowdown in the growth, *inter alia*¸ due to the low growth rate in China, the continuous decline of oil and goods prices, the ability of the USA economy to continue growth in view of these developments, the ability of Europe to coop with the standstill and high unemployment and the geopolitical instability in the Middle East. According to the publications of the Bank of Israel, in the end of December 2015 the macroeconomic forecast was updated, and according thereto the growth in 2016 and in 2017 is expected to reach approx. 2.8% and 3.1% respectively.

6.1.3 **Data which may affect the results of Sonol**

The results of Sonol are exposed mainly to the following effects: (1) changes in worldwide petroleum prices, which affect receivables balances, the value of inventory balances and accordingly, the amount of bank credit and financing expenses of Sonol, and the demand for petroleum products; (2) the marketing margin in the petroleum distillates industry, from which the profitability of petroleum distillates marketing companies, including Sonol, is derived, and any change therein, in respect of both supervised and unsupervised products; (3) Changes in interest rates *due to the* high amounts of credit taken thereby (4) the requirements of the Ministry of Environmental Protection in connection with Sonol's gas stations and facilities compel it to a lot financial resources for the issue; (5) Sonol has a dependency on Oil Refineries Ltd. ("**ORL**"), which is the main supplier of various petroleum distillates.

[8] Source: *inter alia*, according to the publications of the Bank of Israel, as appear on the website www.boi.org.il and the publications of the Central Bureau of Statistics, as published on the www.cbs.gov.il website.

6.2 The business in the U.S.A.

U.S.A.	For the Year Ended on		
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
Macroeconomic parameters			
Gross Domestic Product (PPP) [1] (U.S. $ in billions)	17,968	17,348	16,663
Product per Capita (PPP) [1] (U.S. $)	55,904	54,370	52,608
Growth rate in the Domestic Product (PPP) [1]	3.57%	4.11%	3.14%
Growth Rate in the Product per Capita (PPP) [1]	2.82%	3.35%	2.38%
Inflation Rate [2]	0.7%	0.8%	1.5%
Return on long term domestic governmental debt [3]	2.27%	2.17%	3.04%
Rating of long term governmental debt [4]	AA+/Stable	AA+/Stable	AA+/Stable
Exchange Rate Shekel to U.S. Dollar [5]	3.902	3.889	3.471

(1) The product data is based on a publication of the International Monetary Fund ("**IMF**") in October 2015 (http://www.imf.org).
(2) According to publications of the US Department of Labor.
(3) According to the US Department of Treasury with respect to bonds for a period of 10 years from December 31, 2015.
(4) According to the rating of S&P (www.standardandpoors.com).
(5) According to data of the Bank of Israel.

The Company's business in the U.S.A. is influenced mostly by the economic situation in the U.S. economy in general, and in the income-producing commercial property segment, in particular, the demand and supply in the area in which the Company's properties are located and the amount of rent therefor. To the best of the Company's knowledge, in 2015 also, similarly to the last four years, the U.S. economy continued to remain stable. In Q4/2015 the US economy grew at an annual rate of 0.7% after a 2% growth rate in the three months preceding this quarter. The growth rate in the whole of 2015 was 2.4% similarly to the growth in 2014 and higher than the 2.0% anticipated by the Federal Reserve. The negative factors which led to the low growth in Q4/2015 were mainly the decrease in inventories and export. For details on the Houston, Texas area, where the Company concentrates the majority of its business in the income-producing property in the USA segment, see Section 10 of Chapter A of the Report.

The above information in Sections 6.1 and 6.2 concerning the general environment and the external factors that affect the Company's business, includes information based on subjective estimates and approximations of the Company in consideration of past experience, as well as publications and surveys written by professionals in connection with the condition of the Israeli economy, the real estate industry, Sonol, and the condition of the economy in countries in which the Company operates, as detailed above in this section. The above data are only approximations and it is possible that they are incomplete, but, in the Company's estimation, are able to provide a general picture, even if inexact, of the markets in which it operates in the various operating segments. In view of the above, and due to the existence of causes beyond the control of the Company, the actual results may vary from the estimates specified above and below if a change should take place in one of the factors which were taken into account in these estimates or the economic crisis shall aggravate, the condition of the economy and/or the security situation shall become worse or due to the realization of any of the risk factors specified in Section 27 of this chapter, and mainly the world financial crisis, the condition of the economy in Israel and in the U.S. and the security situation in Israel, changes in relevant interest rates and indices, decline in demand for space for lease and in rent prices,

deterioration of strength of primary tenants, changes in global petroleum prices, the marketing margins and the oil distillate industry, changes at ORL and costs of financing sources.

PART THREE: DESCRIPTION OF THE GROUP'S BUSINESS IN THE INVESTMENT PROPERTY SEGMENT – AGGREGATE

7. Aggregate disclosure with respect to the investment property segment[9]

The disclosure with respect to the Company's investment property operating segment is made in accordance with the draft of the amendment to the Securities Regulations (Details of the Prospectus and the Draft Prospectus – Structure and Form) (Amendment), 5764-2013, as released by the Israel Securities Authority in December 2013, which had been adopted by the Company even prior to the entering into effect of the same.

7.1 General

The Group began its activity in the investment property segment in 1983 and since then and as of the Report Date the Company operates in development, construction, acquisition, lease, management and maintenance of malls and retail centers in Israel as well as office and hi-tech parks, office and industry, light industry and storage buildings in Israel. Commencing from 2001 the Company began to operate in these segments also overseas (mainly in the U.S.).

As a development company, the Company examines, from time to time, growth and increase goals for the expansion of its scope of operations, and checks opportunities to purchase income-producing properties and lands for real estate development in Israel and overseas in the core segments thereof (retail and office spaces) and also in tangential segments such as senior housing and storage areas (logistics).

Underlying the Company's policy is the basic assumption whereby the property's location is the most important factor for its success. Accordingly, upon examination of the location of a potential property, the Company ascribes significant weight to the population growth potential in the examined area and the urban development anticipated therein, based, *inter alia*, on urban research, segmentation of the existing and anticipated population, competition in the region and the unique or typical commercial needs of such area.

The Group's strategy and business in the investment property segment is performed both through initiation, development and construction of new properties and acquisition of existing income-producing property, upgrading the same and maximizing potential thereof. In the Report Period, a certain increase was recorded in the margins between the rates of capitalization on the properties and the financing costs, a trend which the Company estimates allows it to develop and purchase income-producing properties also at development yields or cap rates for purchase that are lower compared to rates in previous periods.

The Group, by itself (through companies which are entirely controlled thereby), manages and operates the properties, their construction and betterment while using the know-how and experience accrued by the Group, in order to give added value to its properties, tenants and the public visiting the properties.

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[9] Disclosure is made jointly for the retail centers and malls in Israel segment, the office and other space for lease in Israel segment and the income-producing property in the U.S.A. segment and in part includes also reference to relevant information regarding the Group's senior housing operations. For further details regarding the senior housing see Section 13.1 of Part A of the Report.

The Company's properties in the retail centers and malls segment are located in the center of residential neighborhoods and at entrances to urban areas, insofar as possible, on main traffic arteries. Due to the location of the properties, their accessibility, spacious car parks, tenant mix and variety of activities therein, they attract a large and diverse target audience. Some of the retail centers include office space for lease designated to provide a supplementary response for the target audience's needs, according to the nature of the retail center and its location.

The Company's properties in the office and other space for lease in Israel segment, including the properties under construction, are located primarily in the central region, where there is an active demand for office buildings of various types. The Company's properties in this segment are characterized by a high level of finish and management, relatively extensive floor and office spaces, and are located close to central transport arteries and include designated parking lots.

According to its policy, profit maximization and in order to improve the experience of the users of the Group’s properties, the Company acts, insofar as necessary, to upgrade its existing properties, while using the existing and potential commercial, office and other areas, improving the tenant mix and adjusting the same to the target audience, renovating the properties, renewing the systems therein, creating a unique user experience, implementing technological and/or digital improvements, all in order to adjust the same to the audience’s needs and taste which varies from time to time.

As previously reported by the Company, the Company is examining, from time to time, the expansion of its operations and in this context the entry into tangential real estate segments. Thus, in the Report Period the Company purchased the high-end Senior Home Palace Tel Aviv and in March 2016 it won a tender for the purchase of lease rights in a land with designation for senior housing in Rishon Lezion, in addition to two lands designated for senior housing, one in the city of Modi’in and the other in the town of Lehavim in the south, as part of its intention to develop an operating segment that will be characterized by quality senior housing facilities, with a high standard of finish and comprehensive services for the senior population in a manner which enables the tenants to continue to conduct a private and independent lifestyle, in a comfortable and spacious residential unit, while enjoying a supportive and active environment, which contains all of the necessary community services, under one roof. The group’s senior housing facilities shall include quality sport facilities, community culture services and classes, maintenance and cleaning services, certain medical services, security etc. Usually, senior housing projects also include (one or more) long-term-care units. For additional details regarding land see Section 7.8 of Chapter A of the Report.

Set forth below are aggregate figures regarding investment property owned by the Group. The figures will be presented jointly with regard to properties from the three operating segments of investment property owned by the Company, namely: retail centers and malls in Israel segment, the office and other space for lease segment in Israel and the income-producing property segment overseas. It shall also be stated that the aggregate information includes reference to the Group's senior housing operating segment. For details regarding the Senior Housing operations see Section 13.1 of Part A of the Report. For further details regarding the operating segments and regarding material properties and a very material property, see Sections 8, 9 and 10 of this Chapter.

7.2 Summary results in the investment property segments*

7.2.1 Summary of the aggregate results in the Group's three investment property segments and in senior housing

	For the year ended on		
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
	NIS in millions		
Total business revenues (consolidated)	**1,607**	**1,456**	**1,418**
Profit from revaluations (consolidated)	**179**	**37**	**428**
Business profits (consolidated)**	**1,417**	**1,171**	**1,533**
Same property NOI (consolidated)	**1,183**	**1,127**	**-**
Same property NOI (corporation's share)	**1,174**	**1,120**	**-**
Total NOI (consolidated)**	**1,238**	**1,134**	**1,105**
Total NOI (corporation's share)**	**1,227**	**1,124**	**1,095**

(1) The figures do not include the investment properties component appearing in Sonol which does not constitute a part of the income-producing property segment of the Company.
(2)For details with respect to additional financial indicators which were examined by the Company, see Sections 1.1.7 to 1.1.11 of Chapter B (the Board of Directors' Report).
** The figures include the NOI of the Medical at Palace Tel Aviv according to the approach of the management which deems it part of the NOI of the senior home in Tel Aviv even though it does not constitute an investment property (and therefore, the tables of the property chapter below shall not include information in respect thereof) and due to non-materiality in its separate presentation.

7.2.2 Summary of the results in the retail centers and malls in Israel segment

	For the Year ended on		
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
	NIS in millions		
Total business revenues (consolidated)	**931**	**877**	**873**
Profit (loss) from revaluations (consolidated)	**123**	**(89)**	**184**
Business profits (consolidated)	**871**	**620**	**889**
Same property NOI (consolidated)	**724**	**708**	**-**
Same property NOI (corporation's share)	**721**	**706**	**-**
Total NOI (consolidated)	**748**	**709**	**705**
Total NOI (corporation's share)	**745**	**707**	**703**

7.2.3 Summary of the results in the office and other space for lease in Israel segment

	For the Year ended on		
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
	NIS in millions		
Total business revenues (consolidated)	**420**	**387**	**365**
Profit from revaluations (consolidated)	**70**	**117**	**175**
Business profits (consolidated)	**418**	**435**	**476**
Same property NOI (consolidated)	**347**	**318**	**-**
Same property NOI (corporation's share)	**347**	**318**	**-**
Total NOI (consolidated)	**347**	**318**	**301**
Total NOI (corporation's share)	**345**	**315**	**299**

7.2.4 Summary of the results in the income-producing property in the USA segment

	For the Year ended on		
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
	NIS in millions		
Total business revenues (consolidated)	**236**	**191**	**179**
Profit (loss) from revaluations (consolidated)	**(28)**	**9**	**69**
Business profits (consolidated)	**104**	**116**	**168**
Same property NOI (consolidated)	**112**	**101**	**-**
Same property NOI (corporation's share)	**106**	**96**	**-**
Total NOI (consolidated)	**132**	**107**	**99**
Total NOI (corporation's share)	**126**	**102**	**94**

7.3 The geographic regions in which the Group operates in the investment property segments

As of the Report Date, the Company operates in two main geographic regions, Israel and the U.S.A. Most of the Company's business is in Israel, where the Company operates throughout the country, including North, Center, South and other urban areas, with no preference of specific areas and without investing special managerial inputs in specific areas. The Company estimates that the State of Israel constitutes one geographical region in the aspect of the risks and yields of the income-producing property business. In the U.S.A. the Company operates, as of the Report Date, mainly in Houston, Texas, in the U.S.

For details regarding the macroeconomic parameters affecting the business in Israel and the U.S.A., see Section 6 of Chapter A of the Report.

7.4 Segmentation of the investment property business

Set forth below are details of the Company's investment property business, in the three investment property operating segments and the senior housing, namely, the malls and retail centers in Israel, the office and other space for lease in Israel and income-producing property in the U.S.A., in a consolidated manner, segmented according to the various uses of the space of each segment. All of the figures in the following tables do not contain the investment property component appearing in Granite Hacarmel's operations, including in Sonol, which does not constitute part of the income-producing property segment of the Company. The commercial use in Israel in the tables below is attributed to the retail centers and malls operating segment, whereas the office, industrial and residential uses are attributed in Israel to the office and other space for lease operating segment (and do not constitute operating segments in themselves). The senior housing does not constitute yet the level of a segment in terms of quantity and therefore is included as part of the "others" in the division into segments. All of the figures of the income-producing property segment in the U.S.A. appear under the U.S.A. region, in accordance with the various segmentations, which also do not constitute operating segments in themselves, while the amounts with respect to this region are translated into NIS according to the conversion rate of $1=NIS 3.902.

The segmentation of uses below is in the format in which the information is presented to the Group's management. As a rule, in properties whose main use is commerce, the car park was attached to such use, whereas in properties whose main use is offices, the car park was attached to such use. As for the Tel Aviv Azrieli Center, for the purpose of the Report, the car park space is divided equally between the commercial and office uses, due to its similar contribution to both uses.

In the Report below, the following terms shall have the meanings set forth beside them:

"**Space**"/"**Area**" – the space/area for which rent is paid, with the addition of unleased areas (excluding areas sold or acquired after the Report Date, if any). With respect to senior housing, the area refers to all of the built area of the home, in view of the fact that the rate of the public areas in the senior housing facility that the Company operates, out of the total facility area is relatively large and the public areas are also intended to serve the tenants of the homes.

"**Revenues**" – all payments made by the tenant, including rent, management fees, profit from electricity, parking fees and other payments, if any.

(1) Segmentation (aggregate) of income-producing property space by region and use, as of December 31, 2015 (in sqm)

Regions	Uses	Office	Industrial	Commercial	Residential	Senior Housing*	Parking lots	Total	% of total property area
Israel	Consolidated	346,188	18,885	298,125	8,698	23,166	511,597	1,206,659	**78%**
	Corporation's share	343,277	18,885	297,128	8,622	22,963	509,203	1,200,078	**79%**
USA	Consolidated	186,894	-	-	-	-	150,874	337,768	**21%**
	Corporation's share	176,709	-	-	-	-	147,101	323,810	**22%**
Total	Consolidated	533,082	18,885	298,125	8,698	23,166	662,471	1,544,427	**100%**
	Corporation's share	519,986	18,885	297,128	8,622	22,963	656,304	1,523,888	**100%**
% of total property area	Consolidated	35%	1%	19%	1%	1%	43%	100%	
	Corporation's share	**34%**	**1%**	**19%**	**1%**	**2%**	**43%**	**100%**	

* 231 residential units – connected residential units are treated as one unit.

(2) Segmentation (aggregate) of income-producing property space by region and use, as of December 31, 2014 (in sqm)

Regions	Uses	Office	Industrial	Commercial	Residential	Parking lots	Total	% of total property area
Israel	Consolidated	315,203	18,705	266,477	8,698	473,032	1,082,115	79%
	Corporation's share	312,563	18,705	265,495	8,622	470,638	1,076,023	80%
U.S.A.	Consolidated	186,864	-	-	-	103,986	290,850	21%
	Corporation's share	176,682	-	-	-	100,550	277,232	20%
Total	**Consolidated**	502,067	18,705	266,477	8,698	577,018	1,372,965	100%
	Corporation's share	489,245	18,705	265,495	8,622	571,188	1,353,255	100%
% of total property area	**Consolidated**	37%	1%	19%	1%	42%	100%	
	Corporation's Share	36%	1%	20%	1%	42%	100%	

(3) Segmentation (aggregate) of income-producing property fair value by region and use, as of December 31, 2015 (in sqm)[10]

Regions	Uses	Office	Industrial	Commercial	Residential	Senior Housing	Total	% of total property area
Israel (NIS in thousands)	**Consolidated**	4,865,048	74,684	10,620,708	139,300	*566,688	16,266,428	89%
	Corporation's share	4,823,567	74,684	10,584,067	138,078	561,717	16,182,113	89%
U.S.A.* (US Dollars in thousands)	**Consolidated**	524,765	-	-	-	-	524,765	11%
	Corporation's share	501,321	-	-	-	-	501,321	11%
Total (NIS in thousands)	**Consolidated**	6,912,682	74,684	10,620,708	139,300	566,688	18,314,062	100%
	Corporation's share	6,779,722	74,684	10,584,067	138,078	561,717	18,138,268	100%
% of total property value	**Consolidated**	38%	-	58%	1%	3%	100%	
	Corporation's Share	38%	-	58%	1%	3%	100%	

* the value is gross without offset of the balance of deposits from tenants. The value net of tenant deposits balance is approx. NIS 275 million.

[10] The fair value of the Group's income-producing property in Israel is according to valuations that the Group received made by a certified land appraiser independent of the Company or of the Group companies as of December 31, 2015. As to the properties overseas, the valuations were carried out by certified land appraisers, who in view of the indemnification given to them are defined as dependent in view of the directives of the Securities Authority (excluding a non-material property in the amount of approx. NIS 49 million whose value was updated by the Company).

(4) Segmentation (aggregate) of income-producing property fair value by region and use, as of December 31, 2014[11]

Regions	Uses	Office	Industrial	Commercial	Residential	Total	% of total property value
Israel (NIS in thousands)	**Consolidated**	4,482,459	71,476	9,542,169	125,400	14,221,504	88%
	Corporation's share	4,444,308	71,476	9,507,178	124,300	14,147,262	88%
U.S.A.* (USD in thousands)	**Consolidated**	519,880	-	-	-	519,880	12%
	Corporation's share	496,934	-	-	-	496,934	12%
Total (NIS in thousands)	**Consolidated**	6,504,272	71,476	9,542,169	125,400	16,243,317	100%
	Corporation's share	6,376,885	71,476	9,507,178	124,300	16,079,839	100%
% of total property value	**Consolidated**	40%	-	59%	1%	100%	
	Corporation's Share	40%	-	59%	1%	100%	

(5) Segmentation (aggregate) of income-producing property NOI by region and use, for the year ended on December 31, 2015

Regions	Uses	Office	Industrial	Commercial	Residential	Senior Housing*	Total	% of total property NOI
Israel (NIS in thousands)	Consolidated	338,242	5,810	747,628	3,433	11,737	1,106,850	89%
	Corporation's share	335,365	5,810	745,066	3,403	11,634	1,101,278	90%
U.S.A.* (USD in thousands)	Consolidated	33,738	-	-	-	-	33,738	11%
	Corporation's share	32,253	-	-	-	-	32,253	10%
Total (NIS in thousands)	**Consolidated**	469,886	5,810	747,628	3,433	11,737	1,238,484	100%
	Corporation's share	461,218	5,810	745,066	3,403	11,634	1,227,131	100%
% of total property NOI	**Consolidated**	38%	-	61%	-	1%	100%	
	Corporation's Share	38%	-	61%	-	1%	100%	

* The figure includes the NOI of the Medical, at Palace Tel Aviv as aforesaid.

[11] The fair value of all of the Group's income-producing properties is in accordance with valuations that the Group has received which were performed by licensed land appraisers, independent of the Company or of the Group's companies, as of December 31, 2014 (other than an immaterial property, in the amount of approx. NIS 51 million, the value of which was updated by the Company).

(6) Segmentation (aggregate) of NOI of income-producing property, by region and use, as of the year ended on December 31, 2014

Regions	Uses	Office	Industrial	Commercial	Residential	Total	% of total property NOI
Israel (NIS in thousands)	Consolidated	308,837	5,592	709,469	3,485	1,027,383	91%
	Corporation's share	306,216	5,592	706,909	3,455	1,022,172	91%
U.S.A.* (USD in thousands)	Consolidated	27,592	-	-	-	27,592	9%
	Corporation's share	26,165	-	-	-	26,165	9%
Total (NIS in thousands)	**Consolidated**	416,141	5,592	709,469	3,485	1,134,687	100%
	Corporation's share	407,971	5,592	706,909	3,455	1,123,927	100%
% of total property NOI	**Consolidated**	37%	-	63%	-	100%	
	Corporation's Share	37%	-	63%	-	100%	

(7) Segmentation (aggregate) of NOI of income-producing property, by region and use, as of the year ended on December 31, 2013

Regions	Uses	Office	Industrial	Commercial	Residential	Total	% of total property NOI
Israel (NIS in thousands)	Consolidated	292,055	5,595	705,334	3,363	1,006,347	91%
	Corporation's share	289,588	5,595	702,881	3,334	1,001,398	91%
U.S.A.* (USD in thousands)	Consolidated	27,666	-	825	-	28,491	9%
	Corporation's share	26,238	-	825	-	27,063	9%
Total (NIS in thousands)	**Consolidated**	388,082	5,595	708,197	3,363	1,105,237	100%
	Corporation's share	380,661	5,595	705,744	3,334	1,095,334	100%
% of total property NOI	**Consolidated**	35%	1%	64%	-	100%	
	Corporation's Share	35%	1%	64%	-	100%	

(8) Segmentation (aggregate) of income-producing property valuation profit(loss), by region and use, for the year ended on December 31, 2015

Regions	Uses	Office	Industrial	Commercial	Residential	Senior Housing	Total (NIS in thousands)	% of total valuation profit
Israel (NIS in thousands)	Consolidated	54,664	1,730	122,971	13,900	14,099	207,364	116%
	Corporation's share	54,165	1,730	121,805	13,778	13,972	205,450	115%
U.S.A.* (USD in thousands)	Consolidated	(7,251)	-	-	-	-	(7,251)	(16%)
	Corporation's share	(6,777)	-	-	-	-	(6,777)	(15%)
Total (NIS in thousands)	**Consolidated**	26,370	1,730	122,971	13,900	14,099	179,070	100%
	Corporation's share	27,722	1,730	121,805	13,778	13,972	179,007	100%
% of total valuation profit	**Consolidated**	15%	1%	68%	8%	8%	100%	
	Corporation's Share	15%	1%	68%	8%	8%	100%	

(9) Segmentation of profits (losses) of income-producing property revaluations (aggregate), by region and use, for the year ended on December 31, 2014

Regions	Uses	Office	Industrial	Commercial	Residential	Total (NIS in thousands)	% of Total Revaluation Profits
Israel (NIS in thousands)	Consolidated	98,650	6,569	(89,278)	11,887	27,828	76%
	Corporation's share	97,796	6,569	(89,303)	11,783	26,845	72%
U.S.A.* (USD in thousands)	Consolidated	2,282	-	-	-	2,282	24%
	Corporation's share	2,697	-	-	-	2,697	28%
Total (NIS in thousands)	Consolidated	107,522	6,569	(89,278)	11,887	36,700	100%
	Corporation's share	108,284	6,569	(89,303)	11,783	37,333	100%
% of Total Revaluation Profits	Consolidated	293%	18%	(243%)	32%	100%	
	Corporation's Share	**290%**	**18%**	**(239%)**	**31%**	**100%**	

(10) Segmentation of profits (losses) of income-producing property revaluations (aggregate), by region and use, for the year ended on December 31, 2013

Regions	Uses[1]	Office	Industrial	Commercial	Residential	Total (NIS in thousands)	% of Total Revaluation Profits
Israel (NIS in thousands)	Consolidated	173,506	1,547	183,874	(37)	358,890	84%
	Corporation's share	172,052	1,547	182,790	(37)	356,352	84%
U.S.A.* (USD in thousands)	Consolidated	19,842	-	40	-	19,882	16%
	Corporation's share	18,973	-	40	-	19,013	16%
Total (NIS in thousands))	**Consolidated**	242,379	1,547	184,012	(37)	427,901	100%
	Corporation's share	237,909	1,547	182,928	(37)	422,347	100%
% of Total Revaluation Profits	**Consolidated**	57%	-	43%	-	100%	
	Corporation's Share	56%	-	44%	-	100%	

(11) Segmentation of actual average monthly rent per sqm by region

Uses	Office		Industrial		Commercial		Residential	
	For the year ended on							
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Israel (in NIS)	76	78	28	28	206	218	38	37
Maximum	101(**)	98(**)	--	--	326	336	--	--
Minimum	34	34	--	-	81	93	--	--
U.S.A. (in USD)	18	17.5	--	--	--	--	--	--

Maximum represents the average rent per sqm in a property of which the rent average is the highest, while the minimum represents the average rent per sqm in which the average rent is the lowest.

* The extensive range of rent in all of the uses derives, *inter alia*, from the diversity in the nature of the leased property, in the type of the leased unit in the property even in the same building, and in other parameters that are not expressed in this table.

** The maximum represents the average rent per sqm of Azrieli Center towers, and does not include the rent of the hotel. If the average would have included the rent of the hotel, then the average for 2015 approx. NIS 97 per sqm and for 2014 would have been approx. NIS 94 per sqm.

*** Senior housing – average tenant monthly payments per residential unit NIS 12,944 per month (including revenues from forfeiture of deposits and payment of monthly maintenance fee).

(12) Segmentation of average occupancy rates by region and use*

Uses	Office			Industrial			Commercial			Senior Housing		Residential		
	In Percentages (%)													
	As of Dec. 31, 2015	For the year 2015	For the year 2014	As of Dec. 31, 2015	For the year 2015	For the year 2014	As of Dec. 31, 2015	For the year 2015	For the year 2014	As of Dec. 31, 2015	for the year 2015	As of Dec. 31, 2015	For the year 2015	For the year 2014
Israel	99%	99%	***99%	100%	100%	100%	**98%	97%	98%	99%	99%	100%	100%	100%
U.S.A.	84%	91%	93%	--	--	--	--	--	--	--	--	--	--	--

* The average occupancy rate was calculated based on the lease agreements' data for the beginning of the period and for the end of each period.
** Not including Azrieli Center Holon part of which opened in July 2013 and another part was opened in March 2014 and they are in advanced lease-up process.. The rate of occupancy in the retail centers and malls segment including Azrieli Center Holon is approximately 97%.
*** Not including Azrieli Center Holon opened in July 2013 and the Kiryat Ata offices opened at the end of 2013 and are currently in the process of lease-up. The rate of occupancy in the office and other space for lease segment including Azrieli Center Holon and the Kiryat Ata offices is approximately 93%.

(13) Number of income-producing buildings, by region and use*

Uses	Office		Industrial		Commercial		Senior Housing		Residential	
	For the year ended									
	Dec.31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014
Israel	10	10	1	1	15	14	1	-	1	1
U.S.A.	6	6	--	--	--	--	-	-	--	--
Total of income-producing properties	16	16	1	1	15	14	1	-	1	1

* Several properties have various uses, and in such cases the properties were classified in the table under each of such uses.

(14) Segmentation of average actual yield rates (according to year-end value), by region and use*

The rate of the yield is a division of the actual NOI by the value of the property as of end of year. In the event of the acquisition of properties or completion of construction thereof in the course of the year, the index does not reflect the rate of the annual yield from these properties. The rate of the actual yield does not constitute the CAP rate that the Group used for revaluation of its properties.

Uses	Office		Industrial		Commercial		Senior Housing	Residential	
	For the year ended on (in percentages)								
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2015	December 31, 2014
Israel	6.95%	6.89%	7.78%	7.82%	7.04%	7.44%	2.8%	2.46%	2.78%
U.S.A.	6.43%	5.31%	---	---	---	---	--	---	---

* The figures do not represent representative yield but rather the division of actual NOI by the value of the properties, and do not take into account other influences, such as properties populated, properties purchased during the period, revenues expected from vacant spaces, expected investments in the property etc.

7.5 Projected revenues due to signed lease contracts (NIS in thousands)

Period of Revenue Recognition		Revenues from Fixed Components	Number of Contracts Ending	Space Contemplated in the Ending Agreements (sqm in thousands)
Y2016	**Q/1**	389,603	117	14
	Q/2	380,619	186	24
	Q/3	364,248	198	31
	Q/4	355,344	488	22
Y2017		1,265,990	960	114
Y2018		974,018	703	128
Y2019		720,977	512	120
Y2020 forth		1,786,627	847	394
Total		6,237,426	4,011	847

The revenues figures in the above table, which include revenues from rent, management fees and parking, were calculated based on the basic amounts determined in the lease agreements, linked to the Consumer Price Index known on December 31, 2015, and based on the following assumptions: (1) The exercise of the tenants' options to extend the lease periods included in the lease contracts, was not taken into account, since the CODM does not review, on a regular basis, the expected revenue figures under the assumption of the exercise of options granted to the tenants to extend the lease period; (2) Lease contracts, the lease period under which has ended, and new lease contracts have not yet been signed with the tenants, were not taken into account; (3) The possibility of sale of the properties or the purchase of new income-producing property, was not taken into account; (4) Fines due to early termination, if any, were not taken into account; (5) The increments to the rent due to percentages of the sales were not taken into account for calculation of the rent, and (6) No change has occurred in the management fees advance payments per tenant in respect of 2015.

The Company's revenues include variable components due to additional revenue from sales alone. The Company does not prepare estimates for revenues from variable components which are immaterial in relation to the Company's revenues from its income-producing properties, and therefore it does not have the information.

The revenue figures specified in the above table are under the assumption that the options for extending the lease periods included in the lease contract will not be exercised, although many of the tenants in the Company's space usually tend to extend the lease agreements upon the termination thereof.

The above figures are based on the Company's assessment considering signed agreements as of the Report Date and constitute forward-looking information, as this term is defined in the Securities Law. Actual results may significantly differ from the above specified estimates and the implications thereof, for various reasons, including early termination of lease contracts or a business crisis of any of the tenants.

7.6 Main tenants

In 2015, the Company did not have a tenant, the revenue from whom constituted 10% or more of its total revenues.

7.7 Properties under construction In Israel(*) (aggregate level) by use

Uses	Parameters	For the Year Ended		
		December 31, 2015	December 31, 2014	December 31, 2013
Commercial	Number of properties under construction at the end of the period	2	4	4
	Total space under (planned) construction at the end of the period (sqm in thousands)(1)	31	63	62
	Total costs invested in the current period (consolidated) (NIS in thousands)	85,855	434,160	254,325
	The amount at which the properties are presented in the statements at the end of the period (consolidated) (NIS in thousands)	401,305	1,017,214	545,471
	Construction budget in the consecutive period (estimate) (consolidated) (NIS in thousands)	135,000-175,000	180,000-220,000	420,000-440,000
	Total estimated balance of construction budget for completion of the construction work (consolidated) (estimate as of the end of the period) (NIS in thousands)(3)	35,000-55,000	165,000-175,000	200,000-270,000
	Rate of built-up area in respect of which lease contracts have been signed (%)	26%	41%	19%
	Projected annual income from projects that will be completed in the consecutive period and in which contracts were executed with regard to 50% of the area or more (consolidated) (estimate) (NIS in thousands)* **	-	approx. 60,000	--
Offices and Others	Number of properties under construction at the end of the period	4	3	3
	Total space under (planned) construction at the end of the period (sqm in thousands) (3) (1)	171	203	220
	Total costs invested in the current period (consolidated) (NIS in thousands)	311,916	390,168	461,216
	The amount at which the properties are presented in the statements at the end of the period (consolidated) (NIS in thousands)	1,400,489	1,215,240	995,121
	Construction budget in the consecutive period (estimate) (consolidated) (NIS in thousands)	410,000-450,000	340,000-380,000	340,000-370,000
	Total estimated balance of construction budget for completion of the construction work (consolidated) (estimate as of the end of the period) (NIS in thousands)(3)	155,000-225,000	430,000-490,000	660,000-730,000
	Rate of built-up area in respect of which lease contracts have been signed (%)	20%	9.4%	3.4%
	Projected annual income from projects that will be completed in the following period and in which contracts were executed with regard to 50% of the area or more (consolidated) (estimate) (NIS in thousands)	Approx. 1,200	--	--
Senior Housing	Number of properties under construction at the end of the period	1	--	--
	Total space under (planned) construction at the end of the period (sqm in thousands) (1)	35	--	--
	Total costs invested in the current period (consolidated) (NIS in thousands)	17,889	--	--
	The amount at which the properties are presented in the statements at the end of the period (consolidated) (NIS in thousands)	74,096	--	--
	Construction budget in the consecutive period (estimate) (consolidated) (NIS in thousands)	80,000-100,000	--	--
	Total estimated balance of construction budget for completion of the construction work (consolidated) (estimate as of the end of the period) (NIS in thousands)(3)	166,000-176,000	--	--
	Rate of built-up area in respect of which contracts have been signed (%)	0%	--	--
	Projected annual income from projects that will be completed in the following period and in which contracts were executed with regard to 50% of the area or more (consolidated) (estimate) (NIS in thousands) (4)	--	--	--

*The Company has no properties under construction outside of Israel.

(1) Space for marketing.

(2) Uses were determined according the main use of the property.

(3) Balance of construction budget after the expiration of the sequential period.

(4) There are no projects that are expected to be completed in the sequential period and in which contracts for 50% or more of the area were signed.

Properties Under Development – Further Details:

Set forth below is a specification regarding the main new properties under development as of the Report Date in the operating segments of investment property (for further details see Section 1.1.6 of the Board of Directors' Report in Chapter B of this Report):

Azrieli Sarona Center, Tel Aviv

The Company fully owns the long-term lease rights in a lot of an area of approx. 9.4 thousand sqm in the Sarona complex in Southern Hakirya in Tel Aviv, which is intended for the construction of an office and commercial project. As of the Report Release Date, the construction of the office tower and the retail areas at the project is in progress, pursuant to permits it received and it is in the midst of the finishing work in the underground parking lot at the project. As of the Report Release Date, the Company executed several agreements with respect to the project and is continuing to conduct advanced negotiations with various parties for lease of additional space in the project. For further details, see Section 1.1.6 of the Board of Directors' Report, as well as the Company's reports dated May 29, 2011 and May 30, 2011 (references: 2011-01-165339 and 2011-01-167994, respectively) which are included in this Report by way of reference.

Azrieli Holon Center

Pursuant to a joint transaction agreement with the City of Holon, the Group, through Canit Hashalom, is entitled to receive 83% of the areas which will be constructed in a plot of land with an overall area of approx. 34 thousand sqm in the eastern industrial zone of Holon and 120,000 sqm lease area, owned by the City of Holon (17% shall remain in the ownership of the City of Holon). In the context of the project, the Company is building a business park, which includes buildings for high-tech industries, offices, exhibition halls and commerce, service areas and parking space, as well as additional uses. As of the Report Date, the Company has completed the construction of three of four buildings included in the project, whereby the majority two of them has been leased-up, and the third one is in advanced lease-up stages, and it completed the construction of the underground car parks for the entire project,. As of the Report Release Date, the Group has agreements for the lease of approx. 82,000 sqm of office space and agreements for the lease of approx. 6,000 sqm of retail space. For further details regarding the agreement and the terms and conditions thereof, see Note 31B(4) to the Financial Statements and Section 1.1.6 of the Board of Directors' Report.

Azrieli Rishonim Center

The Group, through Canit Hashalom, is the owner of a plot of land of an area of approx. 19 thousand sqm in Rishon Lezion (the "**Site**"), which is designated for the construction of leasable areas in the scope of approx. 53,000 sqm and approx. 82,095 sqm of above and underground parking spaces, and is in the midst of the construction work of the project pursuant to the permits that were received. In September 2013, the zoning plan that applies to the project's Site was conclusively approved. In the Report Period, all of the administrative petitions which were filed in relation to the approval of the plan, including an appeal to the National Council, were denied. Following the denial of the appeal as aforesaid, the local committee approved the issuance of a building permit for retail and an office tower. In the Report Period, and against collateral for the payment of the balance of the levies, such permit was received. In the Report Period, Form 4 has been received for the underground parking lot which is used by the train commuters, and the parking lot has been opened for use. As of the Report Release Date, the Company executed several agreements with respect to the project and continues to conduct advanced negotiations with various entities to lease additional space in the project. For further details Section 1.1.6 of the Board of Directors' Report.

Senior Housing in Modi'in

In May 2014, the Company closed a transaction to purchase 100% of the shares of a private company which is the holder of 100% of the rights to a capitalized long-term lease of approx. 10.5 thousand sqm located in the city of Modi'in, which pursuant to the valid zoning plan are designated for a senior housing facility.

On the land, the Company intends to build a senior housing facility for the elderly population that will include approx. 240 senior housing units, approx. 60 assisted living units, and approx. 72 beds in the long-term-care wing, in a built-up area of approx. 35,000 sqm (main + service). As of the Report Release Date, the Company has obtained an excavation, foundation and shoring permit and has commenced performance of the work. The Company continues marketing activity of the residential units, and extensive response from potential tenants is apparent. For further details see the Company's immediate reports dated February 17, 2014 (Ref.: 2014-01-041110) and May 1, 2014 (Ref.: 2014-01-055626) included herein by way of reference as well as Section 1.1.6 of the Board Report.

Betterment of existing properties

During the Report Period, the Company continued to promote the betterment of existing properties, *inter alia*, at the Azrieli Akko Mall where the Company is operating for adding office floors and parking, and it also purchased an adjacent lot with retail and office designation currently used for additional parking and the Company is in initial planning procedures with respect to the lot. Furthermore, the Company is making progress in the construction of the Zappa club at the Azrieli Haifa Mall and is acting to promote a zoning plan, *inter alia*, for the expansion of the mall. During the Report Period, the Company started the renovation of Azrieli Be'er Sheva Mall and as of the Report Release Date, an Urbanika store has been opened in Be'er Sheva with an area of approx. 4,000 sqm. The Company is also investing in the renovation of Jerusalem Azrieli Mall is acting to promote a zoning plan, *inter alia*, for the expansion thereof. As of the Report Release Date, the construction of an industrial building in Caesarea has been completed and possession has been handed over to the tenant. In addition, the Company is making progress in the construction of the Urbanika store in Tel Aviv Azrieli Mall which in the Company's estimate will open to the public during Q2/2016.

The Company's estimates in this Section 7.7 are forward-looking information, as defined in the Securities Law, which is based on subjective estimates of the Company as of the Report Date, and the materialization thereof, in whole or in part, is uncertain, or they may materialize in a significantly different manner, inter alia, due to factors which are beyond its control, including changes in market conditions, the period of time that shall be required for approval of the building plans for performance and the construction input prices.

7.8 Land (aggregate)

The table below presents a summary of figures on the Company's land reserves:

Region		For the year ended on:	
		December 31, 2015	**December 31, 2014**
Israel	The amount at which the lands are presented in the financial statements at the end of the period (NIS in thousands)	148,694	98,901
	Total area of the lands at the end of the period (sqm in thousands)	80.8	59.1
U.S.A.	The amount at which the lands are presented in the financial statements at the end of the period (USD in thousands)	1,125	1,091
	Total area of the lands at the end of the period (sqm in thousands)	1.6	1.6

The Company's lands that are designated for leasable office spaces in Israel and in the U.S. are presented in the Company's financial statements in the office and other space for lease segment, and the income-producing property in the U.S. segment and lands designated for senior housing are presented in the segment note under "Others". Note that the Company's lands which were purchased from Clalit Health Fund and the Yediot Aharonot House land as provided below are yet to be handed over to the Company and are therefore not included in this table and not classified as land in the Company's books. As of the Report Date, the construction in part of the Company's land reserves is impossible due to planning and other restrictions.

Land reserves – further details:

Following are details regarding the lands intended for construction as of the Report Date in the operating segments of investment property (for further details see Section 1.1.6 of the Board of Directors' Report in Chapter B of this Report):

Expansion of Azrieli Center Tel Aviv

In May 2013, the Company engaged in an agreement to purchase full ownership of land on an area of approx. 8,400 sqm in the junction of Menachem Begin Road and Noah Moses Street in Tel Aviv, adjacent to Azrieli Center Tel Aviv, on which a building in the area of approx. 18,000 sqm (which is intended for demolition) known as "Yediot Aharonot House" currently stands. As of the Report Date, the total rights that exist in the lot are 41,275 sqm main upper areas for retail, residential and office use, and 44,400 sqm upper service areas. The rights include up to 19,000 sqm of an upper parking building that is convertible for the zoning plan uses, *inter alia*, for retail. The date set for handing over of possession in the lot is March 31, 2016. The Company intends, after the demolition of the existing building, to build retail spaces that will constitute an expansion of the existing mall and a high-rise building, subject to the receipt of the required statutory approvals. As of the Report Release Date, a demolition, excavation and shoring and basements permit was received under the valid zoning plan. In the Report Period, the local committee decided to recommend to the district committee to deposit the zoning plan for a mixed-urban designation, allowing uses of retail, hotels, residences and senior housing with building rights on land of 145,200 sqm gross.. Within the decision of the local committee, the Company has undertaken, insofar as the plan will be approved, to allocate a public floor at the project for the Municipality of Tel Aviv Jaffa, and also undertook to carry out various tasks around the project, including at the Azrieli Center. In March 2016, a discussion was held at the district committee for depositing the zoning plan and to the best of the Company's knowledge the deposit thereof was approved, subject to obtaining the required statutory approvals.

For further details see the Company's immediate report of May 22, 2013 (Ref.: 2013-01-068386), included herein by way of reference and Section 1.1.6 of the Board of Directors' Report and Note 14F to the Financial Statements.

Azrieli Town (Formerly Azrieli Center North)

On October 22, 2012, the Company won a tender for the purchase of the rights of Clalit Health Fund in a lot in the area of approx. 10,000 sqm which is located at 146 Menachem Begin Road in the northern Central Business District in Tel Aviv. Despite that possession of the site has not yet been handed over to the Company, and for the purpose of reserving the possibility of building underground parking spaces beneath a service road in which the City is performing work, the Company completed demolition work on the site in order to vacate the area, and began the performance of shoring and foundation work in the east of the project, in coordination with the land owners and according to the permit and engineering coordination that were received, and the Company is preparing for the commencement of the shoring work. In November 2014, at the request of Clalit Health Services, the handing over date was postponed to August 2016. As of the Report Release Date, the Company is in the midst of preparation of the above-ground building permit for the project. The Company intends to file the said permit within Q2/2016.

For further details see the Company's immediate report of October 22, 2012 (Ref.: 2012-01-261381), included herein by way of reference and Section 1.1.6 of the Board of Directors' Report.

Land for retail and office designation in the city of Holon

On February 24, 2015, the Company won a tender held by the Israel Land Authority for the purchase of 4 lots with employment designation at the employment area of the City of Holon, in a total area of 12.4 thousand sqm (the "**Lots**"), in consideration for an amount of approx. NIS 64 million. According to the terms of the tender, the Company was required to obtain the approval of the Minister in charge, for the purchase of two of the Lots in a total area of 7.2 thousand sqm and as of the Report Date it has been given the required approval. The Company intends to build an office and retail front project on the Lots, with an overall area of up to 55 thousand sqm above ground (subject to the zoning plan's restrictions) and underground parking areas. As of the Report Release Date the Company has obtained possession in the Lots. The Company is in the midst of planning procedures with respect to the land.

Senior housing land in Lehavim

In December 2014, the Group won a tender that was held by the ILA for the purchase of land in the town of Lehavim in the south, in an area of approx. 28,000 sqm. On the land, the Company intends to build senior housing facility for the elderly population that will include approx. 350 senior housing units, a long-term-care wing with full medical supervision, and retail areas in the scope of up to approx. 1,500 sqm. As of the Report Release Date, the building plan for the project has been approved and the Company is preparing for the submission of an application for the building permit. For further details see the Company's immediate report of December 2, 2014 (Ref.: 2014-01-212310), included herein by way of reference and Section 1.1.6 of the Board of Directors' Report.

Purchase of Pi Glilot Land

In December 2015, the Company purchased 6.4 thousand sqm of land at Pi Glilot from Sonol, a company controlled thereby, in consideration for NIS 35 million plus lawful VAT according to the land price in the Sonol books. As of the Report Release Date, possession in the land has been handed over to the Company.

7.9 **Purchase and Sale of Properties (aggregate)**

Region	Parameters (area and amount figures in thousands)		Period (Year ended on)		
			December 31, 2015	December 31, 2014	December 31, 2013
Israel [NIS]	Properties Sold	Number of properties sold in the period	--	--	--
		Consideration from realization of properties sold in the period (consolidated)	--	--	--
		Area of properties sold in the period (consolidated)	--	--	--
		NOI of properties sold (consolidated)	--	--	--
		Profit / loss due to realization of the properties (consolidated)	--	--	--
	Properties Purchased	Number of properties purchased in the period	4(3)	2(4)	1(2)
		Cost of properties purchased in the period (consolidated)	653,952	58,100	374,000
		NOI of properties purchased (consolidated)	20,000(5)	land	land
		Area of properties purchased in the period (consolidated)	45	40	8.4
U.S.A. [$]	Properties Sold	Number of properties sold in the period		--	1
		Consideration from sale of properties in the period		--	11,465
		Area of properties sold in the period (consolidated)		--	13
		NOI of properties sold		--	904
		Profit / loss in respect of realization of the properties (consolidated)		--	65
	Properties Purchased	Number of properties purchased in the period		1(2)	-
		Cost of properties purchased in the period (consolidated)	--	76,000	-
		NOI of properties purchased (consolidated)	--	5,300	-
		Area of properties purchased in the period (consolidated)	--	21	-

(1) In 2013, the Group purchased land from Yediot Aharonot – for details, see Section 7.8 of Chapter A of the Report:

(2) In 2014, the Group purchased the following properties: (a) Land for senior housing in Modi'in – for details see Section 7.7 of Chapter A of the Report; (b) An office building in Houston, Texas. U.S.A.; (c) Land for senior housing in Lehavim – for details see Section 7.8 of Chapter A of the Report.

(3) In 2015 the Group purchased the following properties: (a) land in Akko; (b) land in Holon for details see Section 7.8 of Chapter A of the Report; (c) Palace Tel Aviv Senior Housing facility for details see Section 13.1 of Chapter A of the Report; (d) Pi Glilot Land

(4) The costs include the entire purchase amount even if not yet paid and exclude purchase taxes and transaction closing costs.

(5) The NOI includes only Palace Tel Aviv Senior Home, the other properties purchased are land.

7.10 Fair value adjustments of values in the Statement of Financial Position required at the corporation level

		As of (Consolidated)(NIS in thousands)	
		December 31, 2015	**December 31, 2014**
Presentation in the Description of the Corporation's Business Report	Total Income-Producing Property (as presented in the total column in the income-producing properties fair value by region and use tables as of December 31, 2015 and December 31, 2014 Number 3+4)	18,314,062	16,243,317
	Total Income-Producing Property under Construction (as presented in the total column in table 7.7)	1,875,890	2,232,458
	Total Land for Investment in Israel (as presented in the total column in the table 7.8)	148,694	98,901
	Total Land for Investment in the U.S. (as presented in the total column in the table 7.8)	4,390	4,244
	Consolidated Total	20,343,036	18,578,920
Adjustments	Adjustments to value deriving from receivables items	(84,317)	(68,058)
	Other adjustments[12]	12,420	75,001
	Total adjustments	(71,897)	6,943
	Total, After Adjustments	20,271,139	18,585,863
Presentation in the Statement of Financial Position	Investment Property Item in the Statement of Financial Position (Consolidated)	18,395,248	16,353,410
	Investment Property under Construction Item in the Statement of Financial Position (Consolidated)	1,875,891	2,232,453
	Total	20,271,139	18,585,863

For an explanation with respect to the changes in the investment property items between 2014-2015, see Sections 1.11.1, 1.11.2 and 1.11.3 of Chapter B of this Report.

[12] The investment properties of Granite Hacarmel (consolidated company) were not included within the description of the Company's investment properties and were recorded in the adjustments item as a sum total. The Company does not deem all of Granite Hacarmel's business as part of the Company's income-producing properties segments.

As aforesaid, the holding of investment property deriving from Sonol was not specified in this Chapter, since the Company's management does not consider this property part of the Company's investment property operation.

7.11 **Adjustments to FFO profits**

The Company is not required to perform FFO disclosure since the total revenues of the Company from investment properties are lower than 90% of the Company's total consolidated revenues during the report year and year preceding it. In view thereof, the Company calculates FFO profits for the income-producing property business only with the necessary adjustments. For details and a calculation of the FFO profits for the Company's income-producing properties business, see Section 1.1.10 of the Board of Directors' Report.

PART FOUR: DESCRIPTION OF THE GROUP'S BUSINESS - DESCRIPTION OF THE GROUP'S BUSINESS PER OPERATING SEGMENT AND MATERIAL PROPERTIES

8. The retail centers and malls in Israel segment

8.1 General information on the operating segment

8.1.1 General

Most of the Group's malls and retail centers are spread out throughout the central cities of Israel and are located close to the main traffic thoroughfares which enable easy access and open parking. The retail centers and malls are planned to the utmost degree according to the needs of the population of the area in which the mall is located, and they offer a wide and varied mix of shops in the fields of fashion, footwear, jewelry, gifts, housewares, communications, electronics and computers, optical devices, entertainment and food centers for the wellbeing of the visitors, easy access and a large number of parking spaces. The Company puts an emphasis on tenants' mix in each one of the malls and retail centers owned thereby, which it believes shall constitute a center of public attraction to each one of them, in accordance with the characteristics of the local public, and performs suitable marketing work, upgrades and renovates the systems and appearance of the malls and performs technological adjustments. During the Report Period, the Company expanded the marketing methods of the malls through use of the digital space where most of the end consumers of the retail centers and malls spend time for other purposes, through personal marketing and attractive promotion campaigns, in a manner which affords the end consumer, *inter alia*, a unique shopping experience commencing in the digital space and usually ending in purchases at the Group's malls. The Company focuses in a current manner on the betterment of the Group's existing properties and acts for optimization in the use of its commercial spaces and creates a suitable and modern mix of tenants while differentiating between the projects in order to maintain the relative advantage versus the Group's existing and future competitors.

Most of the Group's lease contracts in Israel are for periods of three to five years and for the most part, include an option for additional lease periods (usually additional three to five years), other than agreements in respect of a relatively large scope of space for lease, which are generally signed for longer lease periods of between 8 to 25 years (including extensions and exercise of options). The main part of the lease agreements include rent that is composed of a fixed rent or rent derived as a percentage of the tenant sales in the leasehold, whichever is higher, but in most cases, the actual rent payable to the Company are the fixed rent, and the Company's revenues from sales dependant rent are at an immaterial scope. The Company did not have a main tenant, the rent paid by whom for 2015 accounted for 10% or more of the total revenues of the Company in its Financial Statements for 2015 The occupancy rate of the Group's properties in this operating segment, from the date of lease-up of the retail centers and malls in Israel, and as of the Report Date, is close to approx. 97%.

The Group's retail centers and malls in Israel are managed, with relation to each mall or retail center, by designated management companies established by the Group, which enter with the tenants into management agreements for the purpose of management and maintenance of the public areas, in consideration for management fees.

Most of the management agreements determine that the management fees will be paid based on the cost of the management services, plus overhead expenses. The management services include, *inter alia*, marketing services of the mall and/or the retail center, both to visitors and to potential tenants, security services, cleaning of public areas, gardening, maintenance of elevators and public systems. The management companies collect from the tenants the management fees or the maintenance fees, which are used, *inter alia*, for financing the maintenance of public areas. The management company leases from the Group companies, as the case may be, in each of the malls and retail centers, an area in a small scope located in a non central area of the mall or retail center, to serve as the offices and storage rooms of the management company, in consideration for fixed rent. In most of the management agreements between the management companies and the tenants, the management companies undertake to maintain and operate the public areas in the malls and retail centers, including cleaning, security, renewal, advertising, insurance, under conditions and to the extent that will be determined by the management companies from time to time.

All of the Group's retail centers and malls include also car parks (above or underground) which serve the visitors and the potential tenants, with some of the car parks being open to the general public and some requiring payment.

Over the commercial areas of some of the malls and retail centers there are areas designated for office space for lease. See Section 9 below for additional details on the office and other space for lease segment.

8.1.2 The structure of the operating segment and changes occurring therein

The retail centers and malls in Israel segment is affected by the business activities in the economy, the political and security situation and the economic condition in Israel. Various entities operate in the retail centers and malls segment which locate, plan, construct, lease and maintain properties designated for lease for various uses.

To the best of the Company’s knowledge, based, *inter alia*, on publicly-available information, at the outset, most of the malls relied on large anchor tenants (such as supermarkets, department stores and movie theatres), which were considered to be crowd attracting. However, in recent years, the concept has changed for the malls in Israel and an opposite trend has begun, of the withdrawal or contraction of the space of the anchors, due to the low rent per square meter that are received from them and for the large space occupied thereby. However, there are presently “new” anchors, in the form of large and leading fashion stores.

Note that in recent years, there has been an increase in the retail space intended for the fashion industry in the malls in Israel segment and in the Company's properties in the operating segment, and in the last two years, revenues of the fashion industry constitute approx. 49% of the revenues of the retail centers and malls in Israel segment.

In recent years, the strengthening of branded fashion chains can be felt, at the expense of single, local type shops, including international fashion chains, the construction of low-prices power centers outside of the cities, which compete with the malls, as well as the process of consolidation among large companies in the Israeli economy that own retail centers and malls, which represents an

advantage for size over smaller competitors, while creating operational efficiency. In addition, an increasingly strengthening trend can be observed in the context of which, several retail groups hold a growing number of leading brands and consequently expand the spaces leased thereby in each mall and necessarily improve their bargaining power vis-à-vis the malls. In addition, we are witnessing the development of new formats of large branded family-oriented stores.

In addition, in view of the changes in recent years of the Israeli consumer's shopping habits, new retailing brings to the consumer's fingertips and doorstep a larger variety of products, a quicker and more convenient service and mainly personal tailoring of products according to his preferences and habits. The Group is operating in order to examine and develop ways to combine the new digital retailing and the popular mall experience in a manner which creates a novel consumption experience.

8.1.3 Restrictions, legislation, standards and special constraints applying to the operating segment

This operating segment is subject mainly to the land laws and the land use and zoning laws. In addition, the business in this segment is affected by legislative updates in the field of business licensing, land taxation and municipal taxation. See Section 22 of this chapter for details on the matter of the restrictions, legislation, standards and additional constraints applying to the Group.

8.1.4 Changes in the volume of business and profitability of the segment

During recent years, the volume of operations of the Group in the retail centers and malls segment grew, mainly due to the development and construction of new income-producing properties (during the Report period, the Ramla mall was opened, for a specification of the property under construction see Section 7.7 above.) or expansion of the existing ones (During the Report period, the second floor in the Azrieli Ayalon mall was opened) as well as the acquisition of existing income-producing properties (primarily the purchase of the Azrieli Givatayim Mall, the purchase of the Azrieli Haifa Mall and the purchase of the full control of the Azrieli Hod Hasharon Mall).

The Report Period was characterized by the continuation of the trend of a slowdown in the general growth in the economy, similarly to the trend in the years 2013-2014. The indicators for activity in 2015, indicate that the market is continuing to grow in the moderate pace which prevailed in the last two years. Stability was maintained in the income-producing property segment in Israel, both on the demand level and on the rent prices and occupancy rate level. The (known) consumer price index recorded a 0.7% decrease in Q4/2015 and a decrease of 0.1% in the entire 2015. The Bank of Israel interest was reduced during 2015 in the rate of 0.15% and is at a historical low level of 0.1%. The prime interest is at a rate of 1.6%.

The slowdown in the general growth in the economy was not apparent in the Company’s business environment and/or business and financial results however, from time to time, a more challenging environment is felt in negotiations with tenants when signing new lease agreements or renewing of existing contracts, particularly, in the Be’er Sheva region and in the northern region where in the past two years, changes occurred in the competitive balance between the players

in the sector, among other things, in consequence of the opening of new retail centers and the expansion of the supply of retail areas in the region, which pose challenges to the sector.

The Report Period was characterized by an increase in the average revenues[13] in the Group's malls. In March 2015 the second floor of Azrieli Ayalon mall and the Ramla Azrieli mall were opened to the public. In addition, during Q3/2015, the country experienced terror attacks in various areas in the country which caused a certain, temporary slowdown in the business of some of the Company's malls.

See Section 1.11.1 of Chapter B of the Report for the Board of Directors' explanations on changes to the fair value of the Group's investment property as of the Report date.

The Company's management estimates that the wide dispersion of the portfolio of properties owned thereby, the maintenance and active management of the properties, their location mainly in areas of demand, the high business positioning of the properties and the Company's investment in the betterment of its properties for maintaining such advantage, the high occupancy rates, the broad variety of businesses in the malls and retail centers of the Group and the suitable mix of businesses, and the Company's stable capital structure, contribute to a reduction of the exposure of the Company's businesses to a crisis and/or to significant instability due to the materialization of any of the Company's risk factors.

8.1.5 Critical success factors in the operating segment and changes occurring therein

The Company estimates that the main success factors in the segment are, *inter alia*, locating retail centers and malls in areas where there is a high level of demand, the right geographic location of retail centers and malls as a response to the needs of the residents in each area, expertise in development, unique architectural planning, management and construction of retail centers and malls through the professional management team employed by the Group, the creation of a mix of diverse, quality tenants with financial strength, know-how and experience in marketing, property management and operation, the positive goodwill of the Company, its business positioning and financial strength which allows development at relatively low financing costs and provision of immediate response to attractive business opportunities.

8.1.6 Changes to the system of suppliers and raw materials for the operating segment

In the framework of the maintenance and management of income-producing properties segment, the Group has no material suppliers with which it engages and it does not purchase raw materials in material scopes.

8.1.7 Main barriers to entry and exit of the operating segment and changes occurring therein

Barriers to Entry - To the Company's belief**,** entities operating in the retail centers and malls segment require, primarily, equity and financial strength. The main barrier to entry for the development and construction of a retail center, after

[13] Revenue figures are based on the figures provided by the tenants. In addition, not all of the tenants report to the Group on the revenue figures.

finding suitable land in an area of demand, is the need for financial strength that enables to obtain financing for the purpose of the construction, *inter alia*, due to a growing trend whereby developers are increasing investment budgets for lessees of income-producing properties upon the initial lease-up of areas under development. In addition, required mostly are professional knowledge, experience in development segment, positive reputation in the industry, availability of financing sources at good terms and land reserves available and planned in areas with high levels of demand for leasable space for commercial purposes. In addition, entities operating in the retail centers and malls segment are required to meet high regulatory requirements, *inter alia*, antitrust, zoning, business licensing, safety, accessibility and environmental regulation. It shall be noted, that despite the high barriers to entry, it is possible to indicate a significant increase in the construction and development of many retail centers, all over Israel, in recent years. In addition, it is possible to operate in the retail centers and malls segment in lower costs through acquiring retail centers from single developers, extending existing commercial areas, upgrading and renovating retail centers as well as through managing retail centers without the acquisition thereof.

To the Company's belief, the malls' barriers to entry are significantly higher than those of the power centers outside of the cities, due to the high construction costs that characterize the malls (including the cost of the land, which is more expensive since the locations of the malls are closer to the city centers).

Barriers to Exit - exiting this operating segment is conditional, mostly, on the ability to realize properties, which is a direct result of the location of the properties, their physical condition and the condition of the economy, as well as various costs, including in connection with land taxation.

8.1.8 Structure of competition in the operating segment and changes occurring therein

For a description of the structure of the competition in this operating segment, see Section 8.4 below.

8.1.9 Manner of execution of purchases or construction of properties

For details on the manner of execution of purchases or construction of properties see Section 8.1.9 of the Company's periodic report for 2013, which was released on March 19, 2014 (Ref.: 2014-01-017433), as amended on March 23, 2014 (Ref.: 2014-01-021204) (the "**2013 Periodic Report**"), which is incorporated in this Report by reference.

8.2 Material properties

Set forth in the table below is a concentration of figures pertaining to material properties of the Group in the retail centers and malls segment as of December 31, 2015 which were evaluated by the valuator Mr. Ronen Katz, a partner at Greenberg Olpiner & co (*) through the income capitalization method:

Name and features of property			Year	Information item											According to Regulation 8b(i) (as applicable)
				Fair value/book value at end of period (NIS thousands)	Revenues from rent during the period (NIS thousands)	Actual NOI during the period (NIS thousands)	Rate of Yield (%)	Adjusted Rate of Yield (%)	Rate of Yield on the Cost (%)	Property Value to Debt Ratio (LTV)	Revaluation profits (losses) (consolidated) (NIS thousands)	Occupancy rate as of the end of the period (%)	Average monthly rent per sqm from the main use – retail (in NIS)	Ratio of average revenue per sqm to average rent per sqm	Other assumptions underlying the valuation
Azrieli Mall (1)	Region	Israel													
	Functional currency	NIS	**2015**	2,149,581	118,570	145,452	6.77%	7.22%	28%	0%	58,131	100%	326	13.8%	**Main rent capitalization rate - 7.00%[14] Weighted capitalization rate - 7.13%**
	Main use	Retail													
	Construction cost (NIS millions)	512	**2014**	2,060,790	117,079	142,872	6.93%	7.15%	28%	0%	44,361	100%	326	13%	**Main rent capitalization rate-7.00%[15] Weighted capitalization rate-7.13%**
	Corporation's share (%)	99.1%	**2013**	2,013,354	113,985	139,644	6.94%	7.19%	27%	0%	118,297	100%	318	12.5%	**Rent capitalization rate-7.00% Weighted capitalization rate-7.17 %**
	Area [sqm]	34,348													
Azrieli Ayalon Mall (2) without the second floor (other	Region	Israel													
	Functional currency	NIS	**2015**	1,579,500	97,749	106,811	6.76%	7.25%	23%	0%	(12,955)	100%	258	13%	**Rent capitalization rate-7.00%[16] Weighted capitalization rate-7.07%**
	Main Use	Retail	**2014**	1,229,472	85,798	92,080	7.49%	7.23%	52%	0%	1,129	100	313	15%	

[14] Approx. 25% of the rent (for large areas) was capitalized according to capitalization rate of 6.75%.
[15] Approx. 20% of the rent (for large areas) was capitalized according to a capitalization rate of 6.75%.
[16] Approx. 25% of the rent (for large areas) were capitalized according to a capitalization rate of 6.75%.

Name and features of property			Year	Information item											According to Regulation 8b(i) (as applicable)
				Fair value/book value at end of period (NIS thousands)	Revenues from rent during the period (NIS thousands)	Actual NOI during the period (NIS thousands)	Rate of Yield (%)	Adjusted Rate of Yield (%)	Rate of Yield on the Cost (%)	Property Value to Debt Ratio (LTV)	Revaluation profits (losses) (consolidated) (NIS thousands)	Occupancy rate as of the end of the period (%)	Average monthly rent per sqm from the main use – retail (in NIS)	Ratio of average revenue per sqm to average rent per sqm	Other assumptions underlying the valuation
than revaluation profits)	Construction cost (NIS millions)	461													**Rent capitalization rate-7.00% Weighted capitalization rate-7. 11%**
	Corporation's share (%)	100%	**2013**	1,274,400	90,026	93,986	7.37%	7.46%	53%	0%	2,896	99%	321	15%	**Rent capitalization rate-7.34% Weighted capitalization rate-7. 45%**
	Area [sqm]	32,972													
Azrieli Jerusalem Mall (without the office component)	Region	Israel													
	Functional Currency	NIS	**2015**	1,880,316	125,071	137,808	7.33%	7.31%	31%	0%	(8,558)	99%	282	12.4%	**Main rent capitalization rate - 7.14%[17] Weighted capitalization rate-7.14%**
	Main Use	Retail													
	Construction Cost (NIS millions)	447	**2014**	1,873,033	124,052	133,153	7.11%	7.18%	30%	0%	26,511	100%	278	12%	**Main rent capitalization rate-7.00%[18] Weighted capitalization rate-7.05%**
	Corporation's share (%)	100%													
	Area [sqm]	39,370	**2013**	1,839,455	120,756	128,091	6.96%	7.24%	29%	0%	111,479	100%	282	11%	**Rent capitalization rate-7.00% Weighted capitalization rate-7.09%**
Other Properties (other than material and very material)			**2015**	9,880,111	695,688	638,136	--	--	--	--	117,884	--	--	--	---
Other Properties (other than material and very material)			**2014**	8,299,612	611,318	564,011	--	--	--	--	(89,145)	--	--	--	---

[17] Approx. 30% of the rent (for large areas) was capitalized according to cap rate of 6.75%.
[18] Approx. 26% of the rent (for large areas) were capitalized according to a cap rate of 6.75%.

Name and features of property	Year	Information item											According to Regulation 8b(i) (as applicable)
		Fair value/book value at end of period (NIS thousands)	Revenues from rent during the period (NIS thousands)	Actual NOI during the period (NIS thousands)	Rate of Yield (%)	Adjusted Rate of Yield (%)	Rate of Yield on the Cost (%)	Property Value to Debt Ratio (LTV)	Revaluation profits (losses) (consolidated) (NIS thousands)	Occupancy rate as of the end of the period (%)	Average monthly rent per sqm from the main use – retail (in NIS)	Ratio of average revenue per sqm to average rent per sqm	Other assumptions underlying the valuation
Other Properties (other than material and very material)	**2013**	7,589,738	592,061	546,826	--	--	--	--	59,014	--	--	--	---

* Mr. Ronen Katz is a certified real estate appraiser, with B.A. in Agricultural Economy and Administration in the Agriculture Faculty from the Hebrew University of Jerusalem, and is experienced since 1997 as a real estate appraiser.

** The figure is to the Company's best knowledge. It does not include lease agreements which do not include rent from sales and is given based on information received from the tenants or from other third parties (as the case may be), and therefore the Company cannot verify that this information is indeed true.

*** In 2014 all of the figures do not include the second floor which was opened in 2015 excluding revaluation profits.

(1) The figures include 50% of the profits of the Azrieli Center parking lot (another 50% were included in a very material property – Azrieli Center offices, a valuation with respect to which is attached to this Report).

(2) The Company is registered in the Land Registration Bureau as a long-term lessee of Azrieli Ayalon Mall for a 49-year period ending on August 1, 2031, with an option for an additional 49-year period. The City of Ramat Gan owns the adjacent car park, which includes approx. 2,350 parking spaces. The City of Ramat Gan has undertaken (and an easement therefor has been registered) to enable a right of passage for vehicles and pedestrians, as well as an open parking right for the public, including the Mall's visitors, in the parking spaces that were arranged (excluding 250 space use of which shall cease insofar as the City realizes building rights thereon) and so long as the Company continues leasing and operating the Azrieli Ayalon Mall. Due to shortage of parking space and use by the neighboring office buildings of the parking areas around the mall, during 2015 an agreement was executed with the City of Ramat Gan for regulating the parking by marking it in blue and white while reserving the mall's rights and granting free parking to the mall visitors during certain hours. As of the Report Date, the Company completed the construction of the second floor which constitutes an addition of approx. 9,500 sqm leasable area according to a new zoning plan of the Company that was approved as specified in Section 1.1.6 of the Board of Directors' Report.

8.3 The table below contains a summary of data about an income-producing building under construction of the Group, as of December 31, 2015. It shall be emphasized that the uses of this property will be divided between the operating segment of the retail centers and malls in Israel and the operating segment of the office and other space for lease in Israel, according to the different uses in the designation of the building rights in the property:

Name and Features of the Property			Reporting Period	Financial Data			Rate of Completion at Year-End [engineering](%)	Rate of Property's Areas with respect to which Binding Lease Contracts have been Signed as of Year-End (%)	Data on Valuation and its Underlying Assumptions		
				Aggregate Cost at Year-End, including Land, Construction Development and Financing (consolidated) in NIS	Data on Fair Value and Revaluations				Valuator's Name and Experience	Valuation Model	Additional Underlying Assumptions of the Valuation
					Fair Value/Book Value at the end of the Period (consolidated) (NIS in thousands)	Revaluation Profits (Losses) in the Period (consolidated) (in NIS)					
Name of the Property	Azrieli Sarona	Annual Data with respect to the Property	Y2015	1,169,201	1,141,689	-	50%	18%	N/A	Presented according to fair value under the cost method	N/A
Location of the Property	Tel Aviv										
Date of Land Purchase	May2011		Y2014	934,282	906,770	-	29%	4.7%	N/A	Presented according to fair value under the cost method	N/A
Actual Share of the Corporation (%)	100%										
Method of Presentation in Consolidated Report	Fair Value										
Estimated building completion date	2017		Y2013	755,142	727,630	-	10%	0.3%	N/A	Presented according to fair value under the cost method	N/A
Designated Areas of the Property (by usage) (sqm)	115,000 sqm offices 11,500 sqm retail										
Total Projected Investment, including Land, Construction and Development (NIS in millions)	1,550-1,610										
Other Properties under Construction 2015				827,045	736,936	(49,475)	-	-	-	-	-
Other Properties under Construction 2014*				1,320,955	1,325,688	7,904	-	-	-	-	-
Other Properties under Construction 2013*				815,865	812,690	7,775	-	-	-	-	-

***** In respect of the properties under construction as being at the end of the relevant year, even if the same are not included in properties under construction on December 31, 2015.

8.4 **Competition**

Beyond the aforesaid, in the Company's estimation, over recent years, the retail centers and malls in Israel segment has been characterized with high competitiveness, and to the best of the Company's knowledge, there are more than 300 retail centers in Israel. The structure, size and business mix of each retail center are adjusted to the characteristics of the demand of its consumers which lease areas in the geographical region in which it is located. The competition in this area revolves around several parameters, of which the main ones are: (1) the geographical location of the properties and the level of demand for spaces for lease in such area; (2) the level of revenues in the properties; (3) the rent level and management and maintenance costs; (4) the quality of construction of the leased buildings; (5) the level of auxiliary services and, (6) The Lessor's goodwill.

As of the Report Date, the Company operates in that operating segment principally in the development and construction of retail centers, and focuses on discovering reserves of land in attractive locations and with the potential for high revenues, and therefore the competition vis-à-vis bodies which concentrate primarily on acquisitions of existing retail centers is lower. In retail complexes and centers located in residential areas a competition could also develop with local developers. The market trends over the recent years and the attempt to adjust the characteristics of the retail center accurately to local demands and to the substitutes available to the consumer dazed the border lines between the different retail centers.

Due to the toughening of the competition in the segment, the addition of retail space in many regions and a trend of increase in on-line commerce, the Company acted during 2015 and shall continue to act for the development of the end consumer marketing segment. *Inter alia*, the Company continues activity for branding of the Group's malls through a uniform language of communication in the properties themselves, marketing activities and campaigns on the different types of media, and planning of further marketing, branding and differentiation activities and sales campaigns for all of the Group's malls (hard sale).

To the best of the Company's knowledge, a number of entities operate in Israel which hold significant portions of properties in the retail centers and malls segment, including Reit 1 Ltd., Gazit Globe Ltd., Melisron Ltd., Industrial Buildings Ltd., Amot Investments Ltd., Jerusalem Economy Ltd. and Big Shopping Centers (2004) Ltd. In addition, to the best of the Company's knowledge, in recent years new players are joining the market such as the institutional bodies (either directly or through a managing body which knows the operating segment well) and investment funds, that seek alternative yield for the members and for themselves.

The Company estimates that the geographic location of the retail center and its differentiation directly affect its characteristics and its tenant mix since each center adjust itself to the sizes of the geographic market in which it is located in order to create a center of attraction which is unique therefor and deal with centers existing in the area which created the consumers' purchase habits. For the most part, the tenants will consider the benefit of space in a retail center with a better geographic location, a mix conforming to its business operations versus its cost and with a better reputational image.

The competition vis-à-vis the private consumer is also characterized mostly by the geographic location, and vis-à-vis other centers such as power centers as well as shops in the city streets. Most of the retail centers and malls serve the population which resides or is employed in the geographic district in which the retail center is situated. Nonetheless, the Azrieli Tel Aviv Mall, due to its location, accessibility and proximity to the train station and to major junctions, serves consumers from all over Israel.

The Company also believes that the tenant mix in the retail center influences the competition vis-à-vis the private consumer - the types of the shops and their branding, the atmosphere and shopping experience, benefits to consumers, events initiated in the framework of the retail center, access to the retail center and available parking (free or paid) – all of these are branding the retail center and create a competitive advantage. The main parameters that support the attractiveness of the retail center for the consumer are, *inter alia*, location, size, innovative look and business mix adjusted to the needs of the customers in the area. The malls and retail centers are therefore required to renovate, upgrade and adjust the tenant mix therein.

In the Company's assessment, the volume of its business in the retail centers and malls in Israel segment is large, and it is one of the leading companies in the field in Israel. As of the Report Date, approx. 1,700 tenants that are active in retail and commerce operate in the Group's retail centers and malls. To the Company's belief, the factors and methods that help the Group face competition in the segment are as follows:

- Most of the retail centers and malls of the Group are characterized by quality planning and a high-quality tenant mix, which the Company carefully maintains over the years and that contribute to its competitive advantage and offer to the visitors to the retail centers and malls a quality shopping experience;

- The volume of the Company's business in the segment allows the Company to engage with chains and service providers at beneficial terms;

- The volume of the Company's business in the segment allow the Company to specialize in the management of retail centers and malls

in an efficient manner in order to lead to savings in costs and in manpower;

- Most of the Company's tenants are large chains and/or companies with superior financial strength and the lease agreements therewith are for a relatively long period;

- The Company's retail centers and malls are located in high-demand areas, enabling the Company to lease the properties to numerous and diverse types of tenants;

- The expertise of the Group in the planning and construction of retail centers and malls according to the needs of the tenants and visitors in the retail center and/or mall.

- The scope of business and the Company's experience in the segment, allows it to carry out marketing activities also to the end consumers, the mall visitors and to adopt innovation in the retail segment, improving the experience of shopping at the Company's shopping centers, including use of digital media.

8.5 **Goals and business strategy for the segment**

See Section 25 of this chapter for the Company's goals and the Group’s strategy.

9. Office and other space for lease in Israel segment

9.1 General information on the operating segment

9.1.1 General

In this operating segment, the Group operates, as of the Report Date, in the development, construction, acquisition, lease, management and maintenance in Israel of parks for offices and the high-tech industry, office buildings and industrial buildings, workshops and storage. The parks for offices and office buildings are designated primarily for businesses in the segments of liberal professions, service providers, headquarters of financial entities, hotelkeeping, medical services and high-tech industry, which are characterized by a large number of personnel and a demand for adjacent parking spaces.

Most of the Group's lease agreements are for periods of about five years on average, with the tenant given an option for additional lease periods of about five years and the rent is at a fixed amount per each square meter of the leased space.

All of the Group's office and other space for lease properties in Israel include also car parks (above or underground) which serve the tenants and their customers.

In this operating segment, the Group's income-producing space that are leased to third parties are mainly divided into two types:

a. Parks for businesses and for high- tech industries- The Group specializes in responding to the special needs of the high-tech industries and the construction of purpose-built buildings fitted in advance to the needs of the tenants. The purpose-built construction provides a comprehensive and complete solution to tenants, that includes the guidance of the tenant beginning from the stage of preparing the working plans for purposes of the design requested by the tenants, the planning and construction of the building in full cooperation with the tenant and through responding to all of the tenant's demands as to the interior of the leasehold. The business parks present a quality and clean working environment in a central location, quality infrastructure, green areas and parking spaces.

b. Office towers - The Group has office towers that are leased, in most cases, with high occupancy to numerous and diverse tenants for long lease periods.

The office and other space for lease segment of the Group in Israel is managed with relation to each building or group of

buildings through the Company or designated management companies owned by the Group, which engage with the tenants in management agreements. Most of the management agreements determine that the management fees will be paid on the basis of the cost of the management services plus overhead expenses. The management companies collect from the tenants the management fees or the maintenance fees, which are used, *inter alia*, for financing the maintenance of public areas, whereas in most of the management agreements between the Company or the management companies and the tenants, the management companies undertake to maintain and operate the public areas, including cleaning, security, renewals, advertising and insurance, under terms and in the scopes as shall be determined by the management companies from time to time.

9.1.2 The structure of the operating segment and the changes occurring therein

The office and other space for lease segment is mainly affected by the economic activities in Israel and abroad. Various entities are active in this operating segment which locate, plan, construct, lease and maintain properties designated for lease for various uses. There are many companies in Israel in the office and other space for lease segment, including large, veteran and leading companies, which own properties in large volumes, as well as smaller, local developers who operate in specific geographic areas. The business in this segment is generally characterized by the fact that part of the costs of construction or acquisition is financed by independent sources and the remainder is financed by credit from outside sources.

9.1.3 Restrictions, legislation, standards and special constraints applying to the operating segment

This operating segment is subject mainly to the land laws and the land use and zoning laws. In addition, the business in this segment is affected by legislative updates in the field of business licensing, land taxation and municipal taxation. See Section 22 of this chapter for details on the matter of the restrictions, legislation, standards and additional constraints applying to the Group.

9.1.4 Changes in the volume of business and profitability of the segment

To the best of the Company's knowledge, in 2015, the office segment continued, in the Report Period, to demonstrate stability, which was reflected in stability in the demand for office space (and even a rise in demand, mainly at the Azrieli Center in Tel Aviv) and in stability in the amount of the rent in many projects. Due to a shortage in supply of available high-quality office space

in Tel Aviv and Herzliya, the Report Period was characterized by a moderate rise in rent in leading projects in Tel Aviv and Herzliya.

In addition, the soundness recorded in the hi-tech industry, creates, and in the Company's estimate, will continue to create, in the upcoming years, demand for office space due to the projected continued increase in the number of employees in the information technology, information security and cyber sectors.

As of the Report Date, the Group has preserved very high occupancy rates in its income-producing properties in the segment and even increased its total revenues from rent. The Company estimates that its financial strength, the strength of the Company's tenants, some of which constitute the leading firms in the economy (AAA tenants), its high liquidity and standing in the financial market are advantages and strengthen its status in the segment. See Section 1.11.2 of the Board of Directors' Report for details concerning the development of the revenues from this operating segment.

In addition, in recent years, the Company has acted to expand its business in this operating segment, *inter alia*, by development and construction of new projects (the Azrieli Sarona project in Tel Aviv, the Azrieli Holon Center and an office tower in Azrieli Rishonim Mall and the lease-up of vacant office space in existing properties). Furthermore, as part of the business strategy the Company is examining attractive investment opportunities and the creation of new growth engines also in tangential segments, and possibilities to create a synergy with the other operating segments thereof, such as construction of logistic storage structures.

The Company estimates, in view of the aforesaid and due to the supply of new office buildings in the center of Israel in coming years, the Company estimates that due to an increase which, to the best of the Company's knowledge, is expected in the supply of new office buildings in the center of Israel commencing from the middle of 2017 forth, a moderate decrease in the prices of rent may occur in lower-demand areas (Bnei Brak, Ramat Gan and the suburbs of Tel Aviv). The Company estimates that such decrease is not expected to have a very material effect in the long term on the rent prices of the Company's properties, which are essentially characterized by a high quality level of construction, location and management, the level of demand for which in recent years has continuously increased. In addition, a large part of the increase in the supply of offices in the central region is made up of buildings that are being constructed in the context of purchase groups, or buildings that are intended to be sold to a large number of buyers, that are not expected to materially affect the rent prices in the central region.

The Company's aforesaid estimations with regard to the changes in the segment and the effect thereof on the Company's results are merely subjective estimations and forward looking information as per the definition thereof in the Securities Law. The actual results and effects may significantly differ from the estimations specified above and the implications thereof, for various reasons, inter alia, a further strengthening of the competition, a decrease in the demand for office spaces and a worsening of the economic situation in Israel.

9.1.5 Critical success factors in the operating segment and changes occurring therein

The Company estimates that the main success factors of the Company in the segment are, *inter alia*, the geographic dispersion and the location of the income-producing properties in areas in demand throughout Israel for offices, commerce and industry, the quality of the properties, expertise in development and architectural planning, management and construction of properties conforming to potential tenants, in relation to which the Company had engaged in advance in lease contracts through the professional management team employed by the Group, the level of demand and supply of properties of a similar type which dictate the terms of the lease contracts and the potential changes thereto, know-how and experience in marketing, property management and operation, the positive goodwill of the Company, its business positioning and financial strength which allows immediate response to attractive business opportunities.

9.1.6 Changes to the system of suppliers and raw materials for the operating segment

Within the framework of this segment, the Group has no material suppliers with which it engages and does not purchase raw materials in material scopes.

9.1.7 Main barriers to entry and exit of the operating segment and the changes occurring therein

Barriers to Entry - To the Company's belief, entities operating in this operating segment require mainly equity and financial strength. In addition, professional know-how, experience in the development segment, positive reputation in the industry and available and planned land reserves in areas with high demand for office buildings space for lease bear great importance. Development in the segment requires financial soundness which enables operating in the development segment at relatively low financing costs

Barriers to Exit - exiting this operating segment is conditional, mostly, on the ability to realize properties, which is a direct result

of the location of the properties, their physical condition and the condition of the economy, as well as various costs, including in connection with land taxation.

9.1.8 Structure of competition in the operating segment and changes occurring therein

See Section 9.3 below for a description of the structure of competition in this operating segment.

9.1.9 Manner of executing acquisitions of the Company

See Section 8.1.9 of Chapter A of the 2013 Periodic Report, which is included in this Report by reference for a description of the manner of acquisition and exercise of the Group's rights in properties.

9.1.10 Acquisitions performed in the Report Period and thereafter

For details on the Company's winning, of a tender for the purchase of land designated for retail and offices in Holon and an engagement in an agreement for the purchase of an additional land division in Holon, see Section 1.3.1 of Chapter A of the Report.

For details on main new properties that are under construction on the Report Date – Azrieli Sarona Center, Tel Aviv, and Azrieli Rishonim mall, see Section 7.7 of Chapter A of the Report.

9.2 **Details on the very material properties of the Group in the office and other space for lease segment – for details see Section 8.3 above.**

9.2.1 Azrieli Tel Aviv Towers

The following tables include data regarding the office towers in Azrieli Center, Tel Aviv, which, as of the Report Date, constitutes 10.7% of the Company's total properties and complies with the definition of a very material property. The valuation of this property which is defined as a very material valuation, is attached to this Report as Annex D to the Board of Directors' Report.

The Group, through Canit Hashalom, is the holder of all of the lease rights in the center named "Azrieli Center". Azrieli Center extends over a land block at a total area of 32.894 thousand sqm, located in the center of Tel Aviv, on a junction which is a main transport route and in proximity to the main transport routes of Tel Aviv (Ayalon Highways, Derech Hashalom, Menachem Begin Road) and HaShalom train station, located on Hashalom intersection.

To the best of the Company's knowledge, as of the Report Date, Azrieli Center is the largest business center in Israel, with an overall built-up area (gross) of approx. 328,393sqm, comprising an underground car park and storage rooms (at an area of 122,258 sqm), a mall including 3 commercial floors and a public floor (at an area of 61,110sqm), two office towers, the Round Tower (at an area of 55,823 sqm) and the Triangle Tower (at an area of 47,348 sqm) as well as the Square Tower which is a tower of mixed uses of offices and a hotel (at an area of 40,489 sqm) as well as public passage bridges (over Menachem Begin Road and Hashalom Railway) (at an area of 1,365 sqm). The office buildings of the Group at Azrieli Center comprise the three towers: the Round Tower, which includes 38 office floors and another roof floor serving as an observatory and a restaurant; the Triangle Tower, which includes 35 office floors and 2 more service floors; and the Square Tower, including 18 office floors above the 13 hotel floors. For details on the Company's plans to expand the center and the purchase of Yediot Aharonot House, see Section 7.8 of this chapter of the Report.

9.2.2 Presentation of the property

	Specification as of December 31, 2015
Property name:	Azrieli Towers
Property location:	Tel Aviv
Property areas – split by usage;	Offices – 131,669 sqm Hotel – 18,000 sqm Offices used by the Group – 1,520 sqm
Company's share in the property:	99.1%
Structure of holding in the property:	Through Canit Hashalom of which 99.1% is held by Azrieli Group Ltd.
Corporation's actual share in the property:	99.1%
State the names of the partners in the property*:	0. 9% are directly held by the nonprofit organization of Azrieli Foundation (Israel) (R.A.)
Date of acquisition of the property:	The land was acquired in August 1992.
Specification of legal rights in the property (ownership, lease etc.):	Capitalized long term lease.
Significant unutilized building rights:	-
Status of registration of legal rights:	In July 2014, the registration of Canit Hashalom's lease rights with the Land Registration Bureau was completed.

Special issues (material building code violations, soil contamination, etc.):	There are no special material issues. For further details, see the valuation attached hereto
Method of presentation in the Financial Statements:	Consolidation

For details on the registration of rights in the property, pledges and guarantees, pertaining to Azrieli Center towers, see Section 9.2.8 of Chapter A of the Report. It shall be noted that all of Azrieli Center's space is designated for lease on the free market, other than space for self use by Canit Hashalom and the Group's companies (on the top floor of the Round Tower and other negligible areas, such as archives, gallery, storeroom, etc.), and other than an area of approx. 5,500 sqm, which is located in the project's basement which is designated for building of an IEC sub-station which was sub-leased in 2006 to the Israel Electric Corp. Ltd. in consideration for a one-time amount of approx. NIS 14 million, for the entire lease period of Canit Hashalom (such area was not taken into account in the valuation of the center which is attached to this Report).

Yarden Hotels M.H.Y. Ltd. which operates the hotel, which is located in the Square Tower of Azrieli Towers, has a business license for the operation of the hotel that as of the Report Date, is effective until December 31, 2016.

* after the Report Date the holding rate grew to 100%.

9.2.3 Main figures

Figures per 100%. The Company's share in the property – 99.1%	**Y2015**	**Y2014**	**Y2013**		**On date of purchase of the property**
Fair value at end of the period (NIS in thousands)	2,821,819	2,780,410	2,718,246	Cost of construction (NIS in millions)	1,292
Revaluation profits (NIS in thousands)	24,643	53,845	128,440	Date of purchase of the land	August 1992
Average occupancy rate (%)	100%	100%	~100%		_____
Leased space (sqm)	149,529	149,613	149,489		_____
Total income (NIS in thousands) (*) per month	239,495	237,537	235,059		_____
Average rent per sqm per month (NIS) (**)	101	98	96		_____
Average rent per sqm per month in contracts signed during the period (NIS)	123	120	114		_____
NOI (NIS in thousands)	206,354	202,571	196,703		_____
Adjusted NOI (NIS in thousands)	213,131	210,028	207,455		_____
Actual yield rate (%)	7.3%	7.3%	7.2%		_____
Adjusted yield rate (%)	7.6%	7.6%	7.6%		_____
Number of tenants at end of reporting year	135	150	151		_____

(*) The revenues and NOI include 50% of the revenues and the car park's NOI.
(**) Including adjustment costs for the tenants and renovations until the Report Date.
(**) Does not include the hotel's rent. Had the average included the hotel's rent, then the average for 2015 would have been approx. NIS 97 per sqm, for 2014 approx. NIS 94 per sqm, and for 2013 approx. NIS 93 per sqm.

9.2.4 Segmentation of revenues and cost structure

Figures per 100%. The Company's share in the property – 99.1%	Y2015	Y2014	Y2013
Revenues:	**(NIS in thousands)**		
From rent – fixed	172,643	170,620	167,489
From rent – variable*	-	-	-
From management fees	37,708	38,288	38,935
From car park	24,221	24,847	24,916
Others	4,924	3,782	2,387
Total Revenues	239,496	237,537	233,727
Costs:			
Management, maintenance and operation	33,142	34,966	37,024
Depreciation	96	96	96
Other expenses	-	-	-
Total Costs:	33,238	35,062	37,120
Profit:	206,258	202,475	196,607
NOI:	206,354	202,571	196,703

(*) No sales increment for lease of offices.

9.2.5 Main tenants at the property

The Company does not have an anchor tenant (as defined in the Regulations) or a main tenant at the property the revenues from whom produce 20% or more of the property's revenues.

9.2.6 Projected revenues due to signed lease contracts

	Year ending December 31, 2016	Year ending December 31, 2017	Year ending December 31, 2018	Year ending December 31, 2019	Year ending December 31, 2020, forth
	NIS in thousands (figures according to 100%. Corporation's share in the property – 99.1%)				
Fixed components	233,592	209,623	149,988	102,557	158,828
Variable components (estimate)*	—	—	—	—	—
Total	233,592	209,623	149,988	102,557	158,828

(*) No sales increment for lease of offices.

The revenue amounts in the above table, were calculated based on the basic amounts set forth in the lease agreements while linked to the consumer price index known on December 31, 2015, and based on the following assumptions: (1) The exercise of options for extension of the lease periods included in the lease contracts was not taken into account; (2) Lease contracts which the lease period pursuant thereto has ended and new lease contracts have not yet been signed with the tenants were not taken into account; (3) The possibility of sale of the properties or purchase of new income-producing properties was not taken into account; (4) Early termination fines, if any, were not taken into account; and (5) no change will occur in the advance payments of management fees for each tenant for year 2015.

The amounts of revenues specified in the aforesaid table are under the assumption that the options for extension of the lease periods included in the lease contracts would not be exercised, in spite of the fact that many of the tenants in the Company's premises usually tend to extend the lease agreements upon their termination.

The above figures are based on the estimates of the Company considering the signed agreements as of the Report Date and constitute forward-looking information, within the definition thereof in the Securities Law. Actual results may significantly differ from the above specified estimates and the implications thereof, for various reasons, including early termination of lease contracts or a business crisis of any of the tenants.

9.2.7 Specific financing for the property

Specific Financing			**Loans:**
Balances in the Statement of Financial Position	December 31, 2015 (NIS in thousands)	**Presented as current maturities:**	**88,750**
		Presented as long-term loans:	**443,750**
	December 31, 2014 (NIS in thousands)	**Presented as current maturities:**	**88,750**
		Presented as long-term loans:	**532,500**
Fair value as of December 31, 2015 (NIS in thousands)			**525,022**
Original date of taking the loan			**August 2013**
Original amount of loan (NIS in thousands)			**710,000**
Effective Interest Rate as of December 31, 2015 (%)			**1.16%**
Dates of repayment of principal and interest			**The principal is returned in equal semiannual payments until August 2021. The interest is paid on the unpaid balance every 6 months.**
Key financial covenants			**The Lender shall have the right to accelerate payment under the loan upon fulfillment of generally accepted causes, which are provided in the agreement, including, inter alia, a material adverse change in the tenant status in the Round Tower or if the ratio between the balance of the loan as of the calculation date and the value of the Round Tower**

	(as shall be determined by an appraiser, who shall appraise the Round Tower once a year) (LTV), commencing from the end of two years as of the date of the provision of the loan, amounts to not more than 70% (and its rate decreases over the term of the loan down to 25% one year prior to repayment of the loan in full). With an adjustment to payments that are intended to be made within such two years, this ratio, as of December 31, 2015, is approx. 45%.
Other key covenants	**-**
Is the corporation compliant with key stipulations and with the financial covenants as of the end of the reporting year	**Yes**
Is it non-recourse	**No**

9.2.8 Pledges and material legal restrictions on the property

Type		**Specification**	**The amount secured by the pledge December 31, 2015(*) (NIS in thousands)**
Pledges	First ranking	Part of the lobby floor, the roof floor and Floors 11-49 of the Round Tower are pledged by a fixed charge to an institutional body group (also see Section 18.3 below).	**532,500**
(1) Canit Hashalom has provided the City of Tel Aviv with a guarantee in the amount of NIS 8 million, linked to the Residential Construction Input Price Index (standing, as of December 31, 2015 at approx. NIS 23 million), which is designed to assure Canit Hashalom's compliance with its obligations in connection with the performance of the development and construction work for the project. This guarantee is expected to be returned to Canit Hashalom upon the issuance of a certificate of completion for the project. As of the Report Date, Canit Hashalom is acting towards obtaining the aforesaid certificate of completion, and does not expect any part of the guarantee to be forfeited. The provisions of this section constitute forward-looking information which is based upon estimates of the Company in reliance on past experience and the actual results may be different, primarily due to requirements of the authorities which are unknown as of the Report Date. (2) On February 28, 2008, Canit Hashalom signed a letter of undertaking addressed to the City of Tel Aviv and also provided an additional bank guarantee in the amount of approx. NIS 8 million,			

linked to the Consumer Price Index (standing, as of December 31, 2015 at approx. NIS 9 million), in connection with the granting of a Form 4 for the square tower of the project, in the context of which it undertook to act to establish a steering team to evaluate the need to build another tunnel underneath the Kaplan interchange, and further undertook to build the tunnel at its expense, to the extent determined as aforesaid. Insofar as the construction of the aforesaid tunnel will be required, Canit Hashalom estimates the cost of construction in the amount of approx. NIS 7 million.

9.2.9 Details regarding the valuation

		Y2015	Y2014	Y2013
The value determined (NIS in thousands)		**2,821,819**	**2,780,410**	**2,718,246**
Identity of the appraiser[19]		**Ronen Katz of Greenberg Olpiner & Co.**	**Ronen Katz of Greenberg Olpiner & Co.**	**Ronen Katz of Greenberg Olpiner & Co.**
Is the appraiser independent?		**yes**	**yes**	**yes**
Is there an indemnification agreement?		**yes**	**yes**	**yes**
Date of validity of the valuation (the date to which the valuation pertains)		**Dec. 31, 2015**	**Dec. 31, 2014**	**Dec. 31, 2013**
The valuation model		**DCF**	**DCF**	**DCF**
Main parameters used for the valuation[20]				
The valuation according to the Income Approach	**Gross leasable area used in the calculation (sqm)[21]**	**149,529**	**149,506**	**149,489**
	Representative occupancy rate out of the leasable area for the purpose of valuation (%)[22]	**100%**	**100%**	**100%**
	Representative average monthly rent per leased sqm for the purpose of valuation	**100.3**	**98.7**	**97.2**
	Representative NOI for the purpose of valuation (NIS in thousands)[23]	**213,131**	**210,028**	**207,455**
	Annual average periodic	**See in other main parameters below**		

[19] Mr. Ronen Katz is a certified real estate appraiser, with B.A. in Agricultural Economy and Administration in the Agriculture Faculty from the Hebrew University of Jerusalem, and is experienced since 1997 as a real estate appraiser.

[20] The valuation is attached as annex D to the Board Report.

[21] Not including area for the Company's own use of approx. 1,520 sqm on the last office floor of the round tower.

[22] Represents the ratio of marketed area out of the total area, but in appraisal, value was taken for vacant areas too.

[23] Including 50% of representative NOI of the car park which is included in the property value. (The remaining 50% were included in the valuation of the mall).

	expenses for preservation			
	Weighted cap rate used for the valuation	**7.37%**	**7.36%**	**7.43%**
	Other main parameters	**Projected investments in the property were depreciated, as well as investments due to contractual undertakings to the City of Tel Aviv. The overall depreciation of the property value due to the aforesaid totaled at approx. NIS 68 million.**	**Projected investments in the property were depreciated, as well as investments due to contractual undertakings to the City of Tel Aviv. The overall depreciation of the property value due to the aforesaid totaled at approx. NIS 77 million.**	**Projected investments in the property were depreciated, as well as investments due to contractual undertakings to the City of Tel. The overall depreciation of the property value due to the aforesaid totaled at approx. NIS 67 million.**
Value sensitivity analyses		**Change in value in NIS in thousands**		
Cap rates	**Rise of 0.25%**	**(94,776)**	**(93,327)**	**(90,466)**
	Decline of 0.25%	**101,427**	**99,875**	**96,750**
Average rent per sqm	**Rise of 5%**	**125,099**	**123,006**	**117,842**
	Decline of 5%	**(125,099)**	**(123,006)**	**(117,842)**

9.3 Competition

The income-producing property segment in general and the office and other space for lease segment in particular, is characterized by a high level of competition. The competition in the office and other space for lease segment in Israel is characterized by a high level of competition which revolves around a number of parameters, the main ones of which are: (1) the geographic location of the properties and the level of demand for spaces for lease in that area; (2) the rent level and management and maintenance costs; (3) the quality of construction of the leased buildings; (4) The level of auxiliary services, and (5) the Lessor's goodwill. The competition in this sector exists both at the stage of identification of the properties for purposes of initiation, development and construction of properties, and at the stage of the leasing of the properties. The Group is exposed in Israel to competition by numerous companies engaging in the lease of business property, in areas of demands similar to those in which the Group’s properties are located, while in most cases, the competition is local competition. Thus, for example, the competition for the Azrieli Center is the high priced office buildings in Tel Aviv and the competition for the Herzliya Business Park is other alternate office buildings in that area.

To the best of the Company's knowledge, several bodies are active in Israel, holding significant shares of the office and other space for lease

segment, including Reit 1 Ltd., Gav Yam Land Ltd., Nitzba Holdings 1995 Ltd., Industrial Buildings Ltd., Levinstein Properties Ltd. and Amot Investments Ltd. In the Company's estimation, the scope of its business in the office and other space for rent in Israel segment is among the leading companies in the segment, particularly with completion of the projects which are, as of the Report Date, under construction.

The factors assisting the Company to deal with the competition in this segment are as follows:

- The Company's volume of operation in the segment enables the Company to communicate with companies and service providers at beneficial terms.

- The Company's volume of operation in the segment enables the Company to specialize in the management of commercial parks and office buildings in an efficient manner which leads to savings in costs and in manpower.

- Most of the Company's tenants are companies with high financial strength and the lease agreements therewith are for a relatively long period of time.

- The Company's office and other space for lease is located in areas of high demand, enabling the Company to lease the properties to numerous diverse types of tenants.

- The unique characteristics of the Group's properties, such as: a retail center in proximity to the office space for rental, access to public transportation, including the railroad and underground car parks for the convenience of the tenants and their customers.

- Most of the Company’s office space is characterized by its high quality and prestigious nature, which distinguishes the Company's property from those of the competing companies and strengthen its competitive edge.

9.4 **Goals and business strategy in the segment**

See Section 25 of this chapter for details on the Company’s goals and the Group’s strategy.

10. The income-producing property in the USA segment

10.1 General

As of the Report Release Date, the Group owns six (6) office rental properties outside of Israel (five in the USA), of a total leasable area of approx. 187 thousand sqm (the Company's share is approx. 177 thousand sqm), which is leased to approx. 250 tenants. The Company's properties in this operating segment do not amount to material properties or very material properties. For aggregate details regarding all of the Company's income-producing properties in this operating segment (including a land reserve in Section 7.8 above), see Section 7 of Chapter A of the Report, under the geographic region U.S.

Most of the Group's office properties in this operating segment are Class A multi-tenant properties, which also include parking lots (above ground and underground) which are used by the tenants. The properties are located in high demand areas with more office building clusters. Unlike the Company's properties in Israel, in some of the Company's properties in the U.S., the Company holds the property together with one or more local partners. As of the Report Date, the Company is examining, in a current manner, the expansion of its activity in additional markets, mainly in North America (in addition to Houston, Texas), with an emphasis on secondary markets where there are more than two million residents in the metropolis.

The office buildings in the operating segment are mostly intended for businesses (*inter alia* from the energy industry) and service providers which are characterized by a large number of employees and demand for adjacent parking spaces. Most of the Group's lease contracts in this operating segment are for periods of between three and ten years, while often the tenant is given an option for additional lease periods of approx. five years. The rent is at a fixed amount per square meter (or the corresponding measure – SQF) of the leased area, while often the lease contract includes a rent increase during the term of the lease.

Unlike the Group's office properties in Israel, the Group's office space in the U.S. is managed by professional and local management companies with which the Company has engaged in agreements, and which the Group is entitled to terminate by advance notice of 30 days. The management companies collect from the tenants the rent, as well as current expenses, such as security, cleaning, maintenance, municipal taxes, insurance, gardening, maintenance of elevators and public systems. The Company is examining, in a current manner, possibilities for both operational and property management streamlining.

10.2 The structure of the operating segment and changes occurring therein

In 2011-2014, the Company expanded its business in the U.S.A. through three purchase transactions, the first of three office towers in the

"Galleria" area of the city of Houston, Texas, and two additional transactions of the purchase of two office building in the "Energy Corridor" and “West Belt” area of the city of Houston, Texas. A majority of the Group’s properties in the U.S.A. are located in the Houston metropolis, with a population of more than 6 million people[24], which presented population growth in the last 30 years which is higher than the U.S. average. This increase stemmed, *inter alia*, from a high quality of life, low unemployment rates, relatively limited government involvement and attractive cost of living.

The income-producing property segment in the U.S.A is affected by the economic activity in the U.S. economy, and mainly by the economic business in Houston and its office lease market.

To the best of the Company's knowledge, after the years of the economic crisis which began in 2008 and the effect of which was apparent for a period of 3-4 years, the U.S. income-producing property market experienced very high levels of demand which led to the thriving of this market both on the part of the usage by the various sectors and on the part of the investors in real estate who sought return on their investment in the period in which the interest rates in the USA are very low. The recovery experienced by the US economy, caused an improvement in the income-producing property market in the USA in general, including the office sector.

The recovery process in Houston after the economic crisis, was among the swiftest throughout the U.S.A. and good figures continued to be recorded in the local economy, mainly thanks to the strong connection that the local economy has with the energy market which experienced a dramatic price increase until the middle of 2014. Since the summer of 2014, a decline trend in energy prices in the world began, a trend which began affecting the local economy in 2015. This effect is demonstrated in the unemployed rate in the Houston metropolis which was 4.9% in November 2015 while in November 2014, this figure was 4.3%.[25]. This trend affects also the office segment in Houston.

The effect of this trend during 2015 on the office real estate market in Houston, was also reflected in various ways such as: decline in the number of project which were planned towards commencement of construction, an increase in the rate of vacant space, an increase in the number of areas on the sublease market, fewness of new lease transactions due to the attempt of new and/or existing tenants to postpone a decision on new transactions until the stabilization of the energy prices, suspension of the increase in rent prices while at the same time the property owners' willingness increased, to grant incentives to new tenants such as a high budget for "improvements to the leased property" and long "grace periods".

[24] The figures are taken from publications of the real estate consulting company Cushman and Wakefield.
[25] The figures are taken from publication of the real estate consulting company Cushman and Wakefield.

In addition to the effect of the gas and energy sector on Houston's economy, to the best of the Company's knowledge, the local economy is expected to also be affected by growth in the activity of Houston's port and its large medical center[26].

10.3 **Restrictions, legislation, standards and special constraints applying to the operating segment**

This operating segment is subject mainly to the local planning and building laws and land laws. In addition, the business in this segment is affected by legislation and regulation of authorities in the fields of environmental protection, safety, business licensing, land taxation and municipal taxation. See Section 22 of the Report for details on the matter of the restrictions, legislation, standards and additional constraints applying to the entire Group.

10.4 **Changes in the volume of business and profitability of the segment**

As aforesaid, it appears that in 2015, the trend in the office properties segment changed. In the Houston metropolis, during 2015, 11.6 million sqf of Class A properties for lease were added, out of which only 38% were leased at the time of their entry into the market. During the year, the entire leased-up areas grew by 4.8 million sqf(Positive Absorption)[27]. The total rate of vacant space in the Houston metropolis grew from 11.6% to 14.1% during 2015 while in Class A office buildings, the rate of vacant space at the end of 2015 was 11.7%.[28] In addition, to the best of the Company's knowledge, in 2015, the rent prices remained stable even though the willingness of the property owners to grant incentives to new tenants grew.

10.5 **Critical success factors in the operating segment and changes occurring therein**

The Company estimates that the main success factors in this operating segment are its know-how, expertise and experience in the location and acquisition of attractive properties that will yield a high return, and the location of local management companies specializing in the local market, for the purpose of management of the properties and marketing of the space therein. The Company estimates that the success factors in the acquisition of such properties in the operating segment are, *inter alia*, location of worthwhile transactions and identification of opportunities in the market with a fast response capability, acquisition of properties in attractive, high demand locations with improvement potential, acquisition of properties of a high building and finishing standard, acquisition of properties with a range of related services that are not available in nearby properties which are competing for new contracts,

[26] The figures are taken from publications of the real estate consulting company Cushman and Wakefield.
[27] According to figures appearing in MarketView, Houston, Office Q4 2015 published by CBRE in Q4 2015.
[28] According to figures appearing in MarketView Insert, Houston, Office Q4 2015, published by CBRE in Q4 2015.

performance of meticulous due diligence investigations, *inter alia* with respect to the expected expense structure in the property and the profit increase potential, the strength of the tenants in the property and the nature of the collateral, as well as knowledge of the financial markets and the various players therein for the purpose of achieving attractive financing terms.

10.6 **Main barriers to entry and exit in the operating segment and changes occurring therein**

Barriers to Entry - To the Company's belief**,** entities operating in this operating segment require mainly equity and financial strength which allow the acquisition of existing properties at relatively low financing costs. In addition, professional know-how, experience in the segment of acquisitions and management of income-producing properties, as well as know-how and experience in the credit and financing sector are important. Positive goodwill is another important element, both during tenders for the acquisition of income-producing properties and in order to attract attractive tenants to the properties.

Barriers to Exit - exiting this operating segment is conditional, mostly, on the ability to realize properties, which is a direct result of the location of the properties, their physical condition and the condition of the economy, as well as various costs, including in connection with land taxation.

10.7 **Structure of competition in the operating segment and changes occurring therein**

The income-producing property industry, in the U.S. and in Houston in particular, is characterized by a high level of competition. Competition in this segment revolves around a number of parameters, of which the principal ones are; (1) the geographic location of the properties and the level of demand for the space for lease in that area; (2) the amount of the rent and the management and maintenance costs; (3) the granting of incentives to new tenants or upon renewal of a lease agreement, such as improvements in the leased premises or a certain lease period in which rent will not be charged; (4) the quality of construction of the leased buildings; (5) the level of auxiliary services; and (6) the reputation of the lessor. The competition in this sector exists both due to acquisition of the properties and at the stage of the leasing of the properties. See Section 10.10 below for a description of the structure of competition in this operating segment.

10.8 **Manner of executing acquisitions of the Company**

For the purpose of the Group's development in this operating segment, the Group focuses, as of the Report Date, on the acquisition of existing and populated income-producing properties, and is not building new properties itself. In addition, the Company usually enters into financing agreements with different financing bodies for the purpose of the

acquisition of the properties in this operating segment, usually under non-recourse terms (with exceptions standard in the U.S. with respect to which a guarantee of the Company is provided). See section 8.1.9 of Chapter A of the 2013 Periodic Report, included herein by way of reference for a description of the manner of acquisition and exercise of the entire Group's rights in properties.

10.9 **Acquisitions performed in the Report Period**

No acquisitions were performed during the Report Period.

10.10 **Competition**

The income-producing property segment in the U.S.A. is, in general, characterized by a high level of competition in all aspects pertaining to the rent, the quality of the finishing of the building and other unique characteristics of the property. The Group is exposed in the U.S.A. to competition by numerous companies engaging in business property lease, in areas of demands similar to those in which the Group's properties are located. The market of leasable offices in Houston, Texas, constitutes approx. 210.9 million sqf of leasable office space (of which approx. 111.3 million sqf is defined as Class A), and includes a large number of properties. To the best of the Company's knowledge, several bodies are active in Houston, holding significant shares of the office lease areas segment[29], and the Group's share in the income-producing property segment in the U.S. is negligible.

The factors assisting the Company to deal with the competition in this segment are as follows: (1) The Company's office lease areas are located in high demand attractive areas, enabling the Company to lease the properties to numerous and diverse types of tenants; (2) most of the Group's properties in this operating segment have special characteristics, including: a "Leed Certificate" rating of the Green Building Council, tenants with a high rating, attractive location adjacent to large retail centers, as well as a high parking space ratio relative to the size of the property; (3) most of the Company's office space in this operating segment is characterized by a high building and finishing standard and has been granted the highest rating level of office properties (Class A).

The Group engages in this operating segment in management agreements with strong local entities which have vast experience in and deep knowledge of the local market, for the purpose of management and lease of the properties.

10.11 **Goals and business strategy in the segment**

See Section 25 of the Report for details on the Company’s goals and the Group’s strategy.

[29] According to figures appearing in MarketView insert, Houston, Office, Q4, 2015 published by CBRE in Q4 2015.

PART FIVE – SONOL SEGMENT

11. Sonol Segment – Direct Marketing and Fuelling and Commerce Complexes

11.1. General information on the operating segment

Sonol operates in two main operating sectors: direct marketing and fuelling and retail complexes. In view of the great similarities between most of the characteristics of the operating sectors, the following description refers to both operating segments jointly, with explicit reference to dissimilarities between the two operating segments or to matters relevant to only one of them.

11.1.1. Azrieli Group holds through Granite 100% of the rights in Sonol Israel Ltd. Within the operating segment of Sonol the Group operates in the following fields: (1) local purchase, import, production, storage, marketing and distribution of oil distillates; (2) production, storage, marketing and distribution of lubrication oil, engine oil, transmission oil, oil for industry, additives and other auxiliary products; (3) Transport of oil distillates and oils; (4) marketing of various products in Sonol's chain of convenience stores.

11.1.2. In the Sonol operating segment, the oil distillates and oils are sold through direct marketing to institutional, governmental, commercial and business customers, including to transportation companies, airlines, industry and agriculture. Sales of fuels and oils to such customers do not involve the public gasoline stations operated by Sonol and/or other operators.

The characteristics common to the direct marketing sector customers are inter alia, sales on a relatively large scale, coupled with relatively high discounts and relatively long credit periods (end-of-month + 30 days to end-of-month+ 90 days), all of which is standard practice in this market as well as transactions conducted through a system of agreements for defined periods. Therefore, Sonol categorizes those customers as high commercial and credit risks. For most of these customers, Sonol transports the oil distillates directly to their premises, where they are stored in tanks. Sonol's scope of business in this operating segment grew in 2013. It should be noted that within its actions for reducing expenses during 2013, Sonol reduced the credit period for customers and carried out customer improvement.

11.1.3. In the Sonol fuelling and retail complexes operating segment, the oil distillates and oils are sold to individual customers and to commercial customers that have operating fleets of vehicles with automatic fuelling systems installed for fuelling at gasoline stations in the Sonol Chain. oil distillates and oils are also sold to distributors and public gasoline stations not operated by Sonol. At gasoline stations operated by a subsidiary company, Sonol also sells other consumer products, both in convenience stores and at the pump docks.

Note that the gross margin from sales to customers at fuelling and retail complexes is higher than the margin from direct marketing customers. However the nature of those sales (sales at gasoline stations operated by Sonol) makes the cost of sales higher.

11.1.4. Sonol has a dependency upon ORL – see also Section 11.14.4 below.

11.1.5. In 2015, 2014 and 2013, crude oil prices fluctuated and excise tax on both gasoline and diesel fuels also went up. The change in the excise tax and oil prices has a direct effect on Sonol's customer receivables.

11.1.6. In September 2006, Paz Oil Company ("**Paz**") bought Ashdod Oil Refinery Ltd. ("**ORA**") from the State of Israel and thereby, Paz became the first fuel company to control the entire customer supply chain in Israel's fuel market. The synergy between the refinery owned by Paz and the marketing of petroleum products by Paz provides that company with an advantage over other fuel companies involved solely in the marketing of petroleum products. That advantage might become especially prominent in the direct marketing segment.

Moreover, Oil Refineries Ltd. ("**ORL**") became entirely privately owned in February 2007. The Government Corporations Order (Declaration of Essential State Interests in The Oil Refinery Company Ashdod, Ltd.), 5766-2005 (the "**Interests Order**"), states that anyone declared by the Commissioner of the Antitrust Authority as involved in the national marketing of oil distillates at gasoline stations in Israel shall not be permitted to hold 5% or more in ORL. Furthermore, ORL is entitled to be engaged in marketing fuels but its market share in the fuel marketing segment may not exceed 20% of the Israeli market. (The Minister of National Infrastructures is empowered to increase that percentage as of the end of 2011). Marketing fuels by ORL, if and when it happens, will constitute the entry of another strong competitor achieving total control on the entire customer supply chain and might have a substantial effect on competition in the direct marketing segment.

In 2007, after the sale of ORA to Paz, regulation of the prices at which fuel companies buy oil distillates from refineries was terminated and regulation is now achieved through reporting of the refineries' profits and prices. In reference to this matter, see also Section 11.3 below.

11.1.7. Some of Sonol's products have potential alternatives, such as natural gas. Natural gas marketing might reduce the scale of sales of the oil distillates. As of the date of this Report, such alternatives are available to some of Sonol's customers, some of whom are shifting to consumption of natural gas instead of fuel oil. Furthermore, the gross margin, from sales of products that will be replaced by natural gas, is low. It should be noted that in recent years, the volume of sales of fuel oil to has significantly decreased. However, that alternative is not yet available to most of the customers. To the best of Sonol's knowledge, based on the information held thereby as of the Report Date, preparations for the marketing of natural gas are expanding in the Israeli

economy.

11.1.8. The critical success factors in the fuelling and retail complexes sector are the finding of new, strategic locations for the establishment of public gasoline stations; growth in the national coverage of gasoline stations; dealing with the surrounding competition and optimal utilization of gasoline stations' land to establish a chain of convenience stores and retail complexes gasoline station. Additionally, Sonol's management deems operational efficiency and cutting back on expenditures as essential measures, which aid in the improvement of its profitability in this segment and in overcoming the decrease in the marketing margin as stated.

The critical success factors in the direct marketing segment are principally better service; professional response to customer needs and an increase in the range of commercial and institutional customers, achieved *inter alia*, by winning large tenders.

Both of Sonol's operating segments are characterized by fierce competition. In the sector of direct marketing of fuels to business customers, there are nearly no entry barriers, apart from the need for banking credit. However, as a result of the intense competition in this sector, nearly no new and substantial competitors have joined the market in recent years. On the other hand, the fuelling and retail complexes sector is characterized by higher entry barriers, mainly due to regulatory requirements pertaining to the construction of a public gasoline station and the high financial investment required for the purpose of constructing a gasoline station. For further details with respect to the competition that is characteristic of the aforesaid business, see Section 11.8 below.

11.2. **Main products**

The main products and services of both operating segments jointly are as follows:

11.2.1. White fuels

Sonol markets and distributes different types of white fuels ("**White Fuels**"). White Fuels mainly include the following products:

Gasoline and diesel fuel for transportation – Most of the types of gasoline and diesel fuel for transportation are used to power vehicles.

In the direct marketing sector, Sonol markets several different types of gasoline (95 octane (Gold 95) and 98 octane) and diesel fuel, mainly to distributors, industrial plants, the agriculture industry, infrastructure contractors and Private Gasoline stations at moshavim, kibbutzim and factories (the "**Private Gasoline stations**"). These customers are direct commercial customers for Sonol or its subsidiaries.

In the fuelling and retail complexes sector, Sonol markets the types of gasoline mentioned above and diesel fuel for transportation to individual, walk-in customers of the public gasoline stations operated thereby (the "**Gasoline stations Operated by Sonol**"), operators of the public gasoline stations of Sonol's chain, which are not run by Sonol (the "**External Operators**") and to customers who own vehicle fleets.

Sonol has positioned exclusive fuel brands both for gasoline (Gold 95) and for diesel oil (Goldiesel), whose exclusiveness, together with materials that significantly improve the vehicle's performance, result in economizing on fuel consumption and protect the cylinder head. There is a minimal additives duty in the Israeli fuel market, but Sonol has chosen to use further additives as aforesaid.

Diesel fuel for heating – In the direct marketing segment, diesel heating fuel is used to fire ovens in industry and agriculture, for the institutional market and it is sold to commercial resellers and to marine customers. Diesel heating fuel is also used for private household heating and to fire various types of ovens.

Heating Oil – Heating oil is used for residential heating and to fire various types of heating ovens.

Jet Fuel – Jet fuel is used only in the direct marketing segment to fuel jet aircraft.

Kerosene – In terms of its technical specifications, **kerosene** is a product similar to jet fuel and it is available only in the direct marketing segment. Principally, **kerosene** is used for heating uses similar to diesel heating fuel.

11.2.2. Black fuels

Sonol markets and distributes different types of black fuels, solely to the direct marketing customers. Black fuels include, primarily, bitumen and different types of fuel oils ("**Black Fuels**").

Black Fuels are mainly used for pavement, sealing (bitumen), as heating fuels and feedstock in industrial applications (mainly heavy industry), shipping, electricity and steam generation and other uses.

11.2.3. Oils

As a rule, the various types of oil are composed of base oils, which are a product of the petroleum industry, and additives. Most of the various additives and some of the oils are imported from foreign suppliers.

Sonol manufactures, stores, markets and distributes various types of oils, marketed to institutional and commercial customers through direct marketing and for privately owned vehicles at the fuelling and retail complexes, including automotive and engine oils. Furthermore, Sonol markets other auxiliary products (various additives). In addition, Sonol

manufactures and markets transmission oils, lubricants, marine oils, industrial oils and various additives, marketed solely through direct marketing.

11.2.4. Various consumer products sold at gasoline stations

At the gasoline stations chain operated by Sonol, Sonol sells a range of consumer products in convenience stores and at the pump docks. As of the Report Date, the chain operates 187 convenience stores under the brand name: "Sogood" (as of December 31, 2014 and 2013, 188 and 183 stores operated in the chain, respectively). The sales turnover of various products (except fuels) reached NIS 314 million in 2015, compared with NIS 305 million and NIS 295 million in the years 2014 and 2013, respectively. Sonol's gross margin from sales in the convenience stores as aforesaid amounted in 2015 to approx. NIS 96 million compared with a gross margin of NIS 91 million and approx. NIS 88 million in the years 2014 and 2013, respectively. Note that the scale of revenues generated by the sale of those products is immaterial when compared with the overall sales volume of the oil distillates segment.

11.3. **Determining the price of products for customers**

Until January 2007, the Fuel Administration determined the prices of most of the oil distillates sold by ORL, a price that was known as the "ORL Gates Price". Such price was adjusted once a month according to the price at Labra Port (an average price of the relevant Oil Distillate in the Mediterranean basin region based on the five days of publication towards the end of the preceding month, except for ORL price to LPG, which was determined according to the average import price in the preceding month). During 2007, price control for oil products at the refinery gates was lifted and from that date, prices for oil distillates have been determined in negotiation between the refineries and their customers, although the ORL Gates Price, calculated as aforesaid, was still used as basis. Negotiations are influenced by the prices paid by the fuel companies for directly imported oil distillates, which constitute the alternative to purchasing from ORL. Lifting regulation of oil distillates prices on the one hand while maintaining regulated maximum prices for 95 octane gasoline on the other, has a negative effect on the fuel companies' situations.

The maximum consumer price for 95 octane gasoline is determined by the Fuel Administration (for details of products under regulation, see also Sections 11.18.7-11.18.11 below), based on the price for those products at the ORL Gates plus taxes, costs incurred for infrastructure, financing costs and transportation and the fuel companies' marketing margin, which are supposed to compensate those companies for the cost of infrastructure, financing and transportation including, *inter alia*, the marketing margin for gasoline station operators. In September 2011, the price structure of gasoline was changed. As part of such structure change, the controlled margin decreased and the level of operating costs, which are recognized by the Fuel Administration, also decreased, which caused a decrease in the profitability of fuel companies from the sale of such gasoline. For details, see Section 11.18.8 hereunder.

As pertains to other oil distillates sold by Sonol, no maximum price is determined by the Fuel Administration. However, in most instances, Sonol's consumer prices are also determined in accordance with the parameters mentioned above.

Prices for fuels sold by Sonol to the direct marketing's customers are derived by Sonol based on the Sonol price list, which is determined as explained above. The final price offered to each customer is considered on an individual basis and *inter alia*, takes into account the scale of the customer's purchases, the quality of the customer's guarantees, credit terms and the customer's potential contribution to overall sales.

Prices for fuels sold by Sonol at gasoline stations operated by Sonol are based on the Sonol price list, which is determined according to the parameters explained above. The price of the gasoline sold in Self service fuelling does not exceed the maximum supervised price and no extra price is charged therefor in accordance with that determined in the Control Order. gasoline station Prices for independent operators of gasoline stations in the Sonol Chain also take into account the nature of the agreement with the operator, Sonol's investments in the stations, the competition etc.

Oils manufactured by Sonol are priced based on, *inter alia*, the cost of the raw materials, the additives, labor and indirect costs.

11.4. **Material changes expected in Sonol's share**

In the Company's estimation, based on the information held thereby as of the Report Date, no material change is expected in Sonol's share in the principal markets as such pertains to the products described above or the product mix. However, if Sonol does not win large tenders in the future, as have been won in the past, such could have an effect on the Company's share in the direct marketing of oil distillates market. As part of Sonol's business in the fuelling and retail complexes, it intends to act during 2016 to establish public gasoline stations and additional convenience stores at gasoline stations in order to increase sales of oil distillates and consumer products respectively. Furthermore, Sonol is considering the construction of retail complexes around the gasoline stations, which will expand the range of services and products available to its customers.

The information in this section above, with respect to the expected changed is Sonol's shares and the blend of its products, includes forward-looking information as defined in the Securities Law, which is based on the information known to Sonol on this Report Date; on subjective estimates and assessments of Sonol that take into account past experience, its intentions and plans on the Report Date and which might not materialize. At this stage, there is no certainty that no significant change will occur in the markets in which Sonol operates and its blend of products. Furthermore, there is no certainty that the additional convenience stores and the retail complexes shall indeed be established and the scope of sales will consequently increase as stated above. It is possible that the aforementioned information will not materialize, if there are changes in Sonol's plans and intentions as stated above, including due to competition, global oil

products' prices, entry into new fields, Sonol's intentions in this respect and Sonol's assessments of the commercial viability of such issues.

11.5. **Segmentation of revenues from products**

Revenues of Direct Marketing:

The following table provides information pertaining to the segmentation of revenues from products in the direct marketing segment:

Product Type	2015		2014		2013	
	Revenues (NIS in Thousands)	Percentage of Company's Revenues	Revenues (NIS in Thousands)	Percentage of Company's Revenues	Revenues in (NIS in Thousands)	Percentage of Company's Revenues
Diesel Oil	747,369	10%	950,640	13%	1,007,002	13%
Black Fuels	99,141	1%	161,920	2%	262,893	3%
Total	846,510	11%	1,112,560	15%	1,269,895	16%

In the years 2013-2015 a decrease occurred in the rate of revenues from diesel oil in the direct marketing operating segment out of the Company's total revenues.

There is a decrease in the quantities of sale of the Black Fuels and in the erosion of the margins over these years. The decrease in sales of Black Fuels stems mainly from a decrease in the consumption of fuel oil due to the shift to use of natural gas.

Revenues of Marketing and Retail Complexes:

The following are data on the distribution of revenues from products in the fuelling and retail complexes segment:

	2014		2014		2013	
	Revenues in NIS Thousands	Percentage of Company's Revenues	Revenues in NIS Thousands	Percentage of Company's Revenues	Revenues in NIS Thousands	Percentage of Company's Revenues
Gasoline	1,466,628	18%	1,990,835	28%	2,125,819	27%
Diesel Fuel	692,613	9%	912,034	13%	989,916	12%
Total	2,159,241	27%	2,902,869	41%	3,115,735	39%

During 2015, there was a significant decrease in prices which was offset by an increase in the quantities of gasoline and diesel oil sold at the fuelling complexes, which was offset by a decrease in prices.

11.6. Customers of the operating segment

In the direct marketing segment, Sonol supplies its products to a broad range of commercial and business customers; to airlines, transportation companies, agriculture, industry, institutional customers and distributors. In this operating segment, the agreements through which Sonol contracts with commercial and institutional bodies are for varying periods. Occasionally, after winning a tender, such agreements are for periods from one to five years.

In the fuelling and retail complexes segment, Sonol supplies its products to a broad range of spontaneous, individual customers, to customers who own fleets of vehicles, purchasing fuels through automatic fuel pumps or using magnetic cards ("**AVR – Automatic Vehicle Recognition**") and to members of various loyalty programs at the gasoline stations of the Sonol Chain as well as to external operators of gasoline stations. By using AVR, the vehicle fleets' customers can purchase fuels and oils in a computerized and automatic manner, without cash payment (the charge is made in aggregate once a month). Vehicle fleets' customers mostly include business and institutional customers, who benefit from fuelling through AVR. The price of fuels to AVR customers is determined in negotiation or tender. In this operating segment, agreements with the external owners or operators of gasoline stations are for varying periods and each year, a number of agreements end, while a number of new agreements are signed. Customers with fleets of vehicles with AVR installed have engaged with Sonol for varying periods and usually, for no less than three years.

In each of these two operating segments, Sonol is not dependent upon a single customer or a limited number of customers, the loss of which would have a material effect on these operating segments. Furthermore, Sonol has no single customer in either of these segments, with revenues from that customer constituting 10% or more of Sonol's total revenues in the year of the Report.

Segmentation of sales in the operating segments per customer types

The following table describes the segmentation of sales in the direct marketing segment in the years 2013-2015, according to customer types and their percentage out of the total revenues from this operating segment in the same period:

Customer type	2015		2014		2013	
	Sales (NIS in thousands)	Percentage of total revenues of the operating segment	Sales (NIS in thousands)	Sales (NIS in thousands)	Sales (NIS in thousands)	Percentage of total revenues of the operating segment
Institutional, government, commercial and business customers	627,089	50%	703,361	43%	857,823	48%
Airlines	167,630	13%	252,561	16%	269,428	15%
Others	455,273	36%	665,882	41%	667,404	37%
Total	1,249,992	100%	1,621,804	100%	1,794,655	100%

The following table describes the segmentation of sales in Sonol's fuelling and retail complexes segment in the years 2015, 2014 and 2013, according to customer types and their percentage out of the total revenues from this operating segment in the same period:

	2015		2014		2013	
Customer type	**Sales (NIS in thousands)**	**Percentage of total revenues of the operating segment**	**Sales (NIS in thousands)**	**Percentage of total revenues of the operating segment**	**Sales (NIS in thousands)**	**Percentage of total revenues of the operating segment**
Station operators in the Sonol Chain	352,874	14%	472,906	15%	580,366	17%
Owners of fleets of vehicles fuelling with AVR	945,152	38%	1,259,945	39%	1,296,401	37%
Others	1,189,817	48%	1,463,505	46%	1,637,340	47%
Total	2,487,843	100%	3,196,356	100%	3,514,106	100%

Customer credit

In the direct marketing segment, Sonol provides its customers credit usually ranging between 20 and 100 days, according to the type of product, customer's characteristics, purchase volume, state of securities and the type of engagement therewith.

In the fuelling and retail complexes segment, most private customers pay Sonol in cash or through credit cards. Business customers in this segment, as well as Sonol’s customers in the direct marketing segment, are granted by Sonol credit for periods ranging between 20 to 105 days, depending on the nature of the engagement with each customer. In the past year, Sonol has acted to considerably reduce the credit days allotted to these customers.

The average period of credit to Sonol customers in the years 2013-2015 was approx. 37 days, 38 days and 37 days, respectively. The average amount of credit to customers in the aforesaid years amounted to approx. NIS 945,468 thousand, NIS 1,082,509 thousand and approx. NIS 1,096,016 thousand, respectively.

Policy for returning goods

Sonol allows the return of goods only for the oil products in closed packages, and of products sold in conveniences stores and at gasoline station bays. These returns are not material.

11.7. **Marketing and distribution**

11.7.1. Storing and dispensing oil distillates

Sonol buys the oil distillates for its operations mainly from ORL and from there, they are pumped through pipes belonging to the government owned company Fuel Products Pipeline Ltd. to the various tank farms for storage and dispensing to its customers. Payments made by Sonol for the pumping of oil distillates are based on information given in accordance with the Regulation of Consumer Prices and Services Notice (Infrastructure Tariffs in the Petroleum Industry) (Updating of Prices for Infrastructure Services) 5763-2003 and they are calculated based on the quantities pumped and the distance pumped. Storage fees are calculated based on the quantities stored.

The Jet Fuel marketed to airline companies is pumped from ORL to Ben Gurion Airport where it is stored in facilities owned by the Paz Group. Aircraft fuelling is carried out through underground pipes by two fuelling companies, one wholly owned by Paz and the other co-owned by Dor-Alon, ORL and the American Mercury (note that Paz and Dor-Alon are Sonol's main competitors), but payments for aircraft fuelling services are mostly determined based on information given in accordance with the Regulation of Consumer Prices and Services Notice (Prices for Aircraft Refueling Services at Ben Gurion Airport),5770-2010 and fees and on one component that is ostensibly subject to negotiation between the fuel companies and the fuelling companies.

11.7.2. Supply of oil distillates

The supply of oil distillates to the direct marketing customers and gasoline stations in the Sonol chain is executed mainly by transportation in tanker trucks.

11.7.3. Marketing of oil distillates

In the direct marketing segment, marketing activities are conducted through marketing personnel, branches and distributors, all working to identify customers and reach agreements with them.

As of the Report Date, Sonol has three distribution branches across the country.

Sales to large institutional customers, usually accomplished through national tenders, or purchases made on a nationwide scale, are executed directly by Sonol’s headquarters. Furthermore, in this market, Sonol markets fuels directly to Private Gasoline stations, which then supply those fuels for their own internal use.

In the fuelling and retail complexes segment, the marketing of fuels is conducted through the Public gasoline stations operated by Sonol (as pertains to the types of gasoline stations in the Sonol chain see Section

11.7.5 below). Sales of fuels to owners of fleets of vehicles are usually conducted in accordance with direct agreements between Sonol and the vehicle fleet owners, with varying price and credit conditions according to the size of the transaction and the degree of Sonol's exposure to risk. Discounts granted to the owners of fleets of vehicles are granted by Sonol or its subsidiary companies and in some cases, the owner of a gasoline station bears some of the cost. To recruit more vehicle fleet customers, Sonol has also signed with external recruiters who are paid according to the scale of sales to customers they have brought in.

11.7.4. Marketing of oils

Oils are marketed to direct marketing customers through distributors, agents and Sonol's marketing personnel. Sales to spontaneous fuelling and retail complex customers are made at the gasoline stations.

11.7.5. Gasoline stations in the Sonol Chain

As of the Report Date, Sonol's chain of public gasoline stations (the "**Sonol Chain**") consists of 231 public gasoline stations with nationwide coverage across the country. To the best of the Company's knowledge, based on the best of Sonol's management's knowledge, there are, in total, approx. 1,000 public gasoline stations operating in Israel. Additionally, Sonol sells to Gasoline internal stations.

As of the Report Date, 187 gasoline stations, constituting approx. 81% of the Sonol Chain, are operated by Sonol (through Sprint Motors and operators on its behalf) and the remaining gasoline stations are operated by external operators, with revenues from the stations operated by external operators as aforesaid not being included in Sonol's revenues.

The public gasoline stations in the Sonol Chain can be divided up into three main categories: (a) Gasoline stations owned or on a primary long-term lease from the Israel Land Authority (including protected tenancy) (some 17%), most of which belong to Sonol; (b) Sub-leased or leased gasoline stations (some 64%), in which most of the buildings were erected by Sonol and the gasoline station equipment belongs to Sonol; (c) Gasoline stations at which Sonol has no rights of possession whatsoever and Sonol has contracted with the owners of those gasoline station through short terms agreements for the supply of fuels (some 19%). It is noted that these gasoline stations also display Sonol signs and in most of them, the above ground fuel dispensing equipment belongs to Sonol and is maintained thereby.

11.7.6. Dependence upon a marketing channel

Sonol's activities in the fuelling and retail complexes segment do not depend upon any single marketing body. However, the array of Public gasoline stations in the Sonol Chain is the main marketing channel for the sale of fuels to its customers.

Sonol's activities in the direct marketing segment are materially dependent on Oil Products Pipeline Ltd. ("**OPP**") for the flow of oil products from the refineries to the various terminals. However, OPP is a regulated government corporation and it is obliged to provide that service at fixed rates. Furthermore, there is material dependency upon Paz Aviation Assets Ltd, for the storage and supply of Jet Fuel. However, Paz Aviation Assets Ltd. is a regulated company and is obliged to provide these services at fixed rates.

11.8. **Competition**

The fuelling and retail complexes sector is characterized by relatively high barriers to entry, because of the need for considerable investment in the erection of gasoline stations, the need to comply with regulatory requirements, long processes for the receipt of licenses and a scarcity of suitable land. Therefore, there are only a few significant competitors in this market, but the competition between them is fierce.

In contrast, in the direct marketing segment, the barriers to entry are lower. Therefore, numerous entities are active in this operating segment under conditions of very fierce competition which is characterized, *inter alia*, by the granting of sizeable discounts and long term credit.

According to the Ministry of Energy and Water Resources statistics, as of the Report Date, there are some 35 registered authorized companies in the fuel market, with four of such companies (including Sonol) holding the principal market share in Israel.

In Sonol's estimation, based on the information held thereby as of the Report Date, Sonol's share of the fuels, diesel oil and gasoline alone market (the segments in direct marketing and in the fuelling and retail complexes) in Israel is approx. 19% of total sales (including sales of fuels to the Israel Electricity Corporation and the Palestinian Authority). These estimations are based on data published by the Fuel Administration in reference to total sales of fuel and there is no certainty that the said estimations are correct and accurate.

In Sonol's estimation, based on the information held thereby as of the Report Date, the Company's main competitors in the direct marketing of fuels segment and in the fuelling and retail complexes segment are: The Paz Group, Delek and Dor-Alon. Furthermore, in the fuelling and retail complexes segment, there is also regional competition with the companies: Ten Petroleum Company Ltd. and Fuel and Oil Agents Ltd., which operate public gasoline stations, and with independent gasoline station owners.

In reference to the implications of the purchase of ORA by Paz and the privatization of ORL on Sonol's competitive position, see Section 11.1.6 above.

Sonol is coping with competition in the direct marketing segment by granting discounts to customers, since the main parameters taken into account by customers when choosing a supplier are product cost, payment terms and quality of service.

In the fuelling and retail complexes segment, the location and quality of service are the main parameters in the customer's choice of where to fuel. Accordingly, Sonol is investing both efforts and means in the expansion of the Public Gasoline station chain and its national coverage. In addition, efforts are invested to improve service, build convenience stores, expand services available at gasoline stations and promote sales at gasoline stations.

11.9. **Seasonality**

In the direct marketing segment, consumption of heating diesel and oil during the year is affected by seasonality. Since it is used, among other things, for heating, heating diesel and oil sales are higher in the first and fourth quarters, relative to the second and third quarters, due to the effects of winter. On the other hand, in the fuelling and retail complexes segment, sales of gasoline and diesel oil are higher in the summer months, i.e., in the second and third quarters of the year, both due to higher use of transportation and due to the performance of a higher volume of contractor work, which requires use of fuels. In view of the aforesaid and in view of additional offsetting and balancing effects, in general, there is no indication of comprehensive, significant and consistent seasonality in the direct marketing segment in the sales volume aspect.

11.10. **Production capacity**

Given that Sonol only manufactures oils and supplementary products, reference to production capacity is relevant only in respect of oils and the fuels segment in the Haifa facilities. Oil production capacity is higher than the quantities of oil actually sold by Sonol and it is currently operating at approx. 60% of the maximum production capacity during a single shift. However, should the need arise, it shall be possible to operate it for additional shifts per day.

In the fuels segment, fuel production activity is performed through transmitting the material from ORL and adding additives during transmission at the entrance to the facilities and mixing the material in the storage tanks at the Haifa facilities in order to produce the product Gold 95 and Goldiesel. In the other fuel dispensing sites, Sonol acts to mix the fuel and the diesel oil with the exclusive additives through their injection into the fuelling tankers' filling device, all in order for the fuels to arrive to the stations with the appropriate addition.

The fuel production and storage capacity meets the demands of Sonol's customers in the northern and central regions.

11.11. **Fixed assets and facilities**

11.11.1. Storage and dispensing facilities

Sonol owns manufacturing, storage and dispensing facilities in Haifa in an area extending over some 80 thousand sqm that mainly includes a fuel tank farm with a capacity of some 25 million liters and areas (about 25 thousand sqm) that serve the

oil factory and the central distribution warehouse for oils and products.

11.11.2. Public Gasoline stations

As mentioned above, as of the date of this Report, the Sonol Chain consists of approx. 231 public gasoline stations. A standard gasoline station has a building on an area ranging from 40 sqm to 130 sqm, which includes a convenience store, office, storeroom, washrooms, and also roofed over pump islands, lanes for traffic movement, an area for re-fuelling the underground tanks and parking areas.

Most of the equipment installed at Public gasoline stations in the Sonol Chain is owned by Sonol, including operating equipment at some of the gasoline stations not owned by the Chain.

In the upcoming years, Sonol intends to continue constructing new gasoline stations and investing resources in the upgrade of existing gasoline stations, all subject to the decisions of Sonol's management, the competition in the market and Sonol's situation. It should be noted that all of the stations in the chain underwent a process of re-branding and upgrade in recent years, whereby convenience stores in the Sogood chain were constructed in most of the stations.

This Section includes forward-looking information, which is not under Sonol's control. Such information is uncertain with respect to the future. Sonol's intentions as stated above depend, inter alia, on regulation, internal estimates and work programs. At the end of the day, it is possible that those intentions will not reach fruition and actual results will be materially different from the anticipated, due to many factors, including due to the competitive environment, the need to invest resources in other matters and market conditions as such shall be extant from time to time. Moreover, actual results might be different from the estimates detailed above, due to deviation in one of the factors taking in consideration in those estimations.

11.11.3. Office building in Netanya

Sonol's management and headquarters operate from an office building in Netanya, with an area of approx. 3,000 sqm and additional areas for parking and storage. The building is owned by Sonol and it was established on land that is long-term leased from the Israel Land Administration.

11.11.4. Equipment at the direct marketing segment customers

Sonol customarily loans equipment to direct marketing segment customers, for the purposes of supplying oil distillates and oils

to those customers. Customers are required to return the loaned equipment when the contract terminates.

11.11.5. Vehicles

Sonol owns a fleet of tanker trucks, trucks and commercial vehicles as well as other vehicles leased through long term operational leasing agreements.

11.11.6. Computing Systems

Sonol has an ERP system used for current management. Furthermore, Sonol has developed a unique system for the management and control of gasoline station forecourts, which has been installed at the gasoline stations in the Sonol Chain.

11.11.7. Additional real property

Other than real property which serves Sonol for the ongoing activity thereof, as of December 31, 2015, Sonol holds additional real property as described below:

The Property	The ownership rate	The property area in sqm	Value in the books as of December 31, 2015	Revaluation Profits (losses) attributed to the property in 2015	Notes
Land attached to a fueling station in Netanya	100%	3,000	12,420	1,200	(**)

Notes: In October 2015 a lease agreement was executed between Sonol and Buy and Drive Ltd., according to the agreement, Buy and Drive will operate for a period of 6 months from the execution date for obtaining a business license, once the tenant obtains the license and all of the required permits, the contract will take effect for a period of a year and a half with an extension option. The rent will be in the amount of NIS 10,000 per month and the lot shall serve as a parking lot.

11.12. **Intangible assets**

11.12.1. Sonol and Delek own, in equal parts, a patent registered in Israel in respect of vehicle automatic fuelling systems. A patent has also been registered in the U.S. in respect of this system.

11.12.2. In addition, Sonol has several registered trademarks, including, in Sonol's operating segment, the name: Sonol Israel Ltd., and Sonol's logo, and the name "Sogood" of the convenience stores at the gasoline stations.

The registered trademarks have a great significance because through them, the customers identify the Sonol companies. The company estimates, based on the best knowledge of Sonol, that the aforesaid trademarks have a long life in view of the years-long use of such trademarks and their dominant market status.

The costs that have been invested in recent years in the registration of the trademarks and the development of the patents are immaterial for Sonol.

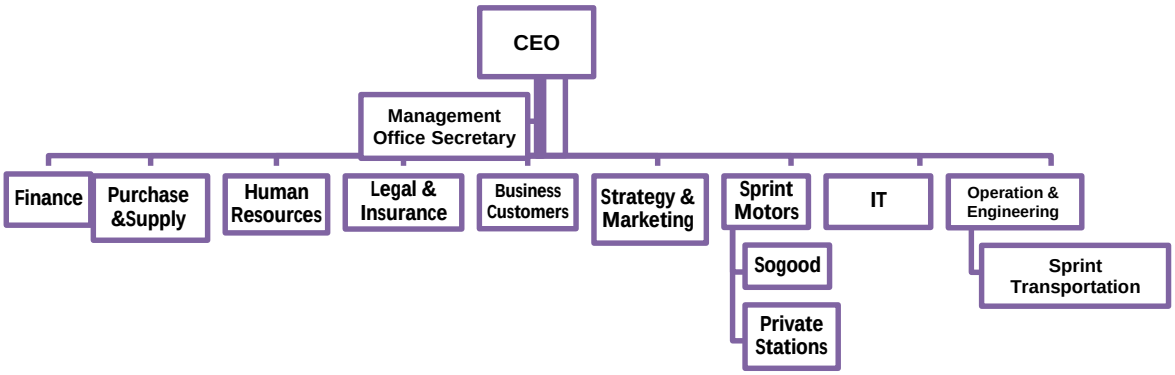
11.12.3. In Sonol's operating segments, the Group has intangible assets including mainly distribution rights, supply rights and station-operation rights. In this context, see also Note 16 to the Financial Statements.

11.13. **Human Capital**

11.13.1. Description of the organizational structure

As of the Report Date, approx. 1,883 employees are employed in the two operating segments, some of whom in part-time positions, such that there are employees employed in approx. 1,317 positions, including 10 officers and senior management employees.

An organizational structure chart



11.13.2. Segmentation of the employees by position

The following table specifies the segmentation of employees of Sonol by position (including employees of agencies controlled by Sonol) as of the Report Date:

Position	Number of Employees Dec. 31, 2015
Officers and senior management employees	10
Management office	1
Legal department and insurance	4
Marketing and sales (including workers of the gasoline stations)	1,612
Finance	49
Computers and technical center	31
Human resources and administration and assets	12
Operation and engineering	33
Supply and purchase	7
Operation	119
Quality and safety control	5
Total employees	1,883

11.13.3. The Corporation's investments in training and instruction

Sonol holds professional training sessions and instructive sessions for its employees, according to the employee's position and the needs thereof. Sonol's employees participate, *inter alia*, in exhibitions, seminars and advanced study programs on various issues that pertain to the Group. Instructive sessions on safety, fire, work at heights and so forth are held in accordance with the duties prescribed by law.

11.13.4. Benefits and the nature of employment agreements

256 of Sonol's employees (excluding workers of the fuelling complexes) are employed under the provisions of collective bargaining agreements. Sonol has an agreement with representatives of the *Histadrut* and the workers' committee with respect to modifications and extension of the collective employment agreements. The agreement addresses streamlining acts, which include, among other things, waivers of various salary benefits that are due to the employees. The effect of the collective bargaining agreement is until December 31, 2021. In addition, during 2010, Sprint Transportation employees (who are employed in Sonol's operating system) commenced employment under an annex that is specific to Sonol's collective bargaining agreement. Furthermore, in November 2010, Sonol entered into an agreement with the *Histadrut* and representatives of the employees of Sprint Motors (who operate the gasoline stations), which governs the terms and conditions of employment of

approx. 582 of the fuelling complexes workers. The agreement applies to employees with tenure of two years or more and fuelling complexes managers. The agreement is effective for a 5-year period. Currently, the effect of the collective bargaining agreement has been extended until March 10, 2021.

There are general collective bargaining agreement that apply to all of the employees of companies of Sonol's operating segments, by virtue of the companies' being members of the Manufacturers Association of Israel, which agreements pertain, *inter alia*, to salary terms, a transition to a 45-hour week in 5 working days, payment of recuperation pay, sick leave, leave of absence, and reimbursement of commuting expenses. As aforesaid, the employees are also subject to specific collective bargaining agreements. Such agreements are updated from time to time in negotiations between the workers' committees and the representatives of the *Histadrut* and the management.

Some of the employees of Sonol's operating sectors, to which the collective bargaining agreements apply, and who are not employed under personal employment agreements, are permanent employees. Some of them, are in an interim 5-year period, at the end of which it will be decided whether they will be granted permanent employee status, and a small part of the employees as aforesaid hold temporary status and their salary is determined according to actual working hours. By virtue of Sonol being a member of the agreement of the Manufacturers Association, all of the employees in these operating sectors are insured under a comprehensive pension insurance policy.

The employees who are subject to the collective bargaining agreement are divided into Generation A employees (about 41 employees), who are entitled to special benefits, and Generation B employees (about 216 employees), whose terms of employment are slightly improved compared with those prescribed by law. An employee who was hired under Generation B status will be defined as a trial employee for a 5-year period, at the end of which he will be defined a permanent employee.

In Sonol's operating sectors, salary discussions are held once a year, and the employees who are eligible for promotion receive salary increments under the collective bargaining agreements.

Approx. 1,448 employees work at the public gasoline stations operated by Sonol, and, in addition to them, 75 headquarter employees and station managers are employed, As aforesaid, about one third of such employees are subject to a collective bargaining agreement, which was signed on November 18, 2010, for a 5-year term, which governs the terms and conditions of their employment. The terms and conditions of employment of

the remaining employees are mostly based on the provisions of the labor statutes. According to the Group's past experience, most of such employees are employees for short periods. The employment costs of some of these employees are affected, *inter alia*, by the level of the minimum wage prescribed by law in Israel.

The terms and conditions of employment of the remaining employees (approx. 104 employees), also including the officers and senior management employees in these operating segments, are governed by personal employment agreements, which include pension coverage or various managers' insurance plans, advanced study fund, leave entitlement, recuperation pay and sick leave, participation in mobile telephone expenses, reimbursement of *per diems*, prior notice period for resignation and dismissal, confidentiality and no-competition. Mostly, the salary of such employees is global and some of them are entitled to a car.

11.13.5. Liabilities due to the termination of employment relations

Sonol's liabilities with respect to the employees of these operating segments due to the termination of employment relations are covered by current payments to insurance companies in respect of managers' insurance policies, pension funds and provident funds, and by a provision in the financial statements, which reflect Sonol's actuary liabilities which are not covered as aforesaid.

11.13.6. Employee compensation plan

As concerns employees under personal contracts, Sonol incentivizes its employees, *inter alia*, based on target achievement, according to the employee's position and rank. The targets are derived from the Group's work plans. The compensation plans are not determined in the personal employment agreements are change from year to year, apart from an annual bonus, which is calculated based on the change in EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization), to which Sonol's incumbent CEO is entitled pursuant to his employment agreement.

Employees who are employed at the public gasoline stations are compensated through sale commissions based on results. This also includes the complex managers whose compensation formula is different than that of the station employees.

11.13.7. Exemption and indemnification of officers

In January 2012, Sonol's board approved, and on February 1, 2012, its general meeting approved the giving of an exemption

and an undertaking for indemnification in advance to Sonol officers, in the indemnification limit that shall not exceed 25% of Sonol's equity as being on the indemnification date.

11.14. **Raw Materials and Suppliers**

11.14.1. The principal raw materials used in the operating segments.

The main raw material from which petroleum products are manufactured is crude oil. There are a number of different types of crude oil and they differ according to the source from which they were produced.

After the splitting up of the refineries, the sale of ORA to Paz and the privatization of ORL, Sonol now purchases oil distillates from both refineries, but even so, ORL remains the main supplier to Sonol.

ORL is a monopoly in the field of petroleum product sales and therefore, it is obliged to sell its products to all the oil companies, including Sonol. For details of the removal of regulation of oil distillates prices and the transition to regulation through reporting, see Section 11.18.9 below.

Sonol also exploits opportunities to purchase petroleum products through independent imports, when such importing is cheaper than purchasing the same product at that time from the refineries and such is subject to operational limitations and Israeli standards.

During 2015, in addition to purchases from ORL and ORA, Sonol imported transport diesel oil from a foreign company.

The oils manufactured by Sonol are comprised of basic oils and additives. Most of the basic oils are manufactured by a basic oil plant in Haifa and the various additives are imported by Sonol from suppliers outside of Israel.

11.14.2. Percentage of purchases by the Granite Group from principal suppliers

In the years 2015, 2014 and 2013, Sonol purchased from ORL, approx. 90%, approx. 95% and approx. 95% respectively, of the total of petroleum products. During those years, approx. 5%, approx. 5% and approx. 5%, out of total of petroleum products were purchased from ORA and in 2015, the import constituted approx. 5% of the total petroleum products purchase. The increase in the volume of purchases from ORA in 2012 mainly stems from an increase in demand for fuel oil, due to disruptions in the supply of natural gas from Egypt and no incoming supply of natural gas from Tamar in April 2013 led to a dramatic

decrease in the consumption of fuel oil, which is clearly observed in the decrease of the percentage of purchase from ORA during 2013. In 2014 and 2015, due to an annual agreement to purchase transport diesel, the scope of purchase from ORL remained approx. 5%.

11.14.3. Manner of engagement with principal suppliers

During the years 2013-2015, Sonol signed agreements with ORL, through which Sonol ordered annual quantities of oil distillates, which Sonol was obliged to purchase during those years, under specific commercial conditions. Under such agreements, in reference to gasoline, operational flexibility/deviation of 15% is allowed in the monthly purchase volume planned one year ahead, and a total annual deviation of 10% is allowed in Sonol's annual purchase volume. ORL is under no obligation to sell any additional quantities to Sonol but previous experience indicates that if ORL is in possession of the suitable stocks, ORL will sell additional quantities to Sonol under different commercial conditions. The engagement with ORA was based on random orders, but as of June 2013, Sonol has established its engagement with ORA for regular monthly purchase, including a mechanism for deviations from orders, and in 2014 an annual purchase agreement for transport diesel was signed. In April 2015, the agreement was renewed for approx. two more years. In 2015, a transport diesel oil purchase from import was carried out, on an annual agreement basis.

The payment conditions by Sonol to ORL and to ORA for the purchase of petroleum products are end-of-month + 15 days, on average. Purchases from the suppliers of other products purchased by Sonol are usually carried out generally under current purchase orders. In import, the payment conditions are cash before the piping.

11.14.4. Dependence on suppliers and the products for which there is dependence on suppliers

Like other fuel companies in Israel, Sonol purchases most of the amounts of oil distillates from ORL, and is therefore dependent on ORL as the major, central supplier of the various petroleum products. In addition, Sonol is dependent on Orpak Systems Ltd. for the supply of automatic vehicle identification and fuelling systems that are manufactured under the patent registered in the name of Sonol and Delek. If Sonol decides to replace those systems, such shall require a period of preparation and investment of high costs.

For details on Sonol's dependence on marketing channels, see: Section 11.7.6 above.

11.14.5. Policy for holding stock of raw materials

Sonol's oil facility holds an inventory of basic finished oils and additives in a quantity of approx. 4 months (finished and basic together).

11.14.6. Policy for holding stock of finished products

Due to the volatility in oil prices, Sonol's policy is to hold in its storage plants an inventory of finished oil products for a period of a number of single days of supply, which facilitate ongoing operations.

According to the Arrangements in the State Economy Law, 5761-2001 and its regulations, Sonol was required, until December 2013, to hold an emergency stock of fuels in separate tanks at determined sites. The stock was guaranteed, in any event, by the State by determining compensation based on the exchange rate of the dollar at the time of sale. The costs and expenses related to the holding of the emergency stock, including storage and insurance were covered by the State. On December 9, 2013, an agreement was signed between the fuel companies and the State, due to which agreement the ownership of the emergency stock was returned to the State, which purchased the stock from the fuel companies. On January 30, 2014, Sonol's duty to insure the aforesaid inventory was terminated as well.

11.14.7. Supplier credit

As aforesaid, Sonol's payment conditions vis-a-vis ORL and ORA, for the purchase of oil distillates, are end-of-month + 15 days, on average.

The excise tax component, levied within the price of the oil distillates which Sonol sells, is transferred thereby pursuant to the law to the Treasury after 10 days of supplying the fuels and before the funds are collected from the customer, which causes high financing costs to Sonol, as the excise component in the price of oil distillates increases.

Other suppliers of Sonol grant it credit for a period of between current and 120 days. The average amount of credit from suppliers in 2015, 2014, and 2013 amounted to approx. NIS 391,700 thousand, NIS 486, 226 thousand and approx.NIS 519,187 thousand, respectively.

11.15. **Working capital**

11.15.1. The corporation's policy and its plans for dealing with working capital

As of December 31, 2015, Sonol has a deficit of working capital in the total amount of approx. NIS (448,588) thousand, as specified below:

Current Assets	**NIS in thousands**
Cash and cash equivalents	**9,873**
Trade accounts receivable	**853,622**
Other receivables	**42,290**
Receivable taxes	**3,938**
Affiliates	**35,364**
Inventory of goods	**115,756**
Total	**1,060,843**
Current Liabilities	
Credit from banks and others	**848,822**
Trade payables	**341,658**
Payables and other current liabilities	**217,291**
Payable taxes	**5,905**
Provisions	**58,470**
Affiliates	**37,285**
Total	**1,509,431**
Working capital	**(448,588)**

The deficit in working capital stems from short-term credit from banks. From time to time, Sonol examines the advisability of converting the short-term loans into long-term loans, in accordance with the changing market conditions.

11.16. **Financing**

Sonol finances its activity mainly from short-term bank credits and long-term loans.

11.16.1. On average, the short-term bank credits (without current maturities) in 2015 were in the amount of approx. NIS 867 million, and in 2014 and 2013 approx. NIS 893 million and approx. NIS 976 million, respectively.

11.16.2. Special terms and financial covenants:

Sonol has an undertaking to bank corporations to the fulfillment of financial covenants of a net financial debt to EBITDA ratio, with certain adjustments as defined in the agreement, which shall

not exceed 3.5 and a net financial debt to CAP ratio that shall not exceed 0.8. As of December 31, 2015, Sonol fulfills the financial covenants.

The average interest rate

Following is a specification of the average interest rate and the effective interest rate on long-term and short-term loans, which were effective in 2015 and are not designated for exclusive use by Sonol, with a distinction between bank and non-bank credit sources:

As of December 31, 2015						
	Long-term			Short-term		
	Amount (NIS in thousands)	Average interest rate	Effective interest rate	Amount (NIS in thousands)	Average interest rate	Effective interest rate
Bank sources - NIS	55,141	4.02%	4.08%	818,699	2.04%	**2.06%**
Non-bank sources - NIS	8,803	2.5%	2.52%	-	-	-
Total financial liabilities	**63,944**			**818,699**	-	-

* As of December 31, 2015, current maturities in the amount of approx. NIS 28,898 thousand.

From time to time, Sonol raises daily on-call loans as well as short-term loans for up to two month- periods, bearing prime-interest-based variable interest. As of this Report Date, the interest rates on the aforesaid loans, prime plus 0.4%.

11.16.3. Limitations applicable to the receipt of credit

For details on the pledges that are imposed on the Company's assets, see Section 11.16.6 below.

11.16.4. Credit facilities

As of the Report Period, Sonol has short-term and long-term credit facilities with commercial banks in the amount of approx. NIS 1,400 million, some of which are secured and some not due to the high credit allocation fees. The used credit balances amounted, as of December 31, 2015, to approx. NIS 920 million. As of December 31, 2015, Sonol's average credit margin from the prime was in the range of 0.44%.

Sonol's assessments on the need for raising financing sources

The Company has excess facilities from commercial banks, *inter alia*, as described above. However, the Company may require additional financing sources, in the event of the occurrence of all or some of the following events: increases in the prices of the oil distillates in the world, increasing of the excise tax on diesel, investments related to the Company's operating segments, and additional events which the Company is unable to foresee as of this Report Date.

The aforesaid information with regard to the need for raising additional financing sources includes forward looking information, regarding the materialization of which there is no certainty, and which is based on Sonol's subjective assessments and estimations as of this Report Date. Actual results may materially differ from the assessments specified above, if one of the factors that were taken into account in these assessments changes, including if the oil prices drop or due to the materialization of any of the risk factors specified in Section 27 of this chapter.

11.16.5. Guaranties provided by Sonol

To secure the fulfillment of its undertakings pursuant to agreements with the customers thereof, Sonol has provided, for the benefit of its customers, bank guaranties in the total amount of NIS 18,800 thousand.

11.16.6. Charges and Guarantees

All of Sonol's assets (including its fixed assets) are subject to a floating charge, in an unlimited amount, and a fixed charge on its uncalled and/or unpaid share capital, its goodwill, securities and pledged instruments, in favor of the banks financing its business. In the context of the floating charge Sonol has undertaken to create additional charges only with the banks' consent and subject to the terms and conditions as specified in the bonds. To Sonol's best knowledge, the pledgee banks have an inter-bank agreement whereby they hold a *pari passu* pledge on Sonol's assets, as aforesaid.

11.17. Environmental risks and ways of management thereof

11.17.1. Main Legal Provisions pertaining to the Protection of the Environment

Sonol's business is subject to the provisions in legislation and regulation concerning environmental protection.

Following are the main legal provisions applicable to Sonol's various operating segments with respect to environmental protection. As specified in this section below, a breach of the environmental regulations may lead to third parties claims, such as: claims by the owners of property adjacent to facilities, customers, municipalities or organizations. In addition, violation of environmental protection laws with respect to environmental protection may lead to criminal sanctions or monetary sanctions.

Provisions referring to the fueling stations

One of the obvious risks arising from the operation of a gasoline station is contamination by fuels and oils, which could cause contamination of the soil and groundwater and health hazards

due to exposure to toxic substances. To prevent those problems, regulations have been determined for the establishment and operation of gasoline stations.

Sonol is subject to various laws pertaining to environmental protection. These laws include a range of provisions and inter alia, provisions referring to prevention of soil pollution, the pollution of ground-water and air pollution.

To prevent pollution of the environment, Sonol must comply with many requirements, the most important of which are listed below:

Maintenance of Cleanliness Law, 5754-1984

This law imposes administrative and criminal liability on anyone disposing of waste, including fuels or dirt into the public domain. In accordance with the interpretation of this law by the Courts, public domain includes gasoline station land and areas adjacent to that land. Breach of the provisions to this law incurs a fine and the law grants the authority to oblige the polluting party to restore the situation to its previous condition, and if the polluting party fails to do so, the authorities may do it themselves and charge the polluting party with double payment of the incurred expenses.

The Hazardous Substances Law, 5753-1993

Sonol's business segments involve handling hazardous substances. According to the law, the storage and supply facilities of these segments and the transportation of fuels are required to obtain a toxic substances permit issued by the authorized inspector in the Ministry of Environmental Protection. As of this Report Date, Sonol has the required toxic substances permits for marketing and commerce, transportation and storage of fuels for Sonol’s supply facility in Haifa.

Environmental Protection Law (The Polluter Pays) (Means of Punishment) (Amendments to Legislation) 5768-2008

The Polluter Pays law that took effect on the July 29, 2008, strengthened the responsibility and punishment mechanisms in 13 environmental laws. The Polluter Pays Law provides that if a person obtained, as a result of an environmental offense, any benefit or profit (including saved costs), that person may be fined in the sum of the benefit and/or profit, in addition to any other sanction. The Polluter Pays law also amended, *inter alia*, the Water Law, such that an offense thereunder was classified as strict liability while aggravating the penalty threshold. In addition, the law grants the Ministry of Environmental Protection the authority to impose financial fines when an offense is committed under the Law for Preventing Sea Pollution from Land-Based Sources, 5748-1988 and/or the Hazardous Substances Law.

The Water Law, 5719-1959

The Water Law imposes responsibility on anyone causing or likely to cause pollution of water sources and allows the State authorities to issue administrative orders and to file indictments against anyone breaching their instructions and the provisions of the law and also to instruct anyone committing a breach to restore the situation to its previous state.

The Water Regulations (Preventing Water Pollution) (Fuel Stations), 5757-1997

The Water Regulations determine different provisions obliging gasoline station operators to take preventative measures in reference to a gamut of issues, both during gasoline station construction and during their operation. Furthermore, the provisions to the Water Law oblige a gasoline station operator to conduct periodic testing of sealing for the tanks and pipes. The provisions also determine the manner in which to deal with the reporting of and the treatment of a polluted site. In the event that an operator learns of a leak into the soil at a volume exceeding one cubic meter, that continues for 24 hours or more, or that the fuel facility is not impermeable – the operator must report thereof to the Commissioner, as defined in the aforesaid regulations. In 2012, one leak event occurred, which was reported to the Ministry of Environmental Protection and handled in full coordination with the Ministry. Consequently to the event, the station's operator (a private operator – Lachover) and Sonol were summoned to a hearing. In 2013, an event of a fuel leak into the ground occurred at the Shimshon Intersection station, was reported as required by law to the Ministry of Environmental Protection, and Sonol treated the soil in accordance with the instructions of the Ministry of Environmental Protection. In the Company's estimation, based on the best knowledge of Sonol's management and as of the Report Date, the cost of conducting the aforementioned testing is not material to Sonol.

The Water Rules (Treatment of Water Pollution from Fuel), 5770-2010

The purpose of these rules is to protect the quality of water sources in Israel from water pollution caused by fuel leaks, which may harm the overall usages of water due to the worsening of the quality thereof, to do all that is required in order to stop water pollution, reinstate the situation to the prior condition thereof and prevent the repetition of the water pollution. The rules impose on anyone under whose ownership, supervision, management and possession is a water pollution cause, provided that a water source was polluted due to fuel leakage, the duty to act for stopping the pollution and reinstating the situation to its prior condition, and the rules also impose a duty to report the leakage. Insofar as the commissioner of the water quality at the

government Authority for Water and Sewage shall determine that a water source had been polluted, the Rules impose a duty to operate according to the provisions of the Rules, until the completion of the plan for stopping the pollution, removal from the water source and prevention of repetition thereof, as specified in the Rules.

Treating soil and water contamination

Sonol has a number of older gasoline stations, which are more likely to suffer from leaks. Those gasoline stations need heightened awareness of the need to find pollution and therefore, Sonol is exposed to higher treatment costs for the older gasoline stations. In October 2007, Sonol and the Ministry of Environmental Protection agreed on a polluted soil rehabilitation program for gasoline stations constructed before January 1, 1998. Rehabilitation is carried out in accordance with a regulated process agreed by the two parties in a gradual manner.

As of the Report Date, in coordination with the Ministry of Environmental Protection and the Water Authority, Sonol is treating approx. 90 gasoline stations, where groundwater and/or soil pollution has been discovered. The overall costs for tending to the gasoline stations in 2015 amounted to approx. NIS 3,000 thousand (compared with an amount of NIS 5,000 thousand in 2014 and an amount of NIS 6,000 thousand in 2013). Sonol continues to tend to the rehabilitation of said stations in coordination with the Ministry of Environmental Protection and the Water Authority. Sonol intends to tend to additional stations in the course of 2016, according to the plan and in coordination with the Ministry of Environmental Protection. In the Company’s opinion, based on the best knowledge of Sonol’s management, in view of the program's progress, due to the intensity of the said activities at such gasoline stations, and due to the fact that additional stations where a contamination is found may be discovered, the amount of investments required for treating the gasoline stations will also continue in the upcoming years and will be of similar scopes. Accordingly, the estimate of costs and investments in the environment in this operating segment (is expected to amount, in 2016 to a total of approx. NIS 3 million, as aforesaid.

The aforesaid with respect to anticipated costs and investments for the rehabilitation of gasoline stations is prospective information as defined in the Securities Law, and is based on the Sonol’s estimations in reliance on the best of Sonol’s management’s knowledge as of the Date of this Report and its experience in this field. It is possible that Sonol shall be required to invest more than the stated sums in practice, pollution may be discovered in additional gasoline stations, or because additional demands may be made by the Ministry of Environmental Protection and/or the Water Authority.

The vast majority of Sonol gasoline stations comply with the standards described above. In reference to the other gasoline stations, Sonol is acting, investing resources and implementing a range of means for compliance with the regulations as aforementioned, as evidenced by the publication of the Ministry of Environmental Protection together with the Technion according to which 100% of the stations for which Sonol is responsible comply with the law in the aspect of the sealing of tanks and pipes.

On January 22, 2015, the Ministry of Environmental Protection released the Ministry's policy principles in the area of prevention of soil contamination and treatment of soil pollutants for comments from the public. In respect thereof, the Energy Institute distributed a comment paper on behalf of the fuel companies. In the event that such document shall be issued in its current state without changes, several risks may emerge, manifesting both in the exposure of managers as well as in greater investments in land rehabilitation in view of the toughening of the professional directives.

Sonol has no insurance policy covering liability which the Group could incur for ongoing pollution of the environment as described above (as differentiated from accidental environmental pollution). Sonol has no way to assess the exposure, to the extent that it exists, to liability imposed on the Group due to ongoing pollution of the environment, even though such exposure could be material. In respect of the Clean Air Law, 5768-2008, see Section 11.17.2 below.

11.17.2. Clean Air Law, 5768-2008 (the "**Clean Air Law**")

The Clean Air Law, which took effect in January 2011, constitutes a framework for the regulation of air quality and the emission of pollutants, principally through a mechanism of emissions permit required from the large industrial plants.

According to the law, the Minister for Environmental Protection shall determine provisions with respect to features, components and quality of types of fuel and fuel additives in order to reduce insofar as possible the emission of pollutants as a result of the consumption of fuel or fuel additives, and to preclude impairment of the effectiveness and functioning of an installation or system intended to reduce the emission of pollutants from an emission source that uses fuel or fuel additives. In addition, the law determines that the production of fuel or fuel additives, the sale thereof, the import or marketing thereof and operating an emission source by means of fuel or the use of fuel and fuel additives shall be performed in accordance with provisions to be determined in Regulations.

In terms of legal liability, the Clean Air Law determines three general levels: civil liability, financial sanctions (of an administrative nature), and criminal liability.

In May 1992, the Clean Air (Air Quality) Regulations, 5752-1992 took effect, defining severe or unreasonable air pollution. In May 2011, the Clean Air (Air Quality Values) Regulations (Provisional Directive), 5771-2011 came into effect, defining various pollution values. The major part of the aforesaid provisional directive regulations is in force until December 31, 2018, and the force of some of the values denoted in the second schedule is until March 1, 2016.

Preventing air pollution

Sonol has installed a vapor recovery system (Stage I) in all of its public gasoline stations, as required under the business licenses' conditions. Such vapor recovery system prevents the emission of gasoline fumes from the underground storage tanks when they are refilled by tanker trucks. It should be noted that the vast majority of the stations are equipped with a vapor recovery system.

In accordance with the instructions published by the Ministry of Environmental Protection in March 2006, all gasoline stations at a distance of less than 40 meters from residential areas must install pumps, which draw in the vapor emitted during fuelling and return that vapor to the gasoline station tanks (Stage II). Further instructions on this issue were released in 2010 as specified below.

These instructions were added as another condition for the business license for some of the gasoline stations.

It should be noted that in the past, the three fuel companies: Paz, Delek and Sonol were required to install a vapor recovery device in their facilities at Shemen Beach in Haifa. Said fuel companies did not meet the timetable that was fixed. Consequently, a fine was imposed on Sonol in an immaterial amount, pursuant to the judgment of the Haifa Magistrates Court of October 18, 2009. In addition, in the framework of such judgment of the Haifa Magistrates Court, the Court ordered each of the above-mentioned companies to install Stage II fuel vapor recovery systems, which, with respect to Sonol, referred to 35 fueling stations owned thereby, within 5 years. Sonol carried out the required modifications.

In May 2010, the Minister of Environmental Protection announced new guidelines (whose provisions were incorporated into some of the business licenses of the fueling stations), according to which all of the fueling stations in Israel were

required to install Stage II fuel vapor recovery systems, and not only fueling stations whose distance from residential areas is less than 40 meters as aforesaid. The timetable fixed for installation of these systems, as updated in January 2012, is as follows: in fueling stations, located at a distance of less than 40 meters from a residential area or from sensitive uses – until March 31, 2012, in gasoline stations located at a distance of 40 to 80 meters from a residential area and from other sensitive uses – until December 31, 2013, and in all of the remaining stations – until December 31, 2015. In 2014, the obligation to complete the installation was postponed to December 31, 2016 instead of 2015. In January 2016, the obligation to complete the installation was once again postponed, to the end of April 2017. According to the aforesaid, during 2012, Sonol completed the installment of the systems, as required and according to the timetables, as aforesaid. As of the Report Date, the Sonol Chain still has a total of 29 stations in which Stage II fuel vapor recovery systems are required to be installed as aforesaid by the end of April 2017. It is emphasized that the quantities pertain solely to stations operated by Sonol.

In December 2012, the Ministry of Environmental Protection released additional instructions in respect of the inspection of vapor recovery systems for fuel and gasoline stations that require licensing under the Business Licensing Law, 5728-1968. Under the said instructions periodic inspections are required in respect of the efficiency and functioning Pension Fund the vapor recovery systems and the mechanisms for reducing the emission of fuel vapor. There is a requirement to perform the inspections in accordance with the instructions by certified laboratories.

In the Company's estimation, based on the best of Sonol management's knowledge, the financial investment required for the installation of the vapor recovery systems (Stage II) at the remaining stations and for the implementation of the instructions of the Minister for Environmental Protection as aforesaid, amounts to a total of approx. NIS 5 million, of which an investment of approx. 3.7 million is expected in 2016. The air permeability tests required for the purpose of maintenance of the gasoline stations in which the Stage II vapor recovery system has been installed, as aforesaid, involves annual maintenance expenses in the amount of hundreds of thousands of NIS. The aforesaid is forward-looking information as defined in the Securities Law, which is uncertain and based on the estimates of Sonol's consultants, based on the information existing as of the Report Date. Actual costs might be significantly different from the Company's estimates as stated above for a variety of reasons, including: regulation on this issue or the adoption of different methods for dealing with the prevention of air pollution.

Regulations pertaining to tanker trucks and facilities

Ministry of Transport regulations determine an obligation to install bottom fuelling systems in specific types of tanks. In coordination with the Ministry of Transport, bottom fuelling systems have been installed in those tanks for which they are required.

Electronic signature – all fuel tankers that supply fuels to public stations are required to be driven on road with an electronic signature system as of January 1, 2014. All of the tankers of Sonol and subcontractors supplying fuels to public stations are fully compliant with this order.

Regulations pertaining to facilities

Sonol has installed a vapor return system at the Haifa fuelling facility. The purpose of this system is to draw in fuel fumes emitted into the air when tanker trucks are filled with fuel. The system began operating during April 2007. Following the non-compliance of Sonol and other fuel companies with the timetable fixed by the Ministry of Environmental Protection for the installation of the vapor recovery system at the companies' facilities in Haifa, a proceeding as specified in this section was opened against Sonol. For further details concerning the number of gasoline stations at which Sonol installed vapor recovery systems, the gasoline stations at which Sonol is expected to install such systems and the related costs, see this section above.

In late-2008, additional conditions were received by Sonol for the business license for the facilities, which require Sonol to conduct a survey of fugitive (non-stack) emissions from its facilities, with the aim of preventing air pollution and neutralizing air pollution in accordance with Ministry of Environmental Protection guidelines through a regulated program approved by the Ministry. Such conditions also require the methodical performance of tanks' testing at the tank farm in the Haifa facilities *inter alia* as per Standards API-653 and the performance of reconditioning as necessary in accordance with the Standards. As of the Report Date, Sonol is in compliance with the timetables, according to the instructions of the Ministry of Environmental Protection acts in full coordination with the Ministry of Environmental Protection.

In November 2015 additional conditions were received for the business license pertaining to a vapor recovery system including a requirement to install a continuous monitoring device and real time computerized reporting of the emissions from this system until December 31, 2015, upon Sonol's request a postponement was obtained for the requirement to install a continuous monitoring device until the completion of the tests by the

Ministry of Environmental Protection, real time computerized reporting is carried out commencing on December 31, 2015.

Business Licensing Regulations (Hazardous Plants), 5753-1993

Pursuant to said regulations, a business which stores, sells, processes or creates hazardous substances (oil distillates are included in this definition) is obligated, as a dangerous plant, to prepare risk scenarios, and it must meet the safety provisions provided in the regulations. As of the Report Date, Sonol is not aware of a material breach of the provisions of the regulations.

11.17.3. Environmental risks with material effect on Sonol

Sonol is exposed to various risks resulting from damage to the environment as a result of Sonol's business as specified below:

Criminal proceedings – Sonol is exposed to criminal proceedings for environmental violations against it and against former officers thereof, *inter alia*, as described above. A conviction for environmental violations may mean a criminal record, imprisonment, heavy penalties especially in light of the trend in environmental legislation of toughening the criminal punishment standard. It should be noted that the Polluter Pays Law amended a considerable part of the environmental protection laws (e.g.: the Water Law, the Prevention of Sea Pollution from Land Sources Law and the Hazardous Substances Law) in a manner that the criminal punishment sections were made stricter.. In addition, it should be noted that most of the environmental laws impose strict responsibility on those responsible for the pollution, and the Clean Air Law and other environmental laws impose criminal liability also on directors.

Civil proceedings – Sonol is exposed to civil tort or other claims for damage to the environment, bodily injuries or property damage (if any), e.g.: claims of property owners bordering on the facilities, authorities or organizations, and even class actions.

Closing of sites and cancellation of business licenses –Sonol is exposed to the risk that a judicial or administrative order will be issued for closure of the site where an environmental pollution is found (if any), pursuant to the provisions of environmental laws. In addition, the Group is exposed to the risk of loss, suspension or conditioning on specific terms of its business license in a station where environmental pollution is found, as well as to risks of administrative financial sanctions.

Employee, customer, supplier and visitor safety – Since the work of Sonol’s employees entails dealing with dangerous and flammable substances, electricity, work at heights, at enclosed spaces etc., there is a risk of damage to their safety.

In addition, Sonol may be exposed in the future to additional environmental risks which might occur as a result of ongoing events during the course of Sonol's ordinary business, which it is not able to predict as of the Report Date.

11.17.4. Material implications of the provisions of the law for Sonol

In Sonol's estimation, the capital investments of Sonol in the year 2016 are expected to amount to approx. NIS 14.2 million, *inter alia*, as a result of the implications thereto of the provisions of the law relating to environmental protection, the fire department requirements and handicap accessibility regulations and the AVR universal law. Nonetheless, in Sonol's estimation, the regulation and laws regarding the quality of the environment are not expected to influence the competitive position of Sonol, due to the fact that the provisions apply to all of the fuel companies.

Sonol's aforesaid estimations are forward-looking information, as defined in the Securities Law, which is uncertain, and based on subjective estimations of Sonol's, as of the Report Date. The actual results might materially differ from Sonol's aforesaid estimations, *inter alia*¸ in light of the existing uncertainty regarding the future requirements of the Ministry of Environmental Protection or other regulatory requirements that are not under the Sonol's control.

Furthermore, the Prevention of Land Pollution and Land Rehabilitation Law is currently in advanced stages of legislation, addressing the entire issue of land treatment in the State of Israel, in the aspects of land pollution, in the sectors of industry, construction etc.

In addition, in October 2015 uniform specification for business licensing regulations were published, taking effect in October 2018, these regulations have implications with respect to all of the stations which have a perpetual business license (approx. 150 stations) and from December 31, 2018 will become a 5- year license – it is necessary to handle the issuance of a new business license for all of those stations.

11.17.5. Material legal or administrative proceedings relating to the environment

Criminal proceedings relating to the environment – In the past, the Ministry of Environmental Protection conducted investigations against Sonol for a small number of incidents of failure to connect the Stage I vapor recovery systems. In addition, see Section 11.7.7 below with respect to an indictment filed by the Ministry of Environmental Protection against Sonol in December 2010. In 2012, Sonol was summoned to several hearings with respect to an event at the Lachover station (in April

2012, there was a fuel leak into the ground at the station in the scope of approx. 14 thousand liters, the responsibility for the operation of the station, the management of fuel balances etc. lies with the station manager), upon receipt of the report from the station, a report was submitted to the Ministry of Environmental Protection. Sonol and the operator were summoned to a hearing at the Ministry of Environmental Protection and the hearing summary stated that it shall be forwarded for investigation by the green police. An investigation as aforesaid has not yet begun but the station is in an advanced rehabilitation proceeding supervised by the Ministry of Environmental Protection. In 2013, Sonol was summoned to a hearing due to non-compliance with the conditions of a business license at the Talal Jaffa station with respect to a vapor recovery system (Stage II) and after the hearing the Green Police commenced the investigation process.

In addition, on November 4, 2014, a hearing was held with regard to the Maccabim station, which station is operated privately and not by Sonol, due to an ostensible argument on polluted land and polluted water in the proximity of the fuelling station. Sonol's position in the hearing was that it is not the operator of the station and that the responsibility for the performance of any and all environmental acts lies with the station operators. On April 13, 2015, the Ministry announced that it would continue with the administrative proceedings against the station operator and insofar as the initiation of enforcement proceedings shall be considered, Sonol will be given another opportunity to express its claims. To date, no notice has been given by the Ministry.

Civil proceedings relating to the environment

In June 2015, a Motion for Class Certification was filed against the Company, and also against 11 companies in the field of chemical, petrochemical and fuel industries, active in the Haifa Bay.

In the motion for certification it was claimed that Sonol, through Sprint, operates tens of public fueling station and serves as a fuel and oil supplier to many plants. In addition, the Company has a fleet for transportation of fuels throughout the country. In addition, Sonol holds a facility for storage and issuance of distillates in Haifa.

It is claimed that as a result of the emission of unauthorized quantities of air pollutants by the defendants, incidence of morbidity and mortality from cancer, cardiovascular diseases and strokes, in the Haifa region has increased. For further details see Note 33 to the financial statements.

11.17.6. Sonol's policy for environmental risk management

Sonol takes many actions and invests considerable resources in order to prevent damage to the environment and prevent environmental risks. In this framework Sonol operates continuously to maintain quality systems, conduct various tests, increase the safety amongst the its employees, its customers, suppliers and third parties and to avoid accidents, *inter alia*, by enforcement of procedures, investment in equipment and devises to prevent soil and air contamination, and for safety and fire protection needs, in performing training, lectures and more.

It should be noted that Sonol acts according to a work plan agreed to by the Ministry of Environmental Protection, which was approved at the end of 2007, for the rehabilitation of soil in the fueling stations. Pursuant thereto, Sonol performs gas and soil surveys in each of the fueling stations that was erected prior to 1998, over a period of 6 years, in accordance with the procedures of the Ministry of Environmental Protection, and in coordination therewith (See Section 11.17.1 above). Upon conclusion of the relevant surveys, Sonol performs a detailed soil rehabilitation plan, insofar as is required, which is submitted to the Ministry of Environmental Protection, for the purpose of receiving its opinion. The rehabilitation work applies to approx. 90 stations, which are treated. It should be noted that gaps have been discovered in compliance with such plan. In this context, in early 2011, a meeting between Sonol and the Minister of Environmental Protection took place, where the current situation and a plan for the future were presented. In the year of the Report, Sonol continued implementing the plan in full coordination with the Ministry of Environmental Protection, and, in Sonol’s estimation, the work plan is progressing as quickly as possible in coordination with the Ministry, as aforementioned. Sonol submits an orderly periodic report to the Ministry of Environmental Protection with respect to the progress of the agreed plan, including an update on delays in the process due to awaiting approvals from the Ministry of Environmental Protection for the advancement of the processes.

In addition, Sonol has prepared an internal enforcement plan regarding environmental subjects which includes coping with the environmental risks to which it is exposed which is fully implemented at Sonol and at the subsidiaries. The enforcement plan focuses on Sonol’s following activities: (1) the activity of transporting the fuels via Sprint Transportation; (2) the activity of retail sale of fuel by fueling stations operated by Sprint Motors; and (3) operation activities in the Company’s facilities in Haifa.

Additionally, a work plan was prepared for 2016, in order to close the gaps in accordance with each of these three activities. The aforesaid plan is performed as planned.

Furthermore, in the year of the Report, Sonol has renewed its certification (including a certification in tests of the Standards Institution of Israel) for ISO 14001, which pertains to ensuring environmental management and protection of the environment. Sonol has also renewed its certification for ISO 9001, which pertains to the management of a high-quality system adapted to the customer's requirements, ISO 9301, which pertains to the development and implementation of quality and safety management systems of a transportation section, ISO 18001, which pertains to safety and hygiene in employment. In 2014, Sonol received the Golden Mark Standard from the Standards Institution of Israel, for compliance with the three standards – quality, safety and environmental protection.

It should be noted that the subject of environmental protection (including the aforesaid plans) is the responsibility of and supervised by Sonol's Chief Operations and Engineering Officer.

11.17.7. Amounts that were awarded regarding legal proceedings and other environmental costs

In December 2010, the Ministry of Environmental Protection filed an indictment against Sonol and against entities who served as officers therein, in respect of several offences against the said Water Regulations: failure to perform sealing tests; failure to provide the results of sealing tests; failure to report fuel leakage, including under aggravated circumstances; failure to treat an unsealed facility; and failure to install a piezometer. These are offences which are claimed to have been committed between 2000 and 2004. On June 25, 2013 following a plea bargain, Sonol was convicted for the aforesaid offences and on September 29, 2013 it was ordered to pay a fine in the amount of NIS 630,000.

Environmental costs borne by Sonol – The environmental costs borne by Sonol in the year 2015 are in the amount of approx. NIS 14.1 million, out of which the amount of approx. NIS 2.6 million was spent by Sonol for the purpose of preventing or reducing damage to the environment, and the amount of approx. NIS 11.5 million was spent by Sonol on an investment in Stage II at the gasoline stations and tests and treatment of the soil at gasoline stations, in coordination with the Ministry of Environmental Protection.

Projected environmental costs – In the Company's estimation, based on the assessments of Sonol's management as of the Date of this Report, the expected substantial environmental costs to

Sonol in 2016 amount to approx. NIS 12.8 million. It should be noted that, of the aforesaid amounts, Sonol is expected to spend approx. NIS 2.5 million on impermeability tests and other tests for the purpose of compliance with the requirements of the law in respect of environmental protection.

In the Company's estimations, based on Sonol's assessments as of the Report Date, the projected costs on the environmental protection issue in each of the years following 2016 will be similar to the projected costs for 2015, subject to the regulation that will apply at that time, and the agreements the Sonol reaches with the Ministry of Environmental Protection. Nonetheless, it is clarified that the projected costs for the years following 2016 may vary in accordance with the expenses actually spent in 2016, such that expenses that are not spent in 2016, if any, may possibly be spent in the years thereafter.

This entire Section includes forward-looking information, as defined in the Securities Law, regarding the Company's estimations as it had been informed by Sonol, with respect to the environmental risks and their consequences, and regarding costs, expenses and expected investments regarding the quality of the environment. The aforesaid information is uncertain and based on information held by Sonol's management as of the Report Date and includes the intentions and subjective assessments of Sonol as of the Report Date. The actual results and costs might materially differ from such estimations, *inter alia*, due to the uncertainty with respect to future requirements of the Ministry of Environmental Protection or other regulatory requirements which are not under Sonol's control, if exposures and material environmental protection problems are uncovered, which Sonol shall not have expected, if one or more of the underlying assumptions that served Sonol in its estimations shall have changed.

11.18. **Limitations and regulation of the corporation's business**

11.18.1. Operating segments subject to specific laws

The business of Sonol in these operating segments is subject to laws, regulations and orders pertaining to, *inter alia*, price control, determining standards of quality, safety, security, storage, packaging, labeling and identifying products, transport, proper business management and environmental protection (See Section 11.17.6 above). Following herein below is a review of the principal legislation.

11.18.2. Fuel Industry (Prohibition on Selling Fuel to Certain Gasoline stations) Law, 5765-2005

Pursuant to this law, it is prohibited to sell fuel to a gasoline station, unless it is included in the list of stations managed by the Fuel Administration. Any gasoline station, which at some time had been given a construction permit, or at some time during the five years preceding the date of the application had been granted a business license, may be included in this list. As of the Report Date, all of the public gasoline stations of the Sonol Chain are on the said list. A person selling or supplying fuel to a station which is not included in the list is committing a criminal offence and is subject to imprisonment or fine. The said law's objective is to cause the shutdown of pirate gasoline stations by cutting-off their supply lines. It should be noted that the law does not apply to internal gasoline stations. To the best of Sonol's knowledge, as the Company has been informed, in view of the enforcement actions which have been taken, the operation of the pirate stations has been reduced.

11.18.3. Fuel Industry Bill, 5772-2011 (the "**Bill**")

On January 9, 2007, the Ministry of Water and Energy Resources published the Bill, which was updated in July 2012. It is aimed at arranging activity in the fuel industry while determining a licensing regime in the fuel industry and appropriate regulation. The proposed control and regulation will including the entire chain of activities in the fuel industry, *inter alia*, to ensure the regular, consistent and reliable supply of fuel and LPG; to ensure a level of good service in all segments of the fuel industry; to safeguard competition, and to promote and create conditions of competition; and to ensure supply during emergencies and look after public welfare.

The principal points of the Bill concern the licensing of the activity of marketing and importing oil distillates (*inter alia*, by Sonol). The Bill further determines restrictions regarding cross holdings in two refineries or cross holdings in a refinery and corporation that markets oil distillates or infrastructure services. As of the Report Release Date, the Bill has not yet been passed.

11.18.4. Vehicle Operation (Engines and Fuel) Law, 5721-1960

Over the years orders were published by virtue of the aforesaid law, which determine that engine-powered vehicles may be operated solely with gasoline and diesel fuel that meet the criteria of the Israel Standards Institute stated in the same standards.

According to Amendment No. 4 to the law that entered into effect on April 10, 2008, there is a duty to perform periodic

inspections of the suitability of the product. The law determines severe penalties to be imposed in respect to oil products that do not meet the standard, including orders for closure, fines and publicity. The provisions of the aforesaid Amendment took effect on October 10, 2008.

According to the Vehicle Operation (Engines and Fuel) Distributing Fuel in Tankers Order, 5768-2007, the Minister of Energy and Water Resources directed that each of the fuel companies is to undertake all reasonable means in order to ensure that each fuel product it supplies to a gasoline station complies with the criteria of standards and the criteria of the Vehicle Operations Law. Furthermore, the fuel company is required to make certain that each fuel product shall be distributed from a tank in a registered distribution installation and that the tank shall have a certificate attesting that the fuel in the tank fulfills the criteria. In addition, the order requires the installation of an electronic stamp on the tankers that transport fuel to gasoline stations within the period of time set forth in the law.

11.18.5. Fuel Industry Promotion of Competition Law, 5754-1994 (the "**Promotion of Competition Law**")

The Promotion of Competition Law determines restrictions on the matter of a fuel company's agreement to set up a gasoline station, in order to promote competition within the fuel industry. Below are the principal points of the law:

A fuel company shall not enter into an agreement to set up a gasoline station or an exclusive agreement to operate a gasoline station, if, within the distances specified herein below from the place where the gasoline station subject of the agreement is situated or shall be set up, another gasoline station is situated, wherein fuel of the same fuel company is sold: a gasoline station on an urban road – 1 km; a gasoline station on another road – 10 km that are measured along the length of the roads. The aforesaid shall apply, *mutatis mutandis*, as well to the operator of a gasoline station. This provision has been extended for a period of an additional 10 years, commencing in July 2008. An "exclusivity agreement" for this purpose is an agreement between the fuel company and an operator of a gasoline station, which grants the fuel company exclusivity regarding the sale of fuel or the supply thereof to gasoline stations, or the right to sell or supply it with more than three quarters of all the fuel sold at the station, provided that the gasoline station is not located on land owned by the fuel company or leased by the fuel company from the Israel Lands Administration or by an individual who is not the operator of the gasoline station. The aforesaid distance restrictions shall not apply to the renewal of an agreement for exclusivity between a fuel company and gasoline station

operator who prior to the application of the aforesaid law were connected in an agreement for the sale of fuel.

According to this law, the officer in charge is authorized to approve the establishment of gasoline stations at more proximate distances than the aforesaid, and after persuaded that the matter will not significantly restrict competition in the same area.

a. Fuel Industry Promotion of Competition Law (Amendment 2) – 5768-2007 - Amendment No. 2 of the Promotion of Competition Law, concerns the duty to display prices at gasoline stations. The law determines the rules for the advertisement of gas prices sold at the stations, the location of the sign, the form of the advertisement, the contents of the advertisement, etc. The law took effect on December 4, 2008.

b. The Fuel Industry Law (Promotion of Competition) (Amendment Number 4 – Automatic Refueling Installation), 5770-2010 – On July 22, 2010, the Knesset passed Amendment No. 4 of the Promotion of Competition Law, pertaining to the imposition on fuel companies of the obligation to install a general automatic fuelling installation system, enabling fuelling with all of the fuel companies, whereby fuelling can be done at any company with which the customer has signed an engagement agreement. In this form, the customer can fuel at any of the companies, without having to replace the fuelling installation in his vehicle.

c. The Fuel Sector (Promotion of Competition)(Rules regarding general automatic fueling devices) Law, 5771-2011 – following Amendment number 4 of the Fuel Sector Law, described above, and for the purpose of implementation thereof, Regulations were published in the official gazette on October 23, 2011 and gradually took effect, after the approval of a standard or the choice of a specification for general automatic fueling devices, as specified in the Regulations. Within the framework of the Regulations, rules were set forth, that prohibit the fuel companies from selling fuel through an automatic fueling device which is not general. Also, the fuel companies, may not refuse, an unreasonable refusal, to engage with a customer in an agreement for the purchase of fuel through a general automatic fueling device. The aforesaid Amendment of the Law, as well as the regulations thereunder, may cause Sonol a substantial financial expense, *inter alia*, from the conversion of its fuelling installations to general fuelling installations, computation adjustments in the gasoline stations, and from the effect of the amendment on market competition,

the nature of which is currently difficult to estimate. At this stage Sonol is unable to quantify the effects that the aforesaid amendment will have on its business results (if and insofar as there will be any). The above information with respect to the costs that Granite may incur, as aforesaid, is forward looking and there is no certainty with respect to the materialization thereof. The results in actual fact may be different from the aforesaid.

On October 20, 2014, a notice was published on the approval of a specification for a general automatic fueling device pursuant to the provisions of the Fuel Sector (Promotion of Competition)(Rules Regarding General Automatic Fueling Devices) Regulations, 5771-2011. This date was changed by the fuel administration and set for December 1, 2014.

According to the provisions of the aforesaid regulations, there is a transition provision whereby:

After the lapse of one year from the date of approval of a specification as aforesaid, a fuel company shall not sell fuel through an automatic fueling device, unless the station in which the fuelling is carried out has at least one fuelling spout for each fuel product, in which fuel may be purchased through a general automatic fueling device (the "**General Fueling Spout**"). The date set forth in the Regulations released in the *Regulations* publication of September 7, 2015 is April 1, 2016. In addition, it was determined that after the lapse of eighteen months until the expiration of the transition period – at least three General Fueling Spouts for each fuel product, or two thirds of the fuelling spouts for each fuel product that exist in the station, and which can be used for fueling through an automatic fueling device – whichever is lower. After the lapse of 3 years from the publication date, all of the provisions of the regulations shall apply.

d. An Inter-ministerial Committee for the Promotion of Competition - According to a government decision, an inter-ministerial committee has been set up to promote competition and infrastructure in the fuel industry, which published a final report of its recommendations in January 2010. In the area of infrastructure development, the aforesaid committee's proposals concerned, *inter alia*, opening up the possibility of importing via the piers of the Israel Electric Corporation at Ashdod and the Haifa port. In the area of competition and regulation in the fuel industry segments, the committee advises, *inter alia*, the supervision of refineries and ensuring that there is no price discrimination among fuel companies, determining

a controlled rate for the leasing of tanks from the infrastructure companies, Petroleum & Energy Infrastructures Ltd. (PEI) and Pi Glilot, and streamlining the process of setting up small public gasoline stations.

11.18.6. State Economy Arrangement Law (Legislative Amendments to Achieve Budgetary Objectives and Economic Policy for the Fiscal Year 2001), 5761-2001 (the "**State Economy Law**")

The State Economy Law determines that a fuel company shall register in the Companies' Registry for fuel companies prior to the commencement of the business thereof and shall continue with conducting the business thereof as long as it is registered in the Registry, managed by the manager. In addition, it has been determined that a fuel company must hold a reserve of fuel which it finances, required for the proper functioning of the civil fuel industry (the "**Civil Reserve**") as well as a reserve required for military purposes and security purposes (the "**Defense Reserve**"). It shall be noted that the State bears the costs of financing and storage of the aforesaid reserves. Furthermore, regulations have been enacted to arrange the duty of fuel companies to hold security reserves and civil reserves (the "**Arrangements Regulations**"). The Arrangements Regulations determine that a fuel company which held, by virtue of the Regulation of Commodities and Services (Arrangements for the Fuel Industry) Order 5748-1988, emergency reserves of diesel or jet fuel, as specified in the Arrangements Regulations, shall continue to hold it as security reserves in accordance with and pursuant to the provisions of the Arrangements Regulations. It should be stated that on December 19, 2013, an agreement was signed between Sonol and the State of Israel, whereby all of the Defense Reserve (the emergency inventory) was sold to the State of Israel and is no longer in Sonol's possession.

11.18.7. The Fuel Excise Law, 5718-1958 (the "**Excise Law**")

The Law determines that it is not possible to produce fuel or engage in the sale of fuel unless a license had been obtained therefor from the Customs and Excise Director. Sonol had been issued such a license and it acts to renew it annually. The excise is imposed on fuel upon its dispensing from the dispensing facilities or upon its release from Customs, in case of import. Therefore, only companies owning a production license may purchase oil products directly from the refineries in Israel or import them. According to the Order of Excise on Fuel (Exemption from the Duty to Receive License and Approval), 5720-1960, an exemption may be obtained from the duty of receiving a license, *inter alia*, for producers and holders of fuel who received the fuel after the excise had been paid therefor, upon the fulfillment of certain conditions. The Excise Order on Fuel (Imposing Excise), 5764-2004, determines specific rates of

excise for each oil product. The Excise Order on Fuel (Imposing Excise) (Amendment no. 3 and Temporary Provision), 5764-2004, and the Excise Order on Fuel (Exemption), 5765-2005, including amendments thereof, according to which the rates of excise on diesel and oil were raised gradually from 2005 till 2009 and were equaled to those imposed on gasoline, entered into effect in January 2005. In 2013 the Fuel Excise Law was amended in order to make the collection of excise on fuel more efficient, increase enforcement and improve deterrence. Within the amendments, it is proposed, *inter alia*, that where fuel is used at the manufacture site, except for use by way of processing the fuel into another type of excise-liable fuel, the excise will be paid upon the use of the fuel by whomever used it. In addition, the law prescribed that no excise will be returned for bad debts.

11.18.8. Products and Services Price Control Law, 5756-1996 and the regulations promulgated thereunder

The Products and Services Price Control Law 5756-1996 (the "**Price Control Law**") enables the minister in charge, *inter alia*, to apply, by way of an order, the provisions of this law to a certain commodity or service, where the grounds determined in the law as justifying price control are fulfilled. By virtue of the law, orders were issued to determine the maximum price for 95-octane gasoline and a method for updating prices and dates of updating was determined as well. As aforesaid, there is a maximum price at public fueling stations for 95 Octane gasoline, according to the Products and Services Price Control Order (Maximum Prices in Gasoline Stations), 5762-2002 (the "**Control Order**").

According to the Control Order, the maximum prices for 95 octane gasoline, at public fueling stations are equal to the aggregate amount of the following components:

(1) average price of 95 octane gasoline, according to 5 publication days on Platts of Cargoes C.I.F Med Basis Genova/Lavera prices, the last of which was two working days before the price update day according to Section 4(b), plus or net of amounts as specified in a document named "Price Structure", distributed by the Fuel Administration to the fuel companies, as amended on Elul 2, 5771 (September 1, 2011) and is available for review at the Fuel Administration; should the price of 95 octane gasoline not be published on Platts as aforesaid, the Director, with the approval of the National Infrastructures Minister, shall determine the maximum price, considering the price of a similar product (the component according to this paragraph, hereinafter – the "**ORL Rate Component**").

(2) Excise under the Fuel Excise Law, 5718-1958 ("**Excise**") and any other tax imposed under law (the "**Tax Component**");

(3) Gasoline marketing expenses basket recognized under this Order for self-service sale of gasoline at a fueling station of a fuel company (the "**Expenses Basket**");

(4) Value Added Tax, in its meaning in the Value Added Tax Law, 5736-1975 ("**VAT Component**").

In addition, for 95 octane gasoline sold through full service, namely, via a pump designated for fueling by the fueling station workers, the following components may be charged, in addition to the maximum price:

a. additional payment for the full service in an amount set forth in the Control Order, hereinafter: "**Full Service Supplement**". The Full Service Supplement will not be charged from a vehicle bearing a disabled person parking card.

b. Payment for the sale of gasoline in fueling stations between 20:00 and 06:00 on the next day, and on any rest day, from the beginning thereof until the next day at 06:00; for this purpose, "Rest Days" – in their meaning in Section 18A(a) of the Administration of Rule and Justice Ordinance, 5708-1948, and the Independence Day, in the meaning thereof in the Independence Day Law, 5709-1949.

According to the Control Order, the gasoline prices components and the Full Service Supplement will be updated as follows:

(1) ORL Rate Component – on the first working day of every month;

(2) The Tax and VAT Components – as updated from time to time according to law;

(3) The Expenses Basket Component and the Full Service Supplement – the Expenses Basket Component will be linked to the Consumer Price Index changes every six months (April and October) whereby from October 2013, every year, a streamlining coefficient at an annual rate of 1% is deducted. The Full Service fueling Supplement will be linked to the change in the average wage index for a hired employee position in selected economic sectors published by the Central Bureau of Statistics.

It is noted that within the framework of the Trajtenberg Committee Conclusions (see Section 11.18.15 below) it was recommended to expedite the proceeding of imposing control over diesel oil for transport. In 2011, Sonol was requested by the Ministry of Energy and Water and the Ministry of Finance joint price committee, pursuant to the Products and Services Price Control Law, 5756-1996 to provide its opinion regarding the committee's intention to impose control on the marketing margin due to the sale of diesel for transport, and it had provided its opinion, as requested. July 31, 2012 saw the publication in the Official Publications (*Reshumot*) of the Products and Services Price Control Order (Application of the Law on Diesel Oil for Transportation and Determination of the Control Level), 5772-2012 with respect to diesel oil for transportation. The level of control was prescribed under Section 7 of the Law. The provisions of the Order have no effect on Sonol's financial results.

11.18.9. Control of Prices of Products and Services Order (Fuel Sector Infrastructure Tariffs) 5774-2014

In May 2014, after deliberations of several months and hearing the fuel companies, an update was published to the Control Order for Prices of Infrastructures in Israel. On the one hand, the order reduced the costs of piping from the north to the south and the leakage costs for gasoline and diesel products. Pursuant to the fuel purchase agreements of Sonol with ORL, it is ORL which gains the most from the reduction. On the other hand, the order increased and determined new tariffs for various infrastructure activities, from storage to piping in the south to payment for use of PEI tanks beyond the stored quantity, i.e. – "payment for the empty air". The provisions of the Order have no effect on Sonol's financial results.

11.18.10. ORL Price Control

As aforesaid, to the best knowledge of Sonol, ORL was recognized as a monopoly in sale of oil products segment in Israel. Accordingly, in the past and until the conclusion of 2006, prices of oil distillates sold by ORL were determined pursuant to the Price Stability of Commodities and Services Order (Temporary Order) (Maximum Prices for Oil Products at the ORL Gates) 5753-1992, which determined maximum prices for a variety of oil distillates at the ORL Gates (save for 98-octane gasoline and low-sulphur crude oil). Commencing in January 2007, following the splitting of ORL, changes occurred concerning price control of oil distillates sold by ORL and the control over ORL Gates was removed.

11.18.11. Products and Services Price Control Order (Maximum Prices for Oil Products at the ORL Gates) (Amendment No. 2), 5766-2006 (the "**Control Order**")

In accordance with the Control Order, commencing on January 1, 2007, regulation by way of the determination of prices was removed and in place thereof control is performed by way of reports of the refineries on profitability and prices.

According to the conditions of the order, maximum price at the rate of the refinery shall again apply in the event that the refinery fails to fulfill the duties of reporting, imposed thereon in relation to the quantities of oil products and prices thereof, or in the event that the controller determines that for 6 consecutive months one refinery sold more than 50% of the amount of consumption on the local market and less than 15% was sold by another refinery.

11.18.12. Government Corporations Order (Declaration on Essential Interests of the State in Oil Refineries Ltd.), 5767-2007 (the "**Interests Order**")

In February 2007, as part of the privatizing process of ORL, the Interests Order which specifies essential interests of the State in connection with ORL, was published. *Inter alia*, the Essential Interests Order regulates the activity of the privatized ORL in the area of marketing oil distillates at gasoline stations by placing certain limitations, including the limitations to be specified herein below.

ORL may hold rights in gasoline stations amounting up to 20% of all gasoline stations in the country. ORL will be permitted to acquire from one entity during the course of three years rights in gasoline stations amounting up to 7.5% of all gasoline stations in Israel. If ORL holds the rights in gasoline stations that constitute 10% or more of all gasoline stations in Israel, it may not enter into an arrangement to receive rights in a gasoline station that constitutes a proximate station, unless it is approved by the Antitrust Commissioner. In addition, the order imposes additional restrictions on ORL's activity concerning a restriction on the acquisition of control or 5% or more of the means of control of a corporation which engages in the marketing of distillates or a port infrastructure for the import or export of oil products in Israel. A parallel order regulates the activity of ORA.

11.18.13. The Minimum Wage Law, 5747-1987

In January 2015, a law was passed for increasing the minimum wage according to the following outline:

1 On April 1, 2015, the minimum wage was raised from NIS 4,300 to NIS 4,650 per month, on July 1, 2016, the minimum

wage will be NIS 4,825 per month, on January 1, 2017 the minimum wage will be raised to NIS 5,000. In addition, commencing from April 2016 the monthly minimum wage will not be lower than 47.5% of the average wage in the market, for every relevant year.

The Company's management estimates, based on past experience, that the Company is able to reduce the effect of the increase in the minimum wage by streamlining actions in the cost structure of the Company. An increase of the minimum wage could, as aforesaid, cause an increase in the salary costs of approx. NIS 3 million in 2016 compared with 2015. The Company's management estimates, based on past experience, that the Company is able to reduce the effect of the increase in the minimum wage by streamlining actions in the cost structure of the Company.

11.18.14. Various Bills

As of the Report Release Date, several bills are pending, each of which, if passed, will adversely affect the profitability of Sonol, and they are: the Encouragement of the Use of Vehicles Friendly to the Environment (Legislative Amendments) Bill 5766-2006 – the aforesaid bill proposes to amend the Purchase Tax Law (Goods and Services), 5712-1952, such that from the tax year 2008, the rate of tax on an environmentally friendly vehicle in which an LPG system or hybrid technology was installed will not exceed the rate of 10% of its price. The bill has not yet been passed but on August 1, 2009, the Minister of Finance announced the green taxation reform, which includes several changes in the taxation of the vehicle sector, including the imposition of purchase tax on new vehicles first registered on January 1, 2010, according to the vehicle's pollution level, with 15 pollution levels set forth. Under this method, purchase tax benefits are granted according to the level of the vehicle's pollutant emissions and the "green grade" of each model.; the Planning and Construction (Amendment – Inspection of the Presence of Pollutants in the Ground, Air and Water Sources) Bill 5770-2009 – the bill proposes to amend the Planning and Construction Law, 5725-1965, such that it will not be possible to approve a plan on land which is suspected to be polluted, until an inspection of the presence of pollutants in the ground, air and water will be performed, and if pollution will be found, it will be required to remove the same. If the bill will be passed, an inspection of the presence of pollutants will be required before the re-designation of land which served as a gasoline station; the Business Licensing (Amendment – Imposing a Fine in respect of Violations of the Environmental Protection Regulations) Bill 5767-2007 – the bill proposes to increase penalization due to environmental infractions; the Reduction of Greenhouse Gases

Bill 5768-2008 – according to the bill, the State of Israel must decrease the greenhouse gas emissions by 25% by 2020 and by a further 25% by 2050, through a national plan. The bill may have a material effect on Sonol's business, since the main source of greenhouse gas emissions is the burning of oil products; the Prevention of Soil Contamination and Rehabilitation of Contaminated Soils Bill 5771-2011 – the bill imposes a rehabilitation duty in respect of any land on which industrial activity took place. In the event that the land will not be rehabilitated, it will not be possible to transfer ownership thereof and/or renew a business license. In August 2011, the bill was approved in first reading. This bill, if approved, may have a significant impact on Sonol; the Products and Services Price Control (Amendment – Control over the Price of Diesel Oil for Transportation) Bill, 5771-2011 – the bill proposes to amend the law, such that the minister in charge and the Minister of Finance may, with the government's approval, reinstate control over diesel oil for transportation, such that the maximum price permitted therefor will be determined in an order. On July 17, 2011, the Ministers' Committee for Legislative Matters decided to object to the said bill. On November 28, 2011, a similar bill was proposed – the Products and Services Price Control (Amendment – Control over Diesel Oil Prices), 5772-2011, within which it is proposed that the ministers will set a maximum price for diesel oil for transportation in an order; Operation of a Vehicle (Engines and Fuel) (Amendment No. 5) Bill, 5772-2012 – on January 11, 2012, a bill for the amendment of the Operation of a Vehicle Law (Engines and Fuel) was presented before the Knesset, wherein it is proposed that the total amount of samples taken at any gasoline station, in a year, will be threefold the number of the common types of fuel sold at the station. This differs from the current situation, wherein there is a duty, at any station, to take six samples of fuel, regardless of the types of fuel sold thereat. It is further proposed to authorize the Minister of National Infrastructures, with the approval of the Knesset's Finance Committee, to determine a different amount than the one stated above; the Import of Vehicles with Flexible Fuel Additive Bill, 5772-2012 - on March 19, 2012, a preliminary bill was presented before the Knesset, which aims at increasing the supply of vehicles powered by fuels which are not exclusively based on gasoline. The bill proposes a gradual model, within which vehicle importers would be required to import vehicles that are powered by various types of fuel other than gasoline. In the Company's estimation, the approval of the bill might affect the fuel industry in general and Sonol in particular; Preferred jobs – in October 2014, the government of Israel approved the State budget and the Economic Plan Law for 2015. One of the economic plan clauses stipulates that the fuel stations sector will be removed from the sectors recognized as preferred jobs for released soldiers, but, in the end, the fuel sector was not removed

from the list of sectors recognized as preferred jobs. As of the Report Date, there is a bill on the issue of cancelling preferred jobs at fuel stations and directing the budgets towards preferred jobs in the education segment, however, this bill has not been forwarded to the Ministers Committee for Legislation yet. Sonol cannot estimate at this stage, whether such bill will be indeed approved by the Knesset and what will its effect be, if approved, on the fueling stations' workforce, on the fueling stations' business and on Sonol.

We shall indicate that some of the bills are in their initial stages and to the best of Sonol's knowledge most of them have not yet been brought up for authorization at the Knesset and it is entirely uncertain whether the bills will be passed. In addition, it is entirely uncertain that, if and when the bills are passed, the conditions and provisions to be prescribed in the laws to be passed in accordance therewith shall be similar to the current bills pending. Accordingly, at this point, Sonol is unable to evaluate whether and how the bills (if passed) will affect the fuel industry in general and Sonol in particular, except as aforesaid with respect to the bill concerning the Prevention of Soil Contamination and the Rehabilitation of Contaminated Soils, 5771-2011 and the Import of Vehicles with Flexible Fuel Additive Bill, 5772-2012.

11.18.15. <u>The Committee for Examination of an Economic Social Change Headed by Prof. Trajtenberg</u>

In July and August 2011, a broad public protest developed across the country, expressed by pressuring the decision makers to act for the reduction of living costs in general and housing prices in particular, following which a committee, headed by Prof. Trajtenberg (the "**Trajtenberg Committee**" or the "**Committee**"), was appointed, which examined various ways to alleviate the cost of living. In the report published thereby, the committee included several recommendations with respect to the gasoline stations, the principles of which are described below:

(1) a recommendation to initiate a legislative process to immediately release several gasoline stations from obligation to fuel companies, including Sonol;

(2) Giving preference to independent entities, which are not one of the four major fuel companies, in planning processes, and instructing the Israeli Land Administration and the planning institutions to plan lands for 40 new gasoline stations within two years and market them to independent entities immediately upon the finalization of planning – this decision has not yet been implemented by the Government in 2012; In July 2012, the Government reported that a legislative memorandum on this issue was being prepared. As of the Report Date, a legislative

memorandum on the issue has not yet been released.

(3) Expediting the implementation of regulations for a universal automatic vehicle identification and fuelling system, which will enable fuelling at all of the gasoline stations. It should be noted that the Fuel Industry Regulations (Promotion of Competition) (Rules in respect of General Automatic Fuelling Devices), 5771-2011, were approved and released in the Official Publications (*Reshumot*) on October 23, 2011. In accordance with the aforesaid regulations, on December 30, 2012, the Ministry of Energy and Water Resources published a competitive equal-opportunity process for electing a general automatic fuelling device and its supply. On June 26, 2013, the Standards Institution of Israel released IS 6200 Parts 1, 2, 3 – a General Automatic Fuelling Device. At the same time, committees of the Institution discussed drafts for revision of this standard, and on July 4, 2013, these drafts were released for the public's review. On August 27, 2013 the Fuel Administration announced the indefinite postponement of the publication of the tender for the determination of a device. The Director of the Fuel and Gas Administration also announced his intention to soon release a document announcing a mandatory specification for a general automatic fuelling device, under his authority according to the Fuel Industry Regulations (Promotion of Competition) (Rules in respect of General Automatic Fuelling Devices), 5771-2011. The implication of this process, is the creation of a uniform AVR infrastructure. This infrastructure will allow the customer's immediate transfer between companies and engagement with several companies at the same time, based on his free choice. At the end of the first year following the finalization of the process and the announcement of the winner, who will supply the technical specification for a general (universal) automatic fuelling device, any gasoline station which has an automatic system will be required to set-up at least one post with a universal AVR. After three years, all gasoline stations' posts will be subject to new standardization. See Section 11.18.5(c) with regard to a notice that was issued on December 1, 2014. Sonol is still unable to estimate the effect of the universal AVR on the results thereof.

(4) To impose immediate control over the prices of diesel oil for transportation, at the refineries' gates and at the gasoline stations. This recommendation was not adopted by the Government in 2012. In July 2012, control was imposed (at price reporting level) on diesel oil for transportation. For further details, see Section 11.18.8 above.

(5) To revoke the increases of excise on fuels, which were determined for 2012. However, in practice, in the years 2012 and 2013, there were increases in excise tax rates.

(6) To assign the Ministry of Energy and Water Resources with mapping out geographical areas where there is presence of the four major companies, with an emphasis on city centers, and in light of the level of competition, to determine a mechanism compelling the sale of stations to small companies of a lesser market share in order to encourage competition. This decision has not yet been implemented by the Government.

11.18.16. Transport Licenses

Within the framework of Sonol's operating segments, Sonol transports oil distillates considered to be hazardous substances. For the purpose of such business, Sonol holds, *inter alia*, a transporter license from the Ministry of Transport according to the Transportation Services Law and a toxins permit for transportation of hazardous substances in accordance with the Hazardous Substances Law.

11.18.17. Essential Enterprise

Sonol holds an essential enterprise's authorization, obtained from the Ministry of Industry, Trade and Employment. In accordance with the authorization, as aforesaid, in an emergency, fleets of vehicles and the supply and fuelling facilities thereof, are mobilized in favor of the economy in a time of emergency to enable the regular supply of fuels.

11.18.18. The Weights and Measures Ordinance

The Weights and Measures Ordinance 1947 prescribes a variety of standards for weights and measures. By virtue of this Ordinance, regulations were enacted to determine, *inter alia*, the manner of inspection of liquid fuel pumps and the calibration thereof and the duty to mark a calibration stamp on the pumps following the inspection thereof. In addition, the Regulations determine a variety of provisions with respect to instruments for the measurement of oil distillates carried on tanks as well as marking a calibration stamp on the same instruments. It is prohibited to use the instruments, as aforesaid, unless these have been calibrated and stamped in accordance with the Regulations.

11.18.19. Transition to fuelling with gas

Pursuant to an amendment to National Outline Plan 18 it is possible to obtain a permit for gasoline stations with LPG, on condition that certain conditions are fulfilled and authorization of the Director is obtained. In Sonol’s estimation, fuelling vehicles with gas is expected to be in its initial stages and Sonol does not expect it to materially affect, if at all, its revenues and/or profitability in the near future.

This section includes forward-looking information as defined in the Securities Law, which relies on internal assessments of Sonol based on the best knowledge of Sonol. It is noted that it is entirely uncertain whether in the near future the transition to fuelling with gas will commence, but even if it does commence, it will only be solely in its initial stages. Moreover, it is possible that Sonol's assessments, with respect to the projected costs to be required for the adaptation of its gasoline stations to such a transition, will be found to be incorrect.

11.18.20. Business licenses

The sites wherein Sonol operates, including the fuels' filling installations and gasoline stations, require a business license pursuant to the Business Licensing Order (Businesses Requiring Licensing) 5773-2013, issued by virtue of the Business Licensing Law, 5728-1968. As of the Report Date, the majority of Sonol's business licenses are in effect or it is handling the renewal of their validity. It should be noted that in most cases wherein Sonol replaces the operator of a station with another operator, even if the new operator is a company under its full ownership, it is necessary to obtain a new business license, even if no change has occurred in the same station. Obtaining a new business license involves, *inter alia*, obtaining authorizations from the various authorities, including the Ministry of Environmental Protection, which generally stipulates its authorization on the performance of a comprehensive inspection of the state of the station, conducting surveys of the soil and making a variety of demands to upgrade the station. The aforesaid is true also with respect to new gasoline stations which are required to reapply and obtain again all the authorizations of the authorities that permitted the establishment thereof. Sonol takes steps to reduce, insofar as possible, the duration of time to obtain a new business license. Principally due to the aforesaid, with respect to some of the sites there are still no business licenses and Sonol is acting to obtain such.

The validity of some of the business licenses given to the fuel stations was perpetual, but in view of legislation amendments recently carried out to the Business Licensing Law, the validity of the licenses for fuel stations will be reduced to limited periods of 5 years, and they will have to be renewed every time upon the expiration of the license term. Sonol is reviewing the implications of these amendments and is preparing for implementation thereof.

Operating the convenience stores of Sonol within the fuelling complexes requires obtaining a business license. Most of the convenience stores have a valid business license or Sonol is taking steps to obtain such.

The Business Licensing Law prescribes criminal sanctions vis-à-vis an individual and/or a corporation which conduct a business requiring a license without a business license. In addition, the court may order the cessation of a business conducting business without a license, as aforesaid.

11.18.21. Antitrust

a. The Restrictive Trade Practices Law (Amendment No. 12), 5771-2011 – The said amendment came into force in July 2011. Pursuant to the amendment, the General Director may define a concentration group and instruct all or some of its members to take certain measures to avoid damage or a concern of substantial damage to the public or to competition or measures to enhance competition or create the conditions for the significant enhancement of competition.

b. The Restrictive Trade Practices Law (Amendment No. 13), 5772-2012 – This amendment entered into effect in May 2012. The amendment is intended to add a mechanism to the Restrictive Trade Practices Law, 5748-1988, for the imposition of financial sanctions. The mechanism for imposition of financial sanctions constitutes a supplemental instrument for the enforcement mechanisms in such law, which allows an effective, quick, deterring and efficient response that leads to a reduction of the prevalence of the violation of the duties, in respect of which it may be imposed.

c. Internal enforcement program – On November 7, 2012, Sonol's board of directors approved an internal enforcement program in the area of antitrust law, the assimilation of which program at Sonol has commenced.

d. Exclusivity arrangements for the supply or purchase of fuels at gasoline stations – In 1993 the Commissioner of Israel Antitrust Authority (the "**Commissioner**") published a decision according to the Restrictive Trade Practices Law, 5748-1988 (the "**Law**"), on the matter of a set of agreements between the fuel companies and the operators of the gasoline stations of Paz, Delek and Sonol. In this decision it was determined that these agreements, which comprise an undertaking of the station operators to purchase products exclusively from the fuel companies or an undertaking for the exclusive supply of such products, constitute a Restrictive Arrangement as defined in the Law.

In 1995 the Commissioner reached an agreed upon arrangement with Sonol and Paz pertaining to new rules

of conduct of the companies. According to the arrangement, the application of the Commissioner's original decision was limited so that it would apply solely to gasoline stations with which the fuel companies have no "customary lease agreement" (i.e., a lease agreement where the lease fees paid or other consideration given according thereto are real. Real lease fees are deemed as lease fees that are similar to the lease fees which the Israel Lands Administration collects in respect of a gasoline station with a similar extent of sales). Paz and Sonol undertook on their parts that they would release the stations that are not connected with them in a standard lease agreement from the duty of exclusivity. To the best understanding of Sonol, Sonol has fulfilled its undertaking, as aforesaid.

As part of the arrangement, conditions were determined, *inter alia*, for the future engagement of the Paz and Sonol companies with gasoline stations in exclusivity agreements. It was further determined in the arrangement that the Commissioner will recommend the approval of the agreements for the following periods: in a gasoline station set up by Sonol, the period of agreement will be up to14 years; in a gasoline station wherein Sonol performed a complete renovation, in the amount of approx. 60% of the establishment of the station, the period of the agreement will be up to 7 years; for an agreement to supply an existing gasoline station, the period of the agreement will be up to 3 years. It was further determined that the companies can also request individual authorization for longer periods from the Tribunal. According to the arrangement, the companies were restricted so that a company may enter into an exclusivity agreement with a gasoline station that was released from such agreement with it within the context of the arrangement for a period solely of one year. The arrangement was authorized by the Antitrust Tribunal. According to a public notice of the Commissioner, at a later stage Delek reached an arrangement similar to the arrangement of Paz and Sonol, save for certain differences that are irrelevant to Sonol.

It should be noted that at a later stage the Antitrust Tribunal determined, concerning the matter that Delek raised before the court, that the longer periods mentioned above, of 14 years and 7 years, should be curtailed to solely 6 years.

As a result of the publication of the arrangement, several proceedings were initiated in various courts pertaining to

the set of agreements between the fuel companies and operators of gasoline stations, including against Sonol, with several operators contending that they ought to be released from the exclusivity agreements. To date, a principle decision has yet to be given by the Supreme Court pertaining to these proceedings. On this issue see Note 33 to the Financial Statements.

e. Agreements for lease of stations – In June 2001, the Commissioner contacted the fuel companies, Paz, Sonol and Delek and informed them that he is examining the possibility that the lease agreements between the fuel companies and the gasoline stations constitute "a merger" as defined in the Law. As aforesaid, as regards the Commissioner's approach, the rationale that stood at the base of his examination is that the lease or operating agreements between the fuel companies and the gasoline stations grant the fuel companies rights to the effect that their activities at the gasoline stations are subject to the decision-making system of the fuel company, which, according to the Commissioner's approach, amounts to a merger. Accordingly, the Commissioner advised the fuel companies to agree with him on a text for an agreed order to the effect that any rental agreement of a gasoline station, for a period that exceeds 7 years, shall be deemed a merger that requires the authorization of the Commissioner. Sonol was of the opinion that each rental agreement ought to be examined in substance and if it comprises a type of merger, in Sonol's opinion, then Sonol will act in accordance with the provisions of the Law as regards a merger. Delek accepted the Commissioner's proposal and agreed with him on a text of an agreed order, as aforesaid, that entered into effect in November 2003. We would clarify that the aforesaid accords do not apply to Sonol.

f. Review according to Section 44 of the Restrictive Trade Practices Law:

On June 17, 2015, the Commissioner required that the Company provide him with detailed information regarding its fueling stations within a review of the competition level in the fuel sector. To the best of the Company's knowledge, similar requirements were forwarded to the other fuel companies. The Company provided the Commissioner with the information and with the information supplements and clarifications that it was required to provide.

11.18.22. An exemption from a restrictive arrangement

Joint aviation policy:

On December 24, 2013 an exemption from approval of a restrictive arrangement under Section 14 of the Restrictive Trade Practices Law was granted by the Antitrust Commissioner to the arrangement between Dor Alon, Delek and Sonol, with respect to joint negotiations for the purchase of a joint aviation insurance policy. The exemption is valid until December 24, 2016. In the end of the day the companies did not use this exemption and did not purchase a joint policy.

Joint import of distillates from overseas – Sonol and Delek:

See Section 11.19.3 below for this matter.

11.18.23. Recognized supplier of the Ministry of Defense

In order to supply Sonol's products to the Ministry of Defense, Sonol is required to meet certain criteria, including security conditions, so that following confirmation of the fulfillment thereof, Sonol received a certification that it is a recognized supplier of the Ministry of Defense. In accordance with such certification, Sonol may supply its products to the Ministry of Defense. It should be noted that such certification is permanent and unlimited in time.

11.18.24. Standards and quality control

Sonol markets its products in accordance with a variety of standards relevant to the oil distillates operating segments that are published from time to time by virtue of the Standards Law, 5713-1953. The standards specify technical requirements that apply to products, including as regards product specifications, manners of production, storage, supply, operation, packaging, etc.

Sonol is certified for quality standard ISO 9001-2008 which concerns quality assurance for production-supporting management processes. Sonol is also certified for Standard Mark 18001, which concerns safety management quality assurance. In 2011, Sonol was certified for Standard Mark ISO 14001, which concerns assurance of environmental management and optimal environmental protection and was further certified for Standard ISO-9301 which is a standard for management of a transportation company. Sonol has a system of quality control, quality security and management according to the requirements of the standard. Every six months the Standards Institute performs a test of the compliance with the procedures and regulations.

11.18.25. Safety and security provisions

Sonol acts in accordance with strict safety rules pursuant to directives of the Ministry of Labor, since due to the involvement in activities requiring hazardous substances, a great deal attention and precision with respect to safety is necessary. Sonol's internal certified safety officer maintains contact with external entities, such as the armed and the rescue forces, and safety drills are occasionally take place. Sonol's internal safety trustees are responsible for the enforcement of safety procedures in its facilities.

Furthermore, due to dealing with hazardous substances, Sonol is required to comply with strict security rules and is considered to be a body "directed by the Police and the General Security Services." Sonol maintains a safety committee as per the requirements of the Safety at Work Law and a methodic work plan is managed in this area.

11.18.26. Environmental protection

Regarding legislation on the subject of environmental protection, see Section 11.17.1 above.

Subject to the aforesaid, to the best of Sonol's knowledge, it meets the requirements of the laws and regulations described above.

11.19. **Material agreements**

11.19.1. The agreements of Sonol in these operating segments are made in the ordinary course of business and on market conditions. Among these agreements the agreement with ORL for the supply of oil products (fuels), as specified in Section 11.14.3 above can be listed as well as the agreements pertaining to the lease, operation and supply of fuels in the various Sonol gasoline stations, as specified in Section 11.7.5 above.

11.19.2. In August 1990, an agreement was signed, which was amended in 2005, between Sonol and Delek of the first part, Orpak Systems Limited and Rapak Electronics Ltd. ("**Rapak**") of the second part, and an additional party. According to the agreement, as aforesaid, Delek and Sonol purchased jointly and in equal parts the rights of production, development, marketing, maintenance and service of the computerized automated fueling system known as Dalkan 2000, which comprises software and equipment designated to streamline the sale of fuels particularly to customers with fleets of vehicles.

According to the agreement mentioned above, Orpak Systems Ltd. and Rapak (hereinafter jointly: "**Orpak**") were granted the

exclusive right to provide supply services of units of the Dalkan system, of various types, spare parts for the system as well as maintenance services, consultation and development of the Dalkan system. Orpak undertook to manufacture the systems and equipment as aforesaid and provide the services as aforesaid to Delek and Sonol exclusively in Israel as well as to service stations and sites, as Delek and Sonol shall instruct. On August 21, 2011, within an agreement with respect to a change in commercial terms, Sonol and Orpak agreed to extend the agreement's term until January 1, 2016. Sonol pays Orpak a monthly sum for maintenance of the system and an additional sum in respect of each Dalkan system that Orpak installs.

In respect of the aforementioned system, Delek and Sonol have registered patents.

11.19.3. On December 2, 2014, an exemption was issued from the approval as a restrictive arrangement for the arrangement between Sonol and Delek Israel Fuel Corporation Ltd., which contemplates cooperation in the import of oil distillates including gasoline and diesel from overseas, while the companies shall enable every small fuel company (a fuel company which operates 5% or less of all of the fueling stations in Israel) to join the arrangement. In addition, terms and conditions were determined regarding a prohibition on the sharing of information among the companies other than information which is essential for purposes of the import, all as provided in the decision. The exemption is valid for three years i.e., until December 2, 2017.

11.19.4. Agreement for cooperation in the import of distillates – on September 28, 2014, an MOU was signed between Sonol and Delek, whereby, subject to the approval of the Antitrust Commissioner, the parties agree to cooperate in the purchase and import of Distillates in the following areas: negotiating with suppliers and carriers in Israel and abroad and signing joint purchase agreements. The parties agreed that only information which is necessary for the aforesaid cooperation will be passed between them. On December 1, 2014, the Antitrust Commissioner decided to grant the said agreement an exemption from approval as a restrictive arrangement, which shall be in force for three years until December 1, 2017.

11.20. **Legal proceedings**

Sonol is a party to many legal proceedings, including class actions which were filed against Sonol. For details on Sonol’s material legal proceedings see Note 33 to the Financial Statements.

11.21. **Insurance**

Sonol has property insurance policies, that include Sonol's property, with the scope of insurance coverage being approx. $247 million. Sonol has third party and product liability insurance in a scope of coverage of $40 million. In addition Sonol has taken out consequential loss insurance with regard to the dispensing facility in Haifa in the scope of $18 million. Sonol also has aviation product liability insurance in a scope of coverage of $250 million. In July 2015 Sonol renewed its property insurance policy. In the context of such renewal it was determined that the insurance amount for earthquake risks shall be $575 million in the aggregate, whereas for flood and natural disaster risks it shall be $475 million in the aggregate, which amounts are shared by the three subsidiaries controlled by Granite and by Azrieli Group Ltd. The policy sets forth the manner of distribution among the various insured companies in the event of damage in an amount exceeding the limit. Sonol renews the aforesaid insurance policies each year, for one-year terms. As has been relayed to the Company, in the opinion of Sonol's management, based on insurance advice it received, the insurance coverage is adequate.

11.22. **Goals and business strategy on the corporation level**

In the oil distillates sector, Sonol aspires to increase and diversify its customers in the direct marketing segment, including through submitting bids in tenders and through constant improvement of the service, and strict fulfillment of the safety regulations and protection of the environment. In the Sonol fuelling and retail complexes segment, Sonol aspires to increase the national distribution of the fueling stations in the chain and incorporate additional convenience stores in the Sonol chain. In addition, Sonol intends to improve the quality of the service provided at the stations and expand the variety of the services provided in the gasoline stations and the convenience stores, *inter alia*, through cooperative alliances, and to build retail complexes near the gasoline stations, insofar as will be possible, in order to increase the variety of the products and services that are provided to the customer. In addition, Sonol shall act for the constant improvement of profitability, including through streamlining and efficient allocation of its resources, and for the identification of new business opportunities in all of the main operating segments thereof. In this context, the effect of the Fuel Administration's decision to reduce the marketing margin as provided in Section 11.18.8 above shall be taken into account.

This section includes forward looking information. Forward looking information is uncertain information regarding the future, which is based on assessments existing at Sonol, based on the information which Granite's management has on the Report Release Date and Granite's intentions as of the Report Date. The strategy actually employed may materially differ from that which is presented above, *inter alia*, due to the market conditions. In addition, assessments based on which the strategy was decided, may prove incorrect or materially different that those taken into account. To emphasize, the intentions and aspirations described above, *inter alia*, in respect of investments in new assets, are merely goals and strategies, and concrete decisions in their respect have not yet been made.

12. Tambour Segment – Discontinued Operations

12.1. Until May 2014, the Group operated through Tambour and its consolidated companies in the paint and building finishing industry. Tambour Group is Israel's leading group in the field of paints and coatings. Tambour is also one of Israel's leading companies in the field of advanced construction materials. The Group held, through Granite Hacarmel, 100% of the rights in Tambour, after Granite Hacarmel completed, on May 29, 2012, a full tender offer for all of the publicly-held shares of Tambour.

Pursuant to the Group's strategy, the Company focuses on real estate investments and examines, in a current manner, the holdings that are not in the core of its real estate business.

12.2. On May 26, 2014, Granite Hacarmel entered into an agreement with third parties which are not affiliated with the Company and/or Granite Hacarmel whereby Granite Hacarmel shall sell all of its rights in Tambour, per Tambour's condition on the signing date ("as is"), in consideration for the sum total of NIS 500 million (the "**Transaction**"). On June 12, 2014, Granite Hacarmel closed the Transaction after fulfillment of all of the conditions precedent set forth in the agreement and the Company recognized a profit of approx. NIS 55 million, which was recorded in the income statement and is presented under the "profit from discontinued operations (net of tax)" item. In the context if the Transaction it was agreed, *inter alia*, that Granite Hacarmel shall not compete with Tambour's business for a period of three years from the Transaction closing date. For further details, see immediate reports of May 26, 2014 and June 12, 2014 (references: 2014-01-073638 and 2014-01-089961, respectively), which are included herein by way of reference.

12.3. In view of the sale of the Tambour operating segment and in accordance with GAAP, commencing from the Transaction closing date, Tambour's operations are presented in the financial statements as discontinued operations (see Note 8 to the Financial Statements).

Part Six - Azrieli Group - Additional Business

13. Azrieli Group – Additional Business

13.1. Senior housing operations

As the Company reported in the past, as part of its business strategy, the Company examines from time to time further possibilities for expanding its operating segments in other operating segments which are synergetic or related to the Company's business as additional growth engines. In 2014, the Company entered the senior housing segment and also purchased two lands, one in Modi'in and one in Lehavim.

As at the Report Date, the Company holds, directly or indirectly, through companies under its control, a senior housing property under construction in Modi'in, a land under planning procedures for construction of a senior home in Lehavim and it also holds a well-established high-end senior home in the center of Tel Aviv, also known as "Palace Tel Aviv" and "Palace Medical", respectively, which includes 231 senior housing units and 36 beds in four nursing and recuperation wings (hereinafter - "**Palace Tel Aviv**"). For details of the agreement for the purchase of the "Palace Tel Aviv" senior housing facility, see section 1.3.3(1) of this part. In addition, in March 2016, the Company won a tender for purchase of lease rights in a lot with senior housing designation at the Rakafot Neighborhood in east Rishon Lezion. For details see Section 1.3.3(2) of this Part. The Company's HQ includes five employees under the senior housing operating segment. In addition, the Palace Tel Aviv company, employs, as of the Report Date, approx. 250 employees.

13.1.1. General environment and influence of external factors on the Company's activity

The Company's senior housing operations concentrate on the Israeli market, and accordingly the Company is exposed to changes in the Israeli economy in general and in the residential real estate industry in particular. For details of the general environment and influence of external factors on the Company's real estate business in Israel, see section 6 of this part.

13.1.2. The structure of the senior housing operations and the changes therein in Israel[23]

In recent years, the senior housing industry is developing as a result of increased awareness and a change in perception regarding the transition to a senior housing facility, a rising standard of living and life expectancy in Israel and an increase in the number of seniors with financial means. Between 1990-2013, the number of housing units (public and private) multiplied by 3.8, compared with the supply prior thereto, with most of the growth being centered in Gush Dan and the Sharon

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[23] This information is taken from the following sources:
Mashav (a national database for old-age planning) - Seniors in Israel 2014 Statistical Yearbook
http://mashav.jdc.org.il/?CategoryID=233&ArticleID=162
The Central Bureau of Statistics - Press Announcement with a view to Senior Citizen's Day
http://www.cbs.gov.il/reader/newhodaot/hodaa_template.html?hodaa=201511257
Amidar - Sheltered Housing
https://www.amidar.co.il/wps/portal/!ut/p/c1/04_SB8K8xLLM9MSSzPy8xBz9CP0os_gQAzdTQ09LYwMDP0s3AyM_z5BAX3MvA3dTU_1wkA6cKgyMjCDyBjiAo4G-n0d-bqp-QXZ2mqOjoiIA37Eq_w!!/dl2/d1/L2dJQSEvUUt3QS9ZQnB3LzZfVDBGNTFJOTMwME45RjAyTklUUU03SjAwQTE!/
Standard & Poor's Maalot - The Senior Housing Market in Israel - Expansion Potential - 2015
http://www.maalot.co.il/publications/SR20150705115555.pdf
Midroog - Rating of Senior Housing Companies in Israel - 2014 Methodology Report
http://www.midroog.co.il/Upload/Documents/%D7%93%D7%99%D7%A8%D7%95%D7%92%20%D7%97%D7%91%D7%A8%D7%95%D7%AA%20%D7%93%D7%99%D7%A8%D7%95%D7%92%20%D7%9E%D7%95%D7%92%D7%9F%201014.pdf
Dun's 100 Globes - Rating of Senior Housing for2015
http://duns100.globes.co.il/he/rating?did=1001047815

(approx. 52%). According to the figures of the national database for old-age planning (Mashav), the senior housing market for seniors included, correct as of July 2013, approx. 23,160 housing units, of which approx. 48% (approx. 11,100 housing units) constituted public housing subsidized by the Government or voluntary entities, while the rest constituted private housing, fully financed by the occupants. As a rule, the senior housing market is characterized by high occupancy rates.

The private senior housing market is directed at the financial well-off senior population and operates under the supervision of the Ministry of Welfare. Senior housing facilities on the private market are characterized by residence in luxurious complexes with expansive public areas that include, *inter alia*: a swimming pool, spa, gym, rooms for activities, a restaurant, a cafeteria, a clinic and the like.

13.1.3. Senior Housing - Changes in the volume of operations in Israel

The volume of activity is constantly increasing together with the increase in the population and because of the rising standard of living and growing awareness of the target population to the advantages of senior housing. The recognition that senior homes are a respectable and quality housing solution for this population, while moving away from the stigma attached to the traditional old-age homes, also contributes to the development in this field.

According to the Company's assessment, based on an evaluation of the management of Palace Tel Aviv , the factors that might influence the volume of business senior housing segment include: (1) an increase in life expectancy and growth in the senior population in Israel: according to the publications of the Central Bureau of Statistics, as of the end of 2014, the number of seniors aged 65+ in Israel was approx. 900,000, constituting approx. 10.8% of the total population in Israel. Approx. 45% of the seniors in Israel are over the age of 75. According to the population forecasts of the Central Bureau of Statistics, the number of seniors in Israel is expected to reach 1.66 million in 2035, and their proportionate share of the population will increase from approx. 10.8% today to 14.6% respectively. In addition, in the last decade the life expectancy of men has increased by 2.5 years and of women by 2.1 years. In 2014[24], the life expectancy of men is 80.3 years, and the life expectancy of women is 84.1 years. The significant increase in the amount of senior population in Israel could result in an increase in the need to find solutions on the services market for the senior population; (2) maintenance of quality of life: people's desire to maintain the high standard of living and quality of life to which they were accustomed over their lifetime, and the feeling of loneliness and lack of independence that arises in consequence of the difficulty in accessibility to the various community services compared to the response to needs afforded by senior housing; (3) improvement in the image of senior housing: if in the past the senior population shied away from the transition to senior housing because of the negative image and inferior level of services, today it seems that to a growing part of the senior population it is clear that senior housing affords a high standard of living in a safe environment that maintains the occupant's independence, takes care of his health, assures an active life of culture, sport, company and community and enables a high and

[24] According to the figures of the Central Bureau of Statistics - http://www.cbs.gov.il/reader/cw_usr_view_SHTML?ID=580

comfortable standard of living in luxurious centers. The entrance into the senior housing segment by strong players such as the Company, which brings the industry a modern construction standard of senior homes at luxury hotel level, also contributes towards an improvement in the industry's image.

The information about the factors that according to the Company's assessment could influence the volume of activity on and share of the senior market in Israel relative to its population is forward-looking information, as defined in the Securities Law, 5728-1968, which is based on the Company's estimates. These estimates are based on external sources of information and on subjective estimates of the management of Palace Tel Aviv. The actual results might differ from the estimates forecast as aforesaid.

13.1.4. Senior Housing - Developments in markets, or changes in the characteristics of the customers

As aforesaid, the volume of activity in the segment is constantly growing together with the population growth and because of the increase in the standard of living and in the target population's awareness of the advantages of senior housing. These developments have led to new market requirements for expansion of the services offered by senior housing. If in the past senior housing served as a social framework that focused primarily on providing food and medical services, in recent years the demand is for a framework that offers a range of activities, such as a swimming pool, spa, classes, restaurant, cafeteria, alternative medicine services, and more.

13.1.5. Senior Housing - the critical success factors

The senior housing segment in Israel is characterized by the need to adapt it from time to time to the requirements and standards of the relevant target population, and the need to take a variety of steps in order to improve the status quo, supply additional services and position it in accordance with the requirements of the target population as aforesaid.

In the view of the Company's management, there are several critical success factors in the operating segment, including: (1) know-how, experience and management: the senior housing segment is complex and requires experience with and know-how of matters that are unique to the senior population, with an emphasis on the operation of senior homes. The ability to optimally manage a senior home is of great importance in the contention of senior homes with existing competitors in the industry; (2) the structure of the senior home, the housing units and its environment: since the trend in the senior housing segment is one of constant development, both with regard to the quality of the structures and the housing units and with regard to the standard and range of services, it is necessary to maintain a high standard of construction and finishing of the senior housing and of its public areas, which constitutes a critical success factor in the segment; (3) location: central and accessible location that also affords access to surrounding centers, cultural and recreational institutions, convenient access to train stations and central transportation routes, in the area of the senior home, constitute an advantage. In addition, the location of the senior home relative to the place of residence of the occupant's children and family and the previous center of his life is a significant factor in influencing the occupant's choice of

such or other senior home. A more attractive location of a senior home brands the senior home as more prestigious and affects the price and amount of the deposits that may be collected for the housing unit; (4) the size of the residential center: a large residential center that includes hundreds of housing units has size advantages, in view of the quantity and variety of occupants living there, which enables and creates an abundance of vibrant community and social life and activities; (5) reputation and branding: correct branding of a senior home, namely, the attribution of positive values such as quality, enjoyment, prestige, suitable value for money, branding of the company managing the senior home, long-standing reputation, the Company's stability and the like, and the creation of a positive perception and viewpoint amongst consumers with regard to the senior home, is important in the positioning of the senior home relative to its competitors.

13.1.6. Senior Housing - main entrance and exit barriers

According to the assessment of the Company's management, the main entrance barriers are as follows:

(1) the need for unique know-how, experience and reputation required for the construction and management of a senior home;

(2) the need for material capital investment for the purpose of constructing modern residential centers;

(3) a shortage of land at an economically viable cost for the construction of senior homes;

(4) regulatory requirements with a threshold condition for operating senior homes.

According to the assessment of the Company's management, the main exit barriers are as follows:

(1) difficulty in finding a purchaser for this activity in consequence of the material size of the investment, and the know-how and experience required for operation;

(2) regulatory requirements by virtue of the Senior Housing Law;

(3) long-term contractual obligations and difficulty in vacating occupants within a short period of time.

13.1.7. Alternatives

A senior who wishes to remain in his apartment constitutes the central alternative product for the senior housing segment. In 2013, approx. 96% of the 65+ age group lived in their own homes and the rest lived in various institutions (including senior housing). Of the 96% as aforesaid, approx. 189,000 of the 65+ age group lived alone, and approx. 21,000 lived in their own home with one other person who is not a relative (for the most part a caregiver), almost twice their number

about a decade ago.[25] In the last decade, there has been a considerable increase in the services offered to a person in his home, primarily in light of the provisions of Chapter J of the National Insurance Law [Consolidated Version], 5755-1995, which regulates the entitlement of seniors to a nursing care allowance, while at the same time there is Government action for cultural activities and social life. In addition, the possibility of employing a foreign worker and the emergency centers that provide a response for the need of security also constitute an alternative for the transition to senior housing and enable a senior to remain in his own home. New supportive community frameworks constitute a type of an alternative product for senior housing, although as of today the frameworks are very basic and are offered to seniors of a lower socio-economic standard. For further details with regard to competition, see section 13.1.11 below.

According to the Company's assessment, the main consideration in the decision to move to a senior home for the senior population is the social life, exclusive services and the sense of security offered by the senior home. Accordingly, so far as these aspects are concerned, the alternatives offered in the framework of leaving the customer in his apartment do not serve as a solution for him.

13.1.8. The nursing care industry

The nursing care industry constitutes a medical framework for long-term hospitalization, which provides supportive medical treatment to a chronic patient. This framework is intended for handicapped patients who are defined as nursing care patients, complex nursing care patients and the mentally frail. The hospital needs a license from the Ministry of Health and is therefore subject to inspections and supervision by the Ministry of Health. As a rule, protracted geriatric hospitalization for the treatment of chronic nursing care patients or the mentally frail is financed by the Ministry of Health or through private financing.

The nursing care institutions are for the most part privately owned and some of them are owned by non-profit and other organizations. As of 2013, there were in total approx. 13,623 beds in private institutions constituting approx. 64% of all the beds in the nursing care industry, and approx. 6,550 nursing care beds owned by public / non-profit organizations and constituting approx. 31% and the remainder of the institutions are owned by the Government or the health funds. The key players in the nursing care industry are Mishan, the Mediterranean Towers chain and Bayit Be'Lev.

Palace Tel Aviv independently operates the four nursing and recuperation wings, which include 136 beds. The hospital includes three nursing wings (a nursing wing, a wing for the mentally frail and a wing for complex nursing care patients). In addition, it operates the recuperation wing, which is not subject to a license from the Ministry of Health. The recuperation wing constitutes a framework for patients who undergo surgery and are interested in medical supervision and recuperation services for short periods.

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25 The Central Bureau of Statistics - Press Announcement with a view to Senior Citizen's Day http://www.cbs.gov.il/reader/newhodaot/hodaa_template.html?hodaa=201511257

13.1.9. Restrictions on and supervision of the nursing and senior housing segment

The segment is subject to specific laws

The regulation governing the Company in this operating segment is, *inter alia*, the Senior Housing Law, Planning and Building Law, Consumer Protection Law, 5741-1981, Control of Products and Services Law, 5718-1951, Hiring of Employees by Manpower Contractors Law, 5756-1996, Law for Enhanced Enforcement of Labor Law, 5772-2011, and legislation relating to the operation of nursing wings. Additional laws that could be relevant to the Company's operations in the senior housing segment are additional legislation from the labor law field and additional administrative orders and directives.

On June 3, 2012, the Senior Housing Law, 5772-2012 (hereinafter - the **"Senior Housing Law"**) was published in the Official Gazette, providing, *inter alia*, that the regulation of licensing for senior homes requires a license for the purpose of operating a senior home. In such regard, the Senior Housing Law contains several threshold conditions for the grant or renewal of a license, such as: the license applicant is the owner or lessee of the senior home's land, the absence of any conviction on the part of the license applicant of an offence that by reason of its nature, gravity or circumstances does not merit, in the opinion of the Commissioner of Senior Housing, the grant of an operating license, proof of financial stability and the like. The operation of a senior home without a license or other than pursuant to the terms and conditions of the license shall constitute a criminally punishable offence. As of the Report Date, no suitable secondary legislation has yet been enacted enabling the grant of operating licenses by the Commissioner of Senior Housing. Nonetheless, draft regulations have already been drawn that are in relatively advanced stages of enactment. In addition thereto, the Law establishes a duty to draw up an engagement agreement between the licensee and anyone applying to be an occupant of the home and regulates mechanisms of liability, supervision, enforcement and punishment, in certain cases limits the hiring of employees who come into contact with occupants, and regulates matters and provisions that have to be included in the framework of the agreement with the occupant, like for example terms and conditions for the occupant's departure and the like.

In the framework of the Law, it is provided that a holder of an operating license is prohibited from accepting from an occupant an amount, on account of the deposit, that exceeds 7% of the deposit or NIS 70,000 - whichever is lower, without giving the occupant collateral for the return of the balance of the deposit monies. The Law provides that the holder of an operating license has the right to choose one of the following types of collateral: a bank guarantee, insurance in which the occupant is included as an irrevocable beneficiary, the placement of 40% of the deposit with a trustee or the registration of a first-ranking mortgage over the senior home's land. The Law provides that a holder of an operating license is under a duty to bear 20% of the cost of the collateral, while the occupant bears the balance of the cost of the aforesaid collateral - i.e. 80%. It is important to emphasize in such context that unlike the provisions of the Sale of Apartments (Assurance of Investment of Apartment Purchasers) Law, 5735-1974, the provisions of the Law give the occupant the right to waive the receipt of collateral as aforesaid in writing. In addition thereto, the Law lists a number of causes for the collateral's realization: insolvency, including orders for suspension of proceedings, receivership, liquidation, appointment of a receiver or in circumstances in which an absolute impediment has arisen against returning the

deposit. Another important provision of the Law pertains to a restriction on raising the maintenance fee and any other payment that the occupant is genuinely unable to waive, by a percentage exceeding the rise in the consumer price index. In such context the Law provides that a raise as aforesaid will be permitted in accordance with a change in the senior home's routine operating costs, but not more than the maximum amount determined in the agreement with the occupant. In addition to all the aforesaid, the Law prescribes that the holder of an operating license is under a duty to provide a mandatory package of services determined in a schedule to the Law. Furthermore, insofar as a licensee has undertaken to provide services in excess of the mandatory services, it may not limit the scope thereof or detract from their nature, unless it has received the occupant's written consent before making the change in the services pursuant to the deposit agreement. The duty of a licensee to provide an occupant with all the services listed in the agreement that it undertook to provide, which are not mandatory services pursuant to the Law, shall not apply to agreements executed prior to the date on which the Law enters into force.

In the case of a senior home that contains at least 250 housing units, the holder of an operating license is under a duty to ensure that there is an operating nursing wing at the senior home or in the vicinity thereof and it shall give any of the home's occupants who require hospitalization a place in such wing (unless it is granted an exemption from this duty under the Law). This duty is expected to take effect on December 3, 2017.

On February 3, 2016, the Knesset approved, on a preliminary reading, a bill for the amendment of the Senior Housing Law in connection with securing the occupants' deposit monies. In accordance with the bill, the operator of a senior home must provide an occupant of the senior home, in order to secure all the deposit monies that were deposited with it (i.e. from the first shekel), with a bank guarantee, the full cost of which shall be borne by the operator of the senior home, or insure the senior home occupant with an insurer, as an irrevocable beneficiary under the insurance contract, with the insurance premiums being paid in advance. The bill further provides that the occupant is prohibited from waiving such collateral, and hence, pursuant to the bill, the duty to provide collateral is mandatory. As of the Report Date and to the best of the Company's knowledge, it is not possible to purchase an insurance policy as aforesaid and accordingly this alternative is not relevant; hence, as of the Report Date, the bank guarantee alternative is the only alternative effectively possible under the bill if and insofar as the draft law is approved **as aforesaid**. It is clarified that the bill is in the initial enactment stages, has not yet been discussed by the Knesset's Labor, Welfare and Health Committee and has not yet been prepared for a first reading. As of the Report Date, the Company's management has no certainty that the bill will be approved and the Company cannot estimate the effect of the said law (if it passes) on the results and cash flow needs of Palace Tel Aviv.

13.1.10. Mentally frail and nursing care patients

Wings for mentally frail and nursing care patients require a license from the Ministry of Health and are under its supervision. This supervision includes regulations regarding the physical structure, proper condition of the equipment, standard manpower positions and training and regulations regulating the manner of management and the rights of those hospitalized.

13.1.11. Senior Housing - the competition structure

The competition between the senior homes is influenced by the geographical location of the senior home, the building standard of the housing units and its public areas, as well as by the range and quality of services offered to its occupants and the company's branding. Direct competition between senior homes will be primarily between senior homes competing for the same population from the geographical aspect, since the prevalent tendency amongst potential customers is to look for a senior home in an area close to the original residence or close to the residential area of the occupants' children.

In Israel there are a few dozens of entities operating in the senior housing segment; nonetheless, one cannot point to a leading and dominant brand. To the best of the Company's knowledge, the largest entity in this segment is Mishan Center Ltd, which has approx. 2,562 housing units that house approx, 2,621 occupants. In addition, there are other senior housing chains that are considered leading brands in the field, including the Mediterranean Towers chain, which has approx. 1,307 housing units, the Ahuzot Rubinstein chain, which has approx. 1,249 housing units that house approx. 1,500 occupants, and the Bayit Bakfar chain, which has approx. 900 housing units that house approx. 1,100 occupants. Other operators in the segment are Beit Gil HaZahav, Tel Aviv, Ahuzat Bayit, Raanana – Retirement Home, Bayit Balev - Little Tel Aviv, and Protea Village. Another factor that might influence the competition in the senior housing industry is the low supply of land suitable for the construction of senior homes in the areas of demand in Israel. In addition, in light of the changes in the senior housing market, in recent years some of the traditional old-age homes are being converted into independent residences and are competing with the developing private senior housing market.

13.1.12. Main products and services

The Palace Tel Aviv senior home is known for its unique standard and for the housing units' high level of finishing. The complex has a range of 2-3 room housing units, of different sizes, which include a kitchen, toilet and shower, fitted wardrobes, cutting-edge electrical appliances, air conditioning, communication and media connections (telephone and television) and distress buttons.

In addition, Palace Tel Aviv includes clinic services, 24/7 reception and guarding, culture and lessons, transportation and more. A variety of facilities are at the disposal of the occupants, such as: a lobby, rooms for classes, dining rooms, club, cafeteria and more.

Palace Tel Aviv gives the occupants the right to use the senior home's housing units and public areas of the senior home.

13.1.13. Mandatory services

In accordance with the provisions of the Senior Housing Law, the operator of a senior home is obliged to provide the occupants with a mandatory package of services that includes: maintenance services for the housing units, the public areas, the operating systems and the equipment provided by the operator at the senior home, cleaning services for the public areas (save for the housing units), controlled entrance to the senior home, operation of a 24/7 human response mechanism for calls for assistance from occupants, the provision of health

services to occupants by a nurse (including the management of medical information about the occupants and referral for medical care subject to their wishes), 24/7 first-aid services by someone who has received suitable training, culture, enrichment and sports activity and social work services.

13.1.14. Agreement-based services

In addition to the mandatory services, Palace Tel Aviv provides other services that are included in the monthly maintenance fee, such as: 24/7 security, reception and guarding services, "concierge" services for the occupants, social work services, weekly cleaning services for the housing unit, maintenance services for the housing unit, spa services, transportation services and the like.

13.1.15. Optional services for extra payment

In the framework of the services provided by the senior home, the occupant may choose to order additional services that are not included in the framework of the monthly maintenance fee, such as meals at the restaurant and cafeteria, room service, cable television services, Internet, parking, storeroom, laundry services and more.

13.1.16. Nursing care services

The nursing and complex nursing wings provide various services, such as hospitalization services (which include 24/7 medical supervision), para-medical services (dietician, social worker, and physiotherapy), five meals a day, cleaning and laundry services, hospital escort services, cultural and occupational services, and more.

13.1.17. Customers

The occupants of the senior home are private customers and the Company does not depend on any certain single customer. The real estate market significantly affects the senior housing customers, whereby the transition to senior housing usually involves the sale or lease of the customers' apartments, and therefore, a decrease in the apartment and rent prices, affects the financial ability and makes the transition difficult.

13.1.18. Profitability

Because of the occupant turnover rate, which is approx. 10%, and because of the stability of this market, the senior housing industry in its entirety offers a high cash flow relative to other real estate fields. For the most part, income from the senior housing segment is divided into routine income from the monthly maintenance fee and income from the forfeiture of deposits that make up the essence of the financing of companies in the segment. It is noted that the amount of the income stems directly from the amount of the deposits that are placed with the operating company. The deposit forfeiture rate on the conventional / main / customary / not special tracks ranges between 3% and 3.9% plus VAT.

The market value of the residential apartment sold by the occupant for the purpose of moving into the senior home of the Company and his ability to sell his apartment easily and quickly could influence the pace of the marketing of the

Company's housing units and the price of the housing units (the deposits). This connection is reflected primarily for some of the occupants, in respect of whom the payment for the move to a senior home is dependent on the sale and/or rental of their private property. An increase or decrease in the properties' prices affects these occupants' financial ability to complete the transition to a senior home.

13.1.19. Target population

The housing units offered at senior homes are for the most part suitable for independent people aged 70+, from the middle socio-economic class and up, who are able to pay the deposit and the monthly maintenance fee for the housing units, and who come from geographical areas that are proximate to the senior homes.

13.2. **Investment in Granite Hacarmel**

On the date of the financial statements, Canit Hashalom holds 100% of Granite Hacarmel's issued and paid-up capital. In addition, Supergas which is held by Granite employs, as of the aforesaid date, about 350 employees and GES which is held by Granite employs as of the aforesaid date approx. 200 employees, and other businesses which are held by Granite employ approx. 2 employees. Some of the aforesaid employees are employed according to provisions of collective bargaining agreements and some according to personal agreements.

Through its holding of Granite Hacarmel, the Company has additional business in the fields of gas, water and others, as specified below:

13.2.1. **Supergas –** Azrieli Group holds, through Granite Hacarmel, 100% of the rights in Supergas which operates in the following sectors: (1) Marketing and supply of LPG; (2) Natural gas.

(1) Marketing and supply of LPG

The main occupation of Supergas is in the field of marketing and supply of LPG. LPG is a gas that is released in the distilling process of the crude petroleum. It is mainly used as energy for operating burners in industry, bakeries and restaurants, for heating institutions, for heating henhouses in agriculture as well as for cooking and heating in households. In the context of such activity, Supergas purchases locally, imports, stores, markets and distributes LPG to domestic and institutional, government, commercial and business customers, for industry and agriculture. The LPG is supplied through mobile and stationary tanks, directly through Supergas, and through independent distributors and agents that are owned by third parties.

The revenues of Supergas from marketing and supply of LPG do not exceed the rate of 10% of the Company's total revenues.

Some of the commercial and institutional customers of Supergas may in the future have potential alternatives for LPG, such as natural gas, and Supergas estimates that the future entry of compressed natural gas and natural gas that is pumped through the transportation and distribution network into the Israeli market may affect the LPG quantities that will be marketed thereby however, as of the Report Date, natural gas is still not

available for most of the customers.

Nevertheless, to the best knowledge of Supergas, bodies in the Israeli economy are starting to prepare for the use of natural gas. Supergas aspires to compensate for the loss of the LPG customers and the expected decrease in the quantities of LPG sales as aforesaid, through the marketing of pumped natural gas and compressed natural gas. In this regard and with regard to Supergas' preparation for marketing natural gas, see also Section 13.2.1.A below.

The main success factors in the marketing and supply of LPG market are professional knowledge, reliability of the supply, the safety level, service quality and price.

Supergas, like other gas companies in Israel, is dependent on ORL and on the Ashdod Oil Refinery Ltd. ("ORA") as the major and central suppliers of LPG. In the event that ORL and ORA do not provide Supergas with the quantity of LPG it wishes to purchase therefrom, and Supergas is required to increase the quantity of LPG directly imported thereby, a preparation period will be required and additional costs may be involved. Such import will be subject to and contingent on finding a solution to an existing problem of lack of sufficient storage spaces for the imported LPG and possibility of the discharge thereof. However, it should be noted that ORL and ORA are obligated by law to avoid discrimination in the supply of LPG to the customers thereof.

Various regulatory requirements, including those which compel compliance with strict safety requirements for the supply of LPG, impose on Supergas an obligation to perform substantial monetary investments in order to meet the same.

The operation of Supergas in the LPG field is subject to laws, regulations and orders which pertain, *inter alia*, to the determination of specific instructions pertaining to marketing and supply of LPG to domestic customers, to the determination of standards of quality, safety, security, storage, marking and identification of products, transportation, proper business management, consumer protection, environmental issues and price control (see in this context Note 20A to the financial statements).

Under regulations published by the Ministry of National Infrastructures, Energy and Water Resources (Arrangements in the Economy of the State Regulations (Legislation Amendments) (the Provision of Information with respect to Gas Supply), 5775-2015), as of July 2, 2015, LPG suppliers are required to report to the Gas Administration, at the beginning of every month, on the average prices of gas supply services they charged their household consumers, and are also required to publish such data on their websites. Furthermore, gas suppliers are required to provide central gas consumers with information on the gas invoice, in accordance with the provisions of the Regulations. Since July 2015, Supergas implements the new regulations. To the best of Supergas' knowledge, the Ministry of National Infrastructures, Energy and Water Resources publishes comparative data on all of the companies on its website.

In the field of LPG marketing, there are three large gas companies, except Supergas – Pazgas (1993) Ltd., the American Israeli Gas Corporation Ltd.

(known as Amisragas) and New Dorgas Ltd., which are the main competitors in the field. The LPG market is characterized by the existence of competition with regard to both marketing and distribution to commercial and institutional customers, and marketing and distribution to domestic customers. As per the Company's estimation, based on the estimations of Supergas' management as of the Report Date, Supergas' market share in the said segment is approx. 18%. These estimations are based on internal estimations only, and there is no certainty that Supergas' estimations are correct and accurate. In the Company's estimate, based on the best knowledge of the management of Supergas, no material change is expected in Supergas' share in the markets of marketing and supply of LPG to domestic customers and to commercial and institutional customers.

Supergas operates two main logistic facilities for the storage and supply of LPG (1) storage, filling and distribution facility in Kiryat Ata in an overall area of approximately 15 thousand sqm. This area is leased by Supergas from the Israel Land Administration. The facility includes LPG warehouses with an overall storage capacity of approx. 300 tons in bulk tanks and approx. 250 tons in containers; (2) a central logistics center located in the Ramla industrial zone in an overall area of approximately 4.4 thousand sqm. This area is leased by Supergas from the Israel Land Administration. The facility includes a warehouse for the storage of LPG cylinders with an overall storage capacity of 100 tons, equipment warehouses, a heating department, a workshop, a laboratory and a machining shop; (3) In addition, Supergas leases storage volume of approx. 1,500 tons in the facilities of EAPC in Ashkelon, which allows it to accumulate stock of LPG and thereby reduce imports of LPG in the winter season. In addition, Supergas also stores LPG in bulk tanks installed at the customers' premises.

Supergas has permits for the construction and operation of LPG repositories across the country, including Supergas' logistics center at Ramla and Supergas' refilling, storage and distribution facility at Kiryat Ata. For the past several years, the facility at Kiryat Ata has not had a business license due to the municipality's refusal to grant a business license, as aforesaid. With regard to legal proceedings pertaining to the gas farm in Kiryat Ata and the conditions required for its operation, see Note 33 to the financial statements. Supergas has a fire department approval for the Kiryat Ata facility, effective until January 2017, in the context of which the facility will operate in a reduced scope as a filling and distribution facility, while reducing the quantities of LPG held, in accordance with the restrictions of the approval.

Toxic materials permit – pursuant to discussions between Supergas and the Ministry of Environmental Protection, the Ministry's approval was obtained for the continued operation of the gas farm in a reduced format in the outline which was specified in the approval that is valid until May 31, 2016, which permits Supergas to use the facility subject to conditions which were specified in the permit.

The aforesaid is forward looking information, based on the assessments of the management of Supergas. There is no guarantee that a long-term

alternative solution will be found, or that the cost thereof shall be worthwhile to Supergas.

Supervision on LPG prices

In May 2013, a letter was received at Supergas' offices from the Ministry of Energy and Water, from which it arises that pursuant to the supervision, on the level of reporting profitability and prices according to Chapter G of the Supervision of Products and Services Law, 5718-1957 which was imposed on Supergas and other LPG companies in the Order on Supervision of Product and Service Prices (Application of the Law to the LPG), 5770-2010, the manager of the Fuel and Gas Administration and the Supervisor of Prices at the Ministry of Energy and Water are considering to recommend to impose supervision on the LPG prices in sale through hubs and tanks to the private sector. The letter includes an initial draft of the attribution of the costs of Supergas to the LPG margin, which was performed by the Fuel Administration (the "**Report**") which, according to the letter, is based on figures that were filed by Supergas and processing that was performed. As has been relayed to the Company, Supergas has replied to the Ministry of Energy and Water and *inter alia* rejected the majority of the calculations and assumptions underlying the Report.

(2) Natural Gas

General

The natural gas is a mixture of gases, the main component of which is Methane CH4 which is extracted from wells and pumped directly to the consumer through piping. Recently, large deposits of natural gas were found on the floor of the Mediterranean Sea and they will be a significant source of energy for Israel in the decades to come. Supergas, through subsidiaries, is expanding its business to the natural gas segment. In this segment Supergas operate in three main sub-segments: establishment and operation of regional natural gas distribution networks under appropriate licenses, marketing of natural gas and establishment of a natural gas compression system ("**CNG**") and the marketing thereof.

Establishment and operation of natural gas distribution networks

In the segment of the establishment and operation of a natural gas distribution network, Supergas acts through Super N.G. Natural Gas Distribution Company Ltd. ("**Super NG**"), which is held by a subsidiary of Supergas (Supergas Natural Holdings Ltd.) and by Shapir Civil and Marine Engineering Ltd. ("**Shapir**") in equal rates (50/50). In November 2009, Super NG was granted a license for the construction of a natural gas distribution network in the Central Region and the operation thereof for 25 years. Pursuant to the terms of the license, Super NG shall receive the revenue thereof from a one-time connection fee and from the distribution fee tariff by the size of the customer (the extent of natural gas consumption) as specified in the license.

Super NG has several contracts executed with customers for natural gas distribution services. In September 2015 an approval for piping natural gas to a distribution pipe at the Ramla Industrial Zone was obtained. As

of the Report Date, the consumers in the said area have not yet begun to consume natural gas.

According to the provisions of the license granted to Super NG, it is obligated to invest in the construction of the distribution network an amount of approx. NIS 160 million over 8 years, in accordance with the milestones set forth in the license. For the benefit of Super NG's activity, the shareholders thereof have provided a guarantee, according to the holdings thereof, in favor of the Natural Gas Authority in accordance with the terms of the tender and the license. In view of bureaucratic and regulatory impediments which are delaying the progress of the network rollout and the connection of the consumers, Super NG is acting for updating the timetables set in the license.

In addition, in December 2012 Super N.G. Hadera and the Valleys Natural Gas Distribution Company Ltd. ("**Super NG Hadera**"), which is held in equal shares (50/50) by a subsidiary of Supergas (Natural Supergas Holdings Ltd.) and by Shapir, won a tender for the construction and operation of a natural gas distribution network in the area of Hadera and the Valleys. In April 2013, Super NG Hadera was granted a license for the formation and operation of a natural gas distribution network in the Hadera and Valleys region for a 25-year period. Under the terms of the license, Super NG will earn its revenues from one-time connection fees and from the distribution fee tariff based on the customer's size (the amount of natural gas consumption), as specified in the license.

Under the provisions of the license granted to Super NG Hadera, it is required to invest NIS 217 million in the setting up of the distribution network, which amount shall be paid in installments over a 5-year period, in accordance with the milestones prescribed by the license. For the benefit of Super NG Hadera's activity, its shareholders have provided, per their holdings, a guarantee in favor of the Natural Gas Authority, in accordance with the terms and conditions of the tender and the license. Super NG Hadera is acting for completion of the planning of first sections of the distribution network and continues to develop the construction of the network. In August 2015 it began work to lay down pipes near the city of Hadera. In view of bureaucratic and regulatory impediments which are delaying the progress of the network rollout and the connection of the consumers, Super NG Hadera is acting for updating the timetables set in the license.

It is noted that there is a limitation whereby each company is entitled to operate only two distribution areas.

Marketing of Natural Gas

In the segment of marketing of piped natural gas, Supergas operates through a wholly owned subsidiary (Super Streamed Natural Gas Ltd.), which is active in the marketing of piped natural gas to potential industrial and institutional customers, in various regions throughout the State of Israel, which the natural gas distribution network is due to reach.

As of the Report Date, Supergas has engaged with several customers in

contracts for the supply of natural gas and began marketing of piped natural gas.

In addition, on July 10, 2013, Supergas Natural Ltd., a subsidiary of Supergas, executed a natural gas supply agreement with the partners in Tamar Lease (the "**Sellers**" and "**Agreement**", respectively), whereby Supergas Natural Ltd. shall buy natural gas from the Sellers for the purpose of marketing the same to the customers thereof. The overall financial scope of the aforesaid Agreement is estimated at approx. NIS 530 million and the supply period began in August 2013.

The aforesaid with regard to the financial scope of the Agreement is forward looking information as per its meaning in the Securities Law, regarding the materialization of which, in whole or in part, there is no certainty and which may materialize in a manner that is significantly different than the aforesaid, due to various factors, including changes in the scope, rate and timing of purchase of the natural gas by Supergas, regulatory and statutory changes, the gas price which will be determined according to the Agreement, etc.

Compressed Natural Gas – CNG

The rollout of the natural gas distribution network is expected to take several years and it is not planned to reach all of the customers. In order to provide a solution for the described problems, for consumers who wish to use natural gas as a source of energy, Supergas set up in Alon Tavor facility for compressing the natural gas and started supplying compressed natural gas in tanks on tanker trucks.

It should be stated that in May 2014, Natural Supergas received a compressed natural gas supplier license from the Natural Gas Authority.

For details regarding a transaction for the sale of all of Supergas' shares in S.Super Solar Ltd. in consideration for a total sum of approx. NIS 174 million, the consideration for which was received in January 2015 see Note 10D to the financial statements.

It is hereby clarified and emphasized that the information regarding Supergas' activity in the natural gas segment, which is specified in this chapter above, is forward-looking information, as defined in the Securities Law, which is based on information known to Supergas based on the management of Supergas on December 31, 2015, on subjective estimates and assessments of Supergas based on the management of Supergas, considering its past experience and on the intentions and plans thereof on the Report Date. These may not materialize if changes occur in the plans and intentions of Supergas as aforesaid, for any reason, including - the structure of the markets, the regulatory and statutory provisions in the segment, the availability and price of the natural gas, the competition, Supergas' estimates regarding the business merit.

13.2.2. **GES Sector**

General information on the business in the GES sector

In the water and wastewater segment, the Company operates through GES, and consolidated companies thereof. GES engages in engineering design, establishment and production, operation and maintenance of facilities for the improvement of water and water filtering, sea water desalination, pumping stations and water pools, treatment of well water and effluent water and treatment of sanitary, industrial, municipal and organic wastewater. In addition, GES by itself and thorough its subsidiaries engages in marketing and development of chemical products for the purpose of metal treatment and protection as well as importation and marketing of oils, adhesives and chemicals for industry.

GES and its consolidated companies act in this operating segment through two divisions:

The water and wastewater division

The water and wastewater division engages in the establishment, building and operation of desalination plants of sea water and brackish water; wastewater treatment and return of effluent water; water improvement and wastewater treatment in the industrial segment; water and wastewater purification in the municipal segment; implementation of special chemicals for treatment of water, wastewater, desalination and chilling plants for the municipal and industrial segment; provision of system operation and maintenance services; planning and production and construction of systems for wastewater and water treatment. To-date, GES operates approx. 70 plants all over Israel (approx. 40 plants for water treatment and approx. 30 plants for wastewater treatment).

Industrial chemicals division

The industrial chemicals division engages in production, importation and marketing of chemicals and finishing processes for metals; Chemicals for preparing surfaces for painting and industrial paint stripping; Materials for electrochemical plating for high-tech and electronics industry; Industrial cleaning materials; Special adhesives and lubricants for industry and handling of hazardous material wastewater through a waste treatment facility owned by GES.

Via Maris

On June 2, 2015, a transaction was closed for the sale of the rights in the desalination facility Via Maris in Palmachim in consideration for approx. NIS 403 million, after the fulfillment of all of the conditions precedent set forth in the agreement. For further details see Section 1.3.4.(1) of Chapter A and Note 9 to the financial statements.

Customers

The business of GES in the water and wastewater segment does not depend on a single customer or a limited number of customers, whose loss will materially affect this operating segment.

Production

GES production is concentrated in two sites: Akko South and Askar (in the Akko area) which are leased from Tambour. In the water and wastewater division, GES is capable of manufacturing, simultaneously, in a large number of plants. In the chemicals division, according to GES policy, no fixed inventory is produced, but in accordance with customer orders and forecasts.

Fixed assets, property and facilities

Property

As aforesaid, GES production plants are concentrated on two sites which are leased from a third party.

Machines and equipment

GES has several water treatment facilities in the context of BOT and BOO agreements with the private segment. The cost of establishment of the facilities is amortized over the period of the operation contract. GES has machines and equipment used to produce chemicals and an evaporation plant for industrial wastewater treatment located on the production site in Akko south. The subsidiary of GES – GES Facility Operation Ltd. has a wastewater treatment facility which treats the wastewater of Akko and the surrounding area. The facility's expansion process was completed in 2014.

Environmental risks and manner of management thereof

Environmental Risks of Material Effect

GES fully treats industrial wastewater, which are created in the production of chemicals at GES's production site South Akko, in accordance with the law's provisions and the requirements of the Ministry of Environmental Protection and the Urban Union for Environmental Protection. Additionally, GES handles poisonous and hazardous substances within its business operation of manufacturing products in the segment of chemicals for industry and water and within the maintenance of GES's water and wastewater treatment facilities. GES has valid poison permits and a hazardous substances approval. The operation of the sea water desalination plant at Palmachim also entails, *inter alia*, the use of hazardous substances.

Material implications of the legal provisions on GES

GES's business in the water and wastewater segment is subject to the environmental regulation which is relevant to the operating segment. The water and wastewater business is performed under the supervision of the Ministry of Health which performs routine tests to examine the quality of the water which is generated in the treatment facilities and the Desalination Plant, and under the supervision of the Ministry of Environmental Protection and the Water Authority pertaining to the quality of the treatment of the wastewater in the treatment facilities and compliance with the generation permit. In addition, in the context of this activity, supervision is exercised also by government authorities such as the Water Commission and the Water Economy Administration.

On GES's chemical production site there is a wastewater treatment facility. The plant handles the production site's wastewater and customers' wastewater which

is transported to the site with the approval and supervision of the Ministry of Environmental Protection.

In addition, since a large slice of GES's activity is based on the use of chemicals, GES is supervised by the Ministry of Environmental Protection and by the municipal authorities and is committed to protection of the environment and working according to the environmental standards, laws and regulations of the Ministry of Environmental Protection and relevant conurbations.

Material legal proceedings in connection with the environment

For a specification of material legal proceedings in connection with the environment see Note 33 to the Financial Statements.

Limitations and supervision of the activity

Specific laws which apply to the activity

The water and wastewater unit

This activity in Israel is subject to the legal provisions which regulate the environmental protection issue, the main ones of which are the Water Law, 5719-1959, which sets forth a list of provisions pertaining to the preservation of the water sources and prevention of water pollution. In addition, the water and wastewater unit is affected by the Water and Sewage Corporations Law, 5761-2001, which mainly targets ensuring a level of proper service, quality and reliability for consumers at reasonable prices, ensuring the designation of revenues to investments in the segment and regulating the business and professional management of the municipal sewage and water economy.

Chemicals Segment

This business is subject to legal provisions which regulate the environmental protection issue, primarily the Hazardous Substances Law, 5753-1993 and Clean Air Law, 5768-2008.

In February, 2013, saw the publication of the Labor Inspection Organization (Safety Management Program) Regulations, 5773-2013 (the "**Safety Regulations**"). The Safety Regulations have taken effect in August 2014 (18 months from the date of publication thereof), and are applicable to any "Factory" (as per the meaning thereof in the Safety at Work Ordinance [New Version], 5730-1970), wherein at least 50 workers are employed. Under the Safety Regulations, the Chemical Division is required to maintain an employment health and safety program, with the purpose of preventing labor accidents and profession-related diseases, reducing the risks to the employees and complying with the legislation's requirements on issues of employment health and safety. The Regulations further prescribe that the "Holder of the Workplace" (as defined in the Regulations) will be responsible for compliance with their provisions, will act to ensure the implementation of the program and will take the appropriate measures in order to ensure that any employee he appointed follows the provisions. As of the Report Date, GES estimates that the Safety Regulations are not expected to have a material effect on the manner and costs of the operations of GES.

GES holds all of the licenses and permits which are required by law, as aforesaid.

13.2.3. **Tourism activities – the Mini Israel site** – The Granite Hacarmel Group holds a 50% stake as a limited partner in the limited partnership, which built and operates the unique tourist site known as "Mini Israel", where miniature models of well-known sites in Israel are on display.

13.2.4. **Communications infrastructure activities** – On March 25, 2015, Granite Hacarmel completed the sale of its entire holdings (60%) and rights in shareholder loans which it provided to the consolidated company Green Anchors Ltd. ("**Green Anchors**") to a third party in consideration for a total sum of approx. NIS 8.4 million. Green Anchors leases real estate assets and sub-leases them to as many wireless communications parties as possible, primarily, mobile phone companies ("**Telecommunications Operators**") and provides Telecommunications Operators with civil engineering services.

13.3. **Investments in financial assets available for sale in the banking and finance segment**

13.3.1. **Investment in Leumi Card**

On May 26, 2008, the Company invested the sum of NIS 360 million, as a passive financial investment, in Leumi Card Ltd. ("**Leumi Card**") (the total investment less a dividend received as of the Report Date, is NIS 324 million), and in consideration for which Leumi Card issued shares to the Company representing 20% of the issued and paid-up capital of Leumi Card (post money and on a fully diluted basis) (the "**Investment Agreement**"). The Company's investment in Leumi Card is presented on its books as an available for sale financial asset, according to GAAP. The value of the Company's investment in Leumi Card as of December 31, 2015, in accordance with an independent valuation was approx. NIS 603 million.

Within the framework of the Investment Agreement, the Company undertook to comply with and fulfill regulatory requirements to be imposed, if any, on the shareholders of Leumi Card, in its capacity as an Auxiliary Corporation, as this term is defined in the Banking Law (Licensing), 5741-1981. To the best of the Company's knowledge, as of the Report Date, no regulatory requirements as aforesaid have been imposed on the Company except as specified below..

On May 6, 2010, for the purpose of clarifying the lack of material effect of the Company on Leumi Card, the Company's board of directors decided to irrevocably waive the Company's voting rights in connection with two percent (2%) of the issued and paid-up capital of Leumi Card held thereby, such that, in view of the said waiver, the Company is holding 20% of the issued and paid-up capital of Leumi Card and 18% of the voting rights therein.

Within the framework of the Investment Agreement, the Company and Leumi Card undertook to one another, *inter alia*, as follows:

a. **Recommendation on the appointment of directors** – The Company will be entitled to recommend the appointment of two directors to the board of directors of Leumi Card, as well as their removal from office and the appointment of others in their stead, with one director serving as an outside director according to the provisions of Proper Conduct of Banking

Business. The agreement provides that should the Company's holdings decline to less than 20% due to a sale of shares or transfer thereof to an unauthorized third party, or less than 18% as a result of a private placement of Leumi Card shares, or less than 15%, the Company will be entitled to recommend the appointment of only one director. The Company's right to appoint directors shall expire in the event that its holdings decline to less than 10% due to a sale of shares or transfer thereof to an unauthorized third party or in any other event in which its holdings decline to less than 8%. On May 6, 2010, further to the said resolution of the same date, the Company's board of directors resolved to irrevocably waive the right to recommend the appointment of another director to Leumi Card, as an outside director. As of the Report Date, only one director holds office on behalf of the Company on the board of directors of Leumi Card, which comprises 9 directors (4 of whom are outside directors).

b. **Letter of indemnification** – In the agreement, the Company granted Leumi Card a letter of indemnification, under conditions back-to-back with the conditions of the letter of indemnification provided by Bank Leumi Le-Israel Ltd. ("**Bank Leumi**") in favor of the directors holding office at Leumi Card (and as long as it shall not have been changed without the advance written consent of the Company), whereby in any event in which Leumi Card will be obligated to indemnify the directors holding office therein on behalf of the Company, the Company will indemnify Leumi Card, upon receiving its written demand, for any amount paid by Leumi Card as aforesaid.

c. **Rights upon a transfer of shares** – The Company will have the right to tag along in a sale and/or transfer of control in Leumi Card to a third party who is not an authorized transferee of Leumi Financial Holdings Ltd. ("**Leumi Holdings**"), Leumi Card's controlling shareholder, until the occurrence of certain events which are specified in the agreement, such as a public offering. In addition, Leumi Holdings was granted a right of first refusal and a bring-along right vis-à-vis the Company upon a transfer of shares.

d. **Shareholder financing –** The parties have undertaken to provide financing to Leumi Card proportionately to their holdings at such time, pursuant to a resolution of the board of directors of Leumi Card. The agreement sets forth dilution formulae for the dilution of a party which does not finance its share as aforesaid.

Dividend policy

The dividend distribution at Leumi Card is subject to the directives of the Supervisor of Banks, including compliance with capital adequacy restrictions mandated by the Basel Directives. Dividend distribution is allowed subject to the provisions of the Companies Law, which stipulates, *inter alia*, that the Company may perform a distribution out of its profits, provided that there is no reasonable concern that the distribution would deny the Company of its ability to comply with its existing and projected liabilities, when they become due. According to Leumi Card dividend distribution policy document which was updated and approved at the Leumi Card board of directors in 2012, it was decided on August

16, 2015 of the distribution of a dividend in the amount of NIS 50 million, which was paid in September 2015. The Company's share out of the total said dividend is NIS 10 million. On February 23, 2016, Leumi Card board of directors decided on the distribution of a dividend in the amount of NIS 50 million which was paid on March 1, 2016. The Company's share out of the total said dividend is NIS 10 million. Leumi Card's financials are publicly posted on Leumi Card's website and are available for inspection at the following link:

https://www.leumi-card.co.il/he-il/GeneralPages/Pages/FinancialReport.aspx

Loyalty Program

On May 26, 2008, the Company entered into a cooperation agreement with Leumi Card for the establishment of a program for the benefit of customers of the commercial centers and malls owned by the Company and/or affiliates of the Company, whose members would hold a Leumi Card card conferring special benefits and services (the "**Loyalty Program Agreement**").

The Loyalty Program Agreement regulates the relationship between the parties, and, *inter alia*, sets forth provisions with regards to the terms of the loyalty card to be issued to the customers of the commercial centers and malls of the Company and its design, including the Company's rights to the loyalty program trademark and the member database, and registration thereof in its name.

On January 7, 2010, the Company entered into a licensing agreement with Leumi Card for the use of trademarks, whereby the Company granted Leumi Card an exclusive license to use all of the trademarks registered in the Company's name in connection with the "Multi Azrieli" mark, in connection with a loyalty program of same name.

The license is effective throughout the term of the Loyalty Program Agreement and subject to the conditions thereof. During 2011, the Company registered the trademark "Multi Azrieli" with the Registrar of Patents, Designs and Trademarks at the Ministry of Justice, including the registration of the Leumi Card as a licensee of the "Multi Azrieli" trademark, in accordance with the said licensing agreement.

In the agreement, the Company undertook to employ a management team to manage the Program's activities throughout the term of the agreement, at an annual cost that shall not exceed the amount of NIS 250,000, to be financed by Leumi Card. In addition, the Company neither has had, nor expects to have any revenues or benefits in connection with the Loyalty Program Agreement.

To the best of the Company's knowledge, as of the Report Date, the Loyalty Program comprises approx. 160,000 valid loyalty cards, out of, to the best of the Company's knowledge, approx. 2.4 million valid credit cards that are held by Leumi Card customers.

The loyalty card provides discounts on products of some of the Group's companies, and at the parking lots adjacent to the Azrieli malls.

For further details, see Note 12A(2) to the Financial Statements.

Centralization Law

In December 2014, the list of substantial financial bodies under the Law to Promote Competition and Reduce Centralization, 5774-2013 (the "**Centralization Law**") was released. Leumi Card was not included in the original list. In April 2015, the Antitrust Commissioner published an updated list of the significant financial entities according to the Centralization Law, and included Leumi Card therein. Insofar as the Group shall continue to be deemed a significant non-financial corporation and insofar as Leumi Card shall continue to be deemed a significant financial entity, until December 11, 2019, the Group shall be required to reduce its shareholdings in Leumi Card shares below a holding rate of 10%.

On July 10, 2014, the Supervisor of Banks released an update to the Directive on Proper Conduct of Banking Business No. 312, regarding a bank's business with related persons (the "**Amendment**"). Following the Amendment, the controlling shareholders of Azrieli Group, their spouses, children and dependents are defined as "related persons" of a bank, in addition to Azrieli Group, which was included in the definition of "related person" prior to the Amendment. Such expansion may influence the scope of credit which Azrieli Group or any of the corporations included therein will be able to receive from Bank Leumi or Leumi Card. However, at this stage the Company is unaware of such influence.

Debit and EMV

On February 10, 2015, the Supervisor of Banks released a summary report including recommendations regarding increasing the competition in the charge card field, concurrently with the release of a list of directives for implementation of the said move. On June 29, 2015, the Supervisor of Banks released a letter on the issue of "expanding the distribution of debit cards" and an amendment to Proper Conduct of Banking Business Directive no. 470 regarding charge cards, including operative steps for implementation of recommendations pertaining to the expansion of use of debit cards, including with respect to fees which will be charged from the customers and directives regarding the assimilation of the EMV standard in Israel, including with respect to use of smart cards at the terminals and ATM machines. The directives will gradually take effect from July 1, 2015 until December 31, 2018.

Additional Regulatory Changes

Following are details on regulatory changes which are in various stages of legislation and promulgation. There is no certainty that the legislative processes which are detailed will be completed and whether the conditions and the provisions which will be determined will be similar to their language as of the Report Date. Therefore, at this stage, the Company cannot assess if and how these changes, if finally enacted and promulgated will have an effect, if any, on credit card companies in general, and on Leumi Card in particular.

Bill for Regulation of Non-Bank Loans (Amendment No. 3) (Institutional Lenders, Maximum Interest and Penalties), 5775-2015 – On July 27, 2015, a Bill for the Amendment of the Non-Bank Loans Law passed on its first reading in the Knesset, as part of the implementation of the conclusions of the Committee for Increase of Competition in the Banking Sector in Israel (see Chapter "Limitations and Supervision Relating to Credit Cards"). The Amendment

provides a mechanism, different to that which currently exists, for determining maximum interest, and further determines that the provisions of the law relating to the maximum interest rate will be applicable to all the lenders in the market, including banking institutions and credit card companies. The Amendment also provides that a breach of the provisions of the law regarding maximum interest will constitute a criminal offense.

Bill on the Reduction of the Use of Cash, 5775-2015 – On July 27, 2015, the Bill for the Reduction of the Use of Cash, 5775-2015, passed on its first reading in the Knesset, its objective being to gradually limit the use of cash and negotiable checks. *Inter alia*, the law authorizes the Antitrust Commissioner to supervise the cross commission on charge cards and updates the definitions and the applicability of the law on different types of payment cards and debit cards. Pursuant to the bill, the law will only be applicable upon the existence of a system which allows for the clearing of transactions in debit cards, the availability of debit cards, and the availability of debit cards at the Postal Bank, alongside the possibility of opening an appropriate account therefor at the Postal Bank.

Bill on Credit Data Service, 5775-2015 – On October 12, 2015, the bill was published, which was designed to replace the existing law as part of the implementation of the recommendations of the Committee for the Improvement of the Credit Data Sharing System, which was appointed by the Prime Minister and the Minister of Justice on August 26, 2014. The bill determines a comprehensive arrangement for the establishment and operation of a system for sharing credit data of individuals, at the center of which is a public database of credit data which will be established and managed by the Bank of Israel.

Draft of a New Proper Conduct of Banking Business Directive - Clearers and Clearing of Transactions with Charge Cards – On December 10, 2015, the Banking Supervision Department released a drafts of the directive, which applies to every clearer and banking corporation which engages in clearing. The directive defines cleared capital, while a number of relaxations were provided for a clearer, the receivables balance in whose last annual financial statement does not exceed NIS 2 billion, and other relaxations related to a clearer whose receivables balance exceeds NIS 2 billion with regards to the capital requirements according to the Proper Conduct of Banking Business Directives 201-211. In addition, the directive provides protection on money being cleared, with regards to clearers whose receivables balance does not exceed NIS 2 billion, by means of the holding thereof in an escrow account.

The directive requires the determination of a policy for providing clearing services and for approving new businesses, and joint review processes and monitoring of charge refund trends and determines a number of requirements related to the relationship between clearers and businesses.

In addition, the directive allows the clearer to distribute POS equipment for the performance of transactions with charge cards, according to the terms and conditions detailed in the directive.

Furthermore, the provisions which relate to the transfer of money from the clearer to the business in debit card transactions and prepaid cards and regarding the transition to standard EMV, which were regulated in the Proper Conduct of

Banking Business Directive 470, including in accordance with the timetables that were prescribed therein (as detailed above) were moved to the directive.

The directive, if adopted, will become effective on January 31, 2016, except for the sections which were moved from Proper Conduct of Banking Business Directive 470, with respect to which there is no change in the timetables.

On December 20, 2015, the Bank of Israel released an updated draft, which listed the Proper Conduct of Banking Business Directives which will apply to clearers, and with regards to the commencement of the directive, it was provided that a clearer will perform a mapping out of deficiencies on the date of the release of the directive, as compared to the provisions of this directive and will update the Commissioner of the deficiencies, if any, no later than one month from the date of release thereof.

Interim Report of the Committee for the Increase of Competition in Common Banking and Financial Services ("Strum Committee") – On June 3, 2015, the Minister of Finance and the Governor of the Bank of Israel appointed a Committee for the Increase of Competition in Common Banking and Financial Services, including by means of separation of credit card companies from the banks. On December 14, 2015, the committee released an interim report for the public's comments (the "**Interim Report**"), which recommends, *inter alia*: in the retail credit sector (1) addition of new players, supervised non-bank financial service providers, and creation of conditions which will enable them to compete with banks, with emphasis on the information ability to raise the capital required for their business; (2) to allow consumers a choice of financial services and the receipt thereof from all of the financial institutions without being required to transfer their checking account thereto; (3) appropriate regulation which will apply to the non-bank players, for protection against relevant risks.

In addition, the committee recommended the separation of the control of the credit card companies by the banks with retail credit activity for households of 20% or more of the total credit for households, while the control of the credit card companies will be sold within two years, and the remainder within an additional year. In accordance with the Interim Report of the Strum Committee, in addition to the other provisions of law which apply to an entity seeking to purchase control in credit card companies, institutional entities which manage over NIS 100 billion and significant non-financial corporations, may not purchase control in such companies.

Additionally, in accordance with the Interim Report, in order to increase the competition in the clearing market, the Bank of Israel will determine relaxed conditions for the provision of a clearer's license and will regulate the status of a "visiting clearer" for entities which filed an application for a clearer's license, but have not yet receive the approval of the international organizations.

The committee also recommended that the cross commission will be reduced by 2018, at the latest, in accordance with the rate of the cross commission in Europe. Furthermore, a transition from monthly clearing to daily clearing will be carried out within two years from the date determined for the transfer of the control in the credit card companies.

The Interim Report determined that all of the banks will distribute to their customers all of the credit cards on equal terms and without discrimination. From the date of actual transfer of control of the credit card company, the banks will cease to issue their own credit cards and any new credit card that will be distributed will have a non-bank credit facility. It is noted that this recommendation does not prevent the issuance of debit cards by the bank and the distribution of credit cards to a customer whose credit facility is issued by the credit card company chosen by the customer. This restriction will apply for 4 years from the date on which the banks will have no credit facilities for credit cards, and close to the end of the period the report implementation committee will examine the possibility of cancelling this restriction.

According to the report, the separated credit card companies will be permitted to cooperate with financial entities for the purpose of a joint issuance of credit cards, up to 25% of the total issued credit facilities of the credit card company, such that regarding these cards, the provision of credit and the risk therefor, will apply to the financial entity and not to the credit card company.

13.4. Investment in Bank Leumi

On April 30, 2009, the Company acquired from third parties, unaffiliated with the Company, as a passive financial investment, ordinary shares of Bank Leumi, a banking corporation whose shares are listed on TASE, representing approx. 4.8% of the issued and paid-up share capital of Bank Leumi, in consideration for a sum total of approx. NIS 742 million (as of the Report Date, the total investment less a dividend received is approx. NIS 676 million). The value of the Company's investment in Bank Leumi as of December 31, 2015 was approx. NIS 954 million. As of the Report Date, no change has occurred in the said holdings of the Company. The Company's investment in Bank Leumi is presented on its books as an available for sale financial asset, according to GAAP, and as of the Report Date, no decision has been made by the Company in connection with an increase or decrease of such holdings.

In 2015, the Company recorded a comprehensive profit (before tax) of approx. NIS 9 million due to this investment. For details, see Section 1.2.5 of the Board of Directors' Report.

On the date of the acquisition, on April 30, 2009, the share price was 1,055 (agorot). As of December 31, 2015, the share price was 1,350 agorot, whereas at the end of the trading day of March 21, 2016, the share price was 1,374 agorot.

In 2015, Bank Leumi did not distribute a dividend to its shareholders; the total amount of dividends received from the date of investment due to Bank Leumi's shares is NIS 67 million. Bank Leumi's financials are publicly posted on the distribution website of the ISA at www.magna.isa.gov.il and on the TASE website at www.tase.co.il.

13.5. Investments in high-tech start-up companies and investment funds

The Company invests subsequent investments in various high-tech start-up companies with a special emphasis on the medical, telecommunications, software and other such segments, which, in its estimation, have a large market potential and reflect innovation in their segments. The Company's investments in venture capital are made in amounts that are immaterial to the Company, with the intention of disposing of these investments upon the sale of the target company, the sale of its technology or its issue to the public.

As a general rule, most of the Company's investments are in companies that have undergone the preliminary stage of development of the products and/or the services thereof. These investments are risk-intensive, and their results depend, *inter alia*, on many external factors over which the Company has no control.

As of December 31, 2015, the Company has invested in 4 active investment funds and start-up companies, which are presented at fair value in the sum of approx. NIS 25,162 thousand, as compared to a fair value in the sum of approx. NIS 24,784 thousand as of December 31, 2014.

13.6. **Holdings in other foreign companies**

As of the Report Date, the Company holds, through Otzem Initiation & Investments (1991) Ltd., full ownership of Azrieli Insurance Corporation in Barbados, which serves as a reinsurer for companies that provide property insurance services. As of the Report Date, Azrieli Insurance Corporation provides reinsurance services only with respect to insurance granted to the Group's companies.

In addition, the Company holds approx. 3.8% of the issued and paid-up share capital of Health and Fitness East Med. B.V., which operates the "Holmes Place" chain of fitness centers in Greece.

Part Seven: Matters Common to the Group's Activities in All of its Operating Segments[26]

14. Fixed assets, land and facilities

The Company's offices are situated on the 48th floor of the Round Tower in Azrieli Center in Tel Aviv. The Company leases its offices, a gross area of 1,520 sqm, from Canit Hashalom for a long-term period, for immaterial amounts.

The Group has no material fixed assets.

For details regarding fixed assets used by Sonol, see Section 11 of Chapter A above.

The main fixed assets of Palace Tel Aviv are a building which includes the nursing and recuperation wings, See Section 13.1 of Chapter A above.

Supergas' main fixed assets are equipment that is loaned to its customers to be used for LPG supply, such as: stationary or portable gas tanks, meters, regulators and other gas equipment which is installed at Supergas' customers (both the domestic customers and the commercial and institutional customers). For the most part, upon expiration of the engagement the customer is required to return the equipment loaned thereto to Supergas.

15. Intangible assets

The primary trade mark of the Company and the Group companies (excluding Granite and its subsidiaries) which is under registration processes, is a designed mark which includes the inscription "Azrieli Group", and the Group's logo:

As of the Report Release Date, the Company owns approx. fifty registered trademarks**,** of the trademark Malls Group itself or together with the name of the relevant mall and/or retail center in respect of all of the malls and commercial centers owned by the Group and the Multi Azrieli trademark. In addition, the Group filed additional applications for registration of trademarks that are still in the process of registration and review, mainly due to new properties and properties under construction, including an application to register trademarks of the shape of the ball that appears at the entrance to some of the Company's malls, which was registered as a 1D and 2D trademark.

Registration of trademarks is valid for 10 years and can be renewed, in a resolution of the Company, for additional periods of 10 years each, without restriction, subject to the payment of a renewal fee.

For details regarding intangible assets with respect to Sonol, see Section 11 above.

[26] The provisions of this part "Matters Common to the Group's Activities in All of its Operating Segments" do not include the operating segment of Sonol or Granite Hacarmel and companies controlled thereby unless explicitly stated otherwise.

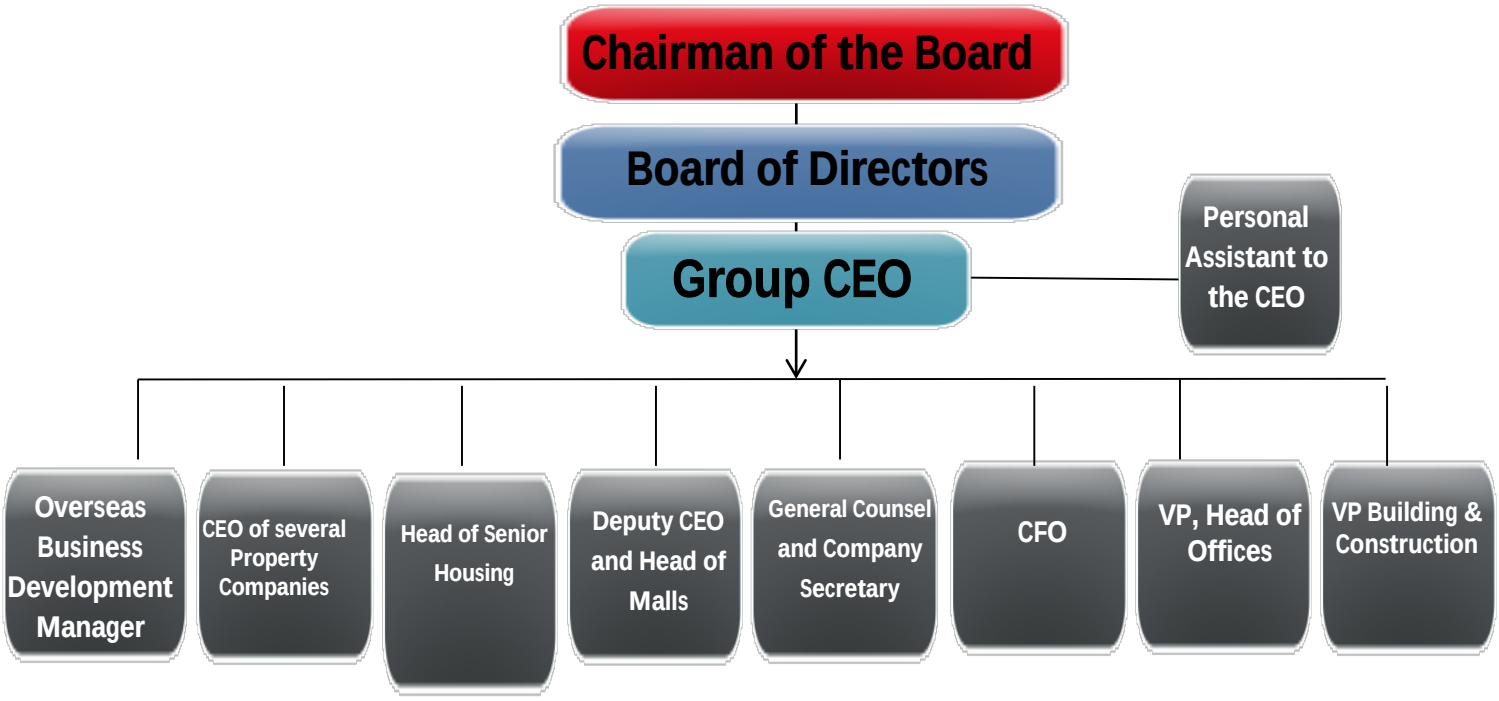
16. Human capital

16.1 General

The Company places special emphasis on the quality of human capital, particularly at the Company's management level, by hiring a professional workforce with vast knowledge and experience in a variety of fields which are required within the framework of the Company's operating segments. Most of the Company's employees, mainly at its management level, have significant seniority in the Company, and vast experience in its operating segments. The specification in this Section does not include reference to human capital aspects in relation to Sonol. (For details regarding the human capital in Sonol, see Section 11 in Chapter A of the Report). In view of the aforesaid, in this section, the term "Group" does not include Sonol and other business of Granite Hacarmel.

16.2 Organizational structure and workforce

The diagram below describes the Group's organizational structure as of the Report Release Date:



As of December 31, 2015, the Group companies employ 287 employees. The segmentation of the employees in the main segments is detailed below:

Department	Number of Employees as of December 31, 2015	Number of Employees as of December 31, 2014
Management Headquarters*	**55**	**51**
Commercial Centers and Malls Segment	**160**	**140**
Office and Other Space for Lease in Israel Segment	**71**	**68**
Income-producing property in the U.S. Segment**	**1**	**1**
Total	**287**	**260**

* 5 employees of the management headquarters are attributed to the senior housing segment.
**One employee from the management headquarters is attributed to the income-producing property in the U.S. segment.

The Group's management and headquarters employs 55 employees, including the Group's CEO, the Deputy CEO and Head of Malls, CFO, General Counsel and Company Secretary, VP and Head of the Office Segment, Overseas Business Development Manager, Head of Senior Housing and VP Engineering and Construction. The people that belong to the Group's managerial headquarters are people with vast managerial experience, many of whom have been by the Group's side for many years. The increase in the number of employees at the headquarters versus the previous year is mainly attributed to the increase in the senior housing operations. 160 employees work for the Group's commercial centers and malls segment, of which 140 work on the management and maintenance teams of the commercial centers and malls, which engage in the current management of the commercial centers and malls, and 20 employees provide marketing services to all of the Group's commercial centers and malls.

71 employees work in the office and other space for lease in Israel segment, of which 67 work on the segment's management and maintenance teams which engage in the current management of the offices, and 4 engage in the provision of marketing services.

As of the Report Date, the income-producing property in the U.S. segment is managed by the Company's headquarters and the Overseas Business Development Manager and management services and other services are provided to the Group in this segment by local professional management companies, as of the Report Date.

As of the Report Date, there are, between the Company and the Group companies, cooperation and agreements in connection with the provision of management services between themselves, including, *inter alia*, financial advice, strategic advice and current management advice, in consideration for a monthly payment. In addition, there are management agreements with the Group companies which derive, in part, as a percentage of such company's total expenses. The total payments that were made between the Group companies (including a management agreement between Granite Hacarmel and Canit Hashalom) for these management services, in 2014 and 2015, amounted to the sum of approx.NIS 44 million and approx. NIS 50 million, respectively. For details regarding changes in the office of officers of the Company in the Report Period, see a specification with respect to Section 26 and Section 26A in Chapter D of the Report.

16.3 **Investing in training, instructing and developing the human capital**

The Group companies hold training and instruction workshops from time to time for their employees in accordance with the employee's position and the Group's needs, in order to ensure that employees have adequate training. Once a year, the Company holds concentrated training for officers and employees of the Company in accordance with the Company's Internal Enforcement Program, including in the areas of securities, business licensing, labor law, environment, safety and accessibility, prevention of sexual harassment as well as additional training held from time to time according to need. Employees of the Group companies keep abreast of fields touching on their responsibilities in the Group, from time to time, by participating in exhibitions, seminars, conferences and professional courses.

16.4 **Benefits given to employees and the nature of the employment agreements**

Employees in this Group are hired pursuant to personal contracts and no collective bargaining agreements apply.

The employment conditions of the Group's employees include, in some cases, *inter alia*, *per diems*, travel expenses / car maintenance / making a vehicle available to the employee, managers insurance / pension fund, advanced training fund, annual leave, recuperation pay, basic health insurance, work disability insurance, payment for global overtime, reimbursement of expenses and a 13th salary.

Additionally, the Group's third party insurance policy is an extended policy that includes coverage for professional liability for the management companies and the Company's employees who are professionals, with a liability cap of $2 million per incident and per insurance period, as part of the policy's liability cap.

In addition to the above, all of the Company's and the Group Companies' liabilities are covered in respect of the employees' social benefits and termination of the employment relationship by deposits that are made in severance pay funds and insurance policies and/or provisions that exist on the Company's books. For a description of the Company's liabilities in relation to the employees' social benefits and termination of the employment relationship, see Note 22 to the Company's Financial Statements.

16.5 **Hiring officers and senior management employees in the Group**

As of the Report Date, members of senior management in the Group are hired as employees under personal employment agreements or through management agreements.

The Company estimates that the Group headed by the Chairman of the Board, Ms. Danna Azrieli and the CEO of the Group, Mr. Yuval Bronstein, as well as the experienced officers and managers in the Company who are considered professional and leading in the field, constitute some of the success factors for the Company's business results.

The Group's business was established by Mr. David Azrieli OBM and has developed, *inter alia*, on the basis of the know-how and vast experience accrued thereby over many years in the income-producing property, mainly in Israel.. Mr. Menachem Einan, who joined him and served as the Company's CEO for 20 years ended his term office as active Deputy Chairman of the Board in the end of February 2015. In view of the great appreciation toward his vast experience and unique acquaintance with the Company's operating segments and plans, the Company engaged Mr. Einan in a consulting

agreement pursuant to which Mr. Einan shall provide 40 monthly consulting hours in various strategic matters, as he may be requested from time to time by the Company's Board of Directors and/or the Chairman of the Board, including in respect of areas relating to financing, the capital market, sale proceedings of Granite Hacarmel's subsidiaries and business development of overseas income-producing properties. For details regarding the agreement with Mr. Einan see immediate report of March 18, 2015 (Ref.: 2015-01-053536) included herein by way of reference. On March 22, 2016 the Company's board of directors appointed Mr. Einan as a regular director, for no consideration.

16.6 **The Group's officers compensation plan**

For details regarding the Company's officer compensation policy which was approved on September 11, 2013 by the general meeting of the Company's shareholders, and was amended on December 28, 2014, see immediate reports dated September 2, 2013 and December 23, 2014 (Ref.: 2013-01-135633 and 2014-01-228996, respectively) included herein by way of reference.

For details regarding the allotment of phantom units to an officer of the Company, see Note 37C(6) to the Financial Statements.

17. Working capital

The specification in this Section 17 does not include reference to working capital aspects of Sonol and of Granite Hacarmel and additional companies controlled thereby. (For details regarding the working capital of Sonol, see Section 11 in Chapter A of the Report. In view of the aforesaid, in this section, the term "Group" does not include Sonol and Granite Hacarmel and companies controlled thereby).

17.1 **Working capital**

As of December 31, 2015, the Group has negative working capital (without Granite Hacarmel) in the sum of approx. NIS 1 billion compared with negative working capital in the sum of approx. NIS 2 billion, as of December 31, 2014. The deficit in the working capital mainly derives from the decision of the Company's management, at this point, to finance its activity through short term credits, considering the business opportunity of low rates of interest on these credits. For details on the Company's estimation regarding the deficit in the working capital see Section 1.5(c) of the Board of Directors' Report.

The company estimates that should it decide to exchange the said credit for long term credit at any point in time, it would be able to do so and therefore the aforesaid working capital deficit does not affect its ability to timely repay its liabilities.

For details regarding the Company's liquid means and its credit raising possibilities, see Section 1.5 of the Board of Directors' Report.

17.2 **Customer credit**

In the income-producing property segment there is no customer credit since the lease agreements with tenants contain provisions for payment of rent in advance and for monthly or quarterly periods. The Group collects the rent pursuant to the terms and conditions of the lease agreement, usually, by way of a standing order, bank transfers and postdated checks. The tenants, before the handing over of the leased premises

thereto, provide collateral for performance of their undertakings pursuant to the lease agreements and the management agreements (bank guarantees, deposits, promissory notes, personal guarantees, etc.). The cases in which rent is not paid in advance are immaterial to the Group.

17.3 **Suppliers credit**

The Company receives credit from its suppliers (primarily contractors and maintenance service providers) for average periods ranging from 15 to 60 days, after the requested service has been completed (on average - a period of approx. 45 days). The scope of credit from suppliers in the Group, as of December 31, 2015, amounted to approx. NIS 125 million, compared with a sum of approx. NIS 196 million as of December 31, 2014.

18. Financing

18.1 **General**

Unless stated otherwise, the specification in this Section 18 does not include reference to financing aspects with respect to Sonol and with respect to Granite Hacarmel and other companies controlled thereby. For details regarding the financing in Sonol, see Section 11 in Chapter A of the Report. For details regarding Granite Hacarmel's financing, see sec 18.16 of Chapter A of the Report. In this section, the term "Group" does not include Sonol, Granite Hacarmel and other business of Granite Hacarmel.

The Group finances its activities from independent resources, from bank credit from financial institutions and non-bank credit, including through the issue of bonds from institutional bodies.

The Group has long-term liabilities to banking corporations and non-bank financing sources amounting, as of December 31, 2015, to the sum of approx. NIS 5.9 billion (including current maturities). Most of the agreements include provisions pursuant to which the Company has the right to prepayment which is contingent, in most cases, upon the payment of a prepayment fine to the financing entity. Additionally, the loan agreements with banking corporations contain certain conditions, upon the occurrence of which, the banks may accelerate the loan amounts (primarily in the case of restructuring and a change of control in the Company, delinquent payments, receivership, and an adverse change in the value of the collateral, if and insofar as collateral was provided). To the best of the Company's knowledge, as of the Report Release Date, the conditions for acceleration of the loans have not been fulfilled.

For details concerning the financial liabilities of the Group as of December 31, 2015, see Section 1.5(e) of the Board of Directors' Report. For details concerning projected payments per year, see immediate report on the Company’s status of liabilities dated March 23, 2016 which is published concurrently with this Report. For further details concerning the Company’s financing in general, see Section 1.5 of the Board of Directors' Report.

18.2 **The Group’s loan balance (not intended for specific uses) as of December 31, 2015**

Set forth below is a specification of the average interest rate and the effective interest rate (which as detailed below, on the Report Date, is identical to the average interest) on long-term loans and short-term loans that were in effect during 2015, and which are not

intended for specific uses by the Group, while distinguishing between bank credit sources and non-bank credit sources:

	Long-Term Loans			Short-Term Loans		
	Amount (NIS in thousands)	**Average Interest Rate**	**Effective Interest Rate**	**Amount (NIS in thousands)**	**Average Interest Rate**	**Effective Interest Rate**
Non-bank Sources - Index Linked Financing	2,993,999	1.73	1.72	--	--	--
Banking Sources - Index Linked Financing	448,032	4.66	4.66	--	--	--
Banking Sources - NIS Financing	6,250	5.5	5.5	--	--	--
Non-Bank Sources - NIS Financing	--	--	--	629,992	0.4	**0.4**
Total Financial Liabilities	**3,448,281**	**2.12**	**2.11**	**629,992**	**0.4**	**0.4**

18.3 **Reportable credit made available to the Company**

Set forth below is a specification of the balances of the material loans that were provided to the Company as of December 31, 2015 (NIS in thousands)[24].

Date of provision of the Loan	Designation of the Loan	Type of Loan			Balance (including current maturities) as of December 31, 2015 (NIS in millions)	Type and rate of annual interest	Linkage	Guarantees / collateral (NIS in thousands)	Date for payment of long-term loans
		Banking corporation	Short-term	Long-term					
March 2007	Current needs	Banking Corporation B		X	289	4.75% fixed	The consumer price index	Undertaking not to create a floating charge on all of the assets without the bank's consent	Until March 2017
August 2013	Financing of Azrieli Center	Institutional body group		X	533	1.16% fixed	The consumer price index	Pledge of the rights of Canit Hashalom in part of the lobby floor, in the roof floor and in floors 11-49 of the Round Tower in Azrieli Center in Tel Aviv. A right of acceleration on accepted grounds which are set forth in the agreement, which include, *inter alia* – an adverse material change in the tenant status or a ratio between the loan balance on the date of the calculation and the value of the Round Tower (according to an external appraisal once a year) (LTV), from the second anniversary of the provision of the loan, shall exceed 70% (which rate declines to 25% over the loan period). As of the Report Date, the Company meets the covenant.	Until August 2021
December 2013	Purchase of Givatayim Mall	Banking corporation		X	297	1.1% fixed	The consumer price index	1) Undertaking to register a mortgage; 2) First-ranking pledge of contractual rights deriving from the mall; 3) First-ranking fixed charge on all of the rights deriving from the mall; 4) First-ranking floating charge on all of the rights in the mall; 5) Undertaking not to create a floating charge on all of the assets without the bank's consent.	Until March 2017

The Company has other non-material loans from banking corporations whose balance on the books, as of December 31, 2015, is approx. NIS 0.8 billion. These loans bear interest ranging between 0.74% and 5.8%, which shall be paid in 2016-2023. One of these loans has a financial covenant, with which the Company complies as of the Report Date.

In addition, the Company undertook vis-à-vis some of the banking corporations not to create a floating charge on all of its assets without receipt of their consent, and that in the event of a breach vis-à-vis the banking corporations, they will be entitled to accelerate also other loans that shall have been given to the Company.

As of December 31, 2015, the total long-term credit received from Bank Hapoalim amounts to the sum of approx. NIS 369 million, and the total long-term credit received from Bank Leumi amounts to the sum of approx. NIS 762 million.

[24] In accordance with legal position no. 104-15: Reportable Credit Event, of October 30, 2011, *http://www.isa.gov.il/Download/IsaFile_6187.pdf*, and the parameters that the Board of Directors approved for examination of materiality in the reporting procedure in the framework of the Internal Enforcement Program.

As of December 31, 2015, the Company has no short-term loans from banking corporations.

As of December 31, 2015, the scope of the Group's non-pledged investment property is in the sum of approx. NIS 14.3 billion, as specified in Section 1.5 of the Board of Directors' Report, out of the sum total of the Group's income-producing properties in the sum of approx. NIS 20.5 billion. For details on non-bank credit see in this section below.

18.4 **Reportable credit made available to the Group Companies**

Set forth below is a specification of the balances of the material loans that were provided to the Group companies as of December 31, 2015 (NIS in thousands):

Borrower Corporation	Date of Provision of the Loan	Designation of the Loan	Type of Loan			Balance as of December 31, 2015 (Company's share) (NIS in millions)	Annual Interest Rate	Linkage	Guarantees NIS in thousands/ Pledge	Date of Payment of Long-Term Loans
			Banking Corporation / Financial Institution	Short-Term	Long-Term					
Shareholders in the property[25]	February 2014	Acquisition of Three Galleria	Foreign financial institution A		X	**484**	%5.998	US Dollar	Pledge of the property and all of the rights relating thereto and deriving therefrom. Guarantee of the Company, forfeitable only in several specific instances defined in the loan agreement. The Company's undertaking to indemnify the financer for its damage in the event of certain breaches of the buyer's undertakings in the loan agreement	Until February 2021

The Group has other non-material loans whose balance on the books, as of December 31, 2015, is approx. NIS 704 million, out of which an amount of approx. NIS 658 million are linked to foreign currency and bear interest ranging between 1.7% and 5.5%, which shall be paid in 2016-2025 and there are no financial covenants for these loans. A balance of approx. 47 million constitutes a Shekel variable interest loan against which there are pledges and financial covenants and it is payable in the years 2016-2022.

As of December 31, 2015, the Group companies' total short-term credit received from Bank Hapoalim amounts to the sum of approx. NIS 24 million.

[25] The loan was taken by Three Galleria Office Buildings, LLC, which is indirectly held 90% by the Company. The amount of the loan is in respect of 100% of the loan.

18.5 **Non-Bank Financing for the Company**

Commercial paper

In March 2015 the Company issued a new series of unrated commercial paper in the amount of NIS 116 million par value and in June 2015 it expanded this series by additional NIS 40 million and in November it repaid NIS 6 million out of this series. That is in addition to the existing rated series at a total amount of NIS 480 million par value. For details regarding the commercial paper of the Company see Note 21B(3) to the financial statements. For details with respect to the rating of commercial paper of the Company, see Section 18.11.4 of Chapter A of the Report. As of the Report Date, the Company has two series of commercial paper, a rated series totaling at NIS 480 million and an unrated series totaling at NIS 150 million.

The Company's Series A Bonds

In the Report Period, principal and interest payments were made in accordance with the payment schedule thereof. As of the Report Date, the balance of the par value of the Company's Series A Bonds is NIS 444 million. In accordance with the terms and conditions thereof, the final maturity date of the Company's Series A Bonds is March 31, 2017. The Series A Bonds are registered for trade on the TACT Institutional system, and the Company shall be entitled, at its sole discretion, to register the Series A Bond for trade on TASE. For details regarding the current credit rating of Series A Bonds, see Section 18.11.1 of Chapter A of the Report. For details on the Company’s bonds see Note 21B(4) to the Financial Statements.

The Company's Series B Bonds

On February 8, 2015, the Company published a shelf offering report for the issue and listing on TASE of up to NIS 700 million par value of a new Series B bond series, by virtue of a shelf prospectus of the Company. On February 10, 2015, the Company announced that according to the issue results, approx. NIS 623 million par value of a Series B bond series had been allotted in consideration for approx. NIS 623 million (approx. NIS 619 million after attribution of issue expenses).

On June 21, 2015, the Company released a shelf offering report for the issue and listing on TASE of up to NIS 685 million, par value, offered by way of expansion of the Company’s Series B bond series, by virtue of a shelf prospectus of the Company. On June 23, 2015, the Company announced that in accordance with the results of the issue, an additional approx. NIS 600 million par value of the Series B bond series had been allotted in consideration for the sum of approx. NIS 599 million (approx. NIS 594 million after attribution of issue expenses). For details regarding the Series B Bonds see Note 21B(3) to the Financial Statements. For details regarding the current credit rating of the Series B Bonds see Section 18.11.2 of Chapter A of the Report.

As of the Report Date, the balance of par value of the Company's Series B Bonds in circulation is NIS 1,223.6 million.

The Company's Series C Bonds

On September 3, 2015, the Company released a shelf offering report for the issue and listing on TASE of up to NIS 1.1 billion par value of a new Series C Bond series by virtue of a shelf prospectus of the Company. On September 3, 2015, the Company announced

that in accordance with the results of the offering, approx. NIS 1 billion par value Series C Bonds were allotted in consideration for the sum of approx. NIS 1 billion (approx. NIS 997 million after attribution of issue expenses). For details regarding the Series C Bonds, see Note 21B(4) to the Financial Statements. For details regarding the current credit rating of the Series C Bonds see Section 18.11.3 of Chapter A of the Report.

As of the Report Date, the par value balance of the Series C Bonds of the Company in circulation, is NIS 1,005.1 million.

18.6 Non-Bank Financing for the Group Companies

Series A Bonds of Canit Hashalom

In the Report Period, principal and interest payments were made in accordance with the payment schedule thereof. In the end of June 2015, Canit Hashalom paid the entire payment balance of the Series A Bond series of Canit Hashalom in circulation, at a total of NIS 319 million and the series expired and was delisted from TACT-Institutional, the pledges in respect thereof on the Company's assets were removed, guarantees expired and the rating thereof was discontinued. For further details see Note 21B(2) to the financial statements.

Inter-Company Loans

Set forth below is a specification of the balances of loans provided between the Group companies, excluding inter-company debit and credit balances, as of December 31, 2015 (NIS in millions) in amounts exceeding NIS 20 million:

The Lending Corporation in the Group	The Borrowing Corporation in the Group	Date of Provision of the Loan	Original Loan Amount (NIS in millions)	Last Date For Payment	Annual Interest	Linkage	Balance Of Loan Amount As Of Dec. 31, 2015 (NIS in millions)
Canit Hashalom (1)	Gemel Tesua	January 2009	74	January 2019	---	---	**74**
Canit Hashalom (2)	**AG Galleria Office Buildings LP**	**February 2011**	**99**	**February 2021**	**Libor+ 7.1%**	**U.S. $**	**111(3)**

*For a description of the balances of the loans provided by the Company to the Group companies, see Section 11 of Part D of the Report.

(1) Against the loan, Gemel Tesua issued a capital note in the sum of NIS 74 million to Canit Hashalom, bearing neither interest nor linkage, and the date of payment thereof will be no earlier than January 1, 2019, although the parties may agree to postpone the payment date. Payment of the capital note is not secured by any collateral and is inferior to other Gemel Tesua undertakings and precedes only the distribution of surplus assets upon dissolution.

(2) The loan is in the sum of approx. U.S. $28 million.

(3) The loan balance, including unpaid interest as of December 31, 2015, is approx. NIS 161 million.

18.7 Credit Restrictions

The Series A bonds issued by the Company included an undertaking not to distribute dividends to the Company’s shareholders if the credit rating may be prejudiced. For further details, see Section 18.11 of Chapter A of the Report.

For a description of the Company's undertakings in connection with the issue of the Series B Bonds and Series C Bonds vis-à-vis the bondholders, see Note 21B to the Financial Statements.

For the purpose of securing sufficient liquidity for payment of the commercial paper, the Company has undertaken to keep liquid cash balances and/or signed and unused credit facilities and/or other liquid financial holdings at a total scope of at least NIS 200 million.

As of December 31, 2015, and as of the Report Release Date, the Company meets all of the restrictions imposed thereon as stated above.

18.8 **Credit Facilities**

As of the Report Date, the Group has not been provided with any binding credit facilities or non-binding credit facilities.

18.9 **Bank and Non-Bank Credit Received Between the Date of the Financial Statements as of December 31, 2015 until Close to the Report Release Date**

In March 2016 the Company took short-term credit with variable interest from a banking corporation in the amount of NIS 150 million.

18.10 **Loans that were repaid between the date of the Financial Statements as of December 31, 2015 and close to the Report Release Date:** no such loans have been repaid, over and above current payments in accordance with the payment schedule of each loan.

18.11 **Credit Rating**

18.11.1 Rating of the Company's Series A Bonds:

Rating Company	Date of the Rating	The Rating	Comments
Maalot	March 2007	AA	
Maalot	May 2009	AA	The rating is on the monitoring list with negative implications
Maalot	December 2009	AA – stable outlook	The Company was removed from the monitoring list
Maalot	December 2010	AA – positive outlook	
Maalot	November 2011	AA stable	
Maalot	December 2012	AA stable	
Maalot	October 2013	AA stable	
Maalot	**January 2015**	**AA+ stable**	**Present rating**
Midroog	March 2007	Aa2	
Midroog	August 2010	Aa2 stable outlook	
Midroog	June 2011	Aa2 stable outlook	
Midroog	June 2012	Aa2 stable outlook	
Midroog	August 2013	Aa2 stable outlook	

Midroog	June 2013	Aa2 stable outlook	
Midroog	September 2014	Aa2 stable outlook	
Midroog	**September 2014**	**Aa2 stable outlook**	Rating for private loan in the sum of NIS 250 million.
Midroog	**November 2015**	**Aa1 stable outlook**	**Present rating**

18.11.2Rating of the Company's Series B Bonds:

Rating Company	Date of the Rating	The Rating	Comments
Maalot	January 2015	**AA+ stable**	
Maalot	June 2015	**AA+ stable**	**Present rating**

To inspect Maalot's rating report of the Company's Series B Bonds, see the Company's immediate report of June 21, 2015 (Ref.: 2015-01-052239) included herein by way of reference. To inspect the full report on the Company's rating by Maalot, see the Company's immediate report of January 31, 2016 (Ref.: 2016-01-020275), included herein by way of reference. To inspect Midroog's rating report for a private loan in the sum of NIS 250 million, see the Company's immediate report of September 21, 2014 (ref. 2014-01-161508), included herein by way of reference. To inspect Midroog's annual monitoring report, see the Company's immediate report of November 1, 2015(Ref.: 2015-01-146127), included herein by way of reference.

18.11.3Rating of the Company's Series C Bonds:

Rating Company	Date of the Rating	The Rating	Comments
Maalot	September 2015	**AA+ stable**	**Present rating**

To inspect Maalot's rating report of the Company's Series C Bonds, see the Company's immediate report of September 3, 2015 (Ref.: 2015-01-112698) included herein by way of reference

18.11.4Rating of the Company's commercial paper:

Rating Company	Date of the Rating	The Rating	Comments
Midroog	July 2009	P-1	
Midroog	June 2011	P-1	
Midroog	June 2012	P-1	
Midroog	**June 2013**	**P-1**	
Maalot	**June 2014**	**ilA-1+**	**Present rating.**

To inspect Maalot's rating report, see the Company's immediate report of June 23, 2014 (Ref.: 2014-01-096798), included herein by way of reference.

18.11.5 Series A Bonds of Canit Hashalom

To inspect Midroog's announcement, that in view of the final repayment of the Series A Bonds of Canit Hashalom, Midroog terminates the rating of the series, see the Company's immediate report of August 16, 2015 (Ref.: 2015-01-097389), included herein by way of reference.

18.12 Pledges

For details regarding various pledges which were created by the Company and the Group's companies for the securing of their liabilities, see Note 32 to the Financial Statements.

18.13 Guarantees

In the ordinary course of business, at the request of the Company, bank guarantees are issued by banking corporations in connection with its properties, including guarantees to secure the undertakings of the Company and the Group companies, and performance guarantees which, as of December 31, 2015, are in the aggregate sum of approx. NIS 146 million. For information regarding additional guarantees which the Company has issued, *inter alia* in relation to the financing of the acquisition of properties overseas, see Sections 5-8 of Note 32B to the Financial Statements.

18.14 Credit at Variable Interest

The Group has several loans from banking sources in credit at variable interest. Most of the credit was taken in Shekel currency linked to Prime or Bank of Israel interest, and the remainder in foreign currency linked to the LIBOR, plus a margin determined in relation to each loan. The foregoing credit changes in accordance with changes in the LIBOR interest or the Prime or Bank of Israel interest. Set forth below is a specification of the range of (nominal) interest for the periods of the Report, as well as the interest rate in proximity to the Report Release Date in respect of the loans at variable interest:

Type of Credit	**Currency**	**Scope of the Credit in Proximity to the Report Release Date (NIS in millions)**	**Interest Rate in Proximity to the Report Release Date (in %)**	**Interest Range in the Reported Periods (in %)**	
				December 31, 2015	**December 31, 2014**
Non-Bank Credit	NIS	630	0.4%	0.4%	**0.55%**
Bank Credit	Pound Sterling	**24**	**1.7%**	**1.7%**	**1.7%**

The Company's management estimates that the Company and/or the companies of the Group will be required to raise additional funds, insofar as required, according the Company's decision, for the purpose of its business operations, the continued construction of the projects under construction and investment in new projects.

In May 2016 the Company's shelf prospectus shall expire and the Company intends to act for the publication of a new shelf prospectus.

18.15 Regulatory Implications

The instructions of the Supervisor of Banks in Israel include borrower group and "individual borrower" limits that affect the provision of credit beyond certain scopes, relative to the total liability of one group of borrowers and total liabilities of the six largest borrowers of the bank. Azrieli Group, together with Granite Hacarmel, and companies controlled thereby may be considered one "group of borrowers" for this purpose.

In accordance with Section 26 of the Law to Promote Competition and Reduce Centralization, 5774-2013, provisions are to be determined in respect of limitations on credit to be provided by financial entities to a corporation or a business group. A 'business group' is defined in said Section as the "controlling shareholder and the companies controlled thereby", notwithstanding the inclusion of any of such entities in the list of centralized bodies. In the context of the report of the Committee to Assess Debt Restructuring Proceedings in Israel (the "Andorn Committee") that was released in November 2014, several recommendations were included regarding such matter, including a credit limit of business groups, whose effective credit exceeds 5% of the market business credit, and an imposition of a reporting obligation to the Committee for Reduction of Centralization on companies whose effective credit exceeds 3% of the scope of market business credit. As of the Report Date, such recommendations have yet to receive statutory or binding status and the Company is not aware of other new limitations deriving from the Centralization Law. It should be noted that insofar as is known to the Company's management, as of the Report Date, a borrower limit does not apply to the Azrieli Group and/or Granite Hacarmel.

18.16 Financing of Granite Hacarmel Group

18.16.1 Financing sources

As of the Report Date, Granite Hacarmel, Supergas and GES finance their activity from bank loans and monies received from the issuance of non-negotiable bonds to institutional investors.

18.16.2 Loans and interest rates at Granite Hacarmel Group

Details of the average interest rate and the effective interest rate on long-term and short-term loans, from bank sources and non-bank sources, in Granite Hacarmel, Supergas and GES, as of December 31, 2015 and as of December 31, 2014:

As of December 31, 2015:

	Long-term			Short-term		
	Amount (NIS in thousands)	**Average interest rate**	**Effective interest rate**	**Amount (NIS in thousands)**	**Average interest rate**	**Effective interest rate**
Non-bank sources – index linked	417,165*	4.9%	5.26%	--	--	
Bank Sources – index linked	38,132	3.77%	3.61%	--	--	
Bank sources – dollar linked	--	--	--	31,324	3.6%	
Bank sources – NIS	65,822	5.9%	--	27,349	2.35%-2.85%	
Total financial liabilities	521,119		--	58,673		

* Net of the bonds issue expenses

As of December 31, 2014:

	Long-term			Short-term		
	Amount (NIS in thousands)	**Average Interest rate**	**Effective interest rate**	**Amount (NIS in thousands)**	**Average interest rate**	**Effective interest rate**
Non-bank sources – index linked	452,843*	4.9%	5.26%	1,621	4%	
Bank Sources – index linked	39,159	3.77%	--	--	--	
Bank sources – dollar linked	--	--	--	39,417	5%-6.3%	
Bank sources – NIS	133,333	5.9%	--	146,924	2.75%-3%	
Total financial liabilities	625,335			187,962		

* Net of bonds issue expenses.

18.16.3 Credit Facilities

As of December 31, 2015 Granite Hacarmel has a long-term loan balance from a bank in the sum of approx. NIS 66 million. The loan is repayable in semiannual principal payments until November 2018. To secure the debt, Granite Hacarmel pledged to said bank 50% of its rights in Sonol, and undertook not to pledge any assets. Granite Hacarmel undertook to comply with covenants determined in the agreement, including minimum equity, equity to assets ratio and a credit limit.

The subsidiaries Supergas and GES have short-term credit facilities which are agreed with the banks in the amount of approximately NIS 260 million, some of which are secured and some are not due to the high credit allocation fees. The used credit balances as of the Report Date amount to approx. NIS 59 million. The average interest rate applicable to the said facilities is Prime+ 1%. It should be noted that short-term credit from banks generally bears unlinked shekel interest at variable interest, which is a function of the Prime interest rate. The Prime interest rate varies monthly according to the determination of the Bank of Israel.

In December 2013, a subsidiary of Supergas entered into a financing agreement with a bank for financing the natural gas activity. The financing agreement included, *inter alia*, a long-term dollar loan facility at a scope of approx. NIS 70 million, and as of December 31, 2015, the company withdrew a sum of approx. NIS 29 million of such facility. During February 2016, Supergas paid the said credit and cancelled the financing agreement.

18.16.4 Bonds issued by Supergas

In July 2007, a consolidated company of Supergas, which was established for the purpose of the issue and to which were transferred most of the domestic gas activity and some of the commercial gas activity for marketing gas in portable gas containers, issued to institutional investors by way of a private placement, bonds with a total par value of approx. NIS 600 million. The bonds are rated Aa1 by Midroog Ltd., are for a period of 18 years and have been paid in quarterly principal installments since 2010. The bonds are linked to the CPI (principal and interest) and bear interest at an annual rate of 4.9%, which is paid once every calendar quarter. As of December 31, 2015, Supergas' liability in respect of the bonds amounts to approx. NIS 417 million.

In June 2014, Supergas completed a proceeding for changing the bonds issued thereby in 2007, which included the bringing forward of certain principal payments (constituting approx. 11.5% of the balance of the bonds), which in accordance with the original terms of the issue were due in the course of the next five years, and the flattening of quarterly principal payments such that they shall be uniform and equal. In this context, Supergas repaid 51,829,380 par value in the total amount of approx. NIS 75 million par value that includes approx. NIS 12.3 million paid due to the bringing forward of the repayment date. In addition, the company undertook, that in the event that Canit Hashalom Investments shall cease to be a controlling shareholder of Supergas, Granite Hacarmel shall make an offer to the bond holders for the purchase of bonds at a scope of no less than 45 million par value and at a price reflecting the adjusted value of the bonds on such date.

The bonds are secured by a first-ranking floating charge, unlimited in amount, on all of the assets of Supergas' consolidated company. In addition, Supergas charged, in a first-ranking fixed charge, unlimited in amount, all of the consolidated company's shares owned and held thereby, including the rights deriving from such shares.

In accordance with the terms and conditions of the bonds, Supergas' consolidated company is required to meet financial covenants. Deviation from the financial covenants will allow the bondholders to demand acceleration or prepayment. As of December 31, 2015, Supergas' consolidated company meets the covenants determined. For further details, see Note 21B(5) to the Financial Statements.

18.16.5 For details regarding limitations, including financial covenants of Granite Hacarmel and its consolidated companies, see Notes 10B to the Financial Statements.

18.16.6 Liens and guaranties

A floating charge, unlimited in amount, on all of the assets of Supergas (including the fixed assets thereof), and a fixed charge on their uncalled and/or unpaid share capital, goodwill, securities and mortgaged documents have been placed in favor of the banks financing its operation. Pursuant to the floating charge, Supergas undertook not to create additional charges without the consent of the banks and subject to the conditions as set forth in the bonds. To the best of the Company's knowledge, there is an inter-bank agreement between the banks holding the charges, according to which they are holding the liens *pari passu* on the assets of Supergas.

With regard to additional guarantees given by the Granite Hacarmel Group, see Note 33 to the Company's Financial Statements.

19. Insurance

The Company's insurance policies for the insurance of property and liability include insurance policies which cover certain risks in the Group's assets, up to the amounts set in such policies. These policies include: all-risks property insurance at reinstatement value, which includes coverage of fire, machinery breakdown, loss of rent and loss of profits from machinery breakdown, terror and war insurance, third party liability insurance, employers' liability insurance, contractor work insurance and crime insurance.

The amounts of the Group's property insurance were determined thereby according to its estimation, and the insurance policies are reviewed periodically by the internal auditor and the audit committee.

For details regarding the insurance coverage applicable to the Company's officers, see Note 37D to the Financial Statements.

20. Taxation

For details regarding the taxation applicable to the Company and the Group companies (including the Granite Group), see Note 30 to the Financial Statements.

21. Environmental risks and the management thereof

In the framework of its activities in the property segment, (including the development segment and the senior housing segment)the Group is required, *inter alia*, to meet the conditions and requirements of the Planning and Building Law, 5725-1965, including the Planning and Building Regulations (application for a permit, the conditions therein and fees), 5730-1970, the Planning and Building Regulations (Environmental Impact Surveys), 5763-2003 etc., *inter alia*, in the framework of approval of zoning plans, building permits, various licensing proceedings under the planning and building laws and the performance of building and construction work. The Group companies are liable, by virtue of their owning or leasing land, under certain circumstances, pursuant to law, to the provisions of the environmental protection laws, including pursuant to the Water Law, 5719-1959, the Business Licensing Law, 5728-1968 and the Hazardous Substances Law, 5753-1993, Abatement of Nuisances Law, 5721-1961, Sewage and Water Corporations Rules (Waste from Plants Discharged into the Sewage System), 5771-2011, Maintenance of Cleanliness Law, 5744-1984, Preservation of the Coastal Environment Law, 5764-2004, and the regulations promulgated thereunder, the Senior Housing Law, 5772-2012 etc. To the best of the Group's knowledge, these conditions, as of the Report Date, had material

ramifications on the Group's business or business results, including its capital investments, profit and its competitive position.

In this context it is noted, that as of the Report Release Date, several bills are pending which, if passed, will affect the Group's business, including: the Prevention of Soil Pollution and Treatment of Polluted Soil Bill, 5771-2011 and the Senior Housing Bill whose chances of approval are not certain.

It shall be noted that in recent years, environmental activity, in Israel and worldwide, has significantly increased, as expressed, *inter alia*, in supervision and enforcement by government agencies and activity by environmental organizations. In the Group's estimation, this trend is expected to continue in the coming years. The Group is investing many resources in ensuring its compliance with the provisions of the environmental laws that apply thereto, and is acting to prevent and minimize the environmental risks from its activity.

The Group's policy is to comply with the provisions and requirements of the law, including the environmental laws, as well as the requirements of the various supervisory bodies. For this purpose, professional environmental consultants are assigned to each project of the Group, who assist the Group and advise it throughout the project.

Complex at the Check Post intersection in Haifa - In accordance with the information leaflet that was received from the City of Haifa, the lot that is located at the Check Post intersection in Haifa may be affected by hazardous substances, and the Company may be required by the Ministry of Environmental Protection to carry out various tests on the soil in the framework of the planning and building proceedings on the land. As of the Report Release Date, the Company is yet to receive an update regarding hazardous substances as aforesaid. As of the Report Release Date, the Company is in the midst of planning procedures within which it is examining the possibility of betterment of the lot.

Sarona Azrieli Center – During the licensing process required for the construction work in the complex, various soil and groundwater tests were required. As of the Report Date, the Company has completed all of the drilling and water penetration work at the complex.

Rental space for cellular - In some of the Group's income-producing properties, the Group leases space to the cellular companies (the "**Leased Space**") for the purpose of installing and operating cellular antennas and/or miniature transmitters (the "**Telecommunications Equipment**"). In accordance with most of the agreements between the Company and/or the Group's management companies and the cellular companies, responsibility for obtaining all of the approvals required by law to set up and operate the antennas and/or miniature transmitters, and responsibility for complying with the various environmental protection laws lies with the cellular companies, including holding, so long as they lease the Leased Space, the approval of the Radiation Commissioner at the Ministry of Environmental Protection regarding instructions and restrictions relating to the use of the Telecommunication Equipment, and acting in accordance with this approval, and they also undertake to comply with the safety instructions that shall be published by the Company or the management companies. Additionally, in the framework of these agreements, the cellular companies undertake to indemnify and compensate the Company and/or the management companies for any damage and/or expense that shall be caused as a result of the cellular companies' activities on the Leased Space, and for their liability by law for any act or omission of the cellular companies, and they undertake to insure their liability under the law for any damage and/or harm that may be caused to a third party. Finally, pursuant to the provisions of most of the agreements as stated above, each cellular company undertake to cooperate with the other cellular companies with which the Company has engaged, with respect to the operation of the Telecommunications Equipment in the Leased Space.

Water and Sewage Corporations (Plant Wastewater Discharged into the Sewage System) Rules, 5771-2011 – In the Report Period, the Company is acting in relation to several malls owned thereby vis-à-vis the water and sewage corporations at the relevant authorities in order to arrange the issue of the waste water discharged by certain businesses leasing space in such properties, which ostensibly result in deviations in the values of the waste water discharged into the municipal sewage system. The Company has retained professional consultants on the matter and places great importance on strict compliance in environmental issues.

For further details regarding the environment in Sonol's operating segment, see Section 11 of Chapter A of the Report.

22. Restrictions and Monitoring the Corporation

Below is a brief overview of the laws, regulations, orders, restrictions and requirements with which the Group is obligated to comply in its various operating segments:

22.1 In Israel

22.1.1 Activity in the field of real estate

The Company's activity in Israel is subject to the land laws, including in relation to land taxation and lease and borrowing laws, as well as directives and contracts of the Israel Land Administration and Local Authorities, planning and building laws and environmental laws.

22.1.2 General laws concerning the Group's operating segments

In the framework of its activities, the Company and the Group companies are subject to municipal bylaws in each one of the local authorities in which the Group's income-producing properties are located, insofar as relevant, including regarding the opening and closing of businesses, the Prevention of Smoking and Exposure to Smoking in Public Places Law, 5743-1983, Equality of Rights for Disabled Persons Regulations (Service Accessibility Adjustments), 5773-2013, Water and Sewage Corporations rules, the Privacy Protection Law, 5741-1981, the Communication Law (Bezeq and Transmissions), 5742-1982 (The Spam Law) etc.

In December 2013, the Law to Promote Competition and Reduce Centralization, 5774-2013 (the "**Centralization Law**") was published, which implements the main recommendations of the Committee on Increasing Competitiveness in the Economy. The law includes three main chapters, as follows: (a) limitation of control in companies in a pyramid structure; (b) separation between significant non-financial corporations and significant financial bodies; (c) taking into account economy-wide centralization considerations and industry competition considerations in the allotment of rights. The last two chapters may be relevant to the Company, if no change occurs in the circumstances thereof, in the scope of its business and holdings, as being as of the Report Date.

Creation of separation between significant financial bodies and significant non-financial bodies (as defined in the Centralization Law).

The main restrictions set forth in the Centralization Law in respect of the separation of significant financial bodies and significant non-financial bodies are, *inter alia*: (1) generally, a significant non-financial corporation or the entity controlling it shall not control a significant financial body and shall not hold more than 10% of a certain type of means of control in a significant financial body, and shall not hold more than 5% of the means of control in a significant financial body which has no controlling shareholder; and (2) no person holding more than 5% of a certain type of means of control in a significant non-financial corporation shall control a significant financial body; all subject to the conditions, exceptions and restrictions as were determined in the provisions of the Centralization Law. The aforesaid notwithstanding, a significant non-financial corporation which, on the eve of publication of the Centralization Law, duly held means of control in a significant financial corporation, at a rate exceeding the holding rates specified above, may hold such means of control for 6 years from the date of publication of the Centralization Law (i.e. December 11, 2019).

The Centralization Law prescribes that the Committee for Reduction of Centralization shall release the list of the centralized entities which includes the list of corporations included in the definition of a significant non-financial corporation[26] and the list of the entities included in the definition of a significant financial body. On December 11, 2014, the centralization committee released the list of centralized entities in the market on the Ministry of Finance's website at: http://mof.gov.il/Committees/Pages/CentralizationDecreaseCommittee.aspx. According to the list, Azrieli Group was included in the list of the significant non-financial corporations. In April 2015, the Antitrust Commissioner published an updated list of the significant financial bodies according to the Centralization Law, and included Leumi Card (which was not included in the original list) therein. Insofar as the Group shall continue to be deemed as a significant non-financial corporation and insofar as Leumi Card shall continue to be deemed as a significant financial body, until December 11, 2019, the Group will be required to reduce its holdings in the shares of Leumi Card below a 10% holding rate.

Another chapter of the Centralization Law addresses the restrictions and considerations that a regulator is required to consider when seeking the allotment of a right in the area of vital infrastructure, as specified in the schedule to the law. The Committee for Reduction of Centralization will release a list of centralistic bodies, for the purpose of whose participation in a tender for the allotment of such right in vital infrastructure, duty will apply to consider overall-market centralization considerations, in consultation with the Committee. It is noted that the extension or renewal of a right are deemed as the allotment of a right, if the entity holding the right holds it for a period exceeding 10 years (either in one consecutive period or in the aggregate) and the previous allotment or extension were not examined under the Centralization Law in the 10 years preceding the extension. The application of this chapter in respect of the allocation of right is one year from the date of publication of the law (i.e., December 11, 2017). On December 11, 2014, the centralization committee released the list of centralized entities in the market. Azrieli Group and Granite Hacarmel Group are included in the aforesaid list. As of the Report Date, the Company is looking into the applicability of the provisions of the law as aforesaid, including the implications

[26] The definition principally includes an effective sales turnover exceeding NIS 6 billion or effective credit exceeding NIS 6 billion. For the accurate definitions, the binding language of the Centralization Law must be consulted.

thereof, if any, in connection with participation of the companies of Granite Hacarmel Group in tenders for vital infrastructures, to the extent that on the applicable dates as aforesaid, the Company shall be included in the list of centralized entities that shall be published, and to the extent that it shall hold such company.

Additionally, some of the Group companies purchase electricity from the IEC at high voltage according to the IEC's tariff for the purchase of high voltage electricity, and supplies the electricity to tenants according to the IEC's low voltage tariff. To the best of the Company's knowledge, as of the Report Date, the Ministry of National Infrastructures and the Public Utilities Authority are acting to regulate the licensing of electricity distribution in the commercial centers and malls throughout the country.

22.1.3 Business Licensing

In the framework of the Group companies' activities, some of the Group companies are required to obtain a business license pursuant to the Business Licensing Law, 5728-1968. To the best of the Company's knowledge, as of the Report Date, all of the Company's properties have a valid business license or are in the midst of proceedings for the renewal or issuance of a business license (including such which had expired), as required under the Business Licensing Law, 5728-1968. In addition, in the lease agreements in which the Group engages with the various lessees, the lessee is required to hold a lawful business license for the operation of its business in the property.

22.1.4 Antitrust

In the framework of expansion of the Group's activities, *inter alia*, by acquiring shares in companies that are companies owning the rights in real properties, the Company and the Group companies are required, under certain circumstances, to approve the merger pursuant to the Restrictive Trade Practices Law, 5748-1988.

For details regarding restrictions and supervision in the operating segment of Sonol, see Section 11 of Chapter A of the Report.

22.2 **Outside Israel**

The Group's activities in the USA and in England are subject to the laws and regulations in the said countries and *inter alia* in the field of land, planning and building and lease, the environment and laws on the municipal level and in connection with land taxation.

23. Material Agreements and Collaboration Agreements

The Group is a party to collaboration agreements with third parties with respect to some of the projects within the Group's activities.

Excluding agreements which were specified in this Chapter, in the Additional Details Chapter (Chapter D of the Report) and in the Notes to the Financial Statements, the Company is not a part of any material agreements which are not in the ordinary course of business or which were not described in this Chapter A.

24. Legal Proceedings

As of the Report Date, the Company and/or the Group companies are not a party to pending material legal proceedings, except as specified in this Report and in Note 33 to the Financial Statements. For details regarding a motion for an appraisal remedy and a motion for cancellation of the tender offer, as well as a motion for class certification, which were filed against the Company and against the subsidiary Canit Hashalom, see Section 1.3.5(1) above. In addition, as of the date of this Report, the Company and/or the Group companies are conducting various proceedings, as determined by law, *inter alia*, for the resolution of demands received from the various local authorities in respect of mandatory payments and levies, in a total amount that is immaterial to the Company. In respect of part of the proceedings, the Company included provisions in the Financial Statements on the basis of the opinion of the Company's outside advisors, under the circumstances of each matter.

25. Goals and Business Strategy

As a leading company in its segments of activity, the Company focuses on the real estate industry, mainly in Israel. The Company focuses, on a current basis, on improving the Group's existing properties, and acts to optimize the utilization of its commercial space and create a suitable tenant mix according to the changing demand needs, increase the number of visitors while maintaining and even improving the attractiveness of its malls and retail centers, increasing the tenants' revenues, and continuing to offer management services to its properties through the Group's management teams, maintaining the level of its tenants and renewing the lease agreements therewith for additional long-term periods.

The Group's business strategy is mainly to continue to invest in expanding its widespread activity in retail centers and malls (including power centers) and office and other space for lease in Israel and overseas, through the purchase of lands for development and construction of assets and/or the purchase of additional assets. In addition, the Company emphasizes the betterment of existing assets, the advancement of building plans and expansions for optimal use of the rights in its assets. The Company insists on maintaining its high financial soundness and a relatively low level of leverage.

One of the Company's goals is investment of not more than approx. 15% of the value of the Company's investment property in Western countries (mainly the U.S.) with a high investment rating, subject to the right timing and appropriate cost.

The Company estimates that its main growth engines are, *inter alia*, the projects undergoing planning and construction, development and construction of new assets through the identification of lands for purchase while taking into account areas of demand, large population centers, central transportation junctions and high accessibility to public transportation.

Furthermore, the Company reviews from time to time additional options to expand its segments of activity in other fields of business which are synergetic or tangential to the Company's business as additional growth engines, while taking advantage of market conditions and/or crisis conditions in leading, cash generating target companies. In the Report Period, the Company continued to examine the development of the senior housing operations after it purchased in 2014 two tracts of land with respect to which it began with the development plans for senior homes and it purchased in the Report Period the well-established senior home "Palace Tel Aviv" and is examining additional sites. The Company aspires to continue developing the senior housing business and to create a significant portfolio with national presence and at a 4-5 star finishing level. In the Report Period the Company continued to examine various ventures for the

construction of new senior housing facilities, finding suitable land and purchasing existing senior housing facilities.

As reported thereby, the Company regularly reviews the holdings which are not at the core of its activity in the field of property. For details on a transaction that was closed for the sale of the Via Maris Desalination Plant in Palmachim, see Section 1.3.4(1) above. On October 16, 2012, the Company released a presentation which was presented in an investors conference, within which it specified a strategic plan for 2013-2016 (see the Company's immediate report of October 16, 2012 (ref. 2012-01-256701), as amended on November 1, 2012, ref. 2012-01-270033), included herein by way of reference. This presentation should be read together with updates published by the Company in its quarterly and periodic reports, and information released within this Report.

For details concerning Sonol's strategy and goals, see Section 11 of Chapter A of the Report.

The Company's objectives as of the Report Release Date are based on the management's estimates in connection with the market conditions as of such date, and there is no certainty that the aforesaid will indeed materialize. For further details, see the Board of Directors' Report.

26. Forecast for Development

As the Company reported in the past, during the Report Period until the Report Release Date, the Group has continued exploring business opportunities, in Israel and overseas, in connection with the expansion of its business, mainly in the real estate segment, including related real estate segments such as storage and logistics. In addition the Company continues to develop the senior housing business. These opportunities are examined both through the purchase of land reserves and the development of properties, and by way of purchase of properties and/or operations from third partiesand/or the betterment of the existing properties owned by the Group, some of which have materialized as stated in the Company's reports. The Company is regularly engaged in identifying opportunities for expanding commercial/office space in its existing properties as an addition to existing projects and is pursuing the promotion of the betterment of such properties and is expected to continue pursuing such activity also in 2016. In addition, following the sale of Tambour, the sale of the solar business of Supergas and the sale of the desalination plant in Palmachim, the Company continues to regularly look into the other holdings which are not in its core business of income-producing property, including the sale of its holdings in Granite Hacarmel (as a whole or its various parts) and/or its financial holdings, including by way of opening an information room, as the Company reported in the immediate reports of June 18, 2015 October 26, 2015 and February 2, 2016 (Ref.: 2015-01-050991, 2015-01-141945 and 2016-01-021562 respectively), included herein by way of reference, all according to its discretion in connection with the timing, the structure and the consideration in the transaction. For details regarding negotiations for the sale of Sonol see Section 1.3.4(2) of Part A of the Report. As of the Report Date, the Company is holding initial contacts only with several entities, in Israel and overseas, there being no certainty that they will develop into negotiations. The Company shall report in the future insofar as developments shall occur which mandate a report by law. As of the Report Date, there are no short-term plans which deviate from the Company's ordinary course of business and which may have a material influence on the Company's business and results.

27. Discussion of Risk Factors

In the Company's estimation, the Group is exposed to several fundamental risk factors deriving from the economic environment and the Group's unique characteristics. In addition to the aforesaid risk factors, the Group is exposed to general risk factors which affect the economy as a whole, without having any other unique effect on the Company, such as the condition of the economy and the market in the U.S. and Israel, and the security situation in Israel, 'which, should they adversely change, might harm Company's results. For further details regarding the market risks to which the Company is exposed, and the way of management thereof, see Note 34 to the Financial Statements.

The information concerning risk factors to which the Group is exposed is forward-looking information as defined in the Securities Law. The Company's expectations with respect to this issue are based on past experience, the Group's familiarity with the markets in which it is active and its estimations in relation to its economic and business development. However, the Group's expectations and forecasts may not be realized, inter alia due to dependence on external factors that are beyond the Group's control and which are detailed below:

27.1 Macro Economic and Financial Risks

27.1.1 The growth and consumption rates in Israel – the Company's activity is dependent, *inter alia*, on the growth of the Israeli economy and the per capita consumption rates, which affect the demand for the Company's income-producing properties and the soundness of material tenants of the Group's properties and their ability to fulfill their undertakings thereto. For details of market risks entailed by the Group's business see Section 2 of Chapter B of this Report – the Board of Directors' Report.

27.1.2 A change in the building inputs index - An increase in the building inputs may affect the price of the Company's engagement with sub-contractors. While construction costs are usually linked to the building inputs index, income is usually linked to the consumer price index. Therefore, the Company may be exposed to negative effects in the event of changes in these indexes.

27.1.3 Changes in the economy's interest rates – A majority of the Group's undertakings and Group's development plans are affected by changes in the economy's interest rates and the banking corporations' conditions for provision of bank credit. A long-term increase in the market interest rates may affect the Group's financing costs in relation to each project, the yield from the properties, the value of the income-producing properties and the Group's profitability.

27.1.4 Security situation – Changes in and aggravation of the security and political situation may affect the Company's activity and business results, both from the perspective of the public's readiness to visits the Group's shopping centers and malls, in high-stress areas and in general, as well as from the perspective of demand for lease spaces, shortage in manpower in the construction industry, building cost appreciation, etc.

27.1.5 Regulatory changes in the Company's business environment – the Group's activity is exposed to various regulatory limitations, including in accordance with the antitrust law, the securities law, corporate law and the supervision on banks law. Stricter regulation in areas pertaining to the Company, as well as possible implications of further regulatory changes might reduce and/or limit the

Company's activity through, *inter alia*, organizational changes and the imposition of conditions on the Company's business activity and financial holdings. In addition, the Company is exposed, in the Sonol segment to regulatory changes which apply from time to time with respect to its products, including the supervision of its products' prices and regulatory limitations on engagements in relation to fueling stations and the marketing of LPG.

27.1.6 Changes in the value of financial investments available for sale – In view of the condition of the capital market in Israel, the Company is exposed, to a certain extent, to adverse changes in the value of the companies in which it has invested as a financial asset available for sale. Impairment of these companies may adversely affect the comprehensive income of the Company and its equity.

27.2 **Industry-Specific Risks**

27.2.1 A decline in the demand for rental space – A decline in the demand for rental space and/or renewal of existing lease agreements may lead to a decline in occupancy rates in the Group's properties and a decline in income from rent and in asset value and will necessarily harm the Company's business results.

27.2.2 A decline in the rent prices – A decline in the demand for rental space together with competition becoming fiercer in the industry may lead to erosion of the Company's rent, a decline in asset value, and harm its financial results.

27.2.3 Strength of main tenants – Damage to the financial strength of tenants, and particularly main tenants, may lead to an increase in provisions for doubtful debts or alternatively, termination of lease agreements and/or eviction of tenants from the Group's properties, and therefore to a decrease in the Group's income from rent and necessarily harm the Company's business results.

27.2.4 Competition - The income-producing commercial property segment in Israel is subject to significant competition. For details regarding the effect of the Group's competitors on its business results, see Sections 8.1.1 and 8.4 of the Report.

27.2.5 Approvals from the authorities – Activity in the income-producing property segment is characterized by the need to obtain permits from various entities at the different authorities, particularly in the area of usage and rights confirmations (zoning plans), obtaining building permits, business licenses etc. A delay in obtaining any permit or failure to obtain a permit could harm the profitability of the project or entail various financial expenses for the purpose of compliance with the requirements of the authorities for receipt of the approvals.

27.2.6 Legal and regulatory requirements, including with respect to environmental protection – the Group companies are subject to legal and regulatory requirements from various aspects and, *inter alia* on issues pertaining to the environment (nuisance, underground and above ground pollution, toxic waste etc.), and they are required to bear the costs involved in meeting the same, such that it may have an adverse effect on their results. A toughening of such regulatory requirements may force the Group to allocate additional financial resources to this issue.

27.3 **Unique Risks of the Company**

27.3.1 Fluctuations in the Consumer Price Index - The Group has loans and bonds that are linked to the Consumer Price Index and therefore the Group is exposed to fluctuations in the Consumer Price Index. However, most of the Group's revenues from rent in the commercial centers and malls segment and the office and other rental space segment are linked to the Consumer Price Index, while a rise in the Consumer Price Index may lead to an increase in the revenue from rent and reduce the exposure in relation to this risk.

27.3.2 Foreign Currency Risks - The Company has assets and liabilities that are stated in various foreign currencies. In view of the fact that the total foreign currency liabilities are not always equal in value to the total foreign currency assets, the Company is exposed to possible changes in the exchange rate of the foreign currencies versus the NIS. However, the Group's revenues from rent in the income-producing property in the USA segment are stated in foreign currency, while a rise in the exchange rate of the foreign currency may lead to growth in revenues from rent and to reduction of the exposure due to this risk.

27.3.3 Dependency on Financing Sources - The Company's activity is also financed by external sources and an adverse change in the conditions for provision of credit and/or renewal of existing credit may materially harm the Company's results.

27.3.4 Debt raising costs - Changes in the market interest rates may affect the cost of debt raising by the Company as well as the financing expenses.

Notwithstanding the aforesaid, it should be stated that the Group's business is characterized by a large number of tenants, many segments and geographic dispersion. These characteristics allow the Group to reduce its exposure to changes in a certain operating segment and to reduce its exposure to the business of a specific tenant.

27.3.5 Risks unique to the Sonol Segment

- Environmental protection – requirements of the Ministry of Environmental Protection in connection with the fuelling stations, facilities and plants are forcing Sonol to allocate financial resources to this issue. These requirements may increase in scope and number and may force Sonol to allocate further financial resources to this issue. Sonol has no insurance policy for liability which may be imposed thereon due to non-accidental prolonged environmental pollution.

- Hazardous and toxic substances – since Sonol deals in hazardous and toxic substances, it is exposed to damage which may be caused due to such products, including health damage, environmental damage, damage as a result of ignition of flammable substances etc. Therefore, Sonol is exposed to claims, including class actions. These claims may adversely affect its business results and damage its goodwill.

- Product liability – Sonol markets various oil distillates, which have special sensitivity due to their being hazardous substances and due to the nature of their use. Many laws and regulations regulate the rights of an injured party or a class of injured parties who suffer damage as a result of a product that is

manufactured, stored, marketed or sold by a supplier. If any damage is caused to a consumer or to a class of consumers as a result of products marketed by Sonol, Sonol may be sued by such consumers, including by way of class actions, which may adversely affect its business and its business results.

- Energy substitutes – There is a global trend of developing alternative energies such as the use of natural gas, solar energy, wind energy etc. These energies constitute a substitute for the oil distillates marketed by Sonol, and therefore the use thereof may reduce Sonol's sales volume.

- Changes in global oil prices – a rise in global oil prices causes an increase in trade accounts receivable balances and an increase in the inventory balances and therefore an increase in the scope of the bank credit, which increases Sonol's financing expenses. On the other hand, a decline in the oil prices causes a loss on the operating inventory held by Sonol.

- The marketing margin in the Oil Distillate Industry –the marketing margin from which the profitability of oil distillate marketing companies, including Sonol, derives, is a fixed amount which is not affected by oil prices and is particularly low, and any change therein, both with respect to products which are under supervision and with respect to products which are not under supervision, affects Sonol's profitability.

- Dependency on ORL – companies operating in the oil distillate business segments are dependent on ORL, which is the main supplier of the various Oil Distillates purchased by these companies, including Sonol.

- Claims – several claims are pending against Sonol on various matters, as well as on restrictive trade practices, including claims in respect of which there is a motion for class certification and others. Therefore, Sonol is exposed to implications deriving from these claims. (With regard to claims against Sonol, see Note 33 to the Financial Statements in Chapter C of this Report).

27.3.6 Risks unique to the senior housing segment:

- Regulation in the senior housing business – the senior housing segment has developed significantly in recent years, as did the regulation in the field. For details regarding the Senior Housing Law which provides, *inter alia*, the conditions for receiving a license for the operation of a senior home see Section 13.1.9 of Part A of the Report. In February 2016, a bill was approved in a preliminary reading at the Knesset, seeking to make a significant change in the regulation of securing the deposit funds of tenants in senior housing. If and insofar as the said bill will be approved in the proposed form, senior homes will be obligated to provide financial collateral (bank guarantee) in a manner that is liable to increase the Company's financing expenses.

Set forth below are the main risk factors described above that were ranked, in accordance with the Company's estimate, according to the extent of the effect that they may have on the Company's business:

	The Extent of the Effect of the Risk Factor on the Company		
	Large Effect	**Medium Effect**	**Small Effect**

Macro-Economic Risks			
Growth and consumption rates in Israel	X		
The security condition in Israel	X		
Changes in the interest rates in the economy		X	
Changes in the Building Input Index			X
Regulatory changes		X	
Changes in the value of available for sale financial investments			X
Industry-Specific Risks			
Decline in the demand for rental space	X		
Decline in rent prices	X		
Strength of main tenants			X
Competitive environment	X		
Approvals from authorities			X
Environment and regulatory requirements		X	
Changes in the tax liability		X	
Unique Risks			
Fluctuations in the Consumer Price Index		X	
Foreign Currency Risks			X
Dependency on Financing Sources		X	
Debt raising costs		X	
Risks Unique to the Sonol Segment			X
Risks unique to the Senior Housing Segment			X

Danna Azrieli,
Chairman of the Board

Yuval Bronstein, CEO

Report Date: March 22, 2016

Azrieli Group

Part B

Board Report

Azrieli Group Ltd.

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

for the year ended December 31, 2015

The board of directors of Azrieli Group Ltd. hereby respectfully submits the Board of Directors' Report for the year ended December 31, 2015 and for the three-month period ended on December 31, 2015 (the "**Report Period**"), pursuant to the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "**Regulations**").

Azrieli Group Ltd. (the "**Company**"; the Company together with all of the corporations held thereby, directly and/or indirectly, will be referred to below as the "**Group**" or "**Azrieli Group**"), engages mainly in the income-producing property in Israel segment, while most of the Group's business activity is in the retail centers and malls in Israel segment and in the office and other space for lease in Israel segment. In addition, the Company has income-producing property outside Israel, and mainly office space for lease in the U.S. The Company also engages, through its (indirect) holding in Sonol Israel Ltd. ("**Sonol**") in another operating segment, which includes the oil distillates through direct marketing and fueling and retail complexes. In addition, the Company engages in the development of the senior housing segment and owns land plots designated for the construction of senior housing homes. The Company has also recently purchased the Palace Tel Aviv senior housing home. The Company also has additional operations such as energy, water and other wastes (through its holding in Granite Hacarmel Investments Ltd. ("**Granite Hacarmel**")). The Company additionally holds minor holdings in financial corporations.

The data appearing in the Board of Directors' Report are based on the consolidated financial statements as of December 31, 2015. The financial data and the business results of the Company are affected by financial data and business results of the companies held thereby. In some cases, details are presented which review events that occurred after the date of the financial statements and in proximity to the date of releasing the Report, with such fact indicated alongside them (the "Report Release Date") or additional details and data on the Company level only. The materiality of the information included in this Report was examined from the Company's point of view. In some of the cases additional detailed description was provided in order to give a comprehensive picture of the described topic, which is, in the Company's view, material for the purpose of this Report.

The financial statements attached are prepared according to the International Financial Reporting Standards (IFRS). For further details see Note 2 to the financial statements as of December 31, 2015.

Extended standalone statement – the income-producing property segment

The Company's management acknowledges the importance of transparency to the investors, the shareholders, the bond holders and analysts and sees all of these as its partners. Therefore, the Company had decided to adopt a policy according to which in the Company's Board of Directors' Report disclosure shall be made regarding a summary of extended standalone financial statements – i.e. – a summary of the Company's balance sheets and income statements on a consolidated basis,

presented according to the IFRS standards, except for the Company's investment in Granite Hacarmel which is presented on the basis of the book value instead of the consolidation of its statements with the Company's statements (the other investments are presented with no change from the statement presented according to the IFRS standards). The Company's management believes that this Report adds a lot of information which helps in understanding the large contribution of the real estate business to the total profit of the Company, while neutralizing material sections of the consolidated financial statements, deriving from the consolidation of Granite Hacarmel, such as trade accounts receivable, inventory, sales, etc. The extended standalone statement is attached hereto as Annex E. This Report is not audited or reviewed by the Company's auditors.

Highlights for the Report Period and for the Quarter ended December 31, 2015[(1)]

NOI Growth in the Quarter

- Approx. 10% additional growth in NOI (see Section 1.1.7 of the Report).
- Approx. 6% additional growth in same property NOI (see Section 1.1.8 of the Report).

Growth in NOI in the Report Period

- Approx. 9% additional growth in NOI (see Section 1.1.7 of the Report).
- Approx. 5% additional growth in same property NOI (see Section 1.1.8 of the Report).

FFO from the Income-Producing Property Segment

- An increase of approx. 10% in the FFO attributed to the income-producing property segment in the quarter compared with the same quarter last year.
- An increase of approx. 11% in the FFO attributed to the income-producing property segment in the Report Period compared with the previous year (see Section 1.1.10 of the Report).

Net Profit

- Net profit of approx. NIS 295 million in the quarter after deduction of the effect of Granite, compared with a net profit of approx. NIS 199 million after deduction of the effect of Granite in the same quarter last year.
- Net profit of approx. NIS 288 million in the quarter, compared with a net profit of approx. NIS 218 million in the same quarter last year.
- Net profit of approx. NIS 906 million in the Report Period after deduction of the effect of Granite, compared with a net profit after deduction of the effect of Granite of approx. NIS 718 million in the same period last year.

[1] In the aforesaid highlights, the Company included the main issues specified below in this report. In respect of forward-looking information, including in respect of the progress of projects under development, see Sections 1.1.6, 1.1.3 below.

- Net profit of approx. NIS 828 million in the Report Period, compared with a net profit of approx. NIS 860 million in the same period last year.

Cap Rate

- Weighted cap rate of approx. 7.5% in the Company's statements from the income-producing properties (see Section 1.1.9 of the Report), similarly to the previous quarter.

- Weighted cap rate of approx. 7.6% in the Company's statements from the income-producing properties in Israel.

Business Enterprise and Development

- In the Report Period, the total amount of the Company's investment properties increased by approx. NIS 1,567 million from the purchase of properties, betterment of existing properties and development (approx. NIS 243 million in the quarter).

- For further developments, see Section 1.1 of the Report.

Disposition of Granite Hacarmel Assets

- According to the Group’s strategy, the Company examines, on an ongoing basis, the holdings that are not in its core business in the real estate sector. For details regarding the closing of a transaction for the sale of al all of the rights of GES in the Via Maris desalination plant in Palmachim, see Section 1.3.4 of Chapter A of the Report. As of the Report Release Date, the Company continues to conduct negotiations, from time to time, with various entities, for the disposition of its holdings in respect of Granite as a whole and/or its subsidiaries. For further details, see Section 1.3.4 of Chapter A of the Report.

1. Explanations of the board of directors for the state of the corporation's business affairs

1.1 General

1.1.1 Principal developments during the Report Period and until the date of release hereof

Transactions in respect of investment property during the Report Period and until the date of release thereof

Winning a tender for the purchase of land designated for retail and offices at the city of Holon

On February 24, 2015, the Company won a tender held by the Israel Land Authority, for the purchase of 4 lots designated for employment in the industrial zone of the city of Holon, holding an aggregate area of 12.4 thousand sqm (the "**Lots**"), in consideration for approx. NIS 64 million. Under the terms and conditions of the tender, the Company has received approval from the authorized Minister for the purchase of two of the Lots, total area of which is approx. 7.2 thousand sqm. The Company intends to construct a retail and office project on the Lots, spanning a total of up to 55 thousand sqm aboveground (subject to the zoning plan's restrictions) and underground parking areas. For further details, see Section 1.3.1 of Chapter A of the Report.

Agreement for the purchase of property in Holon

On March 2, 2016, the Company notified (following a previous notice in relation to this matter on February 2, 2016), of its engagement in a contingent sale agreement with Lodzia Rotex Investments Ltd. (the "**Seller**") in connection with the purchase of all of the Seller's ownership rights in a real property in the registered area of approx. 53,000 sqm with approx. 14,300 sqm of built-up area of buildings for skilled trades and retail leased to various tenants, which is located in the industrial zone of Holon, in consideration for approx. NIS 280 million plus V.A.T. and linkage differentials, insofar as applicable. The aforesaid transaction is subject to the receipt of approval from the Antitrust Commissioner. In view of the existence of a condition precedent, as of the Report Date, there is no certainty as to the closing of the transaction. For further details, see Section 1.3.1 of Chapter A of the Report and Note 14G to the Financial Statements.

Financing transactions in the Report Period and until the date of release hereof

Issue and expansion of Series B bonds

On February 8, 2015, the Company issued approx. NIS 623 million par value of a new registered bond series of the Company (Series B), based on a shelf prospectus of the Company bearing the date of May 14, 2013.

The bonds are linked (principal and interest) to the rise in the CPI and bear fixed interest at the rate of 0.65% per annum. The proceeds of the issue amounted to approx. NIS 623 million, and after attribution of the issue expenses, the net proceeds of the issue amounted to approx. NIS 619 million.

On June 23, 2015, the Company issued, by way of expansion of the Series B bonds, an additional amount of approx. NIS 600 million par value of Series B bonds. The proceeds of the issue amounted to approx. NIS 599 million, and, after attribution of the issue expenses, the net consideration totaled approx. NIS 594 million. For further details with respect to the Series B bonds issued by the Company, see Note 21 to the Financial Statements and Section 18.5 of Chapter A of the Report

Issue of a new bond series (Series C)

In September 2015, the Company issued approx. NIS 1,005 million par value of a new registered bond series of the Company (Series C), based on a shelf prospectus of the Company bearing the date of May 14, 2013. The bonds are linked (principal and interest) to the rise in the CPI and bear fixed interest at the rate of 1.64% per annum. The proceeds of the issue amounted to approx. NIS 1 billion, and after attribution of the issue expenses, the net proceeds of the issue totaled approx. NIS 997 million.

For further details regarding the Series C bonds issued by the Company see Note 21 to the Financial Statements, and Section 18.5 of Chapter A of the Report.

1.1.2 **Transactions in connection with the Senior Housing Segment**

Agreement for the purchase of Palace Tel Aviv

On July 29, 2015, a transaction was closed for the purchase of 100% of the shares of a private company that holds and manages Palace Tel Aviv, a luxurious senior housing home at the center of Tel Aviv (the "**Acquired Company**"), following the receipt of approval from the Antitrust Commissioner for the transaction. In consideration for the shares of the Acquired Company, Canit Hashalom paid a total consideration of NIS 270 million. For further details, see Section 1.3(1) of Chapter A of the Report and Note 14H(3) to the Financial Statements.

Winning a tender for the purchase of leasehold rights designated for senior housing in Rishon LeZion

On March 13, 2016, the Company learned that it had won, through a company controlled thereby, the tender issued by the Israel Land Administration for the purchase of leasehold rights in a lot of 3,400 sqm designated for senior housing at HaRakafot neighborhood, Rishon LeZion East, which are designated for construction of at least 250 senior housing units and approx. 3,000 sqm of retail spaces, in consideration for NIS 26 million. According to the terms and conditions of the tender,

the Company is required to pay development expenses in the sum of approx. NIS 22 million.

1.1.3 **Transactions in connection with companies of the Granite Hacarmel group**

Negotiations for the sale of Sonol

On February 2, 2016, the Company announced that Granite Hacarmel had informed it with respect to the sale of all of Granite's holdings in Sonol, that it was in advanced negotiations with Mr. Dudi Weissman (through a company he controls) and with additional entities simultaneously. For further details, see Section 1.3.4(2) of Chapter A of the Report.

Agreement for the sale of all of the rights in Via Maris Desalination (Holdings) Ltd.

On June 2, 2015, the transaction for the sale of the rights in the Via Maris desalination plant in Palmachim was closed. For further details, see Section 1.3.4(1) of Chapter A of this Report and Note 9 to the Financial Statements.

Termination of negotiations for the sale of Supergas

In the Report Period, the Company conducted negotiations with Tadiran Holdings Ltd. for the sale of Granite's holdings in Supergas and on September 6, 2015, after the negotiations between the parties failed to mature into a binding agreement, the Company announced that the parties had agreed to terminate the negotiations in connection with the purchase of Supergas's shares as aforesaid. For further details, see Section 1.3.4(3) of Chapter A of this Report.

1.1.4 **Miscellaneous**

Class action

In August 2013 the Company received a motion for an appraisal remedy and a motion to cancel the tender offer as well as a motion for class certification thereof against the Company and against the subsidiary, Canit Hashalom Investments Ltd., in relation to a full tender offer for Granite Hacarmel shares (despite that the six (6) month period that was set forth in the law for filing an appraisal remedy claim had lapsed). On February 19, 2015, the court ruled that the appraisal remedy claim was statute barred and summarily dismissed the claim. The court did not summarily dismiss the motion based on the cause of a misleading detail and ruled that a hearing would be held on this issue. See Section 1.3.5(1) of Chapter A of this Report and Note 33B.1 to the Financial Statements.

Termination of agreement for the purchase of a retail center in Afula

On January 7, 2015, the Company engaged in a transaction with an unaffiliated third party for the purchase of 51% of the rights in a strip mall (power center) known by the name of G Be'Emek in Afula. On February 5, 2015, the Company received notice from the seller that the partner holding the remainder of the rights in the project had exercised the right of first refusal conferred thereon, and therefore the condition precedent to the transaction had not been fulfilled and the purchase of the rights in the retail center by the Company would not be consummated. For further details, see Section 1.3.5(3) of Chapter A of the Report.

Negotiations for the purchase of the "Sarona Market" food complex

In November 2015, the Company notified that it was holding negotiations with Gindi Holdings Ltd., in the context of which the Company was considering the purchase of the "Sarona Market" food complex in Tel Aviv. On December 7, 2015, the Company notified that negotiations had been terminated due to commercial and legal disagreements between the parties. For Further details, see Section 1.3.5(4) of Chapter A of this Report.

1.1.5 For details regarding the Company's strategy and the forecast for its activity, see Sections 25 and 26 of Chapter A of this Report.

1.1.6 **Developments in Enterprise and Development**

During the Report Period the Group continued to invest in the development and construction of new properties as well as in the expansion and renovation of existing properties. As of the date of this report, such properties are expected to add for the Group marketable space of approx. 475,500 sqm in the aggregate (approx. 71,000 sqm of which in 2016) as specified below.

Name of Property	Location	Date of Purchase	Usage	Holding Rate	Land Area (in sqm)	Marketable sqm	Construction Commencement Date	Estimated Completion Date	Project Value in the Company's Books as of December 31, 2015 (1) (NIS in millions)	Estimated cost of Construction including Land (NIS in millions)
Azrieli Sarona Center	Tel Aviv	May 2011	Retail and offices	100%	9,400	11,500 115,000	May 2012	2017	1,058	1,550-1,610
Azrieli Rishonim	Rishon Lezion	August 2008	Retail and offices	100%	19,000	53,000	December 2011	December 2016 [4]	489	760-770
Azrieli Holon Center (2) – Phase B2	Holon	June 2008	Offices	83%	34,000	18,000	Early 2014	Q2/2016	112	760-770**
Azrieli Town (3)	Tel Aviv	October 2012	Retail, offices and residence	100%	10,000	75,000	Q3/2016 (estimated)	2020	144	1,000-1,050
Expansion of Azrieli Tel Aviv Center(3)	Tel Aviv	May 2013	Retail, offices and residence	100%	8,400	69,000	Q2/2016 (estimated)	Yet to be determined	113	1,000-1,050
Senior Housing – Modi'in (4)	Modi'in	June 2014	Senior Housing	100%	10,500	*35,000	April 2015	2018	71	310-320
Land, Holon	Holon	February 2015	Retail and offices	100%	12,400	55,000	Yet to be determined	Yet to be determined	64	Yet to be determined
Senior Housing Land - Lehavim	Lehavim	December 2014	Senior Housing	100%	28,300	*44,000	Early 2016 (estimated)	2018	22	250-270
Total						**475,500**			**2,073**	**5,630-5,840**

(1) The figure reflects the project's book value – Azrieli Holon Center, according to a valuation; the other projects, according to the costs invested without

capitalizations. The total capitalizations in the projects presented according to the cost of NIS 127 million.
(2) The figures are in respect of 100%.
(3) As of the Report Release Date, the Company has not yet received possession of this property. The presented figures relate to the existing zoning plan for the land. With respect to the land of Azrieli Town (formerly Azrieli North), it is noted that in November 2014, an addendum to the agreement was signed whereby the handover date was postponed to August 2016. With respect to the expansion of the Azrieli Tel Aviv Center, the expected date for handover of the land is late March 2016.
(4) The offices will open on the said date while the retail space is expected to open in March 2017.

* The figure represents the amount of building rights in sqm.
** Cost of construction for the entire project.

During the Report Period the Company continued the development and construction work of its properties which are specified above, and obtaining the certificates required for the purpose of the continued development thereof according to the scheduled timetables and with no significant delays. In addition, there has been progress in the negotiations for the lease of tens of thousands of sqm under construction. For further details, see Sections 7.7+7.8 of Chapter A of this Report, Description of the Corporation's Business.

The Company's estimates stated in this Section 1.1.6 inter alia, in respect of the projected investments and costs for properties under construction, manner of financing the projects, dates for completion of construction, receipt of various regulatory approvals required for the progress of the projects under construction or the results of administrative and legal proceedings are forward-looking information as such term is defined in the Securities Law, 5728-1968, based on subjective estimations of the Company as of the Report Date and there is no certainty to their realization, in whole or in part, or they may realize in a materially different manner, inter alia due to causes which are beyond its control, including changes in market conditions, changes in the Company's plans, the duration of time required for approval of the construction plan for performance and prices of construction inputs.

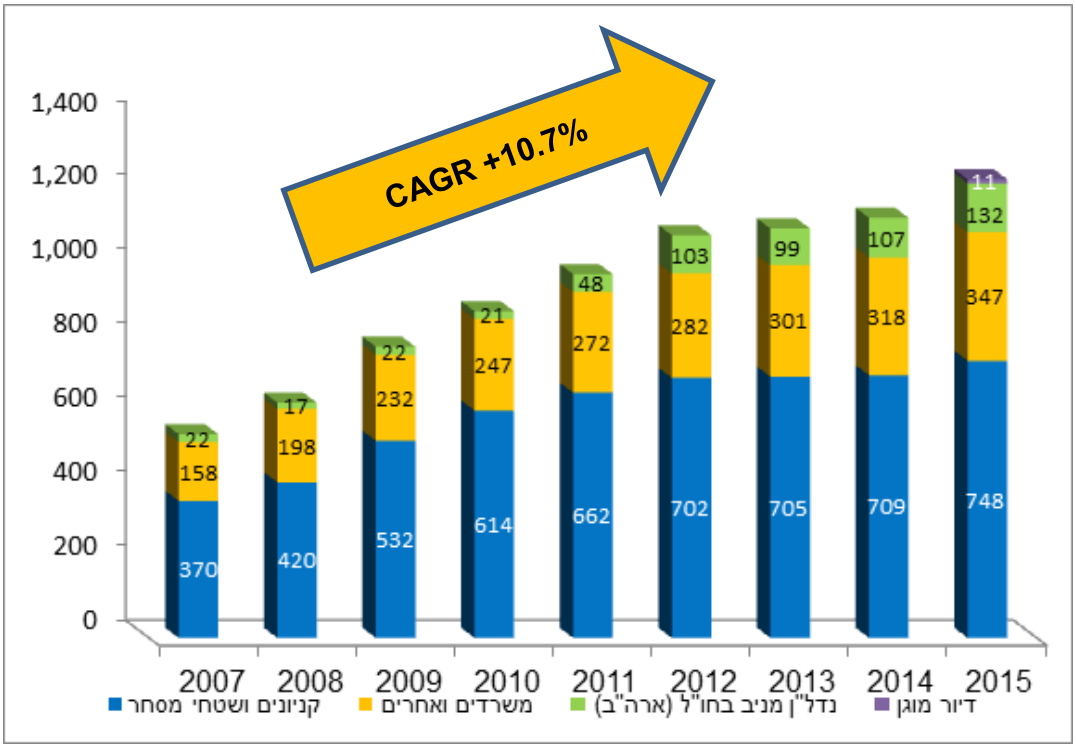
1.1.7 The NOI (Net Operating Income) index

The NOI figure is one of the important parameters in the valuation of income-producing property companies. The indication for determination of the value of income-producing property (over and above other indications such as: market value of similar properties in the same area, sale prices of similar properties in recent transactions that were performed etc.) is division of this figure by the accepted cap rate determined according to the character and location of the property. In addition, the NOI is used for measurement of the free cash flow available to service financial debt taken to finance the acquisition of the property. Current maintenance expenses for property preservation are offset against the total NOI.

We shall emphasize that these parameters do not present cash flows from current operations according to GAAP, do not reflect available cash for financing of all of the Group's cash flows (including its ability to perform a money distribution) and are not supposed to be deemed as a substitute for the net profit for assessment of the Group's results of operations.

For the purpose of calculation of the NOI, all revenues from tenants (including rent, management fees and other payments) were taken into account alongside the income, and the calculation of costs takes into account all of the operating expenses in respect of the properties, including management, maintenance and other costs. The Group is preparing its financial statements on the basis of the international standardization and therefore, in the calculation of the cost of leasing and operating the properties which are classified as investment property, depreciation was not taken into account. In addition, for the purpose of calculation of the above parameters, profit from revaluation of properties was not taken into account.

During 2007-2015, the Group recorded continuous growth of approx. 125% in the actual NOI values in all of its income-producing property operating segments in Israel and abroad.



Malls and retail. spaces – Israel Office and other spaces – Israel Income-producing properties overseas (U.S.) Senior Housing

· CAGR = Compound Annual Growth Rate

Below are the NOI figures regarding income-producing property, from the retail centers and malls in Israel segment, from the office and other space for lease in Israel segment and from the income-producing property in the USA segment and the senior housing segment as of December 31 in the years 2014-2015:

NIS in millions	For the year ended		For the three months ended	
	Dec. 31, 2015	**Dec. 31, 2014**	**Dec. 31, 2015**	**Dec. 31, 2014**
Retail centers and malls in Israel	748	709	192	178
Increase rate	6%		8%	
Office and other space for lease in Israel	347	318	94	83
Increase rate	9%		13%	
Income-producing property in the USA	132	107	31	32
Increase (decrease) Rate	23%		(3%)	
Senior housing	11	-	6	-
Total NOI	**1,238**	**1,134**	**323**	**293**

Increase rate	9%		10%	
For explanations with respect to the change in NOI, see Sections 1.11.1, 1.11.2 and 1.11.3 of Chapter B of the Report.				

1.1.8 Same property NOI Index

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

NIS in Millions	For the year ended		For the three months ended	
	Dec. 31, 2015	Dec.31, 2014	Dec. 31, 2015	Dec. 31, 2014
Retail centers and malls in Israel segment	724	708	184	178
Office and other space for lease in Israel segment	347	318	94	83
Income-producing property in the USA segment	112	101	31	32
Total	**1,183**	**1,127**	**309**	**293**
Growth rate	5%		6%	

Development of actual same property NOI, per quarters (NIS in millions):

	2015				2014
	Q4	Q3	Q2	Q1	Q4
Same property NOI in all of the periods(*)	309	303	299	296	293
NOI from acquired/operated properties	14	12	7	2	-
NOI from properties sold during the period	-	-	-	-	-
Total NOI for the period	323	315	306	298	293

(*) **In all of the Company's operating segments**
(**)Same property NOI includes the data for the Azrieli Holon Center, which was being leased-up during all of the periods, and whose lease-up is not yet completed, as well as the addition due to the construction of the second floor of the Ayalon Mall.

1.1.9 Weighted cap rate

Following is a calculation of the weighted cap rate derived from the entire income-producing property (without senior housing[2]) of the Group as of December 31, 2015**:**

	NIS in millions
Total Investment property in the "Extended Standalone" Statement (See Annex E) (*)	20,601
Net of value attributed to investment property under construction	(1,879)
Net of value attributed to advance payments on account of land purchase	(257)
Net of the value attributed to land reserves	(153)
Net of the value attributed to senior housing	(567)
Total value of income-producing investment properties (including fair value of the vacant space)	17,745
Actual NOI for the quarter ended on December 31, 2014	317
Addition to future quarterly NOI (**)	18
Total standardized NOI	335
Pro-forma annual NOI based on standardized NOI	1,340
Weighted cap rate derived from income-producing investment property (including vacant space) (***)	7.5%

(*) In accordance with valuations received as of December 31, 2015. The figure includes receivables appearing in the balance sheet item "loans and receivables" in respect of averaging attributed to real estate.

(**) The figure includes adjustment to the NOI as included in the valuations as of December 31, 2015, and therefore includes, *inter alia*, an addition of NOI for vacant spaces which have not yet been fully leased-up and spaces leased-up during 2015 with full-year occupancy.

This figure does not constitute the Company's NOI forecast 2016 and its entire purpose is to reflect the NOI assuming full occupancy for a whole year of all of the income-producing properties. Furthermore, income-producing properties that will begin to produce income in 2016, such as Azrieli Rishonim and Phase B2 of the Azrieli Holon Center, were not included in the standardized NOI.

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

[2] Since the cap rate of senior housing properties derives from the FFO index rather than the NOI index, such properties were not included in this calculation. The weighted cap rate of the senior housing as of the Report Date is 9%.

For the sensitivity test to changes in the interests of cap rates for investment property – see Annex A to this chapter.

1.1.10 The FFO (Funds From Operations) index for the real estate business (Calculated in NIS in millions):

For the purpose of providing further information about the results of operations, following is the FFO Index, which is in common usage around the world and provides an appropriate basis for comparison between income-producing property companies. The index expresses net reported profit net of income and expenses of a capital nature, plus the Company's share in depreciation from real estate and other amortizations.

In this Report the FFO index is presented for the Group's income-producing property only.

The Company's management believes that since the FFO index is an index customary in companies of which all of their business focuses on the income-producing property, therefore an adjustment of that index is required in companies of the Company's kind to better reflect the Group's income-producing property business while neutralizing influences which are not from the real estate business.

The Company's management believes that it is necessary to perform certain adjustments in respect of non-operating items which are affected by revaluation of fair value of assets and liabilities, mainly adjustments of fair value of investment property and property under construction, various capital losses and gains, deferred tax expenses and financing expenses in respect of appreciation of financial liabilities, as specified in the basic assumptions underlying the table below.

It should be emphasized that the FFO does not represent cash flow from current operations according to GAAP and does not reflect cash held by the Company and its ability to distribute the same and does not substitute the reported net profit. It is further clarified that this index is not a figure which is audited by the Company's auditors.

	For the year ended		
NIS in Millions	**Dec. 31, 2015**	**Dec. 31, 2014**	**Dec.31, 2013**
Net profit for the period attributed to shareholders	821	849	930
Discounting the net (profit) loss from Granite Hacarmel attributed to shareholders (including amortization of surplus costs)	78	(141)	(110)
Adjustments to profit (1):			
Increase of investment property value	(179)	(38)	(423)
Depreciation and amortizations	6	4	4

Net non-cash flow financing and other revenues	(56)	(53)	(17)
Tax expenses	171	134	316
Adjustments for associated companies	1	1	-
Interest and dividend from financial assets held for trade, net of tax	-	-	(5)
Plus benefit recorded for employee option plan	2	1	12
Net of dividend received from financial assets available for sale	(10)	(10)	(6)
Cash flow from incoming deposits from residents net of deposits returned to residents	19	-	-
Net of revenues from the forfeiture of residents' deposits	(6)	-	-
Total adjustments to profit	(52)	39	(119)
Plus interest paid for real investments (2)	27	40	58
Total FFO attributed to the income-producing property segment (3)	**874**	**787**	**759**

Notes and assumptions:

1. In 2014, including a one-time tax income for previous years in the amount of approx. NIS 6 million (approx. NIS 7 million in Q4/2014), compared with a negligible amount in the years 2015 and 2013.
2. The adjustments to the profit below do not include adjustments due to Granite Hacarmel since its profits were discounted in full.
3. Calculated according to weighted interest of the Group in respect of the real investments, which include: Granite Hacarmel, Bank Leumi and Leumi Card, due to 65% of the investments costs.
4. Attributable to shareholders only.

1.1.11 The EPRA indexes: Net Asset Value (EPRA NAV and EPRA NNNAV)

The Company is included in the EPRA index and is also a member of this association (European Public Real Estate Association) which incorporates the large income-producing property companies. In view of the aforesaid, the Company decided to adopt the position statement which was published by the EPRA, the aim of which is to increase the transparency, uniformity and comparativeness of financial information which is released by the real estate companies.

The EPRA NAV reflects the Company's net asset value under the assumption of continued future activity which assumes the non-disposal of the real estate assets and therefore, various adjustments are required such as presentation by fair value of properties which are not so presented in the financial statements and cancellation of deferred taxes deriving from revaluation of investment property.

The EPRA NNNAV reflects the Company's net asset value under the assumption of immediate disposal of the "Spot" real estate business and therefore, various adjustments are required such as presentation by fair value of assets and liabilities which are not so presented in the financial

statements and adjustments to the deferred taxes.

It shall be emphasized that the indexes which were specified above do not include the profit component anticipated due to the projects under construction.

These figures do not constitute a valuation of the Company, are not audited by the Company's auditors and do not replace figures in the financial statements.

EPRA NAV (NIS in millions)	**For the year ended**	
	Dec. 31, 2015	**Dec. 31, 2014**
Equity attributed to the Company's shareholders in the financial statements	13,771	13,252
Together with a tax reserve due to revaluation of investment property and fixed assets to fair value (net of the minority share)	3,005	2,753
EPRA NAV	**16,776**	**16,005**
EPRA NAV per share (NIS)	**138**	**132**

EPRA NNNAV (NIS in millions)	**For the year ended**	
	Dec. 31, 2015	**Dec. 31, 2014**
EPRA NAV	16,776	16,005
Adjustment of asset value to fair value (with no minority)	9	5
Adjustment of value of financial liabilities to fair value (with no minority)	(139)	(301)
Net of a tax reserve due to revaluation of investment property and fixed assets to fair value (net of the minority share)	(3,005)	(2,753)
EPRA NNNAV	**13,641**	**12,956**
EPRA NNNAV per share (in NIS)	**112**	**107**

1.1.12 Summary of the Company's results (consolidated) – NIS in millions

	For the year ended		
	December 31, 2015	**December 31, 2014**	**December 31, 2013**
Net profit for the period attributed to the shareholders	**821**	**849**	**930**
Net profit attributed to the shareholders and to non-controlling interests	**828**	**860**	**944**
Basic profit per share (in NIS)	**6.77**	**7.01**	**7.66**
Basic profit per share from continuing operations (in NIS)	**6.77**	**6.41**	**7.38**
Comprehensive income for shareholders and non-controlling interests	**846**	**913**	**1,038**

The net profit attributed to the shareholders for 2015 was in the total amount of approx. NIS 821 million, versus a net profit attributed to the shareholders in the amount of approx. NIS 849 million in the same period last year.

In the Report Period, the Company recorded growth in the NOI from the real estate operations and growth in the profit from adjustment of the fair value of investment properties. Conversely, mainly due to discontinuance of the inclusion of Tambour's figures as a result of the sale of Tambour's operations in 2014, impairment of part of the goodwill attributed to Sonol and the effect of the sale of the desalination plant in Palmachim, the net profit decreased in the Report Period compared with the same period last year.

Comprehensive income

The Company's capital and comprehensive income are also affected by various capital funds, mainly capital funds due to the adjustment to the fair value of investments that are treated as financial assets available for sale and from reserves for translation differences from foreign operations.

The total amount of comprehensive income for the year ended on December 31, 2015, amounted to the total of NIS 846 million, versus net profit (which includes non-controlling interests) in the amount of

approx. NIS 828 million in the same period. The difference between the comprehensive income and the aforesaid net profit, mainly derives from an increase in the fair value of financial assets available for sale (mainly a change in the fair value of the investment in Bank Leumi Le-Israel and the investment in Leumi Card) less tax in the amount of approx. NIS 18 million and a profit from translation differences from foreign operations in the amount of approx. NIS 2 million.

1.1.13 Main market trends regarding income-producing property segment

For details regarding the effect of main market trends on the Group's business, see Sections 6.1, 8.1 and 9.1 of Chapter A of the Report.

1.2 Main Data from the Description of the Corporation's Business

1.2.1 Summary of the Group's operating segments[3]

- **The Retail Centers and Malls in Israel Segment** – The Company has 15 malls and retail centers in Israel, at a comprehensive leasable area of approx. 298 thousand sqm (consolidated) and 297 thousand sqm (the Company's share) leased to approx. 1,700 tenants;

- **Office and Other Space for Lease in Israel Segment** – The Company has 11 income-producing properties in this segment in Israel, at a comprehensive leasable area of approx. 374 thousand sqm (consolidated) and 371 thousand sqm (the Company's share) leased to approx. 550 tenants;

- **Income-Producing Property Segment in the USA** – The Company has 6 income-producing properties in this segment at a comprehensive leasable area of approx. 187 thousand sqm (consolidated) and approx. 177 thousand sqm (the Company's share) leased to approx. 250 tenants;

- **Fueling and Retail Complexes and Direct Marketing (Sonol) Segment** – The Group operates in two sectors, fueling and retail complexes and direct marketing, through Sonol Israel Ltd.

1.2.2 The income-producing property segments

The Company's business condition, results of operations, capital and cash flows are affected mainly by the state of the property for lease industry. In the Board of Directors' Report, explanations will be presented regarding these effects on the Company for 2015.

The Company's strength is affected mainly by the broad dispersion of the income-producing property in Israel (retail centers, office space for lease), the diverse tenant mix, the expertise in development, planning, management and construction of income-producing property and its

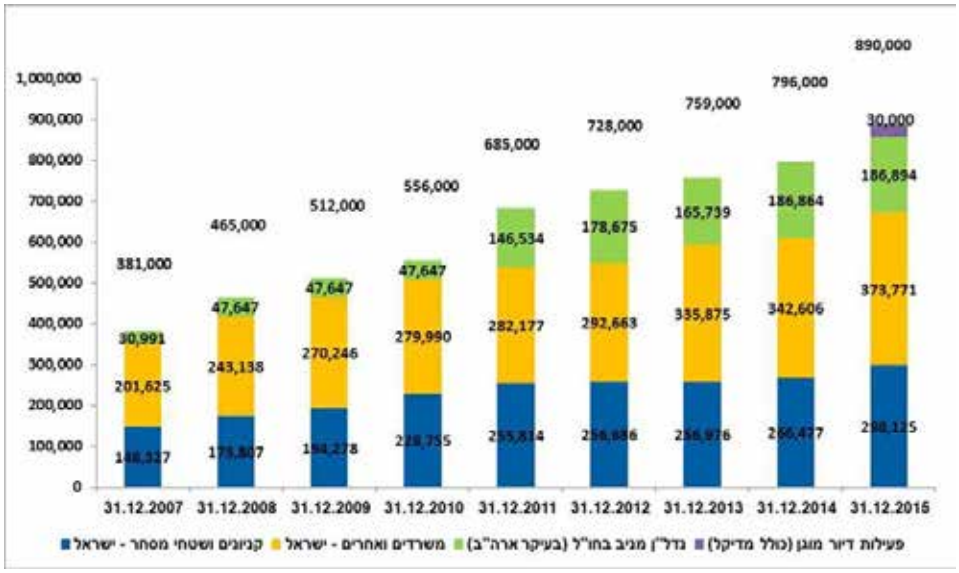
[3] "Consolidated" – excluding Granite Hacarmel; the "Company's Share" – net of minority holdings in certain companies.

business positioning. In addition, the Company estimates that it earns significant goodwill due to the fact that the retail centers and malls owned thereby are characterized by high occupancy rates and revenues, so long as the Company manages them. In addition, the Group's financial strength derives, *inter alia*, from the scope of the cash flow from current operations and the rate of the Group's financial liabilities relative to its total assets which is lower than customary in the income-producing property industry.

In this Report, the Company specifies the causes which contributed to the business stability and the improvement in its business activity, mainly in the income-producing property segment which constitutes its main business. In addition, as of the Report Date, the estimated amount of the Group's investments in future growth engines, whether through the development and construction of new income-producing properties which are expected to add to the Group approx. 476 thousand sqm income-producing properties in Israel, is at approx. NIS 3.0-3.2 billion, in addition to the amount of approx. NIS 2.1 billion invested until the Report Period; or whether in the development of the senior housing segment, which, as of the Report Date, includes one active home and two senior housing homes development projects under planning and/or construction, in which the estimated amount of investment is approx. NIS 600 million. For details regarding the projects under construction see Section 1.1.6 above and Section 7.7 of Chapter A of the Report.

The estimated scope of the Group's investments in future growth engines and the estimated addition to the income-producing property areas owned by the Company, are forward-looking information as defined in the Securities Law, 5728-1968, based on subjective estimations of the Company's management as of the Report Date. These estimations may not materialise, in whole or in part, or they may materialise in a materially different manner than the Company estimated. The main factors which may have an effect thereon are: changes in the Company's plans, delays in the granting of permits or approvals required for the advancement of the projects under construction and the Company's or any of the Group's companies' encountering financing or other difficulties, in a manner which shall affect the feasibility of the projects.

Gross leasable area (GLA) on a consolidated basis as of December 31, 2015(*)



Malls and retail spaces – Israel Office and other spaces – Israel Income-producing properties overseas (mainly U.S.)

(*) GLA also in respect of senior housing; the areas represent the Company's share in the area of the property (0.9% for the holding of the Azrieli Foundation in Canit Hashalom was not deducted)

The average occupancy rate in the income-producing property in Israel owned by the Group is very high and is approx. 98% in the retail centers and malls segment[4] and approx. 99% in the office and other space for lease segment[5]. The average occupancy rate in the income-producing property in the USA is approx. 83%[6].

The Company's management is acting with the intention of continuing to lead the income-producing property market, *inter alia*, through the acquisition of land reserves, the expansion of existing properties and the purchase of additional similar properties as aforesaid, which will cause further growth in the operating cash flow of the Company in the future, insofar as the Company's board of directors shall deem fit, and to examine the development of tangential and/or synergetic segments.

[4] Excluding the Azrieli Holon Center, which was opened in phases, the last of which phases opened in September 2015 and is in advanced lease-up stages. Occupancy rate in the retail centers and malls segment, including the Azrieli Holon Center, is approx. 97%.

[5] Excluding the Azrieli Holon Center, part of which was opened in July 2013 with another part opened in March 2014. Both parts are currently in advanced stages of population. Occupancy rate in the retail centers and malls segment, including the Azrieli Holon Center, is approx. 97%. Occupancy rate in the office and other space for lease segment, including the Azrieli Holon Center, is approx. 98%.

[6] In view of the end of a contract with a tenant that occupies approx. 20 thousand sqm (approx. 10% of the spaces of the U.S. segment) in one of the office towers in Houston, and in view of the period of fit-out of the leased property to be required by a new tenant to enter part of the property. The Company is conducting negotiations for the lease of the rest of the spaces to be vacated.

1.2.3 Sonol segment:

The condition of the Company and the results thereof may be affected in a certain manner also from the business condition of Sonol. 2015 saw a decrease in Sonol's net profit compared with the same period last year, mainly as a result of an increase in legal costs and an increase in inventory losses, which were partially offset by an increase in the quantities of fuels sold and an increase in the profit attributed to the convenience stores, as specified in Section 1.11.4 of this Report below.

1.2.4 Tambour Segment

As of June 2014, upon the closing of the transaction for the sale of Tambour, Tambour ceased to be an operating segment of the Company and a reportable segment in its financial statements, and was recorded as discontinued operations in the Company's financial statements. For further details, see Note 8 to the Financial Statements.

1.2.5 Additional Businesses:

In addition, the Group has additional businesses, which include, *inter alia*, the senior housing segment and other industrial operations through Granite Hacarmel (material changes in whose operations may affect the results of the Group), Supergas – which mainly engages in the marketing and supply of LPG, GES – which mainly engages in water and waste infrastructures, and investments in corporations in the banking and finance segment, investments in VC and start-up companies and investment funds, as specified in Chapter A of the Periodic Report.

Following are the changes in the main financial investments during the Report Period: (NIS in millions)

	Investment value in the financial statements as of Dec. 31, 2014	Investments during the year ended on Dec. 31, 2015	Total investment as of Dec. 31, 2015 before adjustment for changes in the fair value during the Report Period	Fair value* of the investment as presented in the financial statements as of Dec. 31, 2015	Change in the fair value during the Report Period	Dividend that was received in 2015
Investment in Bank Leumi le-Israel Ltd. (*)	**945**	**-**	**945**	**954**	**9**	**-**
Investment in Leumi Card Ltd. (**)	**593**	**-**	**593**	**603**	**10**	**10**
Total	**1,538**	**-**	**1,538**	**1,557**	**19**	**10**

* The fair value of the investment in Bank Leumi le-Israel was determined according

to the value of the share at the TASE as of December 31, 2015;

** The fair value of the investment in Leumi Card was determined according to an independent appraiser, in accordance with the valuation as of December 31, 2015.

1.3 Business Results and Total Assets

Following is the contribution of the Group's operating segments to the business results: (NIS in millions)

	Segment profit for the year ended:		Rate of the segment's profit from the total consolidated net profit in the year ended:	
	Dec. 31, 2015	**Dec.31, 2014**	**Dec. 31, 2015**	**Dec. 31, 2014**
Retail centers and malls in Israel	**748**	709	**90%**	82%
Office and other space in Israel	**347**	318	**42%**	37%
Income-producing property in the USA	**132**	107	**16%**	12%
Sonol	**(70)**	49	**(8%)**	6%
Others	**100**	74	**12%**	9%
Total attributed profit	**1,257**	1,257	**152%**	146%
Changes in fair value	**180**	29	**22%**	3%
Net financing expenses	**(153)**	(150)	**(19%)**	(17%)
Tax expenses	**(365)**	(312)	**(44%)**	(36%)
G&A expenses, net	**(91)**	(38)	**(11%)**	(4%)
Profit from Discontinued Operation	**-**	74	**-**	8%
Net profit per period	**828**	**860**	**100%**	**100%**

The Group's revenues for the Report Period amounted to approx. NIS 6,087 million, compared with approx. NIS 7,132 million in the same period last year, a difference of approx. NIS 1,045 million. The difference mainly derives from the fact that the increase of approx. NIS 132 million in the revenues of the income-producing property segments was fully offset and the revenues decreased due to a decrease in the Sonol segment of approx. NIS 1,080 million (mostly due to a decrease in fuel prices). The Group's revenues for the three months ended on December 31, 2015 amounted to the sum of approx. NIS 1,451 million, compared with the sum of approx. NIS 1,666 million in the same period last year, a decrease of approx. NIS 215 million, which derives mainly from a decrease of approx. NIS 216 million in the Sonol segment (principally due to a decrease in fuel prices, and an increase in the revenues of income-producing properties, which was offset by the decrease in the revenues of Supergas and GES).

As of December 31, 2015, the total of assets on the balance sheet was approx. NIS 26.4 billion, compared with approx. NIS 25.4 million as of December 31, 2014, an increase which is primarily attributed to investments in the income-producing property segments, an increase in cash and in financial assets, offset by the write-off of the Via Maris assets following the closing of the sale.

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

	The share of the segment's assets out of the total assets, on a consolidated basis, as of (NIS in millions)		The rate of the segment's assets out of the total assets, on a consolidated basis, as of	
	Dec.31, 2015	Dec. 31, 2014	Dec.31, 2015	Dec. 31, 2014
Retail centers and malls in Israel	**11,056**	10,595	**42%**	42%
Office and other space for lease in Israel	**6,830**	6,134	**26%**	24%
Income-producing property in the USA	**2,052**	2,026	**8%**	8%
Sonol	**1,913**	2,208	**7%**	9%
Others and adjustments	**4,594**	4,466	**17%**	17%
Total	**26,445**	25,429	**100%**	**100%**

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

	As of Dec. 31, 2015	As of Dec. 31, 2014
Current assets	**2,438**	3,249
Non-current assets	**24,007**	22,180
Current liabilities	**3,523**	5,099
Non-current liabilities	**9,052**	6,981
Capital attributed to the Company's shareholders	**13,771**	13,252
Capital attributed to the Company's shareholders from the total balance sheet (in percent)	**52%**	**52%**

The Group finances its business activity mostly from its own capital from cash and cash equivalents and by means of non-bank credit (mostly bonds and loans from institutional bodies), bank credit (short- and long-term) and commercial securities. In the Report Period, based on the shelf prospectus, the Company issued Series B Bonds to the public, and also expanded the series in an additional financing round and issued Series C bonds to the public. The Group's financial stability, which is characterized by low leverage and an extensive volume of non-mortgaged assets, provides the Group with available sources for obtaining finance under convenient terms. For further details, see Section 18 of Chapter A of this Report and Section 1.5 below.

1.5 Financial Condition, Liquidity and Financing Sources

(a) Liquid Means in the Group

As of December 31, 2015, the cumulative scope of liquid means (cash and cash equivalents, financial assets held for trade and short-term deposits and investments) held by the Group amounted to approx. NIS 971 million. The Company deems its liquid means, the considerable cash flow from current operations and its non-pledged assets (in a total value of approx. NIS 16.9 billion in addition to the approx. NIS 971 million specified above) as significant for its financial strength, for its high financial flexibility due to its non-dependency on the availability of external sources also for the purpose of returning debts and for the ability to use investment opportunities in different periods[7]. Regarding additional possible liquid sources, the Company estimates that the Group is able to raise financing under favorable terms, even under the currently prevailing financial conditions.

Following is a table of non-pledged assets that are available to serve as collateral against the receipt of credit[8]:

Assets	Value of assets as of Dec. 31, 2015 (NIS in millions) as presented in the financial statements
Properties in retail centers and malls in Israel segment	**8,676**
Properties in the office and other space for lease in Israel segment	**5,524**
Other real estate properties	**145**
Company's holdings in Leumi Card	**603**
Company's holdings in Granite Hacarmel	**953**
Company's holdings in Bank Leumi	**954**
Total	**16,855**

(b) Dividends:

For details regarding dividend distributions performed by the Company in 2014-2015 and until the Report release date, see Section 4 of Chapter A of the Report. For details regarding a dividend received by the Company from Leumi Card, see Section 13.2 of Chapter A of the Report.

(c) Cash flows

Net cash flows generated for the Group from current operations for the year ended on December 31, 2015, amounted to the sum of approx. NIS 1,261 million, compared with the sum of approx. NIS 1,154 million

[7] The Company specified in Section 18 of the Description of the Corporation's Business Chapter, in Chapter A of this Report, further issues related to the financing activities in the Group.

[8] The assets in the table do not include income-producing properties held by Granite.

generated from current operations in the same period last year (an increase of approx. NIS 107 million).

The cash flow in the Report Period derived mainly from the operating profit of the income-producing properties (approx. NIS 1,238 million), with the addition of cash flows generated from current operations from Granite, offset by income taxes paid .

The increase in cash flows from current operations in the year ended on December 31, 2015 compared with the same period last year mostly resulted from an increase in Sonol's current cash flow, mainly due to a change in the items of trade account receivables and inventory).

The cash flow generated for the Group from current operations in the year ended on December 31, 2015 were used by the Group mainly for financing investments required for projects under construction, for the purchase of land, for the acquisition of a company in the senior housing sector, for the repayment of long term liabilities and for dividend distribution.

The net cash flows derived by the Group from current operations in the three months ended on December 31, 2015, amounted to a sum of approx. NIS 354 million, compared with a sum of approx. NIS 374 million, which derived from current operations in the same period last year (a decrease of approx. NIS 20 million).

The decrease in the flow from current operations in the three months ended on December 31, 2015, compared with the same period last year, mostly derived from the exclusion of the cash flow from current operations of Via Maris this year due to its sale in June 2015 as aforesaid.

The net cash flows used by the Group for investment activity in the year ended on December 31, 2015, amounted to approx. NIS 826 million, compared with approx. NIS 784 million in the same period last year.

The cash flow in the Report Period was mostly used for the purchase of and investment in investment property and under-construction investment property in the sum of approx. NIS 1,021 million and for the purchase of the Palace senior housing home in the sum of approx. NIS 255 million, offset against proceeds received from the sale of the solar business and the sale of Via Maris in the sum of approx. NIS 531 million. The cash flow in the same period last year was used for the purchase of and investment in investment property and under-construction investment property in the sum of approx. NIS 1,204 million, offset against proceeds received from the disposition of Tambour’s business in the sum of approx. NIS 488 million

The net cash flows used by the Group for investment activity in the three months ended on December 31, 2015, amounted to a sum of approx. NIS

204 million, compared with a sum of approx. NIS 215 million, which were used by the Group for investment activity during the same period last year (a decrease of approx. NIS 11 million), mostly due to a decrease in the investment in investment properties and under-construction investment properties in the quarter compared with the corresponding quarter, offset by a decrease in short-term deposits and revenues for the settlement of derivative financial instruments.

The net cash flows generated for the Group for financing activity in the year ended on December 31, 2015, amounted to approx. NIS 287 million, compared with net cash flows used for financing activity in the sum of approx. NIS 647 million in the same period last year. The increase resulted mainly from of the issue of bonds in the amount of approx. NIS 2,209 million in the Report Period, offset by an increase in the repayment of short-term credit and long-term bonds and loans (net) in the amount of approx. NIS 1,296 million.

The net cash flows which were used by the Group for financing activity in the three months ended on December 31, 2015, amounted to a sum of approx. NIS 279 million, compared with a sum of approx. NIS 174 million used for financing activity in the same period last year (increase of approx. NIS 105 million). The increase mainly derived from the increase in repayment of short-term credit, loans and bonds (net) in the amount of approx. NIS 133 million.

Following is the composition of the Group's financing sources

	December 31, 2015		December 31, 2014	
	NIS in millions	% of total balance sheet	NIS in millions	% of total balance sheet
Short-term credit and current maturities of loans from banks and other credit providers	2,030	8%	2,962	12%
Long-term credit from banks and other credit providers	2,989	11%	3,176	12%
Long-term bonds	2,963	11%	958	4%
Total	**7,982**	**30%**	**7,096**	**28%**

An increase in the sum of approx. NIS 886 million in the Report Period results mainly from the issue of bonds as stated in Section 1.1.1 above, offset by current repayments of loans and bonds. As of the Report Date, the Company has a deficit in the working capital in the sum of approx. NIS 1,086 million (consolidated) and approx. NIS 230 million (standalone), resulting mainly from the decision of the Group's management, at this stage, to finance its business also through short-term credits in view of the business opportunity, due to the low interests for such credits.

The Company estimates that if it decides to exchange such credit with long-term credit at any time, it will be able to do so in view of its financial strength and/or the volume of its unmortgaged assets, and therefore, the Company's board found in its meeting of March 22, 2016, after examining the financing and cash flow sources of the Company, that the said working capital deficit does not affect its ability to repay its liabilities on time.

The Company's estimations mentioned in this Section 1.5 of the board of directors' report in relation to its liquidity and the availability of its financing resources, particularly with respect to the eventuality of converting the short-term debt into long-term debt, is forward-looking information, as defined in the Securities Law, 5728-1968, which is based on the Company's estimations with regards to developments in markets, inflation levels and projected cash flows and on the conditions and possibilities for credit raising on the Report Date. Such estimations may not materialize, in whole or in part, or may materialize in a manner that materially differs from the Company's estimations. The principal factors which may affect this are: changes in the capital market which will impact the conditions and possibilities for raising credit, changes in the Company's plans, including use of liquid balances that shall exist for the purpose of utilizing business opportunities, changes in the advantageousness of holding of the various investment avenues or the advantageousness of use of various financing avenues, exacerbation of the economic situation in Israel or in the U.S. and entry into severe recession, and the Company's or any of the Group's companies falling into financing difficulties or other difficulties, in a manner affecting the Company's cash flow.

(d) Rating

Following are details regarding the rating of the Company's bonds, commercial paper and private loan:

The Security	The Rating Company	The Rating	The Rating Date
Series A Bonds of the Company	Midroog	Aa2/Stable	September 21, 2014
	Maalot	AA+/Stable	January 20, 2015
	Midroog	Aa1/Stable	November 1, 2015
Series B Bonds of the Company	Maalot	AA+/Stable	June 21, 2015
Series C Bonds of the Company	Maalot	AA+/Stable	September 3, 2015

Commercial paper**	Maalot	A-1+	June 23, 2014
Private loan	Midroog	Aa2	September 21, 2014

For further details, see Note 21 to the financial statements as of December 31, 2015. To review Midroog's annual surveillance report, see the Company's immediate report of November 1, 2015 (Ref.: 2015-01-146127), which is included herein by way of reference. To review Maalot's annual rating report, see the Company's immediate report of January 31, 2016 (Ref. 2016-01-020275), which is included herein by way of reference.

(e) Liabilities and Financing

Financial liabilities of the Group (except for Granite Hacarmel) as of December 31, 2015 (NIS in millions):

	Fixed Interest			Variable Interest		Total		Total
	Index linked	USA Dollar Linked	Not Linked	Pound Sterling Linked	Not Linked	Fixed Interest	Variable Interest	
Short Term Loans	-	-	-	24	630	-	654	654
Long Term Loans	4,696	1,117	6	-	47	5,819	47	5,866
Total	4,696	1,117	6	24	677	5,819	701	6,520

The Group's financial liabilities' maturity dates (except for Granite Hacarmel) as of December 31, 2015, in NIS in millions:

Year	Principal	Interest	Total
1	1,070	151	1,221
2	1,905	99	2,004
3	389	78	467
4	561	71	632
5 onwards	2,595	139	2,734
Total	6,520	538	7,058

The Company's policy is to finance its operations, beyond the positive and stable cash flow from current operations and current assets, mainly by long-term loans, index-linked with a fixed interest, in order to minimize market risks resulting from changes in the interest rates in the economy and neutralize the market risk resulting from changes in the CPI, while using the fact that most of the Company's revenues are index-

linked.

Nonetheless, in light of the low interest rates for short-term loans with variable interest, the Company decided to finance its activity also by using short-term loans as specified above.

As of December 31, 2015, short-term loans accounted for approx. 10% of the Group's total financial liabilities (except for Granite Hacarmel). In the Company's estimation, this rate is low and conservative in light of the low leverage ratio and the sum of the non-pledged assets as specified above.

According to the Company's policy, from time to time, it considers the opportunities for converting the short-term debt to a long-term debt with fixed interest. The Company's management considers on an on-going basis the payment sources for financing the existing and expected liabilities as they become due, including with respect to the cash flow and the sum of the non-pledged assets. For details with respect to the issue and expansion of Series B bonds and the issue of Series C bonds, which occurred during the Report Period, see Section 1.1.1 of Part A of the Report.

In the Report Period, the sources for financing the financial liabilities are mainly the following:

- The Group has a positive cash flow from current operations for many years. This cash flow amounted to the sum of approx. NIS 1,261 million in the year ended December 31, 2015, compared with the sum of approx. NIS 1,154 million in the same period last year. The liquid means and the non-pledged assets as specified in Section 1.5(a) above.

- In addition, the Group has pledged income-producing assets, the amount of the loan in respect of which is significantly lower than their fair value.

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

In accordance with the main market risks specified above and in accordance with the provisions of the Second Schedule to the Regulations, the Group is performing sensitivity tests regarding changes in market risks affecting the fair value of "sensitive instruments". For details see, attached hereto, Annex A to this Board of Directors' Report and also Notes 35 and 36 to the financial statements.

(f) The Company's linkage balance sheet as of December 31, 2015

For details regarding the Company's consolidated linkage balance sheet as of December 31, 2015, see Chapter C of this report.

1.6 Quality of Profit

The Company's net profit mainly includes and is affected by the following components:

- Profit from the income-producing property segment – the retail centers and malls in Israel segment, the office and other space for lease in Israel segment; the income-producing property in the USA segment; and the senior housing segment;

- Changes in the fair value of the Group's investment property;

- The Company's share in the profits of the Sonol sector;

- The Company's share in Granite Hacarmel profits except for the Sonol sector;

- The Company's HQ activity which includes net financing expenses, G&A expenses and marketing;

- Deferred and current tax expenses.

The profit from the real estate business is affected almost entirely by the rental income in the various properties, which is mainly affected by the supply and demand for rental space.

There may be high volatility in the Company's profits between different report periods, mainly due to changes in the value of the income-producing property as aforesaid, which is affected, *inter alia*, by changes in the cap rates and changes in the scope of the income as a result of changes in market conditions and/or of a rise in the CPI. In addition, the financing expenses at the Company are affected by changes in variable interest and changes in the CPI.

At least once every six months, and whenever there are any indications of material changes in the value, the Company examines the fair value of the investment property in Israel. The fair value is principally determined based on valuations that were mostly performed by appraisers independent of the Company. The fair value is measured based on the discounting of cash flows based on signed contracts and market rent for vacant spaces as of the date of the examination, which are supported by comparison thereof with renewals made in locations similar to that of the property proximately to the date of the valuation, as well as usage of cap rates, examined, *inter alia*, by analyzing comparison transactions proximately to the date of the valuation. The Company examines, each quarter, the need for updating the value of the investment properties by an examination of macro-economic changes, changes in the properties' surroundings and revenues deriving therefrom, and speaks with an independent real estate assessor to examine changes in the capitalization rates. In addition, with regard to investment properties under construction, the costs which were actually invested during the period, the updated forecast of costs for completion and the lease contracts that were executed during the period, are taken into account. In the event that the management estimates that there were

material changes in the value of the properties, as defined in the Company's procedures, updated valuations are performed for the relevant properties, by the Company or an appraiser.

Changes in the assumptions that are being used by outside experts and/or changes in the estimates of the Company's management which relies on its aggregate experience may lead to changes in the fair value that was carried to the income statement, and thus affect the Company's financial condition and results of operations. For further details see Note 3C to the financial statements.

For details regarding the fair value of the investment property according to operating segments, see Section 7.4 of Chapter A of this Report, and also see Notes 14 and 38 to the attached financial statements.

1.7 General Administrative and Marketing Expenses (Extended Standalone)

The Company's consolidated administrative and marketing expenses (excluding Granite Hacarmel) amounted to approx. NIS 94 million in 2015, compared with approx. NIS 84 million in 2014. The increase of approx. NIS 10 million in the expenses mostly derives from an increase in the amount of approx. NIS 15 million in marketing expenses, offset by a decrease in the consideration for management services paid to Canadian companies which were wholly controlled and owned by Mr. David Azrieli OBM in the amount of approx. NIS 5 million.

The total consolidated sum of contributions of the Company (including Granite Hacarmel) in 2015 amounted to approx. NIS 13 million.

The Company's consolidated marketing and administrative expenses (excluding Granite Hacarmel) amounted to approx. NIS 30 million in Q4/2015, compared with approx. NIS 23 million in the same period last year. The increase results mainly from an increase in marketing expenses in the amount of approx. NIS 6 million (primarily for the launch of a marketing campaign.

For changes resulting from the Sonol segment, see Section 1.11.4 below.

1.8 Net Financing Expenses

The Group's net financing expenses as of the year ended on December 31, 2015, amounted to approx. NIS 153 million, compared with approx. NIS 150 million in the same period last year (an increase of approx. NIS 3 million). The increase in net financing expenses mainly results from a an increase in the net financing expenses of Sonol, which mostly results from loss from hedging transactions in the present year, compared with a profit last year, offset by a decrease in the expenses of linkage on loans and bonds as a result of a decrease of approx. 0.9% in the rate of the index known in the Report Period, compared with a decrease of approx. 0.1% in the same period last year, and also from a real decrease of the interest rate on the Group's loans offset by an increase in interest expenses due to an increase in the amount of credit.

The net financing expenses in the Quarter amounted to approx. NIS 37 million, compared with approx. NIS 20 million in the same period last year. The increase of approx. NIS 17 million in financing expenses mainly derives from an increase in the net financing expenses of Sonol, mostly due to loss from hedging transactions in the present quarter, compared with a profit in the same period last year.

1.9 Other Expenses

In view of indications received in the course of attempts to sell Sonol in recent months, an updated examination was carried out with respect to the goodwill attributed to Sonol's operations in the books of Azrieli Group, as a result of which an impairment of NIS 103 million was performed.

1.10 Taxes on Income

The Group's income tax expenses for the year ended December 31, 2015, amounted to the sum of approx. NIS 365 million, compared with tax expenses in the sum of approx. NIS 312 million in the same period last year. The increase in tax expenses in the Report Period mostly derives from an increase in deferred tax expenses due to an increase in the profit from the adjustment of the fair value of investment properties.

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

The Company implemented in its financial statements the International Financial Reporting Standard 8 concerning Operating Segments (IFRS8). The Company's division into segments is based on the managerial and internal reports of the Company. In respect of the income-producing properties segments, the NOI figure is one of the important parameters in the valuation of income-producing properties' companies (for the manner of calculation of the figure, see Section 1.1.6 above). In addition, the contribution to the results takes into account the Company's share in the results of the company (indirectly) held by the Company, Sonol, which constitutes an operating segment.

1.11.1 Retail Centers and Malls in Israel Segment

Summary of the segment's business results:

	For the three months period ended		For the year ended	
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014
	NIS in millions			
Revenues	236	219	931	877
% change	8%		6%	
NOI	192	178	748	709
% change	8%		6%	

The increase in NOI in 2015 and in Q4/2015 mainly results from the

lease-up of the second floor of the Ayalon Mall and the opening of the Ramla Mall in March 2015.

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

	For the three months period ended		For the year ended	
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014
For the segment's assets owned by the Company as of the beginning of the period[9]	**184**	**178**	**724**	**708**
For assets that were purchased or whose construction was completed in 2014	**-**	**-**	**-**	**-**
For assets that were purchased or whose construction was completed in 2015	**8**	**-**	**24**	**1**
Total	**192**	**178**	**748**	**709**

The same property NOI in the malls and retail centers in Israel segment was favorably affected primarily by:

§ A real increase in the rent at the time of renewal of contracts in the various properties (pursuant to option exercise by the tenants and/or execution of new agreements).

§ Lease-up of the second floor of the Ayalon mall and lease-up of the retail space in the Azrieli Holon center.

The same property NOI in the malls and retail centers in Israel segment was adversely affected primarily by:

§ Areas that were not populated in periods of tenant substitution in some of the malls.

§ Real decrease in the rent upon the renewal of contracts in some of the properties due to increased competition mainly in the area of Beer Sheba and the North (due to option exercise by the tenants and/or execution of new contracts).

§ Expansion orders in the cleaning and security sectors, which took effect in 2014, increased the cleaning and security costs in the Group's properties and offset part of the increase in the income from rent.

The balance of the assets of retail centers and malls in Israel segment – amounted as of December 31, 2015, to the sum of approx. NIS 11.1

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

billion, compared with approx. NIS 10.6 billion, on December 31, 2014. The main change derives from investments in the sector's properties.

Change due to the adjustment of fair value of investment property and investment property under construction of the segment –

The profit from the fair value adjustment of investment property and investment property under construction of the segment amounted in the Report Period to the sum of approx. NIS 123 million, compared with a loss of approx. NIS 89 million in the same period last year. The properties are presented according to the valuations which were prepared by an independent appraiser as of December 31, 2015. The profit from the fair value adjustment in the Report Period derived mainly from an increase in NOI and a slight decrease in the cap rate, offset against both performed and expected investments in properties.

Net of the fair value adjustment of the Be'er Sheva and Kiryat Ata Malls, the profit from fair value adjustment in the Report Period is approx. NIS 135 million.

1.11.2 Office and other space for lease in Israel segment:

Summary of the segment's business results:

	For the three-month period ended		For the year ended	
	Dec. 31, 2015	**Dec. 31, 2014**	**Dec. 31, 2015**	**Dec. 31, 2014**
	NIS in millions			
Revenues	**111**	**101**	**420**	**387**
% change	**10%**		**9%**	
NOI	**94**	**83**	**347**	**318**
% change	**13%**		**9%**	

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

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

	For the three-month period ended		For the year ended	
	Dec. 31, 2015	**Dec. 31, 2014**	**Dec. 31, 2015**	**Dec. 31, 2014**
Due to the segment's assets owned by the Company at the beginning of the period[10]	**94**	**83**	**347**	**318**
Due to assets purchased or whose construction was completed in 2014	**-**	**-**	**-**	**-**
Due to assets which were	**-**	**-**	**-**	**-**

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

purchased or whose construction was completed in 2015				
Total	**94**	**83**	**347**	**318**

The same property NOI in the office and other space in Israel segment was favorably affected primarily by:

§ A real increase in the rent at the time of renewal of contracts in the various properties (pursuant to the exercise of options by the tenants and/or execution of new contracts).

§ Continued lease-up of Azrieli Center Holon.

The same property NOI in the office and other space in Israel segment was adversely affected primarily by:

§ Expansion orders in the cleaning and security sectors, which took effect in 2014, increased the cleaning and security costs in the Group's properties and offset part of the increase in the income from rent.

The balance of the Group's investment property in the office and other space for lease in Israel segment – amounted on December 31, 2015 to the sum of approx. NIS 6.8 billion, compared with approx. NIS 6.1 billion on December 31, 2014. The change principally derives from investments in the segment's properties.

Change due to the adjustment of fair value of investment property and investment property under construction, of the segment –

The profit from the fair value adjustment of investment property and investment property under construction of the segment amounted, in the Report Period, to the sum of approx. NIS 70 million, compared with a profit of approx. NIS 117 million in the same period last year. The profit in the Report Period derived from a rise in the NOI and from a slight reduction in the cap rate. The properties are presented according to the valuations which were prepared by an independent appraiser as of December 31, 2015.

1.11.3 Income-producing property in the USA segment:

Summary of the business results of the segment:

	For the three-month period ended on		For the year ended on	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
	NIS in millions			
Revenues	57	57	236	191
Percentage of change	-		24%	
NOI	31	32	132	107
Percentage of change	(3%)		23%	

The increase in revenues in 2015 mostly results from the acquisition of a leased-up office building in Houston, Texas, U.S. in September 2014 and from the rise in the dollar rate. However, as of the last quarter of 2015, in view of the expiration of a contract with a tenant occupying an area of approx. 20 thousand sqm (which constitutes approx. 10% of the segment's spaces) in one of the office towers in Houston and in view of the period of fit-out of the leased property to be required by another potential tenant, the revenues of the Company decreased in Q4 and the Company also expects a decrease in revenues in the coming quarters. The Company is conducting advanced negotiations with potential tenants to lease up part of the vacated spaces. As of the date of the signing of the Report, an agreement has been signed with a tenant for lease of one quarter of the vacated spaces.

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

	For the three-month period ended on		For the year ended on	
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014
Due to the segment's assets owned by the Company at the beginning of the period[11]	31	32	112	101
Due to assets purchased in 2014	-	-	20	6
Due to assets purchased in 2015	-	-	-	-
Total	31	32	132	107

The same property NOI in the income-producing property in the USA segment was favorably affected mainly from:

§ The average US Dollar exchange rate during the Report Period was approx. 9% higher than the average US Dollar exchange rate in the same period last year.

The same property NOI in the income-producing property in the USA segment was adversely affected mainly from:

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

§ The expiration of a contract with a tenant that occupies an area of approx. 20 thousand sqm in one of the office towers as aforesaid.

The balance of investment properties of the Group in the segment – totaled on December 31, 2015 in the sum of approx. NIS 2.1 billion, similar to the balance on December 31, 2014.

Change due to the adjustment of fair value of investment properties of the segment -

Loss from the adjustment of fair value of investment properties of the segment totaled during the Report Period approx. NIS 28 million, compared with a profit of approx. NIS 9 million, in the same period last year. The loss in the Report Period mostly derived from a write-down of investments made in the properties.

1.11.4 Sonol segment:

The Company's share in the Sonol segment results amounted, in the year ended on December 31, 2015, to a loss of approx. NIS 69 million, compared with a profit of approx. NIS 49 million in the same period last year. The loss this year derived from a NIS 103 million impairment of the goodwill attributed to the business of Sonol as aforesaid.

Following is a summary of data from Sonol's consolidated statement:

	For the three months ended		Increase/ Decrease	For the year ended		Increase/ Decrease
	Dec. 31, 2015	Dec. 31, 2014		Dec. 31, 2015	Dec. 31, 2014	
	NIS in millions		%	NIS in millions		%
Net Revenues	**857**	**1,072**	**(20%)**	**3,738**	**4,818**	**(22%)**
Gross profit	**170**	**130**	**31%**	**658**	**642**	**2.5%**
Operating Profit (loss)	**22**	**(26)**	**185%**	**39**	**54**	**(28%)**
Profit (loss) before tax	**15**	**(21)**	**171%**	**13**	**38**	**(66%)**

Summary of Sonol's business results:

The main decrease in Sonol's revenues during the Report Period compared with the same period last year derived mainly from the reduction in fuel prices.

Gross profit

Sonol's gross profit in 2015 amounted to a sum of approx. NIS 658 million, compared with approx. NIS 642 million in the same period last year, an increase of approx. NIS 16 million, which mostly stems from an increase in exchange differentials offset by a decrease in inventory losses.

The gross profit of Sonol amounted in the Quarter to approx. NIS 170 million, compared with approx. NIS 130 million in the same period last year, an increase of approx. NIS 40 million, which mostly stems from an increase in the amount of fuels sold and a decrease in inventory losses and the effect of exchange differentials on the cost of goods sold.

Operating profit

The decrease in operating profit in 2015 compared with the same period last year results from an increase in general and administrative expenses, mainly due to an increase in provisions for legal costs.

The increase in operating profit in the present quarter compared with the same quarter last year mainly results from the increase in the gross profit as aforesaid.

Profit before tax

The decrease in profit before tax in 2015 compared with the same period last year derives from the decrease in the operating profit as aforesaid, and from an increase in financing costs, mainly due to a loss in hedging transactions in the present year, compared with a profit from such transactions last year.

The increase in profit before tax in the present quarter compared with the same quarter last year derives from the increase in operating profit, as aforesaid, offset by an increase in financing costs, mainly due to a loss in hedging transactions in the present quarter, compared with a profit from such transactions in the same period last year.

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

2.1 General

The following specification pertains to the Company and subsidiaries wholly owned thereby, as well as to material investee companies of the Company whose exposure to market risks may materially affect the Company.

2.2 The Person Responsible for Market Risk Management

Risk management at the Company and the investee companies in the Group is determined and performed directly by their managements.

The person responsible for market risk management at the Company is the Company's CFO, Ms. Irit Sekler-Pilosof. For details on her education, qualifications and business experience, see Section 26A of Chapter D – Additional Details on the Corporation - of this Report.

2.3 Description of Market Risks

For details regarding the Company's market risks, see Notes 34 and 35 to the financial statements as of December 31, 2015.

2.4 The Company's Market Risk Management Policy

For details regarding the Company's market risk management, see Notes 34 and 35 to the financial statements as of December 31, 2015.

During 2015, Granite Hacarmel used derivative financial instruments for hedging against its surplus exposure. See Annex B to this Report.

2.5 Means of Supervision and Implementation of the Policy

The finance committee and the board of directors deliberate, at least once every quarter, the Company's exposures to market risks and the actions which the Company's management has taken, and insofar as required determine quantitative criteria and limitations. The Company's management examines the scope of the business and the risk deriving from the business on an ongoing basis.

2.6 Positions in derivatives

For details see Annex B to the Board of Directors' Report.

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

In accordance with the main market risks specified above and in accordance with the provisions of the Second Schedule to the Regulations, the Group is

performing sensitivity tests regarding changes in market risks affecting the fair value of “financial instruments”.

For details see Annex A, which is attached hereto.

2.8 Linkage bases table

For details, see Annex C to the board of directors' report.

2.9 Designated disclosure to Bondholders (Series B and Series C)

For details regarding designated disclosure to the holders of the Company’s Series B bonds and Series C bonds, see Annex F to this chapter.

3. Corporate Governance Aspects

For details regarding the aspects of the corporate governance in the Company, including a corporate governance questionnaire and approval of the reports, compensation of senior officers, donation policy, details regarding the internal auditor and the auditor and the internal enforcement program at the Company, see the Corporate Governance chapter, which is attached hereto as Chapter E. For details with respect to directors of the Company, see the Additional Details about the Corporation chapter, which is attached hereto as Chapter D.

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

4.1 Disclosure pertaining to very material valuations

The guideline of the Israeli Securities Authority determines that a material valuation is a valuation which fulfills one of the tests: (1) The subject-matter of the valuation constitutes at least 5% of the Company's total assets as the same are presented in the Consolidated Statements of Financial Position as of the last day of the reporting period (the "**Balance Sheet Test**") (2) The effect of the change in value as the result of the valuation on the net or comprehensive income, as the case may be, constitutes at least 5% of the total amount of the net or comprehensive income, respectively, of the Company for the period of the report, and constitutes at least 2.5%[12] of the Company's equity as of the end of the Report period[13] (the "**Effect Test**"). In addition, the guideline determines that a very material valuation, which should be attached to the financial statements of a reporting corporation, is a valuation which fulfills double materiality (10% instead of 5% and 5% instead of 2.5%).

The Israeli Securities Authority further determined that where the valuation fulfills the quantitative tests but qualitative considerations led to a different decision of the corporation and it was decided not to attach the same, the corporation will disclose its decision, specifying the results of the quantitative tests and the reasons and considerations which constituted the basis for this resolution.

As of the Report Date, the Company's board of directors has adopted the parameters determined by the Israel Securities Authority, as specified above, in respect of the attachment of a very material valuation.

As of the Report Date and after the above determination was examined, attached is the very material valuation only in respect to the Azrieli Towers in Tel Aviv (which is included in the valuation of the entire Azrieli Center, along with its components – namely- including the Azrieli Mall) - attached as Annex D to this Report.

As of December 31, 2015, the value of the Company's assets whose fair value was determined through a very material valuation (made as of December 31, 2015) was in the sum of approx. NIS 5 billion (which is attributed both to the Azrieli Center Towers and the Azrieli Mall), out of a fair value of investment properties in the sum of approx. NIS 21 billion (approx. 24% of the Company's total investment properties).

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[12] Update of Legal Position 105-23 Parameters for Examination of the Materiality of Valuations, released by the Israel Securities Authority in July 2014.

[13] Meaning the effect of the subject-matter of the valuation after the effect of tax, if any and in absolute values.

4.2 Events Subsequently to the Date of the Financial Statements

See Note 39 to the financial statements.

4.3 Financial figures attributed to the Company as a parent company

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

4.4 Issues to which the Company's auditors called attention in their opinion on the financial statements

Without qualifying their opinion, the auditors called attention to the provisions of Note 33 pertaining to legal actions in material amounts, cumulatively, against the Company and consolidated companies (primarily Sonol and Supergas), for the class certification of which a motion was filed.

The Company's board of directors and management express their great appreciation for the Company's officers, the managements of the various companies of the Group and their employees, for their blessed contribution to the Group's achievements in the year ended December 31, 2015.

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

Date: March 22, 2016

Annexes to the Board of Directors' Report

December 31, 2015

Annex A – Sensitivity Tests

The following tables should be read in view of the following remarks:

1. The recorded instruments are not necessarily presented in the financial statements at fair value.
2. For details regarding the interest rates used for determining the fair value, see also Note 36D(2) to the Financial Statements.
3. Sensitivity to 2% absolute change in the interest constitutes an extreme scenario in the Company's estimation, after reviewing severe but conceivable scenarios.

Table of Sensitivity to financial instruments as of December 31, 2015 according to changes in market factors:

Sensitivity to changes in the interest rates in US Dollar

	Profit (loss) from the changes in the market factor			Fair value of asset (liability)	Profit (loss) from changes in the market factor			Value determination method
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	
Change Rate	**2% absolute increase**	**10% increase**	**5% increase**		**5% decrease**	**10% decrease**	**2% absolute decrease**	
Forward purchase transaction								
Dollar/Shekel	(496)	(2,378)	(1,220)	1,528	1,289	2,657	507	Forward formula
Loans granted	(44)	(250)	(130)	1,273	218	483	94	DCF method
Loans received	80,517	15,730	7,912	(1,179,161)	(8,006)	(16,108)	(90,512)	DCF method
Total	79,977	13,102	6,562	(1,176,360)	(6,499)	(12,968)	(89,911)	

Annex A – Sensitivity Tests

(Contd.)

Table of Sensitivity to financial instruments as of December 31, 2015 according to changes in market factors:

Sensitivity to changes in the real interest rates

	Profit (loss) from the changes in the market factor			Fair value of asset (liability)	Profit (loss) from changes in the market factor			Value determination method
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	
Change Rate	**2% absolute increase**	**10% increase**	**5% increase**		**5% decrease**	**10% decrease**	**2% absolute decrease**	
Long-term loans granted	(5,321)	(2,413)	(1,210)	75,317	1,303	2,613	5,730	DCF method
Long-term loans received	84,118	6,831	3,418	(2,022,034)	(3,424)	(6,856)	(90,800)	DCF method
Bonds	275,593	21,266	10,664	(3,264,573)	(10,727)	(21,517)	(321,560)	DCF method
Receivables in respect of a franchise arrangement	8,218	1,204	595	55,074	(582)	(1,151)	(6,240)	DCF method
Total	362,608	26,888	13,467	(5,156,216)	(13,430)	(26,911)	(412,870)	

Sensitivity to Shekel/Dollar exchange rates

	Profit (loss) from the changes in the market factor		Fair value of asset (liability)	Profit (loss) from changes in the market factor		Value determination method
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	
Change Rate	**10% increase**	**5% increase**		**5% decrease**	**10% decrease**	
Exposure in the linkage balance	(10,885)	(5,443)	(108,854)	5,443	10,885	Book value
Loans granted	332	166	3,322	(166)	(332)	DCF method
Receivables in respect of a franchise arrangement	223	112	2,230	(112)	(223)	DCF method
Long-term loans received	(111,720)	(55,860)	(1,117,200)	55,860	111,720	Book value
Forward purchase transactions Dollar/Shekel	41,945	19,778	(1,528)	(24,555)	(46,722)	Forward formula
Total	(80,105)	(41,247)	(1,218,974)	36,470	75,328	

Annex A – Sensitivity Tests

(Contd.)

Table of Sensitivity to financial instruments as of December 31, 2015 according to changes in market factors:

Sensitivity to changes in oil distillates prices on the inventory in NIS in thousands (before tax)

	Profit (loss) from the changes		Fair value	Profit (loss) from the changes	
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Change Rate	**10% increase**	**5% increase**		**5% decrease**	**10% decrease**
Oil distillates inventory	7,024	3,512	70,239	(3,512)	(7,024)
	7,024	3,512	70,239	(3,512)	(7,024)

Annex A – Sensitivity Tests

(Contd.)

Table of Sensitivity to financial instruments as of December 31, 2015 according to changes in market factors:

Sensitivity to Changes in Interests on the Cap Rates of Investment Property

	Loss from changes in market factor			Fair value of asset	Profit from changes in market factor			Value determination method
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	
Change Rate	Absolute 2% Increase	10% Increase	5% Increase		5% Decrease	10% Decrease	Absolute 2% Decrease	
Weighted Cap Rate								
5.75%-6.5%	(276,090)	(98,747)	(47,691)	1,161,880	70,543	139,514	558,778	DCF method
7% - 7.5%	(2,652,744)	(1,103,157)	(581,845)	11,821,969	627,228	1,327,522	4,713,771	DCF method
7.51% - 8%	(548,961)	(242,023)	(126,731)	2,657,677	139,956	295,341	931,386	DCF method
8.01% - 8.5%	(403,516)	(184,956)	(96,826)	1,977,409	107,112	225,979	668,065	DCF method
8.51% - 9%	(74,883)	(36,584)	(19,042)	683,360	21,168	44,358	115,240	DCF method
Investment property and investment property under construction	(3,956,194)	(1,665,467)	(872,135)	18,302,295	966,007	2,032,714	6,987,240	

Annex A – Sensitivity Tests

(Contd.)

The following tables should be read in view of the following remarks:

1. The recorded instruments are not necessarily presented in the financial statements at fair value.
2. For details regarding the interest rates used for determining the fair value, see also Note 36D(2) to the Financial Statements.
3. Sensitivity to 2% absolute change in the interest constitutes an extreme scenario in the Company's estimation, after reviewing severe but conceivable scenarios.

Table of Sensitivity to financial instruments as of December 31, 2014 according to changes in market factors:

Sensitivity to changes in the interest rates in US Dollar

	Profit (loss) from the changes in the market factor			Fair value of asset (liability)	Profit (loss) from changes in the market factor			Value determination method
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	
Change Rate	**2% absolute increase**	**10% increase**	**5% increase**		**5% decrease**	**10% decrease**	**2% absolute decrease**	
Forward purchase transaction								
Dollar/Shekel	(407)	(1,965)	(1,003)	(861)	1,047	2,143	413	Forward formula
Loans granted	(65)	(271)	(151)	3,296	197	462	73	DCF method
Loans received	85,819	15,017	7,548	(1,182,025)	(7,627)	(15,335)	(96,678)	DCF method
Total	85,347	12,781	6,394	(1,179,590)	(6,383)	(12,730)	(96,192)	

Annex A – Sensitivity Tests

(Contd.)

Table of Sensitivity to financial instruments as of December 31, 2014 according to changes in market factors:

Sensitivity to changes in the real interest rates

	Profit (loss) from the changes in the market factor			Fair value of asset (liability)	Profit (loss) from changes in the market factor			Value determination method
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	
Change Rate	**2% absolute increase**	**10% increase**	**5% increase**		**5% decrease**	**10% decrease**	**2% absolute decrease**	
Limited investments	(4,035)	(224)	(112)	21,665	113	227	5,068	DCF method
Long-term loans granted	(5,484)	(2,922)	(1,550)	95,283	1,835	4,139	6,341	DCF method
Long-term loans received	179,821	15,874	7,961	(3,144,902)	(8,011)	(16,070)	(202,118)	DCF method
Bonds	77,616	5,468	2,742	(1,520,856)	(2,756)	(5,527)	(87,764)	DCF method
Receivables in respect of a franchise arrangement	(132,486)	(18,888)	(9,510)	690,068	9,644	19,427	162,625	DCF method
Total	115,432	(692)	(469)	(3,858,742)	825	2,196	(115,848)	

Sensitivity to Shekel/Dollar exchange rates

	Profit (loss) from the changes in the market factor		Fair value of asset (liability)	Profit (loss) from changes in the market factor		Value determination method
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	
Change Rate	**10% increase**	**5% increase**		**5% decrease**	**10% decrease**	
Exposure in the linkage balance	(25,036)	(12,517)	(250,352)	12,517	25,036	Book value
Loans granted	330	165	3,296	(165)	(330)	DCF method
Receivables in respect of a franchise arrangement	7,279	3,639	72,786	(3,639)	(7,279)	DCF method
Long-term loans received	(114,969)	(52,485)	(1,149,686)	57,485	114,969	Book value
Forward purchase transactions Dollar/Shekel	44,333	22,166	(861)	(22,166)	(44,333)	Forward formula
Total	(88,063)	(44,032)	(1,324,817)	44,032	88,063	

Annex A – Sensitivity Tests

(Contd.)

Table of Sensitivity to financial instruments as of December 31, 2014 according to changes in market factors:

Sensitivity to changes in oil distillates prices on the inventory in NIS in thousands (pretax)

	Profit (loss) from the changes		Fair value	Profit (loss) from the changes	
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Change Rate	**10% increase**	**5% increase**		**5% decrease**	**10% decrease**
Oil distillates inventory	15,452	7,726	154,616	(7,726)	(15,452)
	15,452	7,726	154,616	(7,726)	(15,452)

Annex A – Sensitivity Tests

(Contd.)

Table of Sensitivity to financial instruments as of December 31, 2014 according to changes in market factors:

Sensitivity to Changes in Interests on the Cap Rates of Investment Property

	Loss from changes in market factor			Fair value of asset	Profit from changes in market factor			Value determination method
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	
Change Rate	Absolute 2% Increase	10% Increase	5% Increase		5% Decrease	10% Decrease	Absolute 2% Decrease	
Weighted Cap Rate								
5.75%-7%	(811,633)	(332,247)	(174,003)	3,644,274	192,268	405,812	1,465,279	DCF method
7.01% - 7.5%	(1,374,142)	(568,780)	(297,814)	6,045,523	329,335	694,955	2,447,586	DCF method
7.51% - 8%	(367,109)	(161,000)	(84,317)	1,771,868	93,564	196,522	625,749	DCF method
8.01% - 8.5%	(467,586)	(215,250)	(112,613)	2,272,291	124,890	263,321	771,890	DCF method
8.51% - 9%	(484,804)	(201,451)	(105,508)	2,218,100	116,579	246,070	863,008	DCF method
9.6 - 11%	(109,055)	(48,657)	(26,357)	570,832	29,070	61,300	178,858	DCF method
Investment property and investment property under construction	(3,614,329)	(1,527,385)	(800,612)	16,522,888	885,706	1,867,980	6,352,370	

Annex B
The Group's Derivative Positions
as of December 31, 2015

The Group's derivative positions as of December 31, 2015:

During the year, consolidated companies of Granite Hacarmel entered into future currency transactions for hedging purposes.

Below is a specification of the engagements as of December 31, 2015:

Amount in thousands	Currency receivable	Currency payable	Date of expiration/payment/exercise	Fair Value (NIS in thousands)
42,538	Dollar	NIS	January 2016	756
37,000	Dollar	NIS	February 2016	771

The maximum holding of derivatives, during the Report Period, of all of the purchase positions for purposes of hedging the dollar-NIS exchange rate was US$ 79,538 thousand.

Collection of the figures for purposes of the aforesaid measurements was based on their par value upon measurement. The measurement is tracked at least once a month.

Annex C

Reporting According to Linkage Bases

as of December 31, 2015

(IFRS 7)

Annex C
Reporting According to Linkage Bases
as of December 31, 2015 (IFRS 7)
(NIS in thousands)

	As of December 31, 2015					
	Israeli Currency		Foreign Currency		Others	Total
	Non-linked	Index linked	Dollar	Other(1)		
Current Assets						
Cash and cash equivalents	821,494	-	105,567	7,663	-	934,724
Short-term deposits and investments	36,148	154	-	-	-	36,302
Trade accounts receivable	1,078,361	3,570	20,229	-	-	1,102,160
Other receivables	45,346	22,733	21,662	-	77,486	167,227
Inventory	-	-	-	-	173,450	173,450
Current tax assets	-	-	-	-	14,894	14,894
Assets of a disposal group held for sale	-	-	8,591	-	259	8,850
Total Current Assets	1,981,349	26,457	156,049	7,663	266,089	2,437,607
Investments in and loans to associated companies	61,509	9,246	-	-	-	70,755
Investments, loans and receivables	61,341	61,600	4,721	-	90,659	218,321
Financial assets	1,634,765	-	25,162	-	-	1,659,927
Long-term receivables in respect of a franchise arrangement	-	39,912	2,230	-	2,230	44,372
Investment property and investment property under construction	-	-	-	-	20,528,554	20,528,554
Fixed assets	-	-	-	-	1,059,657	1,059,657
Intangible assets	-	-	-	-	342,955	342,955
Pre-paid long-term rent	-	-	-	-	36,637	36,637
Deferred tax assets	-	-	-	-	46,320	46,320
Total Non-Current Assets	1,757,615	110,758	32,113	-	22,107,012	24,007,498
Total Assets	3,738,964	137,215	188,162	7,663	22,373,101	26,445,105

(1) Mainly Euro.

Annex C

Reporting According to Linkage Bases as of December 31, 2015 (IFRS 7)

(NIS in thousands)

(Contd.)

	As of December 31, 2015					
	Israeli Currency		Foreign Currency		Others	Total
	Non-linked	Index linked	Dollar	Other(1)		
Current liabilities						
Credit from banks and other credit providers	1,539,403	418,459	47,961	24,382	-	2,030,205
Trade payables	261,205	16,681	240,643	6,109	-	524,638
Payables and other current liabilities	56,863	23,800	6,153	223	288,169	375,208
Deposits from customers	3,553	398,513	-	-	-	402,066
Provisions	-	-	-	-	77,515	77,515
Current tax liabilities	-	-	-	-	110,241	110,241
Liabilities of a disposal group held for sale	-	-	3,329	-	58	3,387
Total Current Liabilities	1,861,024	857,453	296,086	30,714	475,983	3,523,260
Non-Current Liabilities						
Loans from banks and other credit providers	119,835	1,770,615	1,099,006	-	-	2,989,456
Bonds	-	2,962,731	-	-	-	2,962,731
Employee benefits	-	-	-	-	18,981	18,981
Other liabilities	6,908	38,495	8,244	-	38	53,685
Deferred tax liabilities	-	-	-	-	3,027,164	3,027,164
Total Non-Current Liabilities	126,743	4,771,841	1,107,250	-	3,046,183	9,052,017
Total Liabilities	1,987,767	5,629,294	1,405,336	30,714	3,522,166	12,575,277
Total Exposure in the Statement of Financial Position	1,751,197	(5,492,079)	(1,217,174)	(23,051)	18,850,935	13,869,828

(1) GBP.

Expert Professional Opinion

Comprehensive Land Valuation - "Azrieli Center"

1 Azrieli Center, Tel Aviv

March 14, 2016
Our reference: 3415-14

CANIT HASHALOM INVESTMENTS LTD.
1 Azrieli Center, Tel Aviv

Expert Professional Opinion
Comprehensive Land Valuation - "Azrieli Center"
1 Azrieli Center, Tel Aviv

At your request, which was received by our firm on January 5, 2016, by Irit Sekler-Pilosof, CFO of Azrieli Group Ltd., submitted hereby is a professional opinion for an estimate of the value of the rights of Canit Hashalom Investments Ltd. (the "**Company**") in Azrieli Center, including its components (parking lot, mall and offices) (the "**Property**").

We consent to our Opinion being released in the framework of the financial statements of the Company and/or Azrieli Group Ltd., which shall be publicized.

Over the years we have performed valuations for Azrieli Group Ltd. and companies controlled thereby.

The income from these assignments is not material to our firm and therefore no dependency was thereby created of our firm on the Company and/or Azrieli Group Ltd. For further details see Section 14 of the Opinion.

We received a letter of indemnity from Azrieli Group Ltd. that was signed by Menachem Einan and Yuval Bronstein on March 23, 2010, whereby the Company undertakes to indemnify the appraisers if they are charged with a financial liability in connection with an appraisal as a result of incorrect documents or information provided by the Company or other companies on its behalf and/or as a result of non-transfer of documents or other information required for the Valuation (except for documents held by the authorities and/or the public). The indemnification obligation shall not apply in the event that the appraisers have acted in negligence or malice in connection with the Opinion.

We accept the limit on the indemnity amount as prescribed in the directive of the Israel Securities Authority dated July 2015.

This Valuation was made according to Standard No. 17.1 of the Real Estate Appraisers Council and according to the International Valuation Standards (IVS), Edition 2007 and especially IVA1 Standard (INTERNATIONAL VALUATION APPLICATION 1).

Expert name:	**Adina Greenberg**
Address:	**65 Yigal Alon, St., Toyota Tower, Tel Aviv.**
Occupation:	**Certified Real Estate Appraiser, certificate No. 237, since 1990.**

Education:

1985-1987	Tel Aviv University - Real Estate Appraisal and Property Management studies.
1975-1979	Technion – Civil Engineering studies in the framework of the academic reserve.
December 2001	Mediation course of the Israel Center for Negotiation & Mediation (ICNM).

Professional Experience:

Since October 1994	Partner at Greenberg Olpiner & co.
1987-1994	Senior Real Estate Appraiser at an appraisals firm.
1983-1987	Building Engineer at Moshe Ekstein firm.
1979-1983	Building Engineer at the Israel Defense Forces.

Expert name:	**Ronen Katz**
Address:	**65 Yigal Alon St., Toyota Tower, Tel - Aviv.**
Occupation:	**Certified Real Estate Appraiser, certificate No. 616, since 1997.**

Education:

1993-1995	Real Estate Appraisal and Property Management diploma studies, Tel Aviv University.
1990-1993	B.A. in Agricultural Economics and Management at the Faculty of Agriculture of the Hebrew University of Jerusalem.

Professional Experience:

2001 -	Partner at Greenberg Olpiner & co.
1995-2001	Greenberg Olpiner & Co. A Trainee until 1997 and thereafter as a Real Estate Appraiser.

And this is the question:

The market value estimate of the Company's rights in Azrieli Center and its components (parking lot, mall and offices), in the free market, in the criterion of a willing buyer from a willing seller.

We were informed by the Company, the owner of the Property, that the Property contemplated in the Opinion is defined as an investment property according to International Financial Reporting Standards, IFRS 13.

Market value is defined according to IVS1 International Standard as:

"The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing, wherein the parties had each acted knowledgeably, prudently and without compulsion".

The effective date for the Valuation – December 31, 2015.

Documents and representations received from the Company:

- Underlying agreement between the City of Tel Aviv-Jaffa and the Company.
- Compromise agreement between the City of Tel Aviv-Jaffa and the Company.
- Lease agreements between the City of Tel Aviv-Jaffa and the Company regarding the parking lot, the mall, the Round Tower, the Triangular Tower and the Square Tower.
- Report of the Company's figures for the rent actually received for the years 2013-2015.
- Report of the management companies' figures for the years 2013-2015.
- Forecast for leased areas and forecast for income from rent and management fee for 2016, based on signed contracts.
- Data on the business activity of the parking lot for the years 2013-2015 and income forecast for 2016, based on signed contracts as of the date of the appraisal.
- Document of undertaking to populate the Square Tower dated February 28, 2008.
- The Company's document regarding the cost of building the tunnel and the bridge.
- Disclosure document[1].

[1] See separate chapter in the Opinion.

And hereby is our professional Opinion:

1. Property information

Block:	7106
Parcel:	83
Registered parcel area:	32,830 sqm
Total built-up area:	328,393 sqm (according to building permit application plans)
Rights:	Long-term lease from the City of Tel Aviv-Jaffa

2. Description of the Property and the surroundings

Site visit performed by the undersigned on February 5, 2016.

2.1 Description of the surroundings

The surroundings are known as the Northern Tel Aviv CBD. Bounded on the west by Menachem Begin Rd., Parashat Derachim St. on the north, Ayalon Highway on the east and Ha'Shalom Rd. on the south. The accessibility is excellent due to its proximity to main traffic roads (Ayalon Highway, Ha'Shalom Rd. and Haifa Rd.). Ha'Shalom railway station, located in Ha'Shalom interchange is adjacent to Azrieli Center, which is the subject matter of the Opinion.

In end of 2015, construction works of the light rail train commenced in the vicinity, creating changes in the traffic arrangements in the surroundings of the Property contemplated hereby. Within several years, upon completion of the light rail train, access roads and transportation shall improve due to the construction of a light rail train station in proximity to the Property - the King Saul Station on the corner of King Saul Avenue and Menachem Begin Road.

To the north of the Azrieli Project, the “Yedioth Ahronoth” complex (owned by the Company, at the site, a new zoning plan is in preparation stages, in the context of which an 80-floor building for mixed uses of retail (designated to be connected to the Azrieli Mall), hotel, residence, employment, senior housing and public use areas is planned.

At the south-west corner of Petach Tikva Rd. and Ha'Shalom Rd. junction is located the Government Compound Tower, which includes areas used by the governmental offices and areas leased to private entities. Adjacent thereto, on the south, an additional office building, “Azrieli Sharona”, in under construction by the Company.

Area plan:

2.2 The business area

In the last two decades several office towers were built in the area that include, *inter alia*: the Government Compound Tower, the office towers in HaArba'ah St. (Platinum, Ha'Tichon and Millennium), the HaArba'ah Towers on the intersection of HaArba'ah and Ernie St. (are under construction stages by Hagag Group).

In the Max Payne School "Shefa Tal" complex (south of the subject matter of the Opinion), 4 towers for mixed uses of retail, offices and residence are planned (approx. 800 residential units).

Adjacent from the south to the Government Campus Tower, Azrieli is constructing "Azrieli Sarona" - a tower for mixed uses of offices, a hotel and retail.

The Tel Aviv City Mall of the companies Gindi Investments and Blue Square is in advanced construction stages in the area of the HaChashmona'im and Carlebach streets.

The Northern CBD - plans were approved over the last few years, in which several projects are planned in the area for offices, high-tech industries, employment and trade, combined with residences on the upper floors up to a building percentage of about 450%.

The existing and planned projects in the surroundings:

- The “Yedioth Ahronoth” complex (owned by the Company – located to the north of the Azrieli Project).
- “WE TLV” (in initial stages of construction), a combined project of offices and residence.
- The “Kardan House”, Gazit Paz House (an existing building, a building addition is planned on the building’s roof)
- “Midtown” project, which includes retail, office building and residence building, is in stages of construction.
- The "Azrieli Town” complex (owned by the Company, formerly the Kupat Holim Clalit complex) – a retail space, a residential tower and an office tower are planned on site.
- The “Hatzeerim” Tower - in initial stages of construction, designated for retail and residence.
- Hagag Tower Recital – an office building, in initial stages of construction.

Another center of employment areas in the vicinity under formation is along Yigal Alon St. (the southern part of the street, south of Ha'Shalom Rd.). On site there are the Toyota Tower and the Electra Tower, HaArgaz complex (2 office towers are in stages of construction on site). There are also in the immediate area several large land complexes designated for office towers, such as: "Shmei bar" complex, "Machshirei Tnua" complex, the "Cinerama", the "ACE" complex, etc. An office project performed by the companies Gav Yam and Amot, which is at the initial stages of construction, is situated in the vicinity of the intersection of Derech HaShalom and Yigal Alon streets.

Town plan TA/3000 (South Kirya complex) declares the Sarona colony, which is located southwest of the subject matter of the Valuation, as a conservation park in an area of approx. 40 thousand sqm that includes 37 Templar stone houses. The complex was opened to the public in 2014.

From west and from south, in the first line of the park, 6 residential towers which will include about 650 residential units (as well as retail areas and offices on the lower floors) on a total main area of approx. 90,000 sqm are planned to be built. 3 residential towers that have been constructed by Gindi Holdings are currently in population stages. On the ground floor of the buildings, the “Sarona Market” food market was opened in 2015. The land, which is designated for the construction of 3 additional residence towers, is currently in marketing stages in the context of a tender of the Israel Land Authority.

In the second line, 9 towers for office, retail and hotel uses are planned (the lot, designated for a hotel was marketed over three years ago to Nitsba) on a total main area of approx. 400,000 sqm are planned (some of which have already been built - the Kirya Tower, Platinum, Millennium, Hatichon Tower). One of such lots, located in the HaArba'ah St., designated for the construction of a tower for mixed uses of retail, offices and residence, was awarded to Africa Israel and Melirson in the context of an Israel Land Authority bid.

2.3 Description of the parcel

The subject matter of the Opinion is the "Azrieli Center" project, which is built on parcel 83 in block 7106 on an area of 32,830 sqm (the registration process was completed, parcel 59 in block 7106 and parcel 49 on block 7102 were consolidated and registered as new parcel 82 in block 7106), , with a regular rectangular shaped plot, with three fronts, on a level surface.

Plan:

Borders:

South- Front facing the Givat Ha'Tachmoshet St. (which connects Kaplan St. on the west to Ha'Shalom Rd. on the east), constitute a major traffic artery connecting the Tel Ha'Shomer junction (on Route No. 4) on the east with Tel Aviv City Center on the west. The Max Payne School is located across the street.

West - Front facing Menachem Begin Rd., a major traffic artery connecting the Tel Aviv City Center with Jabotinsky Rd. in Ramat Gan until Petach Tikva. The "Camp Rabin" army base is across the street.

East - Southbound Ayalon highway - Road no. 20 (in the mentioned segment between Rakevet Tzafon interchange and Ha'Shalom interchange in the south) constitute a national highway connecting the city of Tel Aviv With the cities of Jerusalem, Rishon LeZion, Holon, Bat Yam, Haifa, etc.

North - The "Yedioth Ahronoth" House.

2.4 Description of "Azrieli Center"

2.4.1 General

"Azrieli Center" is the largest business center in Israel. The center was designed as an independent urban unit capable of providing its users and visitors a full range of services that are required for the management of their businesses, the welfare of the employees, and the convenience of the customers.

The center includes a mall and three towers: the "Round" and "Triangular" towers are offices area and the "Square" Tower partially occupied by a hotel and the other part as office space and an underground parking lot for 3,200 vehicles. In addition, the center provides complementary services and areas, such as a conference hall, "Holmes Place" fitness center, taxicab stand, etc.

On the roof floor of the Round Tower there is an observatory overlooking the Dan metropolitan and the surrounding cities. The visit to the observatory is accompanied with vocal guidance, telescopes, etc.

The underground parking lot and the mall are operating since April 1998, the Triangular Tower is populated since 1999, the Round Tower was populated in 2000 and the Square Tower was populated in 2008 and 2009.

The project is located at a major transportation crossroads and therefore the accessibility is very good. There are entrances and exits for vehicles from the Northbound and Southbound Ayalon Highway, from Menachem Begin Rd., from Givat Ha'Tachmoshet St. and from Noah Mozes St. There is a pedestrian bridge that links the Ha'Shalom railway station with the first floor of the mall, and another pedestrian bridge across Menachem Begin Rd. to the first floor of the mall. There is a heliport on top of the Round Tower (unused).

Following are details of the project's construction areas (according to current surveying plans):

Designation	Main area in sqm	Service area in sqm	Total in sqm
Underground parking lot, storerooms, open floor and IEC control station	2,708	119,550	122,258
Bridges (above Petach Tikva Rd., Hashalom railway station)		1,365	1,365
Mall and public areas	32,976	28,134	61,110
Round Tower	40,899	14,924	55,823
Triangular Tower	35,017	12,331	47,348
Square Tower	29,974	10,515	40,489
Total	**141,574**	**186,819**	**328,393**

The construction and finishing standard includes, *inter alia*:

- Mall and the office towers - reinforced concrete structure, a combined marble-covered façade with screen walls.

- The public areas and passages in the mall are spacious, covered with marble flooring, centrally air conditioned, ceilings combined with decorative elements, there are 8 skylights, PA system, fire detection system, etc.

- In the mall's areas and the public floor a fully finishing level, including marble/ ceramic/ parquet/ wood tiled floor, decorative ceiling, immersed lighting, glass display cases, interior plaster/ paint/ decorative wall cover, central air conditioning system, etc.

- The mall's public level includes a terrace paved with precast paving stones, landscape lighting, public benches and transparent environmental sculptures that are used in addition to bring daylight to the mall's space.

- In the offices area a fully finishing level, including marble/ parquet/ wall-to-wall carpets, internal division using plaster partitions, decorative ceiling, immersed fluorescent lighting, central air conditioning system, communication systems and computers.

- At the hotel areas – parquet flooring in the lodging rooms, air conditioning system, fire detection system, work area including a PC. In the bathrooms - a table sink, a bathtub and shower. In the public areas - wall-to-wall carpet/ marble flooring/ parquet, air conditioning system, fire detection system, etc.

- In the parking lot, smooth concrete floor - one half of the parking lot is epoxy color coated, forced ventilation system, fire detection system, PA system, CCTV, in the basement floors -1, -2 and -3, an occupied/free detection system is installed.

2.4.2 The mall and the public areas

A national mall which serves large populations coming from all across the country. Occupancy rate at present and throughout all years of operation is 100%.

The mall includes 3 retail floors and one public floor.

The parking lot levels are linked to the retail center's levels via 11 passenger elevators and 2 escalator systems.

About 160 businesses operate in the mall in a wide range of stores in the fields of fashion, footwear, jewelry, gifts, communications, electronics and computers, optics, etc.

7 businesses lease relatively large areas: Shufersal, Mango, Superpharm, GAP, H&M, Zara (in 2016, a larger branch is planned to open on the space that was vacated by Hamashbir Lazarchan) and Forever 21. In addition, in Q2/2016, a branch of the fashion chain "Urbanica" will open on the ground floor.

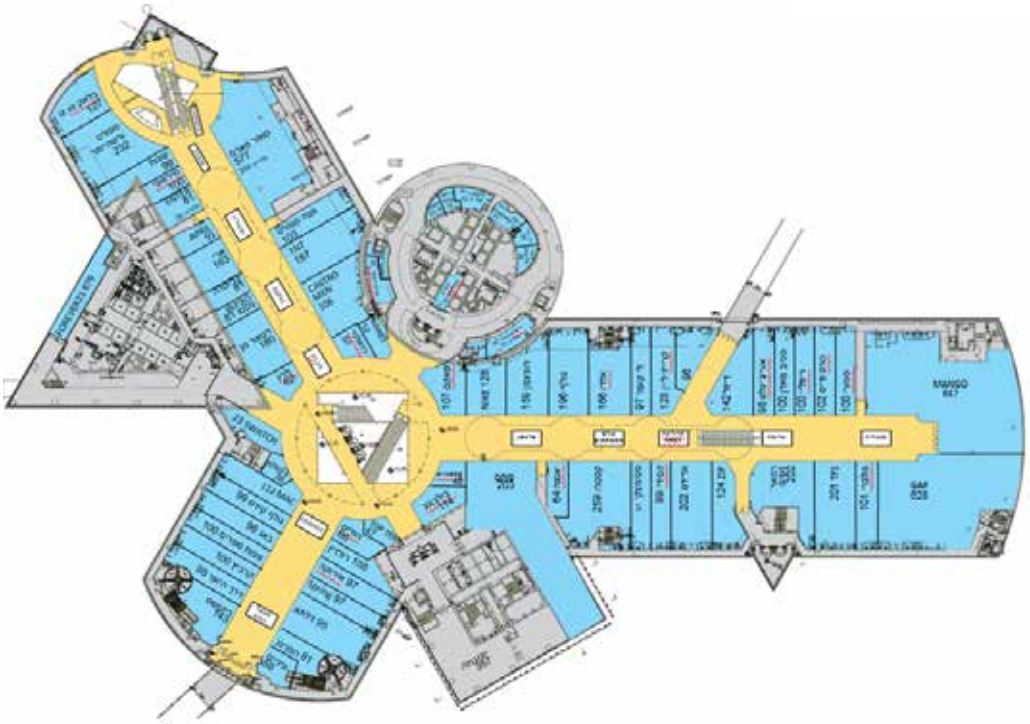
The Public floor (the third mall's floor above ground) includes "Holmes Place", the Wall Street and Kidum schools and a driving center. The mall's roof area is being used for activities for children and adults.

The total marketable area is approx. **35,580 sqm**. According to the data provided to us, the leasable areas are store area, plus loading of public areas at a variable rate ranging between of 10%-15%.

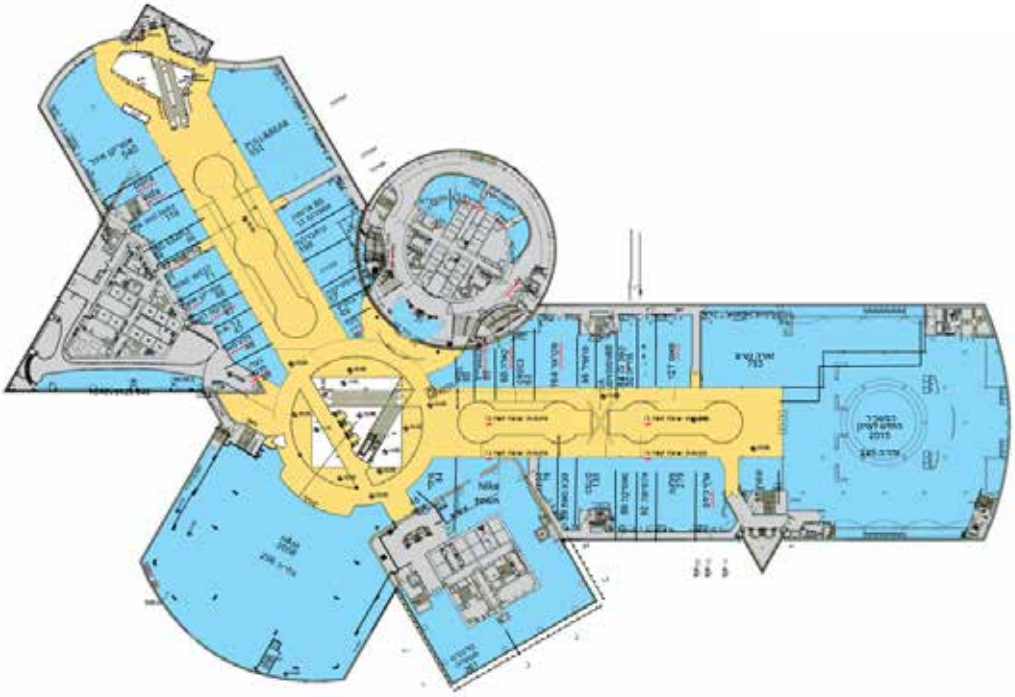
Representative pictures:

Floor Plan:

First Floor



Second Floor



2.4.3 The Round Tower

Includes 39 office floors and a roof which is used as a tourist attraction - public-access observatory and restaurant.

The gross total area of the tower is approx. 55,823 sqm.

The top office floor on a leasable area of approx. 1,520 sqm is self-used by Azrieli Group Ltd. **The Opinion does not include this floor**.

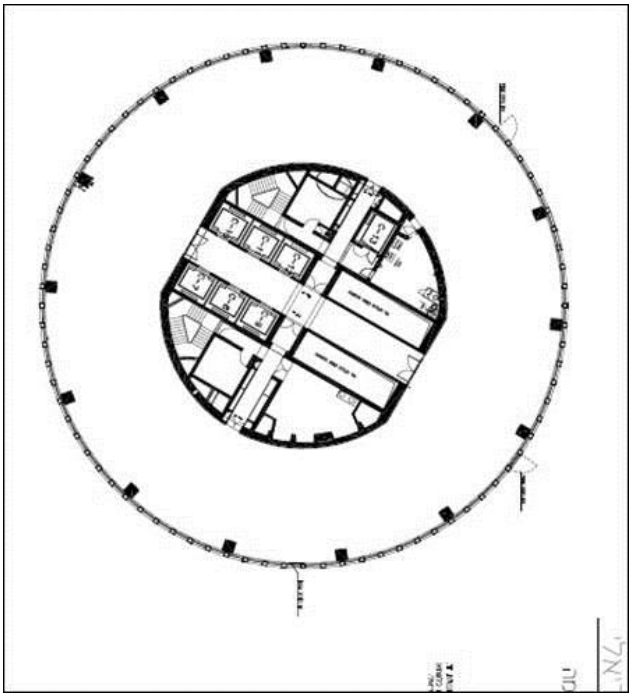
According to the marketing plans, the average area of a floor is approx. 1,520 sqm. The total leasable area is approx. 58,100 sqm (excluding an area for Azrieli Group's self-use).

Main tenants in the tower are lawyers, accountants and other liberal professionals.

There are 12 passenger elevators in the tower.

As of the effective date the building is leased in its entirety.

A typical floor plan:



2.4.4 The Triangular Tower

Includes 35 office floors and 2 service floors. The gross total area of the tower is approx. 47,348 sqm.

According to the marketing plans, the average floor marketable area is approx. 1,430 sqm.

The total marketable area is approx. 48,237 sqm.

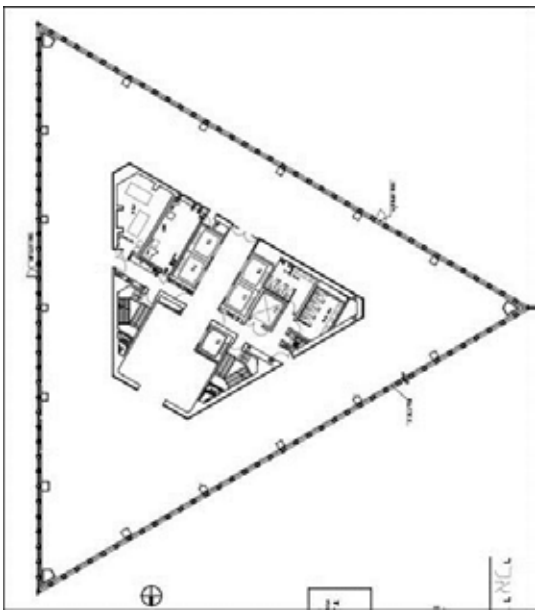
The main tenants in the building are Bezeq that leases an area of approx. 22,300 sqm (about half of the building), the IDB Group, lawyers, accountants and other liberal professionals.

The finishing standard in the areas leased to Bezeq is average. In May 2015, an addendum to the lease agreement with Bezeq was signed, according to which the lease period was extended by an additional 60-month term, ending on October 31, 2020. The Company with provide the tenant with a budget for property improvements.

There are 10 passenger elevators in the tower.

As of the effective date, the building is leased in its entirety.

A typical floor plan:



2.4.5 The Square Tower

Includes 13 floors leased for use as the "Crown Plaza City Center" hotel and 18 office floors above the hotel's floors. The gross total licensed area of the tower is approx. 40,489 sqm.

Hotel:

The hotel's lobby is located in the ground floor of the tower, in 13 floors, total 273 rooms and public areas with the following internal division: public floor which includes a dining hall, bar, 3 conference rooms, central kitchen and operational areas. Above the public floor there are 8 typical floors that include 24 rooms each (total of 192 rooms). Above them a floor that includes 17 rooms and a business lounge. Above them 3 floors with rooms (total of 64 rooms).

The total leasable area is approx. 18,000 sqm.

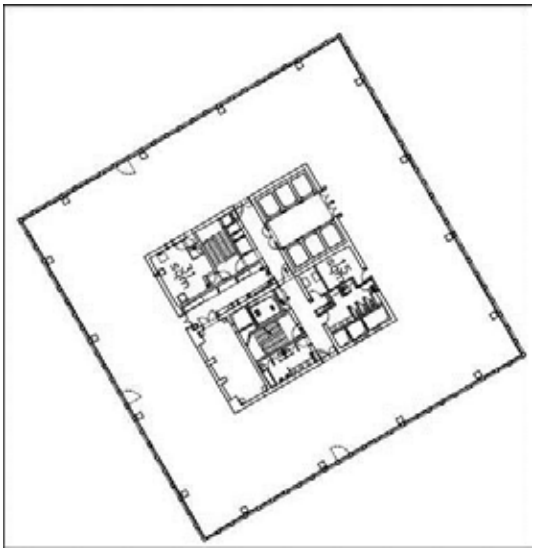
Offices:

18 typical floors – the typical floor leasable area is approx. 1,384 sqm and the total leasable area is approx. 25,192 sqm.

The offices are leased in their entirety to liberal professionals, lawyers, bank managements, IBM offices, etc.

There are 12 passenger elevators in the tower – 6 elevators to the hotel and 6 elevators to the office floors.

A typical floor plan:



2.4.6 The parking lot that serves the Property and its components

According to data provided by the client commissioning the Opinion, the parking lot includes 3,200 parking spaces, with the following breakdown:

Floor	No. of parking spaces
Ground	200
-1	650
-2	750
-3	800
-4	800
Total	**3,200**

Operation of the parking lot:

It transpires from the Company's data that there are currently about 3,300 active subscribers, average monthly subscription fee - NIS 845 + VAT (the monthly fee for a new subscription is NIS 1,000 + VAT).

There are approx. 11,720 vehicle entrances to the parking lot on average per day, divided to approx. 6,720 casual parker entrances and approx. 4,000 subscriber entrances.

Approx. 74% of the causal parker entrances are for a period of up to two hours. 13% of the causal parker entrances are for a period of 3 hours. The rest are for a period of over 3 hours.

The parking fee for casual parkers:

First hour NIS 15, each additional quarter of an hour NIS 3. In the fourth and fifth hours, each additional quarter of an hour is charged NIS 5. Evenings', weekends' and holidays' rate is NIS 12 with no time limit. Maximal daily rate - NIS 100. The rates include VAT.

Storerooms:

Total storeroom areas according to building permit plans are approx. 2,500 sqm, of which marketable areas are approx. 2,150 sqm. The remaining of the area is used for operation.

Additional revenues:

In accordance with the Company's figures, there are revenues due to management fee from the subscribers, the taxicab stand and the car wash facility.

2.5 Licensing

The built-up areas were built in several construction stages, and according to many building permits.

Main building permits:

Building	Permit No.	Date	Substance
Parking Lot	4-980345	April 6, 1998	Changes in 4 parking levels, versus permit no. 4/950764 dated August 28, 1995 and permit no. 4/970405 dated May 26, 1997.
Mall	4-980991	October 20, 1998	Changes versus permit no. 4/960594 dated July 4, 1996 (the base, retail and public floors) and permit no. 4/980184 dated June 10,1998 (health club).
	13-0495	October 1, 2013	Changes in the ground floor and the gallery floor in the Square Tower in Azrieli Center. Redesignation from cinema areas to retail space.
	15-0324	April 1, 2015	Additional new store on the ground floor (designated for "Urbanica") with a gallery and internal elevator (for the handicapped) in the eastern-posterior part of the Azrieli Mall complex. An addition of escalators between the ground floor, the gallery and the first retail floor. Regulation of protected spaces (Merhav Mugan Mosadi) on the ground floor of the Square Tower.
Round	4-980606	June 25,1998	Office floors – Round Tower - changes during construction – variance application. Changes versus permit no. 4/960595 dated July 7, 1996.
	3-220843	November 4, 2002	Changes in the visitors' level.
Triangular	4-980476	May 21, 1998	Floors 5-27 - changes during construction. Changes versus permit no. 4/961072 dated December 4, 1996.
	4-970717	August 20, 1997	Triangular Tower, floors 28-40. Floors 28-40 for offices. Floors 39-40 continuation of core only.
	4-980603	June 25, 1998	Changes on all floor levels. Floor 39 – new office floor, changes technical areas on floor 40.
Square	20060074	January 30,2006	Construction changes and additions on the ground floor of the Square Tower which include – changes and addition of main areas on the ground floor, construction of a gallery, kitchen storeroom and a kitchen service elevator from the parking lot level to the gallery level. Redesignation from offices to hotel entrance lobby, synagogue and a kitchen storeroom on the ground floor.
	20060075	January 30, 2006	13 hotel floors, 18 office floors and 2 technical floors in the Square Tower at the Ha'Shalom center, above 4 existing floors and basement floors.
	20060076	January 30, 2006	Changes and building additions in the basement and ground floors.
	12-1108	September 16, 2013	Changes in the Square Tower in Azrieli Center, which include: interior changes in floor 5 to kitchens and dining rooms for a hotel. Interior changes in the hotel rooms (floors 6-17) and in the core. Interior changes in the office floors (floors 18-35) and the restrooms in the core.
	13-1107	October 1, 2013	Approval of existing situation for interior changes in the top basement floor for the hotel in the Square Tower in the Azrieli Center which include regulation of kitchen, dining room, laundry, restrooms and storerooms.

Forms 4 and construction completion certificate:

Building	Form 4	Construction completion certificate
Parking Lot	Issued on March 31, 1998	Issued on November 21, 2002
Mall	Issued on March 30, 1998	See reference in the Square Tower
Round	Issued on December 27, 1999 for floors 29, 36, 37, 38, 39, 42, 43	Issued on November 26, 2002 for a total area of 33,890 sqm.
	Issued on August 29, 2001 for floors 5-12, 19-22, 27-28, 30-31, 33-34, 40-41, and parts of floors 13-14, 16-18, 32, and in any case no more than 25,155 sqm.	
Triangular	Issued on January 17, 1999 whereby it is possible to populate 21,975 sqm.	Issued on May2, 2002 for Phase A in the Triangular Tower (23,152 sqm) without floors 26-27. Issued on May 2, 2002 for Phase B in the Triangular Tower (area of 12,946 sqm) without floor 34.
	Issued on August 29, 2001 to the upper part of the Triangular Tower for floors 29-33, 35-39 and parts of floor 28, and in any case no more than 12,574 sqm.	
Square	Issued on March 20, 2008 for Phase A which includes floors 18-35 for offices and technical areas only, and does not include the hotel floors.	As informed, the Company is working nowadays to receive a construction completion certificate for the mall and the Square Tower.
	Issued for the hotel on May 1, 2008.	

Business License

The parking lot holds a business license that expires on December 31, 2019.

The mall holds a business license that expires on December 31, 2017.

The amphitheater holds a business license that expires on December 31, 2016.

The hotel has a business license that expires on December 31, 2016.

2.6 The management companies

The mall and the office towers are managed by two separate management companies. The tenants in the mall are paying to the management company management fee based on actual costs + 10%-15%. The tenants in the offices are paying (except for Bezeq) management fee based on actual costs + 15%.

We have reviewed the 2016 expense budget.

The main items in the management costs of the mall are:

Item	Total Budgeted Expenses (NIS in thousands)	Rate out of total expenses
Security, cleaning and maintenance	14,139	54%
Salaries, bookkeeping, legal	1,917	7%
Advertising and marketing	1,553	6%
Miscellaneous	1,208	5%
Public electricity	3,340	13%
Total	**22,157**	**85%**
Revenues to owners	3,824	15%
Total	**25,981**	**100%**

These costs reflect approx. NIS 65 on average per leasable sqm per month.

These costs were found compatible with the standard in similar retail centers.

The management costs of the offices are:

Item	Total budgeted expenses (NIS in thousands)
Actual expenses	**27,498**
Revenues to owners	9,483
Total	**36,981**

These costs reflect approx. NIS 21 on average per leasable sqm per month (including the hotel, which is managed independently and including Bezeq at discounted management fees).

These costs were found compatible with the standard in office towers at this level.

The accounting firm Brightman Almagor Zohar & Co. audited the profit and loss figures for the management operations of the Property in 2014. The responsibility for the information lies with the Company.

We were also presented with the management companies' revenue and expenditure figures for 2015, from the Company's trial balance. These figures have not yet been checked nor audited by the auditors.

2.7 Electric power services to tenants

A step down power transformer is installed in the Property. The Company collects from the tenants electric consumption according to low voltage rate and purchases the electricity according to high voltage rates.

The Company engaged in an agreement for the supply of electricity with OPC private power station and commencing from Q3/2013 it purchases the electricity for rates some of which are lower than the rates of the IEC. The agreement is valid for 15 years. According to the Company's figures, the aforesaid rights are transferable to a third party. See the specification of the surplus cash flow below.

3. Description of legal rights

This chapter includes a brief summary of the legal situation that applies to the Property contemplated in the valuation, and it does not constitute, under any circumstances, a substitute for extensive review of the legal documents.

3.1 Information from the Rights Registry

According to information from the Rights Registry dated January 7, 2016, which was produced via the website of the Ministry of Justice, the following details arise:

- Block 7106, parcel 83, of a land area of 32,830 sqm.
- Owner - the City of Tel Aviv-Jaffa.
- Long-term lessees - Canit Hashalom Investments Ltd., for a period of 200 years. Expiration date - February 6, 2195.
- On July 7, 2015 a mortgage was registered in favor of Harel Insurance Company Ltd., Harel Pension Fund Administration Ltd., Dikla Insurance Co. Ltd., Harel Providence Ltd., Harel Atidit Provident Funds Ltd., Manof Pension Funds Management Ltd., Career Army Savings Fund – Provident Fund Management Ltd., Leatid – Pension Fund Management Co. Ltd. and E.M.I. – Ezer Mortgage Insurance Company Ltd. on the lease of Canit Hashalom Investments.

- On July 7, 2015, a caveat was recorded according to Section 126 in favor of Bezeq the Israel Telecommunication Corporation Ltd.[2]
- On July 7, 2015, a caveat was recorded according to Section 126 in favor of Israel Electric Corporation Ltd. on an electric sub-station and an easement on the transported and on the tunnel and basements[3].
- On July 7, 2015, a caveat was recorded according to Section 126 in favor of NTA - Metropolitan Mass Transit System Ltd.
- On July 7, 2015, an easement was registered in favor of the City of Tel Aviv-Jaffa for free public passage through passageways on the ground floor, first floor and second floor.

3.2 Long-term lease agreements

3.2.1 Underlying agreement

On August 18, 1992, an underlying agreement was signed between the City of Tel Aviv-Jaffa and Canit Hashalom Investments Ltd. (an underlying agreement that defines the undertakings of the parties in connection with the Property of the contemplated project).

It transpires from the provisions of the agreement, *inter alia*, that separate lease agreements will be signed for parts of the project, as follows:

- For the first stage – the parking lot, the retail center and one tower with minimum floor area of 20,000 sqm.
- Separate lease contract for every additional tower.

On April 24, 2002, a compromise agreement was signed between the parties in respect of the underlying agreement, following which, in accordance with information provided by the Company, a consideration was paid to the City due to the removal of the marketing limitation for 50,000 sqm of offices designated for vacation that were set forth in detailed Plan No. 2401 (which is specified in Section 5.1 below). Detailed Plan 2401C that was approved in 2005 includes the removal of the limitation as aforesaid (See Section 5.2 below).

[2] Refers to the lease agreement with Bezeq.

[3] An area leased to the IEC which is designated for the building of a sub-station. This area was not taken into account in the calculation of the Valuation which is specified below.

3.2.2 Lease agreement no. 1 (parking lot, retail center and Round Tower)

The summary of a lease agreement dated October 23, 1996 between the City of Tel Aviv-Jaffa and Canit Hashalom Investments Ltd.:

- The leased property - The boundaries of the parcel of land and the parcel of the Round Tower. Until the completion of the construction of the shopping center, the Developer will be considered a licensee in the area of the other parcel on which the Company shall build parts of the parking lot and the shopping center.

- The lease period – 200 years commencing on February 7, 1995 and expiring on February 6, 2195.

- Lease fees - Lease fees were paid for the leased area for the entire lease period, and no annual lease fees shall apply.

- Consent fees – In any case where the Developer shall transfer or grant to others any rights under this contract, provided that such transfer or grant are permitted according to the provisions of this agreement, the Developer shall not be required to pay the City any consent fees or similar payment.

- Charge and assignment – If the Developer has fulfilled its undertakings under this agreement for construction of the parking lot and the shopping center, the Developer will be entitled to charge them as it deems fit, provided that it shall be assured that whomever acquires the leased area by virtue of exercise of the charge, will meet the criteria that guided the City in choosing the Developer according to the agreement, and the continued construction of the project and the operation, maintenance and management thereof in accordance with the provisions of the agreement are assured. If the Developer has fulfilled its undertakings under this lease agreement and contract for the building of a tower or towers, the Developer will be entitled to charge the tower or towers as it deems fit.

3.2.3 Lease agreement no. 2 (Triangular Tower)

The summary of a lease agreement dated December 28, 1997 between the City of Tel Aviv-Jaffa and Canit Hashalom Investments Ltd.:

The leased property – The land within the parcel area of the Triangular Tower and anything to be built thereon. The leased property is designed to enable the Developer to build the Triangular Tower.

The lease period – for 200 years commencing on February 7, 1995 and ending on February 6, 2195.

The remaining sections of the agreement are similar to those specified in agreement no. 1 above.

3.2.4 Lease agreement no. 3 (Square Tower)

The summary of a lease agreement dated December 28, 2008 between the City of Tel Aviv (and Canit Hashalom Investments Ltd.:

The leased property – The land within the parcel area of the Square Tower and anything to be built thereon. The leased property is designed to enable the Developer to build the Square Tower.

The lease period – for 200 years commencing on February 7, 1995 and ending on February 6, 2195.

The remaining sections of the agreement are similar to those specified in agreement no. 1 above.

3.3 Undertaking to populate the Square Tower dated February 28, 2008

We were presented with a letter of undertaking dated February 28, 2008 from Canit Hashalom Investments Ltd. to the Local Zoning Committee of Tel Aviv, with the following main principles:

- In view of the fact that on November 3, 2002 a permit was issued for the vehicle tunnel connecting Menachem Begin Rd. with Azrieli Center in the basement parking level +7.40, but the permit was not realized due to the Company's estimate that for reasons of transportation and security there is no need for another entrance, it was agreed, after further discussion with the City that the occupancy permit is granted subject to the Company's statement that a mechanism to exhaust the review of the need for the tunnel will be determined, in accordance with the Municipal Engineer's application to the Ministry of Transport for receipt of its professional position on the necessity of the tunnel.

- After hearing the arguments of Canit Hashalom on this subject and if it is found that building the tunnel is necessary, the Company shall act in proximity thereto to build the tunnel, whether by itself or by a third party, and in any case no later than two years after receiving the Ministry's position, subject to obtaining the appropriate permits from the competent authorities.

- The Company further undertook to build, at its own expense, the bridge connecting the Azrieli project to the southern side of Ha'Shalom Rd., if it is decided to build a railway station at the site and/or a connection to the Shefa-Tal complex is required, in accordance with the timetables as determined by the Municipal Engineer, and to submit to the City the calculations of the building areas of the construction as actually performed on the basis of measurement plans, within 3 months from the date of signing this undertaking. As notified, it has been agreed between the Company and the City that the planning stage has not matured yet for making a decision.

- The Company has contacted the legal department of the City of Tel Aviv in order to promote the issuance of a construction completion certificate for the Square Tower without the need to submit a building permit application for the building of the tunnel, *inter alia*, since according to a letter on behalf of the Ministry of Transport to the Tel Aviv City Engineer dated February 1, 2012, the Ministry of Transport does not deem the tunnel necessary and the municipality's request to perform the tunnel is not acceptable thereto. The City Engineer insists on his demand that a permit application for the tunnel be submitted as a condition to the construction completion certificate.

- In August 2013, a permit application was submitted for the tunnel. In October 2013, the licensing authority of the City of Tel Aviv approved the application conditionally. The Company is acting to fulfil the conditions for obtaining the permit. The Company's initial estimation for the cost of building the tunnel is approx. NIS 7 million.

- On October 12, 2015, building permit No. 15-0992 was granted, permitting a vehicle tunnel to connect the lowering of Begin Rd. to the Azrieli Center in parking basement level + 7.4.

3.4 Guarantees for developer's undertakings

To secure all of the developer's undertakings, the Company deposited unconditional bank guarantees in the (nominal) amount of approx. NIS 16 million. As of December 31, 2015, the amount is approx. NIS 32 million.

4. Business activity in the Property

4.1 Actual revenues according to the Company's financial statements:

Presented below is a table specifying the actual revenues from rent over the years, as transpires from the Company's financial statements and income forecast for 2016 which is based on signed contracts and subjective estimates of the Company's management, based on past experience and indications received from tenants as of the date of the Valuation, with respect to changes in the terms and conditions of the existing contracts or renewals of contracts which expire during 2016.

Mall:

Item/Year	2013	2014	2015	2016 forecast (1)
Income from rent (NIS)	113,465,000	115,958,000	117,919,000	122,560,000
Income from additional revenue (NIS)	617,000	485,000	675,000	4,410,000
Income from casual stalls (NIS)	636,000	1,629,000	2,644,000	2,700,000
Total	**114,718,000**	**118,072,000**	**121,238,000**	**129,670,000**

Towers:

Tower/Year	2013	2014	2015	2016 forecast (1)
Round (2) (NIS)	68,310,000	69,675,000	71,961,000	75,070,000
Triangular (NIS)	49,790,000	50,641,000	51,758,000	53,850,000
Square (NIS)	48,537,000	49,246,000	49,848,000	51,110,000
Total	**166,637,000**	**169,562,000**	**173,567,000**	**180,030,000**

(1) See reference above.
(2) Excluding the area self-used by Azrieli Group Ltd.

4.2 An analysis of the data upon which the Valuation is based

4.2.1 Basis of the data

The data in respect of the rent was received from the Company's collection system in respect of each and every tenant in the Property.

The retail space, approx. 35,580 sqm, is leased to 160 tenants. Occupancy rate is 100%.

The office space and the hotel, approx. 149,528 sqm (excluding an area used by Azrieli Group), are leased to 135 tenants. Occupancy rate is approx. 100%.

As of 2010, we have examined all of the contracts.

4.2.2 The lease period

Mall – retail areas

During 2016, 16 contracts (approx. 3,100 sqm) are scheduled to expire. A considerable part of the tenants have an option to extend the contract. As we have been informed, based on past experience, they are likely to exercise it. With respect to some of the tenants, commercial conditions have been agreed and the contracts have been extended.

The average rent in areas, the contracts for which are expected to expire during 2016, are similar to the average rent in the mall and it is therefore reasonable that, insofar as vacated, also other tenants would pay this rent.

Towers –office space

During 2016, 22 lease agreements are expected to expire (approx. 10,100 sqm). A majority of the tenants have an option to extend the contract, and as was informed based on past experience, they will probably exercise it. With respect to some of the tenants, the commercial conditions have been agreed and the contracts extended.

4.2.3 Rent

Mall – It transpires from the data that the rent for the retail areas range widely between NIS 25 per sqm per month (storerooms) and approx. 3,900 per sqm per month (stalls), with the average, including large stores, being approx. NIS 300 per sqm per month.

It transpires from an analysis of the gaps that the difference derives, *inter alia*, from the difference in the location of the stores (proximity to entrances and crowd-attracting stores which provide greater exposure, versus rear and lateral location or location on the public floor versus the first and second mall floors), the size of the store, the type of activity and the date of the commencement of the lease (old contracts versus new contracts).

Office towers - Average rent (excluding the area leased to Bezeq) is approx. NIS 111 per sqm per month. This rent was found to be appropriate and in keeping with similar/substitute properties.

We made a distinction between 2 types of tenants and leased properties:

- Long-standing and significant contracts – tenants who have been in the Property for over 6 years (there are several tenants who have been in the place since the beginning of population thereof, and lease significant areas at rent lower than the average rent at the property).

- The other contracts.

Bezeq's areas are leased in consideration for approx. NIS 78 per sqm per month. This rent is significantly lower than the market rent. The agreement with Bezeq is due to expire at the end of 2010 (the tenant has an option to extend the lease period by five additional years). Insofar as Bezeq vacates the property, because the rent paid thereby is significantly lower than the rent paid in the other office space, the aforesaid areas may be rented for higher rent, subject to the performance of adjustments and a reduction of time for marketing.

Hotel - The hotel is leased at an average rent of NIS 66 per sqm per month. The lease period expires in October 2020 (following such period, the tenant has an option to extend the lease period by two periods – one of six years and another of seven years minus one month). The hotel was leased as a shell. The tenant performed all of its finishing and adjustment work at its expense. Since the rent is low, it is highly probable that the tenant will utilize the options granted thereto in the agreement, and in the alternative, there is no impediment for leasing the hotel for a higher rent to a substitute tenant.

4.2.4 Changes that occurred over the past year

Retail:

During 2015 approx. 6,450 sqm were leased for average rent in the amount of NIS 327 per sqm per month.

At the end of 2015, the Hamashbir Lazarchan chain store vacated the space leased thereby at the mall. Simultaneously, the Company leased a majority of the space to Zara for the purpose of expanding the existing store. The remaining space was leased to an additional tenant.

The fit-out works for the "Urbanica" store at the ground floor of the Center are in progress.

Offices:

During 2015, approx. 26,800 sqm of offices were leased for average rent in the amount of approx. NIS 112 per sqm per month.

In addition, the lease agreement with Bezeq was renewed for five additional years.

4.2.5 Forecast for the next year

The "Urbanica" store is expected to open in Q2/2016 and Zara's expanded store is expected to open in Q3/2016.

4.2.6 Parking lot and storerooms that serve the Property and its components

The parking lot's business activity figures (excluding V.A.T), based on signed contracts and subjective estimates of the Company's management based on past experience and indications received from tenants as of the date of the Valuation, with respect to changes in the conditions of existing contracts or renewals of contracts expiring in 2016.

According to the Company's data it transpires that the segmentation of the revenues from subscribers and casual parkers over the years is similar, and therefore it is possible to assume that this trend will continue also in the future.

Parking lot:

Item/Year	**2013**	**2014**	**2015**	**2016 Forecast (1)**
Income from subscribers (NIS)	26,325,000	26,547,000	26,949,000	28,150,000
Income from casual parkers (NIS)	22,801,000	22,462,000	20,707,000	22,260,000
Operating costs (NIS)	-14,373,000	-13,902,000	-14,324,000	-14,460,000
Operating profit (NIS)	**34,753,000**	**35,107,000**	**33,332,000**	**35,950,000**

Storerooms:

Item/Year	2013	2014	2015	2016 Forecast (1)
Income – from storerooms and others (NIS)	2,107,000	2,076,000	2,240,000	2,261,000

(1) See reference above.

4.2.7 Surplus from electric services to tenants

As stated above, there is a difference between the cost of the purchase of electricity paid by the Company and the charge to the tenants.

The annual cash flow surplus:

2013	2014	2015	2016 forecast
5,612,000	6,893,000	7,169,000	6,930,000

5. Description of planning figures

The planning data is based on the data existing in our firm and data existing on the website of the Ministry of Interior.

5.1 Detailed Plan No. 2401

The plan was published for validation in Official Gazette No. 4265 dated December 4, 1994.

The purpose of the plan, *inter alia*:

- To redesign the area in order to create a Central Business District along the "Ayalon" highway.

- To build a Central Business District on a building area of approx. 150,000 sqm that includes areas of offices, retail, recreation and entertainment. The building rights allow the conversation of up to 15,000 sqm office space to residence and hotel area.

- To determine several basements designated mainly for parking, above which up to four above-ground levels will be allowed covering up to 80% of the lot area. Above them, the construction of 3 high-rise buildings will be permitted.

Lot designation: CBD.

Uses - Offices, industry (causing no nuisance), retail, personal services, entertainment, public uses, as well as residences and hotel accommodation. The office space will be at least 70% of the total construction area. Up to 15,000 sqm of office space may be converted to construction of residential apartments and/or hotels. The conversion of the areas shall be made according to a key of 1 sqm of residences and/or hotels equaling 1 sqm of office space. The residences and/or hotel, if built, will be under the following conditions: residences will be incorporated only in the top floors of the high-rise buildings, no lower than the 20th floor above the Petach Tikva Rd. level. This limitation shall not apply to the hotel. Residence and hotel areas will have a separate entrance, separate elevators and separate parking. Retail, entertainment and personal service areas will be up to 25% of the total built-up area. Public uses, such as conferences halls, museums, halls for sports and cultural activities and similar uses will be at least 4,000 sqm.

The building rights - The total building area will be 100,000 sqm for main uses above the entrance level. In addition, 50,000 sqm will be permitted for main uses above the entrance level for offices designated for vacation, as defined below. The service areas will include the following areas: shelters and restrooms for maintenance on the floors of up to 20 sqm per floor. Machine rooms, electricity, ventilation shafts and piping, elevators, escalators, parking lots, areas and passageways for loading/unloading, etc. The service areas will include the public passageways in accordance with the regulations and the law, except for passageways wider than 3m, where tables and chairs related to the retail uses may be placed. In this case, 10% of the said area will be considered as main area. Lobbies, stairways and entrance halls will be considered as service areas in their entirety, provided that no retail use will be made therein. The total service areas will not exceed 202,500 sqm, 150,000 sqm of which below the entrance level.

Height and land coverage - Construction of up to 5 basement floors for parking will be allowed. Up to 4 levels above ground level will be allowed, each one of which covering no more than 80% of total lot area. A transparent cover above the public space will be allowed on the top floor. Above the aforesaid levels three high-rise buildings will be allowed, covering in total no more than 30% per floor of the total lot area. The building height is as follows: up to 175m from street level (up to 44 floors from street level), up to 158m from street level (up to 40 floors from street level) and up to 140m from street level (up to 36 floors from street level).

Offices for vacation[4] - 50,000 sqm of office space designated for vacation of offices from residential areas. The office towers shall be designed according to such planning and technical specifications enabling 50,000 sqm thereof to be suitable for population by tenants to be vacated from offices designated or vacation. In the first stages, building permits will be issued for areas not exceeding 100,000 sqm. The building permits for building the office buildings on an area of 50,000 sqm designated for the offices, which are designated for vacation will be issued gradually, only for the sold or leased to occupants having vacated offices designated for vacation, who shall have vacated in practice.

Transport - Implementation of the plan will be conditioned upon the implementation of transport requirements relating to the peripheral roads outside the area of the plan, as marked in the transport annex and in accordance with the stages of construction. It was determined that in construction of over 100,000 sqm will be carried out through an additional entrance from Petach Tikva Rd. from south to north (the tunnel).

5.2 Detailed Plan No. 2401C

The plan was published for validation in Official Gazette No. 5379 dated March 15, 2005.

The purpose of the plan - Redistribution of construction areas in Plan 2401 and change of requirements for the vacation of offices from residential areas in the city, by changing requirements for populating the office space and other changes in the building instructions.
The main points of the plan are as follows:

- Section 8.1.2 in Plan 2401 will be cancelled and replaced by the following language: building a central business district on construction area of 150,000 sqm, which includes office, recreation and entertainment areas. In the framework of the building rights 16,000 sqm of main area may be converted to residence and/or hotel.

- The maximum main area for construction in the CBD will be 150,000 sqm above-ground.

- The transfer of 17,500 sqm of service areas from the levels below the entrance level to levels above the entrance level will be permitted, provided that there will be no deviation from the total service areas permitted for construction in accordance with Plan 2401.

[4] See the amending plan, Section 5.2.

- It is possible to transfer up to 3,000 sqm from the main areas above-ground to underground for all the purposes permitted by Plan 2401, except for residential use.

- An addition of two partial floors above the Petach Tikva Rd. street level (two closed galleries) will be allowed, without changing the building shell as approved in Plan2401, provided that the total main and service areas permitted for construction will not be changed.

- An addition of one floor in the three high-rise buildings (in addition to the 2 partial floors, as aforesaid). In the buildings named the "Triangular and the Round", the roof level may be raised by 3m each relative to Plan 2401. The roof level without the banister and/or technical facilities will not exceed 161m in the Triangular Tower and 178m, in the Round Tower.

- In the Square Tower, the roof level may be raised by 6m relative to Plan 2401. The roof level without the banister and/or technical facilities will not exceed 146 meters.

- In the framework of the service areas that are permitted by virtue of this plan, the City Engineer may permit the inclusion of storerooms in the tower cores and on the technical floor.

6. Principles of the Valuation

There are 3 main valuation approaches that are customary for the valuation of real estate properties.

6.1 The income capitalization approach

In the income capitalization approach, expression is given to the value of the property according to the cash flow generated by the property during its economic lifetime. The cap rate used to discount the cash flow is determined according to the type of property, the risk level and the uncertainty regarding the receipt of the projected cash flow, the size of the property, etc.

This approach is customary in the valuation of income-producing properties.

A mall and office towers are by definition a property producing a current income.

6.2 The comparison approach

The comparison approach is the best and preferred approach for assessing the value of property.

According to this approach, the value of a property is estimated based on comparison data for similar properties in the vicinity while making the necessary adjustments (for location, size, standard, etc.).

Nevertheless, retail centers, malls and office towers are unique properties. There are purchase transactions of malls but in light of the complexity of the Property and the many adjustments required, the use of this approach could cause a distortion of the results.

6.3 The cost approach

In the cost approach, expression is given to the value of the property as the sum of the value of its components. Property value using this approach includes the value of the land with the added cost of constructing the property, while taking into account physical, planning depreciation with the addition of developer's profit which is set according to the type of property, its physical state, the state of the market, etc.

In the case subject matter of the Opinion, the cost approach is irrelevant and constitutes an indication to the total investments in the Property.

7. Principles, factors and considerations in the Valuation

The main principle in the valuation of real estate property is the principle of the highest and best use (HBU) of the property. We have examined the Property contemplated in the Valuation according to this principle and have formed the general opinion that the present use is the highest and best use.

In the valuation of malls, retail centers and office towers the following general factors and considerations are taken into account:

Location

One of the most important factors/elements in the valuation of retail property is the location. Transport accessibility and convenient access to public transport, within residential neighborhoods, adjacent to/within areas of employment, on main traffic arteries (arterial roads), and others.

Supply & demand and occupancy rates

It is of great importance to assess the market's characteristics, whether the real estate market is on a downwards trend in demand or whether is seeing an upswing.

In assessing value using the income capitalization approach, the relevant factors and considerations are:

Leased area

The characteristics of the leased area include the following factors which affect rent value: the size of the leased area; the gross/net ratio; the relative location - floor (especially when this involves a multi-storey structure); the standard of finishing and construction; the property's goodwill; the management.

Rent

In light of the fact that malls/ retail centers/ office towers are income-producing properties, their valuation derives from the future flow of receivables. Therefore, it is required to undertake a comprehensive examination of the rent levels in the past and in the present, which shows whether the rent being obtained from the Property is appropriate. Should the rent be higher than those customary in the vicinity, without good justifications, then there is the possibility that the rent in the future years will get in line with the customary rent in the vicinity. This possibility must be expressed in the income flows for future years, and, as may be required, apply a discount to the rent.
On the other hand, there is a possibility that the present rent are low, in which case one may assume that in future it will be possible to lease the Property at a higher rent that matches the market.

In this context, it is required to mention the importance of the mechanism used to update rent.

Identity of the tenants and the mix

As stated above, as the value of the Property is set mainly on the basis of the flow of income paid by the tenant, it is required to carefully examine the financial strength of the tenants.

It is possible to separate the mix of stores in the retail centers into several categories, such as: store size and type of activity; chain stores compared to local stores, an individual store.

Lease period

A long-term lease reduces the level of uncertainty regarding the ability of the investor to lease the Property in the coming years. The investor is assured, with a high degree of probability, a fixed cash flow for a long period of time. In most retail centers and office towers, the lease period ranges in the vicinity of 5 years with options to the tenant, especially in light of the large investment that the tenants invest in their store/office.

Cap rate

The cap rate reflects the yield required in order to be attractive for capital investment. Therefore, the choice of the suitable rate constitutes a decisive factor.

The customary cap rate in the market is set at a particular point in time, for a particular type of property, and in the context of the interest rates in the economy at that time.

The cap rate may be both empirically inferred from known market data (the value of properties and rent in respect thereof in the free market)[5] and assessed using theoretical methods.

Cap rate components

Risk-free market interest, illiquidity, transaction costs, management and collection, depreciation, inflation and real change, risk and entrepreneurship, land taxation.

These principles apply, with relevant adjustments, also to the valuation of office space and adjacent parking areas, being income-producing properties.

8. Factors and considerations

In assessing the value of the Property, we have taken into account *inter alia*, the following factors and considerations:

- The location of the Property in the Tel Aviv City Center, in vicinity to central traffic arteries and near the Ha'Shalom railway station.
- The project's areas, the finishing standard, segmentation and mix of the tenants and uses.
- The Property's rights are capitalized lease rights from the City of Tel Aviv for a lease period of 200 years.
- The Company's undertaking to build the tunnel and the bridge in accordance with the Company's estimate, the construction cost is estimated in the range of approx. NIS 7,000,000. We have deducted the entire expected cost from the value of the Property.
- The actual revenues for previous years and the revenue forecast for 2016, are based on signed contracts and subjective estimates of the Company's management based on past experience and indications received from tenants as of the date of the Valuation, with respect to changes in existing contracts and/or renewals of contracts expiring in 2016.

[5] The basic cap rate used in the value calculation specified below originates from the market, from an analysis of comparison transactions made.

· Parking and storage areas in the basement:

- Parking at Azrieli Center is for pay. In addition, storage areas, advertising areas and an area for a car wash facility are leased.
- The operating profit from the operation of the parking lot, as specified above.

· The Mall:

- By definition, the mall is an income property, both from rent from the various areas in the mall and from management fee.
- The retail center has started operating during April 1998 and is fully occupied. As of the effective date, there is a vacant stall of an area of approx. 15 sqm and approx. 73 sqm of storerooms.
- The total marketable areas are as specified above.

· The Round, Triangular and Square Towers:

- As of the effective date, all of the areas in the office buildings are leased.
- A self-used area by Azrieli Group of approx. 1,520 sqm on the top office floor of the Round Tower is not included in this Opinion.

· According to the lease agreement with Bezeq, the Company has undertaken to provide a fund for renovation of the Bezeq areas. The balance of the payment was depreciated according to the lease agreement.

· Other revenues:

As aforesaid, the Company has revenues from the management company and from the sale of electricity.

- Revenues from management and investments in the Property – The Property is, as aforesaid, part of Azrieli Group. Over the years, there are management revenues from this Property and from all of the Group's properties. We have taken into account the management company's profits in this Property, with a higher cap rate to reflect the greater risk of changes in profits. We have deducted projected investments in the Property since they are not budgeted within the management company.

- Revenues from electricity services – We discounted the operating profit from the sale of electricity at a cap rate of 10%, which reflects the risks involved in operating such systems.

9. Comparison data

9.1 Malls and retail centers

Most of the major income-producing real estate companies in Israel are long-standing companies with properties at a large scope, with high occupancy rates and with high-quality management. Alongside such, insurance companies, mainly Clal, Migdal and Harel and investment funds such as REIT1, Sella Capital and others are also active in the market.

Some of the purchases are done aiming to better and improve the performance of the retail center/mall, and some are done based on a consideration of secured return.

Comparison figures for the purpose of determination of the **cap rate for retail** based on transactions carried out and published by the public companies on the market in the years 2014-2015:

- On December 20, 2015, the Chief Governmental Appraiser released a review of the yield rates for the first half of 2015. The average yield rate (the overall cap rate) for the first half of 2015 in retail property was 7.6% (stability was maintained compared with the second half of 2014).

  A clear correlation has been found between the degree of the property's proximity to the center of Israel or the center of the city and the yield rate therefrom. Properties in a central location (the CBD of the Dan agglomeration) demonstrated a low yield rate, whereas a high yield rate was observed in peripheral properties. The correlation apparently stems from a higher risk factor in the periphery (with respect to factors such as the financial soundness of tenants, vacancy ratio, risks to the owners in respect of a change of the environment, etc.).

  In large retail properties, yield rate variance may be identified at the same property, with safer tenants being attributed a lower yield rate, and vice versa.

  There is a discernable gap between the yield rates of retail spaces in malls and the yield rates of small shops on central streets, the yield rates for which are lower.

- On December 20, 2015, the Villar company reported the purchase of all of the rights in a shopping center in Ramat Hanasi, Haifa, a neighborhood shopping center consisting of approx. 5,500 sqm and an underground parking lot of an area of approx. 3,000 sqm, in consideration for NIS 80,000,000. The property is leased with an occupancy rate of approx. 77% to 14 tenants for an annual rent of approx. NIS 4.3 million. According to supplementary information we have collected, taking into account the market rent for the vacant retail space, the transaction reflects an average yield rate of approx. 7% for the property.

- According to reports in the press, on November 8, 2015, the Alrov company purchased 30% of the rights in "Mamilla Avenue Mall" in Jerusalem, including the Mamilla parking lot, such that following the purchase, it holds all of the rights in the property, in consideration for a sum of NIS 220,000,000. The mall is a retail avenue and mini-mall of an area of approx. 19,000 sqm, built on top of the Karta parking lot and the Mamilla parking lot which includes 587 parking spaces. According to supplementary information we have collected, the transaction reflects an average yield rate of approx. 7.3% for the property.

- On August 16, 2015, the Sella Capital Real Estate company reported the purchase of 50% of the rights in the "Ramlud Mall" on Hatzofit Street in Ramla, an open retail center of an area of approx. 12.700 sqm, in consideration for a sum of NIS 69,000,000. The property is leased at full occupancy to 27 tenants, at rent reflecting a yield of approx. 8.1%.

- On January 7, 2015, Azrieli Group reported the purchase of 51% of the rights in the "G Ba'Emek" retail center in consideration for NIS 171,700,000. The transaction amount reflects a yield of approx. 7.1%. The transaction is subject to a right of first refusal of the Reit 1 company that owns 49% of the rights in the property and to the approval of the Antitrust Commissioner.

  On February 5, 2015, Reit 1 reported that it is exercising its right of first refusal and is purchasing the remaining rights in the property together with a partner.

- On December 31, 2014, the Reit 1 company reported the purchase of 80% of the rights in a property for retail and offices (Phase B of the Globus Center shopping center), located in Netivot, comprising of 3 buildings of 1-3 floors, of an area of approx. 8,700 sqm, in consideration for NIS 66,000,000. The property is entirely built and is leased with an occupancy rate of 80%. The transaction account reflects a yield of 9.3%. By the date of receipt of a zoning plan approval and completion of the marketing thereof, the company will complete the purchase of the rest of the property and shall pay the seller the balance of the consideration therefor, in an amount that will reflect a yield of approx. 9.5% on the basis of the NOI stemming from leasing the rest of the property. In January 2011, the Company purchased rights in the shopping center located in proximity to the property (Phase A of the retail center).

- On April 1, 2014, the Edri-El company reported the sale of all of its rights in the retail center known as "Dizengoff Center" in Tel Aviv, in consideration for NIS 304,000,000. According to a valuation, which was attached to the company's financial statements for 2013, the company holds a "mini-mall" at the center, which includes all of the spaces formerly used for the Hamashbir LaZarchan store (at the western part of the southern wing), which consists of approx. 11,600 sqm in retail space and approx. 370 sqm of storerooms, on the ground level, first floor, top floor, top basement and lower basement. The property is leased with an occupancy rate of approx. 97%, for rent reflecting a yield of approx. 7.5%, considering the price of purchase.

9.2 Data for cap rate for office space

Comparison data for purposes of determining the cap rates for office space based on transactions made and announced by the public companies in Israel during the past two years:

- On December 13, 2015, the Issta company reported a transaction for the purchase of 70% undivided interests in an office and retail building on 16 Hamasger Street in Tel Aviv, in consideration for NIS 85,430,241. The building comprises of 7 floors above a commercial ground floor and basement floors, of a total area of approx. 8,550 sqm and approx. 158 parking spaces. The property is leased at full occupancy to 2 tenants (one of whom is the Governmental Housing Administration), the projected annual NOI in the range of NIS 8,800,000 constitutes an annual yield rate of approx. 7.2%.

- On December 20, 2015, the Chief Governmental Appraiser released a review of the yield rates for the first half of 2015. The average yield rate (the overall cap rate) for the first half of 2015 for office properties was 8% (stability was maintained compared with the second half of 2014).

  According to the findings of the review, there is a clear correlation between the degree of the property's proximity to the center of Israel or the center of the city and the yield rate therefrom. Properties in a central location (CBD of the Dan agglomeration) demonstrated a low yield rate, whereas in peripheral properties a high yield rate was observed. The correlation apparently stems from a higher risk factor in the periphery (with respect to factors such as the financial soundness of the tenants, vacancy ratio, risks to the owners in respect of a change of the environment, etc.).

- On June 1, 2015, Sella Capital Real Estate reported the purchase of the entire rights in an office and retail building (the "Pyramid Building"), located on 6 Yoni Netanyahu Street in Or Yehuda. The building comprises of 4 floors above a commercial ground floor, of a total space of approx. 6,070 sqm and approx. 150 parking spaces, in consideration for approx. NIS 48,000,000. The transaction reflects a yield rate of approx. 8.5%.

- On March 1, 2015, REIT 1 reported the purchase of undivided interests in Beit Psagot on 3-5 Rothschild Boulevard in Tel Aviv, of a gross office space of around 4,500 sqm (located on the ground to third and tenth to twenty-seventh floors), and 79 parking spaces in the building's parking lot (ownership in common), such that following the purchase, the company's holding rate of the building will consist of approx. 42% of all rights in the office spaces, and approx. 55% of the rights in the parking lot, in consideration for NIS 67,500,000. Pursuant to the report, the transaction reflects a yield rate of around 8.4%.

- Psagot, which is a material lessee, is expected to sign an addendum to the lease agreement, for the extension of the lease period until December 31, 2024. The rent for the updated lease period is expected to decrease by an average of approx. 20% of the rent currently paid. Considering the updated rent, the transaction reflects a yield rate of approx. 7.6%. In addition, we shall emphasize that some of the floors of the building are under ownership in common.

- On February 16, 2015, Sella Capital Real Estate reported the purchase of the ownership rights in two office floors of the Moshe Aviv Tower, located on 7 Jabotinsky Street in Ramat Gan. The transaction includes the purchase of the entire rights in the sixteenth and nineteenth floors of an area of 2,880 sqm and 34 parking spaces, in consideration for NIS 36,800,000. The asset is leased out at an occupancy rate of 72%, and the projected annual NOI in respect of the entire income-producing area (fully populated) will be approx. NIS 2,750,000, constituting an annual yield rate of approx. 7.47%.

- On January 1, 2015, Electra Investments announced the sale of 25% of the “Electra Tower in consideration for NIS 302,500,000.

- On October 1, 2014, Electra Real Estate Ltd. reported the sale of 25% of the rights in "Electra Tower" on Yigal Alon Street, Tel Aviv, in consideration for NIS 300,000,000. The property has a marketable area of 58,917 sqm, and is fully leased out to various companies. According to supplementary information we have collected, the transaction reflects a yield rate of approx. 7.5%.

- On December 28, 2014, the Levinstein company reported a transaction for the purchase of 50% of an employment, office and commerce building ("Atrium House"), which is situated on 2 HaMa'ayan Street in the Modi'in Employment Zone. The 5-story building holds a total area of approx. 8,000 sqm and 165 parking spaces, in consideration for approx. NIS 33,240,000. According to supplementary information held at our office, the property is leased at an occupancy rate of approx. 98%, and the transaction reflects an 8.25% cap rate.

- On December 23, 2014, Sella Capital Real Estate reported a transaction for the purchase of management and ownership rights in an office building situated on 2 Shoham Street, Ramat Gan ("Paz 2 Building"). The transaction includes the purchase of all of the rights in a 16-story building in an area of 14,920 sqm, as well as 220 parking spaces, in consideration for NIS 211,118,000. The property is leased at a 98% occupancy rate for annual rent of approx. NIS 16,350,000, which represent an annual yield rate of approx. 7.75%.

- On December 10, 2014, the Vitania company reported a transaction for the sale of all of its rights in Ampha House, which is located on 1 Sapir Street, Herzliya, consisting of approx. 8,570 sqm of office and retail spaces, approx. 650 sqm of storage space and approx. 400 parking spaces, in consideration for NIS 129,000,000. The transaction also includes a balance of building rights of approx. 5,700 sqm (which are not immediately utilizable due to a building restriction). According to supplementary information held at our office, the property is leased at a 91% occupancy rate, and the transaction reflects a cap rate of approx. 8.16%.

- On October 1, 2014, the Electra Real Estate company reported the sale of 25% of the rights in the "Electra Tower" located on Yigal Alon Street in Tel Aviv, in consideration for NIS 300,000,000. The property is of a marketable area of 58,917 sqm, fully leased to various companies. According to supplementary information we have collected, the transaction reflects a yield rate of approx. 7.5%.

- According to reports in the press dated December 4, 2014, the company signed a term sheet for the sale of the balance of its holdings in the tower (the remaining 35%) for approx. NIS 302,000,000.

9.3 Office spaces

- According to a land valuation attached to a periodic and annual report for 2014 of Levinstein Properties Ltd., at the "Levinstein Tower" on Menachem Begin Street in Tel Aviv, average rent is approx. NIS 119 per sqm per month for office space and approx. NIS 930 per month per parking space.

- According to information held at our office, at the "Museum Tower" on Berkowitz Street in Tel Aviv, approx. 13,500 sqm have been leased out (renewal of existing agreements and new contracts) in the course of the past two years, in consideration for average rent of approx. 125 per sqm per month, with full finishing.

- In the Electra Tower, on 98 Yigal Alon Street, an office of an area of 167 sqm is offered for lease, at full high-end finishing standard , in consideration for a monthly rent of NIS 140 per sqm. In addition, parking spaces are available for lease at a monthly rent of NIS 800 per parking space.

- At the Government Compound Tower, on 125 Menachem Begin Road, a space of 280 sqm at full finishing level is offered for lease for a monthly rent of NIS 105 per sqm.

- According to a land valuation attached to a periodic and annual report for 2014 of Levinstein Properties Ltd., the areas of the Levinstein company at the "Discount Tower" on the corner of Yehuda HaLevi Street and Herzl Street, totaling 8,419 sqm on Floors 19-23 and 28-30, 97 parking spaces and 94 sqm of storerooms, are leased to 19 different tenants for monthly rent totaling NIS 1,224,243, reflecting approx. NIS 132 per sqm per month for offices and NIS 1,160 per month per parking space.

- According to information held at our office, at the Alrov Tower on 46 Rothschild Boulevard, average rent for office space approximates NIS 128 per gross sqm per month, and NIS 1,060 per parking space per month.

9.4 Parking lots and Parking Spaces

- At an office building under construction on HaArba'ah Street, Tel Aviv, single parking spaces were sold to some of the purchasers of office spaces in the building in consideration for NIS 130,000-175,000 per parking place.

- On April 5, 2012, press reports reported that the Harel Insurance Company purchased the HaYahalom Parking Lot at the Exchange Complex in Ramat Gan, for approx. NIS 19,200,000. The amount of the transaction reflects a price of approx. NIS 135,000 per parking space.

- In December 2011, press reports reported that the Emed company, which is owned by the public transportation company Dan, increased its ownership of the S.A.P. House parking lot which holds approx. 610 parking spaces, from approx. 50% to a full 100%, in consideration for NIS 42,000,000. The transaction's amount reflects a price of approx. NIS 137,000 per parking space.

- On January 1, 2015, Electra Investments announced the sale of 25% of the “Electra Tower” in consideration for NIS 302,500,000. On October 1, 2014, Electra Real Estate Ltd. reported the sale of 25% of the rights in "Electra Tower" on Yigal Alon Street, Tel Aviv, in consideration for NIS 300,000,000. The property has a marketable area of 58,917 sqm, and is fully leased out to various companies. According to supplementary information we have collected, the transaction reflects a yield rate of approx. 7.5%.

- According to supplementary information we have collected, the transaction reflects a value of approx. NIS 17,000 per sqm of office space and a value of approx. NIS 160,000 per parking space.

9.5 **Hotels**

- On June 10, 2015, the Netz Hotels company reported that it had entered into a lease agreement with Azrieli Group, for the lease of 5 floors in the property under construction, Azrieli Sarona, and additional areas, in a total area of 12,000 sqm, for a hotel. The hotel will be a city business hotel, that will consist of 160 hotel rooms, a lobby, service areas, a dining room and a restaurant. The basic rent was determined according to an average of NIS 1,000,000 per month. The areas will be leased out at envelope level. The price reflects approx. NIS 83 per sqm per month, at envelope level.

- In April 2014, Fattal Hotels published its leasing of spaces in the office building on 22 Rothschild Boulevard, Tel Aviv, in order to fit-out the same into a hotel. The information at our office indicates that these are various areas in the building, mainly between Floors 2-10. Rent at envelope level is approx. NIS 85 per sqm per month.

- According to a report on the Maya website on February 2, 2014, Amot signed a lease agreement with Fattal Hotels Ltd., whereby Fattal shall lease from the company for hotel management purposes all of the areas of Building C and related areas in the Amot Insurance project which is located at 46-48 Menachem Begin Rd. in Tel Aviv, on a total gross area of approx. 9,200 sqm. The agreement is for a 20-year term, commencing at the end of the period of adjusting the building for purpose of the lease, that will last about one year. The average annual projected rent income to the company is approx. NIS 8,700,000. The lease agreement reflects approx. NIS 79 per sqm per month. The report stated that Amot will contribute to part of the work of fitting-out the property as a hotel (the amount was not stated).

- According to a report on the Maya website on March 6, 2013. Ashdar and a partner have engaged in an agreement with a third party for the sale of all of their rights in the Suites Hotel "Isrotel Tower" at the Migdalot Tower on 78 HaYarkon Street, Tel Aviv, in consideration for approx. NIS 146,500,000. The hotel is located on Floors 7-15 of the building and includes 90 suites. The price reflects approx. NIS 1,600,000 per hotel suite. As part of the transaction, Isrotel, which operates the hotel, was granted a right of first refusal to purchase the property on the same terms and conditions within 14 days. According to information held at our office, Isrotel exercised such right and purchased the asset.

- According to a report on the Maya website on August 8, 2013, Electra Real Estate sold its rights (50%) in a hotel consisting of 228 rooms and a public parking lot that consists of 123 parking spaces, as well as all of the rights in 2 residential apartments at the "Sea One" Project on Herbert Samuel Street, Tel Aviv, for an amount not to fall under NIS 209,000,000. According to supplementary information we have collected, the consideration for the Company's rights in the hotel (Royal Beach) approximates NIS 186,000,000. The transaction reflects a value of approx. NIS 1,560,000 per room and a value of approx. NIS 130,000 per parking space. According to information held at our office, the hotel, which includes 228 rooms, a spa and related areas, is leased out to the Isrotel Chain for rent in the amount of NIS 15,400,000 per year (this rent is minimal. The agreement contains an addition of revenues as a function of the business activity). The property was handed over to Isrotel at full finishing level, including the equipping and furnishing of the rooms and the public and related areas. The transaction reflects a minimum rent of approx. NIS 5,600 per month per room (with the spa and the related areas grossed-up).

- In April 2013, it was reported that the Prima Chain acquired the Tel Aviv City Hotel from the Atlas Chain in consideration for NIS 75,000,000. The hotel consists of 96 rooms and conference halls. The transaction reflects a value of approx. NIS 781,000 per room.

10. The calculation of the Valuation

We estimated the Property’s value using the income capitalization approach.

The rent:

The information base is the rent as of the effective date, and an expected rise of the rent is not taken into account. The calculation of the total rent was provided to us by the Company. We made no modifications to these figures.

The Cap Rate:

The cap rate for retail space is unchanged relative to the cap rate used in the last opinion, i.e. 6.75% for the retail space with more than 600 sqm leased for low rent, and 7% for the other areas (the basic cap rate).

The cap rate in respect of income from revenue and casuals in the retail space was taken in the rate reflecting the risk, an addition of 1% to the basic cap rate.

The cap rate for office space was set at a rate of 7% for the longstanding and significant contracts and the agreement with Bezeq (in light of a lower risk component) and a rate of 7.5% for the other contracts.

The cap rate for the hotel areas was set at a rate of 7% (in light of the risk component, substantially low rent relative to rent in the benchmark transactions specified above).

The cap rate for the parking lot – remains unchanged relative to the previous opinion.

The cap rate for the storerooms – 7.75%.

Item	Marketable area in sqm	Annual Income (NIS)	Cap Rate	Value (NIS)
Mall rent - large spaces	16,171	29,980,000	6.75%	444,150,000
Mall rent - other spaces	19,409	92,580,000	7.00%	1,332,570,000
Market rent – available storerooms and stall	88	290,000	7.50%	3,866,000
Mall – additional income from revenues and casuals		7,110,000	8.00%	88,870,000
Rent from offices - longstanding contracts, including Bezeq	68,646	77,340,000	7.00%	1,104,800,000
Rent from offices - other contracts	62,883	88,530,000	7.50%	1,180,400,000
Rent from the hotel	18,000	14,150,000	7.00%	202,100,000
Rent from leased storerooms		2,260,000	7.75%	29,100,000
Net income from parking lot		35,950,000	7.50%	479,300,000
Total		**348,190,000**		**4,855,156,000**
Net income from electricity		6,930,000	10%	69,300,000
Net income from management		13,310,000	9.2%	145,100,000
Future investments, including improvements in the Property and completion of the fit-out works for the Urbanica store				-91,200,000
Deduction of transportation task				-7,000,000
Total, rounded off				**4,971,400,000**

The total value indicates an average retail space value of approx. NIS 50,000 per sqm, an average office value of approx. NIS 17,300 per sqm and a parking space value of approx. NIS 150,000. These figures are consistent with the market figures.

Sensitivity analysis

Analysis of sensitivity to changes in the cap rate:

	6.50%	**7.00%**	**7.50%**
Value of the Property (NIS)	5,073,200,000	4,971,400,000	4,883,000,000

Analysis of sensitivity to changes in the rent of regular office space:

	+5%	Current rent	-5%
(NIS)	92,960,000	88,530,000	84,100,000
Value of the Property (NIS)	5,030,300,000	4,971,400,000	4,912,300,000

11. The Valuation

In light of the aforesaid, our assessment of market value of the Company's rights in the Property (excluding the area self-used by Azrieli Group) in the free market, in the criterion of a willing buyer from a willing seller, free of any debt, charge, mortgage, including third-party rights (unless expressly specified above), is in the range of **NIS 4,971,400,000**.

12. General

- The value does not include V.A.T.

- We have not related to taxation that may apply, insofar as shall apply, at the time of selling the Property.

- In our Opinion we referred to such forward-looking information that was provided to us by the Company's management, with respect to the 2016 forecast and income forecast, and is based on information available as of the date of the Valuation and subjective estimates of the management, materialization of which is uncertain due to reasons beyond the Company's management control.

- We have evaluated the Property in the past for the purpose of its inclusion in the Company's annual financial statements[6]:

Effective date	**Value of the Company's Rights**
December 31, 2012	NIS 4,473,300,000
December 31, 2013	NIS 4,731,600,000
December 31, 2014	NIS 4,841,200,000
June 30, 2015	NIS 4,912,300,000

[6] In addition, median revaluations were performed.

13. Disclosure Document

According to Standard 17.1 we requested from the Company a disclosure document pertaining to several issues.

On January 18, 2016, our firm received a disclosure document from the Company for the purpose of valuation of Azrieli Center, 1 Azrieli Center, Tel Aviv, as of December 31, 2015. A summary of the document:

- There are no protected tenants in the Property pursuant to the Tenant Protection Law, 5732-1972.
- There are no holders in the Property without a valid lease agreement.
- There are no holders in the Property who are interested parties of the corporation, such as: a subsidiary[7], affiliates[8], etc., excluding the So Good store at an area of approx. 103 sqm on the ground floor of the Triangular Tower and the offices of the management company on the 33rd floor of the Round Tower.
- There is no third party agreement with respect to the Property in question, including a construction agreement, an agreement or an undertaking given to the municipality.
- There is no liability for compensation in respect of damage caused by the Property to third party land.
- There is no other material liability related to the land which affects the value of the Property and is not specified in the sections above.

14. Declarations

- We declare that to the best of our knowledge, the facts upon which this Opinion has been based are correct.
- The analysis and the conclusions are limited to the assumptions and conditions specified above.
- We declare that the legal information presented in this document is the legal information on which the Valuation is based.

[7] A company in which another company holds 50% or more of its issued share capital or the voting rights.
[8] A company which is owned or controlled, indirectly, by the owner of the Property.

- Our firm has no dependency (as defined in the directive of the Israel Securities Authority dated July 2015) on the Company and/or Azrieli Group and/or its owners and/or affiliates thereof, and that we have no business or personal connection with such parties other than valuations that we have performed over the years for Azrieli Group Ltd. and companies controlled thereby. The income from these assignments is not material to our firm. In addition, we do not have a personal interest in shares of the Company and/or of Azrieli Group, and our fees are not contingent on the results of our Opinion.

- The report was prepared according to the Real Estate Appraiser Regulations (Professional Ethics), 5726-1966 and according to the professional standards of the Appraisal Standards Committee.

- We declare that we have the necessary knowledge for making this Valuation.

- The Valuation was performed by the undersigned, without assistance.

Sincerely,

Azrieli Group Ltd.

Extended Standalone Financial Statements

December 31, 2015

Annex E

Azrieli Group Ltd.

Extended Standalone Financial Statements

Annex E

The Company's extended standalone financial statements are a summary of the Company's statements that are presented according to the IFRS rules, except for the investment in Granite which is presented according to the equity method in lieu of consolidation of the statements thereof with the Company's statements (the remaining investments are presented with no change relative to the statement presented pursuant to the IFRS rules). These statements are not separate statements within the meaning thereof in IAS 27 nor separate financial statements pursuant to Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. The statements are not part of the information that is required to be published according to securities laws. However, the Company's management believes that analysts, investors, shareholders and bond holders may receive valuable information from the presentation of such figures.

The figures in this annex have not been audited or reviewed by the Company's auditors.

Balance sheet:

	As of December 31	
	2015	**2014**
	NIS in thousands	**NIS in thousands**
Assets		
Current Assets		
Cash and cash equivalents	860,618	110,229
Financial assets held for trade	506	657
Trade accounts receivable	44,478	36,200
Other receivables	69,023	76,759
Current tax assets	5,505	6,392
Total Current Assets	980,130	230,237
Non-Current Assets		
Investment in investee companies	952,919	1,161,819
Loans and receivables	93,190	76,753
Financial assets	1,581,575	1,563,180
Investment property and investment property under construction	20,516,134	18,763,462
Fixed assets	111,491	43,583
Intangible assets	73,952	-
Deferred tax assets	835	1,110
Total Non-Current Assets	23,330,096	21,609,907
Total Assets	24,310,226	21,840,144

Azrieli Group Ltd.

Extended Standalone Financial Statements

Annex E

Balance Sheet - Contd.

	As of December 31	
	2015	2014
	NIS in thousands	NIS in thousands
Liabilities and Capital		
Current Liabilities		
Credit from banks and other credit providers	1,068,409	1,792,795
Trade payables	125,455	195,645
Payables and other current liabilities	362,630	115,139
Deposits from senior housing tenants	295,241	-
Current tax liabilities	91,778	92,195
Total Current Liabilities	1,943,513	2,195,774
Non-Current Liabilities		
Loans from banks and other credit providers	2,872,842	2,979,605
Bonds	2,579,151	538,577
Other liabilities	42,421	39,983
Employee benefits	3,420	8,518
Deferred tax liabilities	3,001,313	2,734,856
Total Non-Current Liabilities	8,499,147	6,301,539
Capital		
Ordinary share capital	18,223	18,223
Share premium	2,518,015	2,518,015
Capital reserves	407,396	387,878
Retained earnings	10,827,591	10,327,571
Total Equity attributed to shareholders of the Parent Company	13,771,225	13,251,687
Not-controlling interest	96,341	91,144
Total Capital	13,867,566	13,342,831
Total Liabilities and Capital	24,310,226	21,840,144

Azrieli Group Ltd.

Extended Standalone Financial Statements

Annex E

Income Statement:

	For the year ended December 31	
	2015	**2014**
	NIS in Thousands	**NIS in thousands**
Revenues:		
From rent, management and maintenance fees	1,631,581	1,462,586
Net profit from adjustment of fair value of investment property and investment property under construction	179,071	36,701
Financing	8,640	11,000
Share in results of associates, net of tax	(77,480)	67,494
Other	9,983	9,894
Total Revenues	1,751,795	1,587,675
Costs and Expenses		
Cost of revenues from rent, management and maintenance fees	385,222	321,251
Sales and Marketing	34,068	18,718
General and Administrative	60,030	65,220
Financing	110,239	118,744
Total Costs and Expenses	589,559	523,933
Income before income taxes	1,162,236	1,063,742
Expenses for taxes on income	(334,571)	(277,708)
Income from continuing operations, including the minority	827,665	786,034
Profit from discontinued operations, including the minority (*)	-	73,505
Net Profit for the period, including the minority	827,665	859,539

(*) On June 12, 2014, a transaction for the sale of Tambour was closed and it is presented in the financial statements as discontinued operations (for further details see Note 8 to the Consolidated Financial Statements).

Annex F - Designated Disclosure to the Bondholders

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

Series	Date of the Issue	Par Value on the Date of the Issue	Par Value on the Report Date	Par Value on the Report Date, including Linkage	Amount of Interest Accrued by the Report Date	The Fair Value as Included in the Financial Statements	Market Cap	Type of Interest	Interest Rate	Principal Payment Dates	Interest Payment Dates	Linkage Terms	Details regarding the Trustee
	NIS in millions												
Series B	February 10, 2015	623.3	1,223.6	1,223.6	2.0	1,213.2	1,197	Fixed	0.65	April 1st in the years 2016 to 2025 (inclusive)	From October 1, 2015 and subsequently April 1st and October 1st in the years 2016 to 2025 (inclusive).	Linkage (principal and interest) to the rise in the CPI for December 2014*.	Name of the trust company: Hermetic Trust (1975) Ltd.; Address: 113 Hayarkon St., Tel Aviv; Tel: 03-5544553; Fax: 03-5271039; E-mail address: hermetic@hermetic.co.il Contact person at the trustee: Dan Avnon.
	June 23, 2015	600.3											
Series C	Sept. 6, 2015	1,005.1	1,005.1	1,005.1	5.2	997.1	1,007	Fixed	1.64	July 1st in the years 2018 to 2027 (inclusive)	From July 1, 2016, twice a year, on January 1st and July 1st in each of the years 2016 to 2027 (inclusive).	Linkage (principal and interest) to the rise in the CPI for July 2015*.	
Total		2,228.7	2,228.7	2,228.7	7.2	2,210.3	2,204						

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

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

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

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

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

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

Rating of the bonds of the Company held by the public:

Series	**Name of Rating Company**	**Rating Set on the Date of the Issue**	**Rating Set as of the Report Release Date**	**Date of Issuance of the Current Rating**	**Additional Ratings Set between the Date of the Issue and the Report Date**	
					Rating	**Date of Rating**
Series B Series C	Maalot Maalot	AA+ stable AA+ stable	AA+ stable AA+ stable	June 21, 2015 Sept. 3, 2015	-	-

Azrieli Group

Part C

Consolidated Financial Statements Dated 31 December 2015

Azrieli Group Ltd.

Consolidated Financial Statements
For the Year 2015

Azrieli Group Ltd.

Consolidated Financial Statements
For the Year 2015

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Independent Auditors' Report to the Shareholders of
Azrieli Group Ltd.
Regarding Audit of Components of Internal Control over Financial Reporting pursuant to
Section 9B(c) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

We have audited components of internal control over financial reporting of **Azrieli Group Ltd. and subsidiaries** (jointly, the "Company") as of December 31, 2015. These components of control were determined as explained in the following paragraph. The Company's Board of Directors ("Board") and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of the components of internal control over financial reporting, attached to the periodic report as of the above date. Our responsibility is to express an opinion on the components of internal control over financial reporting of the Company, based on our audit.

The components of the internal control over financial reporting that were audited were determined pursuant to Audit Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of Components of Internal Control over Financial Reporting", including the amendments thereto ("Audit Standard 104"). These Components are: (1) Entity-level controls, including controls over the financial reporting and closing process and ITGCs; (2) Controls over investment property; (3) Controls over rent revenues from investment property; (4) Controls over revenues from sales and trade accounts receivable of Sonol Israel Ltd.; (all referred to hereafter jointly as the "Audited Components of Control").

We conducted our audit pursuant to Audit Standard 104. This Standard requires that we plan and perform the audit with the purpose of identifying the Audited Components of Control, and to obtain reasonable assurance about whether these components of control were effectively maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the Audited Components of Control, assessing the risk that a material weakness exists in the Audited Components of Control, and testing and evaluating the design and operating effectiveness of such components of control, based on the assessed risk. Our audit of such components of control also included performing such other procedures as we considered necessary in the circumstances. Our audit only referred to the Audited Components of Control, as opposed to internal control over all of the material processes in connection with the financial reporting, and therefore our opinion refers only to the Audited Components of Control. In addition, our audit did not address mutual effects between the Audited Components of Control and non-audited controls, and therefore, our opinion does not take into consideration such possible effects. We believe that our audit provides a reasonable basis for our opinion in the context described above.

Because of its inherent limitations, internal control over financial reporting in general and components thereof in particular, may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, based on our audit, the Company effectively maintained, in all material respects, the Audited Components of Control as of December 31, 2015.

We have also audited, based on Generally Accepted Auditing Standards in Israel, the Consolidated Financial Statements of the Company as of December 31, 2015 and 2014, and for each of the three years in the period ended December 31, 2015, and our report as of March 22, 2016, included an unqualified opinion on those financial statements based on our audit and on the other auditors' reports, as well as the drawing of attention to Note 33 to the Financial Statements regarding legal claims in material amounts, in the aggregate, against the Company and consolidated companies in respect of which motions for class certification have been filed.

Brightman Almagor Zohar & Co.
Certified Public Accountants (Israel)

Tel Aviv, March 22, 2016

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Independent Auditors' Report to the Shareholders of
Azrieli Group Ltd.

We have audited the accompanying Consolidated Statements of Financial Position of **Azrieli Group Ltd.** (the "Company") as of December 31, 2015 and 2014 and the Consolidated Statements of Comprehensive Income, of Changes in Capital, and of Cash Flows for each of the years in the three-year period ended December 31, 2015. The Company's Board and Management are responsible for these Financial Statements. Our responsibility is to express an opinion on these Financial Statements based on our audit.

We did not audit the financial statements of consolidated companies, whose consolidated assets constitute approx. 14.7% of the total consolidated assets as of December 31, 2015 and 2014, and whose consolidated income constitute approx. 73%, approx. 75% and approx. 81% of the total consolidated income for the years ended December 31, 2015, 2014 and 2013, respectively. The financial statements of such companies were audited by other auditors whose reports were provided to us, and our opinion, insofar as it relates to amounts that have been included in respect of such companies, is based on the reports of the other auditors.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Israel, including standards set in the Accountants Regulations (Mode of Operation of Accountants) 5733-1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board and Management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of other auditors, the Financial Statements referred to above present fairly, in all material respects, the financial position of the Company and of its subsidiaries as of December 31, 2015 and 2014 and the results of their operations, the changes in their equity and their cash flows for each of the years in the three-year period ended December 31, 2015 in accordance with International Financial Reporting Standards (IFRS) and the provisions of the Securities Regulations (Annual Financial Statements), 5770-2010.

We have also audited, pursuant to Audit Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of Components of Internal Control over Financial Reporting", components of the Company's internal control over financial reporting as of December 31, 2015 and our report as of March 22, 2016 included an unqualified opinion on the effective maintenance of such components.

Without qualifying our said opinion, we draw attention to the contents of Note 33 to the Financial Statements regarding legal claims in material amounts, in the aggregate, against the Company and consolidated companies in respect of which motions for class certification have been filed.

Brightman Almagor Zohar & Co.
Certified Public Accountants (Israel)

Tel Aviv, March 22, 2016

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Azrieli Group Ltd.
Consolidated Statements of Financial Position

	Note	As of December 31 2015 NIS in thousands	2014 NIS in thousands
ASSETS			
Current assets			
Cash and cash equivalents	4	934,724	163,578
Short-term deposits and investments		36,302	46,502
Trade accounts receivable	5	1,102,160	1,260,249
Other receivables	6	167,227	320,780
Inventory	7	173,450	241,291
Current tax assets	30	14,894	9,377
		2,428,757	2,041,777
Assets of disposal group held for sale	9	8,850	1,207,134
Total current assets		2,437,607	3,248,911
Non-current assets			
Investments and loans to associates		70,755	32,647
Investments, loans and other receivables	11	218,321	197,608
Financial assets	12	1,659,927	1,628,872
Long-term receivables in respect of franchise arrangement	13	44,372	29,288
Investment property and investment property under construction	14	20,528,554	18,838,463
Fixed assets	15	1,059,657	981,374
Intangible assets	16	342,955	384,401
Pre-paid long-term rent	17	36,637	34,871
Deferred tax assets	30	46,320	52,676
Total non-current assets		24,007,498	22,180,200
Total assets		26,445,105	25,429,111

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

	Note	As of December 31 2015 NIS in thousands	2014 NIS in thousands
LIABILITIES AND CAPITAL			
Current liabilities			
Credit from banks and other credit providers	21	2,030,205	2,962,143
Trade payables	18	524,638	705,749
Other payables	19	375,208	358,464
Deposits from customers	20	402,066	108,730
Provisions		77,515	43,881
Current tax liabilities	30	110,241	116,803
		3,519,873	4,295,770
Liabilities of disposal group held for sale	9	3,387	803,346
Total current liabilities		3,523,260	5,099,116
Non-current liabilities			
Loans from banks and other credit providers	21	2,989,456	3,176,134
Bonds	21	2,962,731	957,532
Employee benefits	22	18,981	25,661
Other liabilities		53,685	52,485
Deferred tax liabilities	30	3,027,164	2,769,629
Total Non-Current Liabilities		9,052,017	6,981,441
Capital	23		
Ordinary share capital		18,223	18,223
Share premium		2,518,015	2,518,015
Capital reserves		407,396	387,878
Retained earnings		10,827,591	10,327,571
Total equity attributable to the shareholders of the company		13,771,225	13,251,687
Non-controlling interests		98,603	96,867
Total Capital		13,869,828	13,348,554
Total Liabilities and Capital		26,445,105	25,429,111

The notes to the Financial Statements form an integral part thereof.

March 22, 2016			
Date of approval of the Financial Statements	**Danna Azrieli Chairman of the Board**	**Yuval Bronstein CEO**	**Irit Sekler-Pilosof CFO**

Azrieli Group Ltd.
Consolidated Statements of Comprehensive Income

	Note	As of the year ended December 31		
		2015	2014	2013
		NIS in thousands	NIS in thousands	NIS in thousands
Revenues				
From sales, labor and services	24	4,464,202	5,660,407	6,442,947
From rent, management and maintenance fees	24	1,622,543	1,471,111	1,433,324
Net profit from adjustment to fair value of investment property and investment property under construction	14	180,307	28,913	424,657
Financing	29	21,008	55,202	92,535
Other	28	20,476	67,989	20,190
Total revenues		6,308,536	7,283,622	8,413,653
Costs and Expenses				
Costs of revenues from sales, labor and services	25	3,558,968	4,774,469	5,442,462
Costs of revenues from rent, management and maintenance fees	25	385,098	329,110	320,472
Sales and marketing	26	678,872	664,579	649,363
General and administrative	27	198,563	189,788	211,724
Share in results of associates, net of tax		8,562	9,545	6,299
Financing	29	173,679	205,117	426,197
Other	28	112,349	12,664	3,033
Total costs and expenses		5,116,091	6,185,272	7,059,550
Income before income taxes		1,192,445	1,098,350	1,354,103
Taxes on income	30	(364,780)	(312,316)	(448,167)
Income from continued operations		827,665	786,034	905,936
Income from discontinued operations, net of tax	8	-	73,505	37,866
Net profit for the year		827,665	859,539	943,802
Other comprehensive income:				
Amounts that were carried and will not be carried in the future to the income statement, net of tax:				
Actuarial profit (loss) due to defined benefit plan, net of tax		(977)	221	177
Amounts that were and carried will be carried in the future to the income statement, net of tax:				
Change in fair value of financial assets available for sale, net of tax		18,172	(38,471)	138,114
The effective share of the change in fair value of cash flow hedge, net of tax		-	(270)	(555)
Net change in fair value of cash flow hedge carried to profit and loss, net of tax		-	265	1,386
Carrying of balance of fair value of the cash flow hedge to the income statement as a result of disposition of a subsidiary, net of tax		-	102	-
Translation differences from foreign operations		1,506	91,239	(45,249)
Total		19,678	52,865	93,696
Other comprehensive income for the year, net of tax		18,701	53,086	93,873
Total comprehensive income for the year		846,366	912,625	1,037,675

The notes to the Financial Statements form an integral part thereof.

Azrieli Group Ltd.

Consolidated Statements of Comprehensive income

(Continued)

	As of the year ended December 31		
	2015	**2014**	**2013**
	NIS in thousands	**NIS in thousands**	**NIS in thousands**
Net profit for the year attributable to:			
Shareholders of the company	820,991	849,487	929,549
Non-controlling interests	6,674	10,052	14,253
	827,665	859,539	943,802
Total comprehensive income for the year attributable to:			
Shareholders of the company	839,538	899,128	1,025,515
Non-controlling interests	6,828	13,497	12,160
	846,366	912,625	1,037,675
	NIS	**NIS**	**NIS**
Basic and diluted earnings (in NIS) per one ordinary share of par value NIS 0.1 each attributable to shareholders of the company:			
Continued operations	6.77	6.41	7.38
Discontinued operations	-	0.60	0.28
	6.77	7.01	7.66
Average weighted share capital used in calculating the basic and diluted earnings per share	121,272,760	121,272,760	121,272,760

The notes to the Financial Statements form an integral part thereof.

Azrieli Group Ltd.
Consolidated Statements of Changes in Capital

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

The notes to the Financial Statements form an integral part thereof.

Azrieli Group Ltd.

Consolidated Statements of Changes in Capital

(Continued)

	For the year ended December 31, 2014										
	Share Capital	Share premium	Revaluation fund for financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve for transactions with related parties	Capital reserve from acquisition of non-controlling interests in a consolidated company	Other capital reserves	Retained earnings	Total attributable to share-holders of the company	Non-controlling interests	Total
	NIS in thousands										
Balance as of January 1, 2014	18,223	2,518,015	411,733	(58,755)	(30,981)	21,375	(2,191)	9,757,867	12,635,286	94,733	12,730,019
Net profit for year	-	-	-	-	-	-	-	849,487	849,487	10,052	859,539
Change in fair value of financial assets available for sale, net of tax	-	-	(38,480)	-	-	-	-	-	(38,480)	9	(38,471)
Actuarial profit due to defined benefit plan, net of tax	-	-	-	-	-	-	-	217	217	4	221
Translation differences from foreign operations	-	-	-	87,809	-	-	-	-	87,809	3,430	91,239
The effective share of the change in fair value of cash flow hedge, net of tax	-	-	-	-	-	-	(269)	-	(269)	(1)	(270)
Net change in fair value of cash flow hedge carried to profit and loss, net of tax	-	-	-	-	-	-	263	-	263	2	265
Carrying of balance of fair value of the cash flow hedge to the income statement as a result of disposition of a subsidiary, net of tax	-	-	-	-	-	-	101	-	101	1	102
Total comprehensive income for the year	-	-	(38,480)	87,809	-	-	95	849,704	899,128	13,497	912,625
Dividend to the shareholders of the Company	-	-	-	-	-	-	-	(280,000)	(280,000)	-	(280,000)
Dividend to the holders of non-controlling interests	-	-	-	-	-	-	-	-	-	(1,389)	(1,389)
Capital reserve for transactions with related parties	-	-	-	-	7	-	-	-	7	(7)	-
Acquisition of non-controlling interests in a consolidated company	-	-	-	-	-	(2,734)	-	-	(2,734)	(24)	(2,758)
Write-off of non-controlling interests due to disposition of subsidiary	-	-	-	-	-	-	-	-	-	(9,943)	(9,943)
Total transactions with shareholders of the Company	-	-	-	-	7	(2,734)	-	(280,000)	(282,727)	(11,363)	(294,090)
Balance as of December 31, 2014	18,223	2,518,015	373,253	29,054	(30,974)	18,641	(2,096)	10,327,571	13,251,687	96,867	13,348,554

The notes to the Financial Statements form an integral part thereof.

Azrieli Group Ltd.

Consolidated Statements of Changes in Capital

(Continued)

	For the year ended December 31, 2013										
	Share Capital	Share premium	Revaluation fund for financial assets available for sale	Capital reserve for translation differences from foreign operations	Capital reserve for transactions with related parties	Capital reserve from the acquisition of non-controlling interests in a consolidated company	Other capital reserves	Retained earnings	Total attributable to share-holders of the company	Non-controlling interests	Total
	NIS in thousands										
Balance as of January 1, 2013	18,223	2,518,015	273,643	(15,637)	(30,912)	21,375	(3,015)	9,093,148	11,874,840	82,496	11,957,336
Net profit for year	-	-	-	-	-	-	-	929,549	929,549	14,253	943,802
Change in fair value of financial assets available for sale, net of tax	-	-	138,090	-	-	-	-	-	138,090	24	138,114
Actuarial profit due to defined benefit plan, net of tax	-	-	-	-	-	-	-	170	170	7	177
Translation differences from foreign operations	-	-	-	(43,118)	-	-	-	-	(43,118)	(2,131)	(45,249)
The effective share of the change in fair value of cash flow hedge, net of tax	-	-	-	-	-	-	(550)	-	(550)	(5)	(555)
Net change in fair value of ash flow hedge carried to profit and loss, net of tax	-	-	-	-	-	-	1,374	-	1,374	12	1,386
Total comprehensive income for the year	-	-	138,090	(43,118)	-	-	824	929,719	1,025,515	12,160	1,037,675
Dividend to the shareholders of the Company	-	-	-	-	-	-	-	(265,000)	(265,000)	-	(265,000)
Issuance of warrants for shares in a consolidated company	-	-	-	-	-	-	-	-	-	8	8
Capital reserve for transactions with related parties	-	-	-	-	(69)	-	-	-	(69)	69	-
Total transactions with shareholders of the Company	-	-	-	-	(69)	-	-	(265,000)	(265,069)	77	(264,992)
Balance as of December 31, 2013	18,223	2,518,015	411,733	(58,755)	(30,981)	21,375	(2,191)	9,757,867	12,635,286	94,733	12,730,019

The notes to the Financial Statements form an integral part thereof.

Azrieli Group Ltd.
Consolidated Statements of Cash Flows

	As of the year ended December 31		
	2015	2014	2013
	NIS in thousands	NIS in thousands	NIS in thousands
Cash flows - Current Operations			
Net profit for the year	827,665	859,539	943,802
Depreciation and amortization	103,153	122,770	139,348
Impairment of goodwill	103,000	765	-
Forfeiture of senior housing tenants' deposits	(6,311)	-	-
Net profit from adjustment to fair value of investment property and investment property under construction	(180,307)	(28,913)	(424,657)
Financing and other expenses, net	140,741	115,231	359,858
Impairment of financial assets available for sale	-	5,932	-
Profit from the sale of fixed assets, investment property and intangible assets, net	(1,846)	(6,218)	(2,227)
Share in losses of associates accounted for by the equity method	8,562	9,545	6,179
Change in recording of benefit in respect of share-based payment and employee benefits	2,493	902	11,605
Tax expenses recognized in the income statement	364,780	319,810	465,254
Change in financial assets	116	256	460,181
Profit from disposition of investments in associates	-	(587)	-
Loss (profit) from disposition of investment in a subsidiary (Annex A)	9,437	(96,937)	-
Profit from disposition of investments in financial assets available for sale	-	-	(1,878)
Income taxes paid, net	(197,601)	(102,756)	(136,930)
Burnout of balance of the Fuel Administration	-	-	7,745
Burnout (revaluation) of financial assets designated at fair value through profit and loss	(2,715)	(6,760)	124
Change in inventory	67,841	10,055	73,631
Change in trade and other receivables	137,504	95,445	(34,168)
Change in receivables in respect of franchise arrangement	6,566	37,103	(286,253)
Change in trade and other payables	(154,688)	(162,925)	108,653
Receipt of deposits from senior housing tenants	25,796	-	-
Return of deposits from senior housing tenants	(6,864)	-	-
Change in provisions and employee benefits	13,475	(18,246)	(1,051)
Net cash – current operations	1,260,797	1,154,011	1,689,216

The notes to the Financial Statements form an integral part thereof.

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

	As of the year ended December 31		
	2015	2014	2013
	NIS in thousands	NIS in thousands	NIS in thousands
Cash flows - investment activities			
Proceeds from the disposition of fixed assets and intangible assets	7,157	19,845	16,586
Proceeds from the disposition of investment property	2,836	2,174	44,683
Change in the balance of the Fuel Administration	-	-	117,455
Downpayments on account of investment property	(4,815)	(2,081)	(202,017)
Purchase and investment in investment property and investment property under construction	(1,016,466)	(1,202,168)	(665,755)
Purchase of fixed assets and intangible assets	(118,589)	(141,389)	(245,491)
Investment in and provision of loans to associates	(3,435)	(13,746)	(8,997)
Change in short-term deposits	10,049	4,704	39,759
Change in restricted investments	15,279	(31,764)	(3,743)
Grant received	-	6,126	-
Income (payment) for the disposition of derivative financial instruments, net	(5,304)	40,619	(58,843)
Change in financial assets available for sale	-	(3,476)	(2,005)
Change in financial assets designated at fair value through profit and loss, net	2,338	782	1,157
Change in marketable securities, net	14,874	(8,893)	-
Provision of long-term loans	(44,862)	(9,185)	(11,333)
Collection of long-term loans	15,593	20,921	13,848
Interest and dividend received	45,937	74,542	59,934
Proceeds from disposition of financial assets available for sale	-	37,296	5,024
Acquisition of companies consolidated for the first time (Annex B)	(254,661)	(54,589)	-
Proceeds from disposition of investments in investee companies, net (Annex A)	415,948	475,862	-
Institutions in respect of the purchase of real estate	-	-	5,638
Proceeds from sale of investments	115,174	-	-
Tax paid for sale of companies	(22,745)	-	-
Net cash - investment activities	(825,692)	(784,420)	(894,100)

The notes to the Financial Statements form an integral part thereof.

Azrieli Group Ltd.

Consolidated Statements of Cash Flows

(Continued)

	As of the year ended December 31		
	2015	2014	2013
	NIS in thousands	NIS in thousands	NIS in thousands
Cash Flows - Financing Activities			
Acquisition of non-controlling interests	-	(2,758)	-
Distribution of dividend to shareholders	(320,000)	(280,000)	(265,000)
Repayment of bonds	(406,994)	(215,210)	(187,086)
Issuance of bonds net of issue expenses	2,209,284	-	-
Receipt of long-term loans from banks and others	112,203	655,995	1,683,482
Repayment of long-term loans from banks and others	(876,330)	(516,783)	(1,500,070)
Short-term credit from banks and others, net	(202,735)	(1,747)	131,121
Repayment of deposits from customers	(6,034)	(6,705)	(2,915)
Deposits from customers that were received	8,802	7,954	1,350
Payment for settlement of derivatives used for cash flow hedge	-	(54)	(709)
Dividend to holders of non-controlling interests	(437)	(1,264)	(1,470)
Interest paid	(231,501)	(286,758)	(345,530)
Net cash - financing activities	286,258	(647,330)	(486,827)
Increase (decrease) in cash and cash equivalents	721,363	(277,739)	308,289
Cash and cash equivalents at the beginning of the year	163,578	460,984	182,818
Change in net cash classified to disposal group held for sale	50,487	(23,528)	(27,895)
Effect of the changes in exchange rates on balances of cash held in foreign currency	(704)	3,861	(2,228)
Cash and cash equivalents at the end of the year	934,724	163,578	460,984

(*) Non-cash activities include in 2015 payables for the purchase on credit of non-current assets in the sum of NIS 73,677 thousand (in 2014 and 2013 – NIS 151,123 thousand and NIS 71,115 thousand, respectively), in 2014 liability for work in the sum of NIS 13,000 thousand (in 2013 - NIS 55,000 thousand). In 2014, receivables due to the sale of an investment in a consolidated company in the sum of NIS 47,558 thousand (see Note 10D). In 2014, receivables due to the sale of shareholder loans in a consolidated company in the sum of NIS 99,630 thousand (see Note 10D), and in 2014, receivables due to the sale of an investment in an associate in the sum of NIS 14,254 thousand (see Note 10D).

(**) On cash flows from discontinued operations, see Note 8.

The notes to the Financial Statements form an integral part thereof.

	As of the year ended December 31		
	2015	2014	2013
	NIS in thousands	NIS in thousands	NIS in thousands
Annex A -			
Proceeds from sale of investment in previously-consolidated Green Anchors Ltd.:			
Working capital (excluding cash and cash equivalents)	(2,975)	-	-
Fixed and intangible assets, net	105	-	-
Investment property	24,081	-	-
Long-term liabilities including current maturities	(7,317)	-	-
Deferred tax liabilities, net	(4,365)	-	-
Non-controlling interests	(4,780)	-	-
Loss from liquidation of investment in subsidiary	(42)	-	-
	4,707	-	-
Proceeds from sale of investment in previously-consolidated Via Maris Desalination (Holdings) Ltd. (see Note 9 below):			
Working capital (excluding cash and cash equivalents)	80,488	-	-
Investments and loans	3,799	-	-
Receivables in respect of franchise arrangement	822,932	-	-
Fixed and intangible assets, net	126,037	-	-
Long-term liabilities, net	(697,358)	-	-
Deferred tax liabilities, net	(23,481)	-	-
Restricted investments	60,661	-	-
Loss from liquidation of investment in subsidiary	(9,395)	-	-
	363,683	-	-
Proceeds from sale of investment in previously-consolidated Tambour, net (see Note 8 below):			
Working capital (excluding for cash and cash equivalents)	-	213,783	-
Investments and loans	-	7,582	-
Fixed and intangible assets, net	-	491,095	-
Employee benefits and provisions	-	(7,834)	-
Long-term liabilities including current maturities	-	(199,485)	-
Reserve for deferred taxes, net	-	(67,389)	-
Non-controlling interests	-	(4,255)	-
Profit from disposition of an investment in a subsidiary	-	54,815	-
	-	488,312	-

The notes to the Financial Statements form an integral part thereof.

	As of the year ended December 31		
	2015	**2014**	**2013**
	NIS in thousands	**NIS in thousands**	**NIS in thousands**
Proceeds from sale of investment in previously-consolidated S. Super Solar Ltd., net (see Note 10D below):			
Working capital (excluding for cash and cash equivalents)	-	(121,738)	-
Receivables in respect of franchise arrangement	-	245,665	-
Prepaid long-term rent	-	32,245	-
Restricted investments	-	4,900	-
Fixed and intangible assets, net	-	2,469	-
Long-term liabilities including current maturities	-	(160,932)	-
Reserve for deferred taxes, net	-	(3,935)	-
Non-controlling interests	-	(5,688)	-
Profit from disposition of an investment in a subsidiary	-	42,122	-
Receivables due to the sale of an investment in a consolidated company	47,558	(47,558)	-
	47,558	(12,450)	-
Total proceeds from sale of investments, net	415,948	475,862	-
Annex B -			
Purchase of a company consolidated for the first time (see Note 14H):			
Working capital (excluding cash and cash equivalents and short-term deposits)	10,574	9	-
Liabilities in respect of short-term deposits	284,721	-	-
Fixed and intangible assets, net	(141,927)	-	-
Investment property	(552,083)	(54,598)	-
Long-term liabilities including current maturities	54,189	-	-
Reserve for deferred taxes, net	89,865	-	-
	(254,661)	(54,589)	-

The notes to the Financial Statements form an integral part thereof.

Note 1 - General

A. General description of the Company and its operations:

Azrieli Group Ltd. (the "Company" and/or the "Group") is a company domiciled and incorporated in Israel and whose registered address is 1 Azrieli Center, Tel Aviv. The Company is traded on the TASE and is included in the Tel Aviv 25 Index. The Company has bonds (Series A) that are included in the TACT-institutional and bonds (Series B and Series C) that were issued to the public. The Group's Consolidated Financial Statements as of December 31, 2015 include those of the Company and of its subsidiaries (jointly, the "Group"), as well as the Group's rights in associates and in jointly-controlled entities.

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

As the Company was informed, on April 13, 2015, shares of Mr. David Azrieli OBM in Azrieli Holdings and in a Canadian holding corporation controlled by him ("David's Holding Corporation") were distributed from his estate. Following such distribution, each one of Sharon Azrieli, Naomi Azrieli and Danna Azrieli, holds, directly and through David's Holding Corporation, approx. 27.24% of the capital rights in Azrieli Holdings and approx. 33.13% of the voting rights in Azrieli Holdings, and they jointly hold approx. 81.73% of the capital rights in Azrieli Holdings and approx. 99.39% of the voting rights therein. The remainder of Azrieli Holdings' shares are mainly held by the Azrieli Foundation of Canada (an interested party of the Company), which following the distribution of the estate holds (indirectly, through a holding of shares of David's Holding Corporation) approx. 15.93% of Azrieli Holdings' shares, with no voting rights (which constitutes, indirectly, a holding of approx. 8.86% of the capital rights of the Company), in addition to and separately from its direct holding of approx. 13.55% of the capital and voting rights in the Company.

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

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

The Company engages (both directly and through investee companies in which it invests and which it develops) primarily in the following operating segments:

(1) In development, construction, acquisition, management and lease in the retail centers and malls in Israel segment.
(2) In development, construction, acquisition, management and lease in the office and other space for lease segment in Israel.
(3) In the acquisition, management and lease in the income-producing property segment in the US.
(4) In the field of oil distillates through direct marketing and fueling and retail complexes through the (indirect) holding thereby of Sonol Israel Ltd.

For details regarding additional business activities of the Company, see Note 38A.

Note 1 – General (Cont.)

B. Definitions:

Interested Parties	-	As defined in the Securities Law, 5728-1968, and regulations thereunder.
Controlling Shareholder	-	As defined in the Securities Regulations (Annual Financial Statements), 5770-2010.
Canit Hashalom	-	Canit Hashalom Investments Ltd.
Granite	-	Granite Hacarmel Investments Ltd.
Sonol	-	Sonol Israel Ltd.
Tambour	-	Tambour Ltd.
GES	-	GES Global Environmental Solutions Ltd.
Supergas	-	Supergas - Israeli Gas Distribution Company Ltd.
Palace	-	Palace America Senior Housing Ltd.

Note 2 - Significant Accounting Policies

A. Declaration in respect of the application of the International Financial Reporting Standards (IFRS):

The Group's Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards (the "IFRS Standards") and the interpretations thereto, which have been published by the International Accounting Standards Board (IASB). The significant accounting policies that are detailed further on in this report have been applied in a consistent manner for all of the reporting periods that are presented in these Consolidated Financial Statements, except for changes in the accounting policies, which derived from the application of standards, amendments to standards and interpretation, which took effect or early adopted as of the date of the Financial Statements, as detailed in Note 2FF.

The consolidated Financial Statements were approved for publication by the Company's Board on March 22, 2016.

B. The Financial Statements include the disclosure requirements in accordance with the Securities Regulations (Annual Financial Statements), 5770-2010 (the "Financial Statements Regulations").

C. The operating cycle period:

The Group's operating cycle does not exceed 12 months.

D. The format for the analysis of the expenses that have been recognized in the Statement of Comprehensive Income:

The Company's expenses in the Statement of Comprehensive Income are presented in accordance with a method of classification based on the nature of the activity to which the expense relates.

E. Foreign currency:

(1) The functional currency and the presentation currency

The financial statements of each of the companies in the Group have been prepared in the currency of the main economic environment in which they operate, mainly NIS (the "Functional Currency"). For the purposes of the consolidation of the Financial Statements, the results and the financial position of each of the companies in the Group are presented in New Israeli Shekels (NIS), which is the Company's functional currency. The Company's Consolidated Financial Statements are presented in NIS in thousands. On exchange rates and the changes therein in the course of the periods that are presented, see Note 2EE.

(2) The translation of transactions other than in the functional currency

In the preparation of the financial statements of each of the companies in the Group, transactions that were executed in currencies that are different from the Company's functional currency ("Foreign Currency") have been recorded in accordance with the exchange rates that were in force at the time of the transactions. At the end of each reporting period, monetary items that are stated in foreign currency are translated in accordance with the exchange rates in force as of that time. Non-monetary items that are measured at fair value and stated in foreign currency are translated in accordance with the exchange rate at the time at which the fair value was determined; non-monetary items that are measured in historical cost terms are translated in accordance with the exchange rates that were in force at the time of the execution of the transaction in respect of the non-monetary item.

Note 2 - Significant Accounting Policies (Cont.)

E. Foreign currency: (Cont.)

(3) The manner in which exchange differences are recorded

Exchange differences are recognized in the income statement in the period in which they arise, except for the following cases:

- Exchange differences in respect of transactions that were designated for the hedging of certain foreign currency risks (On the Group's accounting policy in the matter of hedging transactions, see Note 2N).

- Exchange differences in respect of financial items receivable or payable from foreign operations, whose settlement is not planned or expected to occur and accordingly they constitute part of the net investment in foreign operations, are recognized in the statement of other comprehensive income under the 'exchange differences in respect of foreign operations' item, and are carried to profit and loss at the time of the disposition of the net investment in foreign operations and upon partial disposition of the net investment in foreign business entailing loss of control.

(4) The translation of the financial statements of foreign operations whose functional currency is different from the Shekel (the Group's functional currency) and is mainly U.S. dollars

For the purposes of the presentation of the Consolidated Financial statements, the assets and the liabilities of foreign operations are presented in accordance with the exchange rate in force at the end of the reporting period. Income and expense items are translated in accordance with the average exchange rate for the reporting period unless there shall have been significant fluctuations in the exchange rates in the course of the period. In such a case, the translation of these items is done using the exchange rates at the time of the execution of the transactions and the related exchange differences are recognized in the statement of comprehensive income under "translation differences from foreign operations". These translation differences are carried to the income statement on the disposition of the foreign business in respect of which they were created and upon partial disposition of foreign business entailing loss of control.

F. Consolidated Financial Statements:

The Group's Consolidated Financial Statements include the financial statements of the Company and of entities that are directly or indirectly controlled by the Company. An investing company is controlling an investee company when it is exposed or has rights to variable yields deriving from its holding in the investee company and when it has the ability to have an effect on such yields through exercise of power on the investee company. This principle applies to all investee companies.

Financial statements of the consolidated companies that were prepared other than in accordance with the Group's accounting policies were adjusted, prior to their consolidation, to the accounting policies that have been implemented by the Group.

For the purposes of the consolidation, all inter-company transactions, balances, income and expenses have been eliminated in full.

Note 2 - Significant Accounting Policies (Cont.)

G. Non-controlling interests:

Non-controlling interests are the capital in a subsidiary which cannot be attributed, either directly or indirectly, to the parent company.

Transactions with non-controlling interests, while retaining control (see Note 10C and Note 37C(10)) - Transactions with non-controlling interests while retaining control are treated as equity transactions. Any difference between the consideration paid or received and the change in the non-controlling interests is carried to the share of the holders of the Company directly to a capital reserve from the purchase of non-controlling interests in a consolidated company.

H. Business combinations:

The Group applies in respect of all business combinations the acquisition method.

The purchase date is the date on which the purchaser obtains control over the purchased company. Control is the power to determine the financial and operating policy of the company in order to obtain benefits from its activities. In the examination of control, the potential voting rights which can be exercised immediately are taken into consideration. The company exercises discretion in determining the purchase date and whether control was achieved.

The Group recognizes goodwill as of the date of the acquisition according to the fair value of the consideration transferred, including amounts recognized in respect of any rights which do not confer control in the acquired entity, as well as the fair value as of the acquisition date of a capital right in the acquired entity, previously held by the Group, net of the net amount attributable upon acquisition to identifiable assets which were acquired and liabilities assumed.

In the event that the Group performs an acquisition at a bargain price, it recognizes the profit created as a result thereof in the income statement on the date of acquisition.

In addition, goodwill is not updated due to the utilization of losses carried forward for tax purposes, which existed on the business combination date.

The consideration transferred includes the fair value of the assets transferred to the acquired entity's prior owners, liabilities which the acquirer incurred vis-à-vis the previous owners of the acquired entity and capital rights issued by the Group. In a business combination achieved in stages, the difference between the fair value as of the acquisition date of the capital rights in the acquired entity which were previously held by the Group and the book value as of such date is carried to the income statement within the "Other income or expenses" item.
Furthermore, the consideration transferred includes the fair value of contingent consideration. After the acquisition date, the Group recognizes changes in the fair value of the contingent consideration classified as a financial liability in the income statement. Changes in a liability due to a contingent consideration in business combinations which occurred prior to January 1, 2010, continue to be carried to goodwill and are not recognized in the income statement.

Costs associated with the acquisition, incurred by the acquirer in respect of a business combination, such as broker fees, consultancy fees, legal fees, valuations and other fees for professional services or consulting services, other than costs related to issuance of debt or capital instruments in connection with business combination, are recognized as expenses in the period in which the services are received.

Note 2 - Significant Accounting Policies (Cont.)

I. Joint operation

A joint operation is a joint arrangement wherein the parties thereto have interests in the assets, and commitments with regards to the liabilities that are attributed to the arrangement.

In joint arrangements that constitute joint operations, the Group recognizes in the Group's Statement of Financial Position its pro-rata share in the joint operation's assets and liabilities, including assets that are held and liabilities that were formed jointly. The income statement includes the Group's pro-rata share in the income and expenses of the joint operation, including income derived and expenses incurred jointly.

J. Goodwill:

Goodwill that derives from the acquisition of a consolidated company is presented in the framework of intangible assets and is measured at the level of the surplus of the cost of the acquisition over the Company's share in the net fair value of the identified assets, liabilities and contingent liabilities of the consolidated company, which were recognized at the time of the acquisition.

Goodwill is initially recognized as an asset at cost and is measured in following periods as cost net of accumulated losses from impairment.

For the purposes of the testing for impairment, goodwill is allocated to each of the Group's cash generating units, which derive benefits from the synergies from the business combination. Cash generating units to which Goodwill has been allocated are tested for impairment each year or more frequently, where signs exist, which evidence a possible impairment of the unit, as aforesaid. Where the recoverable amount of a cash generating unit is lower than the carrying value of that unit, the loss from impairment is allocated firstly to the writing down of the carrying value of any goodwill whatsoever in respect of the cash generating unit. Thereafter, the balance of the impairment loss, if any remains, is allocated to the other assets making up the cash generating unit, in proportion to their book value. A loss from impairment of goodwill is not cancelled in following periods.

Upon a disposition of a consolidated company, the amount of the goodwill that is attributed to it is included in the determination of the profit or loss on the disposition.

K. Disposal group held for sale:

A disposal group comprised of assets and liabilities is classified as assets held for sale if it is highly likely that their recovery will be mainly through a sale transaction and not through extended use. The same is true also when a company is bound to a sale plan which involves loss of control over a subsidiary, regardless if the company retains rights which do not confer control in the former subsidiary, after the sale.

Immediately prior to the classification thereof as held for sale, the components of the disposal group are measured according to the Group's accounting policy. Thereafter, the components of the disposal group are measured according to the lower of the book value and the fair value, net of sale costs.

Any loss from impairment of a group designated for disposition, is first attributed to goodwill, and thereafter, proportionately, to the remaining assets and liabilities, excluding the fact that no loss is attributed to assets which are not within the application of the IFRS 5 measurement instructions, such as: inventory, financial assets, deferred tax assets, employee benefit plan assets, investment property measured according to fair value and biological assets, which continue to be measured according to the Group's accounting policy. Losses from impairment which are recognized upon the initial classification of an asset as held for sale, as well as subsequent profits or losses as a result of the remeasurement, are carried to profit and loss. Profits are recognized until the accrued amount of loss from impairment which was recorded in the past.

Note 2 - Significant Accounting Policies (Cont.)

K. Disposal group held for sale (Cont.)

In subsequent periods, depreciable assets classified as held for sale, are not depreciated periodically and investments in associates classified as held for sale, are not accounted by the equity method.

In these statements, assets and liabilities of the subsidiaries held for sale, are presented as a disposal group held for sale in the Statement of Financial Position. However, the companies' results in the income statements and cash flow statements are presented on a fully consolidated basis.

L. Discontinued Operations

Operations that were realized or are classified as held for sale, constitute discontinued operations when representing a business operating segment or an operations' geographic region which is significant and separate, or when they constitute part of a single and adjusted planning for the disposal of a business operating segment or of an operations' geographic region which is significant and separate. Revenues and expenses which belong to discontinued operations are presented in the Statements of Profit or Loss and Other Comprehensive Income, Net, net of taxes on income during all of the periods presented as part of the "Income from discontinued operations (net of tax)" item. The cash flows from discontinued operations are jointly presented in the Discontinued Operations Note in all of the report periods presented, according to the classification of current operations, investment activity and financing activity.

The comparison figures in Statements of Profit or Loss and Other Comprehensive Income from the results of the discontinued operations, are retroactively adjusted.

M. Loss of Control

Upon loss of control, the Group writes-off the assets and liabilities of the subsidiary, any non-controlling interest and other capital components attributable to the subsidiary. The difference between the consideration and the fair value of the investment balance and between the balances written-off, is recognized in profit and loss under the "Other income" item. The amounts recognized in equity through other comprehensive income in reference to such subsidiary are reclassified as profit or loss or as retained earnings, as would have been required had the subsidiary disposed of the relevant assets or liabilities itself.

N. Financial instruments:

(1) Non-derivative financial instruments

General

Financial assets are recognized in the Statement of Financial Position when the Group becomes a party to the contractual provisions of the instruments.

Investments in financial assets are initially recognized at their fair value, plus transaction costs, other than such financial assets that are classified at fair value through profit or loss, that are initially recognized at their fair value.

Financial assets are written off when the Group's contractual rights to cash flow deriving from the financial asset expire, or when the Group transfers the rights to receive the cash flow deriving from the financial asset in a transaction in which all the risks and benefits from the ownership of the financial asset are transferred in practice.

Any right in financial assets which were transferred that was created or retained by the Group is recognized separately as an asset or liability. Sales of financial assets which are performed as a regular way sale are recognized on the trade date, i.e. on the date on which the Group undertook to sell the asset.

Note 2 - Significant Accounting Policies (Cont.)

N. Financial instruments: (Cont.)

(1) Non-derivative financial instruments (Cont.)

General (Cont.)

Financial assets are classified into the following categories. The classification to these categories depends on the nature and the purpose of the holding of the financial asset that is held, and it is determined on the initial recognition date of the financial asset, or on consecutive reporting periods if it is possible to reclassify the financial assets to another category:

- Financial assets designated at fair value through profit and loss;
- Loans and other receivables; and
- Financial assets available for sale.

On the publication of the final version of IFRS 9 "Financial Instruments", see Note 2GG.

Loans and receivables

Trade accounts receivable, short-term deposits and investments and other receivables with fixed or determinable payments that are not quoted in an active market, are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, net of impairment, if any. Interest income is recognized by applying the effective interest method, other than short-term receivables when the interest amounts to be recognized are insignificant.

Cash and cash equivalents

Cash and cash equivalents include cash balances available for immediate use and deposits upon demand. Cash equivalents include short-term investments the duration of which from the original deposit date until the payment date is up to 3 months, at a high liquidity level, easily convertible into known amounts of cash and which are exposed to an insignificant risk of value changes.

Financial assets available for sale

Investments in marketable and non-marketable capital instruments (see Note 12), which are not derivative financial instruments, which have not been classified as financial assets at fair value through profit and loss or as loans and receivables, are classified as financial assets available for sale. Investment in capital instruments that are traded in an active market are presented at fair value. Profits or losses deriving from changes in the fair value are carried directly to the other comprehensive income under the 'change in fair value of financial assets available for sale' item, except for losses from impairment, which in certain circumstances are carried to the income statement.

Income from dividends due to investment in capital instruments available for sale is recognized in the income statement when the Group's entitlement to receive payments in respect thereof is created.

When the investment is written-off, the profits or losses accrued in a revaluation fund for financial assets available for sale are carried to profit and loss, to the "Other income or expenses" item, as the case may be.

On the matter of determining the fair value of financial assets available for sale that are not traded in the active market, see Note 3B(4).

Note 2 - Significant Accounting Policies (Cont.)

N. Financial instruments (Cont.)

(2) Non-derivative financial liabilities

The Group recognizes for the first time, debt instruments issued on the date of their creation. The remaining financial liabilities are first recognized on the trade date on which the Group becomes a party to the contractual terms of the instrument.

Financial liabilities are initially recognized at fair value with the addition of all of the attributable transaction costs. Following the initial recognition, the financial liabilities are measured at amortized cost in accordance with the effective interest method.

Financial liabilities are written-off when the Group's commitment, as specified in the agreement, expires, or when it had been settled or terminated.

The non-derivative financial liabilities include: bank overdrafts, loans and credit from banks and other credit providers, bonds, liabilities in respect of finance leases, deposits from customers and trade and other payables.

Financial assets and financial liabilities are setoff and the amounts are presented net in the Statement of Financial Position, where the Group has a current, enforceable legal right to offset the amounts that have been recognized and it intends to clear the asset and the liability on a net basis or to dispose of the asset and to clear the liability simultaneously.

(3) Derivative financial instruments including hedge accounting

The Group holds derivative financial instruments for the purpose of hedging foreign currency risks and interest rate risks, as well as derivatives not used for hedging, including separated embedded derivatives.

Measurement of derivative financial instruments

Derivatives are initially recognized at fair value. Attributable transaction costs are carried to the income statement when incurred. After the initial recognition, the derivatives are measured at fair value, whilst the changes in the fair value are treated as follows:

Economic hedge

Hedge accounting is not implemented in respect of derivative instruments that are used for the economic hedge of financial assets and liabilities that are stated in foreign currency. The changes in the fair value of these derivatives are carried to the income statement, as financing income or expenses.

(3) Derivative financial instruments including hedge accounting (Cont.)

Derivatives not used for hedging

Changes in the fair value of derivatives not used for hedging are carried immediately to the income statement, as financing income or expenses.

(4) Index-linked assets and liabilities that are not measured at fair value

The value of index-linked financial assets and liabilities, which are not measured at fair value, is revaluated in each period in accordance with the actual rise / fall in the index.

Note 2 - Significant Accounting Policies (Cont.)

N. Financial instruments (Cont.)

(5) Financial guarantees

At the time of the initial recognition, a financial guarantee is recognized at its fair value. In following periods, a financial guarantee is measured in accordance with the higher of the amount that is recognized in accordance with the provisions of IAS 37 and the liability that was initially recognized, after it has been amortized in accordance with IAS 18. Any update of the amount of the liability, in accordance with the aforesaid, is carried to the profit and loss.

(6) Share capital

Additional costs, which relate directly to the issuance of ordinary shares and options for shares, are presented as a deduction from capital.

(7) Deposits from customers and senior housing tenants

Within the context of its operations, a consolidated company receives deposits from its customers in respect of containers and other equipment that are borrowed. The deposit will be returned in accordance with the prices of the deposit that the consolidated company collects from its customers, which are linked to the index from the day of the latest update. In accordance with IAS 39, the fair value of financial liabilities with a demand characteristic is not to be lower than the amount that is to be paid on demand, discounted from the first time at which it will be possible to demand the amount. Accordingly, the deposits are presented at their full value. Moreover, since the consolidated company has no irrevocable right to defer the clearance of the liabilities in respect of the deposits for a period of at least 12 months after the Report Date, and since the customers of the consolidated company are entitled to demand repayment of the deposit at any time, the deposits are presented as current liabilities, on the basis of their full value.

The senior housing tenants' deposits are a financial liability with a requirement characteristic and are therefore presented according at the fair value which is identical to the value of the liability as of the balance sheet date.

Note 2 - Significant Accounting Policies (Cont.)

O. Fixed assets:

(1) Recognition and measurement

Fixed asset items are measured at cost net of accumulated depreciation and accumulated losses from impairment. The cost of real properties and various additional fixed asset items was determined at their fair value as of January 1, 2007, the transition date to IFRS (calculated cost).

The cost includes expenses that are directly attributable to the acquisition of the asset. The cost of assets that were self-built includes the cost of the materials and the direct labor, as well as any additional cost that is directly attributable to bringing the asset to the location and condition that are required in order for it to operate in the manner intended by management, the estimated costs of the dismantling and removal of the items and the restoration of the site at which the item is located (where there is a commitment to dismantle and remove or restore the site), as well as capitalized credit costs. The cost of purchased software, which constitutes an integral part of the operation of the related equipment, is recognized as part of the cost of such equipment.

Spare parts, servicing equipment and standby equipment are classified as fixed assets when complying with the definition of fixed assets according to IAS 16. Otherwise, they are classified as inventory.

Where significant components of the fixed assets (including significant periodic inspection costs) have a different lifetime, they are accounted as separate items (significant components) of the fixed assets.

A profit or loss from the write-off of a fixed asset item is determined by a comparison of the net consideration from write-off of the asset to the book value, and is recognized in the income statement as other income or other expenses, as the case may be.

(2) Subsequent costs

The costs of the replacement of a part of a fixed asset item and other subsequent costs, are recognized as part of the book value of such item, if the Group is expected to gain the future economic benefit inherent therein and if its cost can be reliably measured. The book value of the replaced part is written-off. The cost of ongoing maintenance of fixed asset items are carried to the profit and loss as incurred.

(3) Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over the length of its useful lifetime. The depreciable amount is the cost of the asset, or some other amount that replaces the cost, net of the residual value of the asset.

A depreciated asset, when usable, namely when in the location and condition required in order for it to operate in the manner intended by Management.

Depreciation is carried to the income statement in accordance with the straight line method in accordance with an estimate of the useful lifetime of each part of the fixed asset items, since this method reflects the manner of the forecast consumption of the future economic benefits that are inherent in an asset in the best way. Assets leased under finance leases, including lands, are amortized over the shorter of the lease period and the period in which the assets are used, unless it is reasonably expected that the Group shall acquire ownership over the asset at the end of the lease period. Lands under ownership are not amortized.

Note 2 - Significant Accounting Policies (Cont.)

O. Fixed assets: (Cont.)

(3) Depreciation (Cont.)

The estimated useful lifetime for the current period and for the comparative periods are as follows:

	Useful lifetime in years	Depreciation rate %
Buildings (including temporary buildings)	10-50	2-10
Plant and equipment	3-30 (primarily 6-10)	3-33 (primarily 10-15)
Office furniture and equipment	3-17	6-33
Motor vehicles	5-6	15-20
Computers	3-5	20-33
Leasehold installments and improvements	Throughout the lease period, which does not exceed the economic lifetime of the asset.	

The estimates regarding the depreciation method, useful life and the residual value are reexamined at least in the end of each year and are adjusted when necessary.

On the cessation of the depreciation of fixed assets items which are classified as held for sale, see Section K above.

P. Investment property:

Investment property is property (land or a building – or part of a building - or both of them), which is held by the Group for the purpose of the production of rent or for the purposes of a capital gain or both, and not for the purposes of use in the production or supply of goods or services or for administrative purposes or for sale in the ordinary course of business.

On the Amendment to IAS 40 "Investment Property" (Distinction between investment property and business), see Note 2FF.

The Group's investment property includes buildings and land that is owned or held under finance lease, as well as rights in real estate that are held by the Group under operating leasing where otherwise the definition of investment property would be complied with. Investment property is initially measured at cost, which includes transaction costs. In periods following the initial recognition, investment property is measured at fair value. Gains or losses deriving from changes in the fair value of investment property, including those that are sources in changes in exchange rates, are recorded in the income statement in the period in which they were generated, under the 'net profit from adjustment to fair value of investment property and investment property under construction' item.

Investment property, as aforesaid, also includes investment property that is under construction or development. Investment property under construction is measured at fair value when the value thereof can be reliably measured. Costs of credit are capitalized to investment property under construction. When the fair value cannot be reliably measured, investment property under construction is measured according to cost in the construction period until the earlier of the date of completion of the construction and the date on which the fair value can be reliably measured.

Note 2 - Significant Accounting Policies (Cont.)

P. Investment property (Cont.)

The direct costs of the disposition of investment property are carried to the income statement at the time at which the asset is sold and are setoff against the gain on disposition. The difference between the consideration that is received on the disposition of investment property and the fair value, is the capital gain (loss) on disposition, which is carried to the income statement at the time of the completion of the disposition transaction under "net profit from adjustment to fair value of investment property and investment property under construction".

Q. Costs of credit:

Specific credit costs and non-specific credit costs are capitalized to qualifying assets and investment property under construction in the course of the period that is required for the completion and for the construction up to the time at which they are ready for their designated use. Non-specific credit costs are capitalized in the same manner for the same investment in qualifying assets and investment property under construction or to the part of it that is not financed by specific credit, using a rate which is a weighted average of the rates of the cost in respect of the sources of credit whose cost has not been capitalized in a specific manner.

All other credit costs are carried to the income statement as incurred.

R. Intangible assets, except for goodwill:

Intangible assets are non-financial assets that are not identifiable and which lack a physical presence. Intangible assets having an indefinite useful lifetime are not amortized and are tested for impairment once a year, or at any time at which a sign exists, which indicates the possibility that an impairment has occurred in accordance with the provisions of IAS 36. The estimate of the useful lifetimes of intangible assets having an indefinite lifetime is tested at the end of each reporting year. A change in the estimated useful lifetime of an intangible asset, which turns from being indefinite to being defined is treated by way of "prospective application".

Intangible assets having a defined useful lifetime are amortized on a straight line over the length of their estimated useful lives, subject to testing for impairment. A change in an estimate of the useful lifetime of an intangible asset with a defined lifetime is treated by way of "prospective application".

On the accounting treatment of goodwill - see Note 2J.

The useful lifetime that have been used in the amortization of intangible assets having a defined lifetime are as follows:

Distribution rights	-	20 years or in accordance with the period of the agreement.
Supply rights	-	20 years or in accordance with the period of the agreement or in the period in which the Company has a lawful right in the supply rights, whichever is shorter.
Software	-	3-6 years.
Customer relations	-	7-10 years.
Franchise arrangement		Over the period of the franchise.
Others	-	Over the period of the benefit.

Note 2 - Significant Accounting Policies (Cont.)

R. Intangible assets, except for goodwill: (Cont.)

Subsequent costs

Subsequent costs are recognized as an intangible asset solely and exclusively where they increase the future economic benefit that is inherent in an asset, in respect of which they were expended. All of the other costs, including costs that are connected to goodwill and to brands that have been developed independently, are carried to the income statement as incurred.

Intangible assets that were acquired in business combinations

Intangible assets that were acquired in business combinations are recognized separately from goodwill, where they meet the definition of an asset and identifiable. Intangible assets are identifiable when they are separable or deriving from contractual or other legal rights. Such intangible assets will be recognized at the time of the business combination at their fair value.

In the periods following the initial recognition, intangible assets that have been acquired within the framework of business combinations are presented in accordance with their cost, net of amortization and accumulated losses from impairment. The amortization of intangible assets, having a defined lifetime, is calculated on the straight line basis over the length of their estimated useful lifetimes. The estimate of the useful lifetime and the method of amortization are tested at the end of each reporting year, where the effect of a change in them is treated by way of "prospective application".

S. Leased assets:

(1) Leases, including leases of land from the Israel Land Administration or from other third parties where the Group bears significantly all of the risks and the yields that derive from the asset, are classified as finance leases. On initial recognition, the leased assets are measured, and a liability recognized, in an amount that is equivalent to the lower of the fair value and the present value of the minimum future lease payments. In the measurement of the liability for the lease of land in a non-capitalized lease from the Israel Land Authority ("ILA"), the minimum future lease payments were capitalized at a real interest rate of 5% based on capitalization interest that was used by the ILA on the date of the engagement in the lease. Future payments for exercise of the option to extend the lease period vis-à-vis the Israel Land Administration are not recognized as part of the relevant asset and liability, since they constitute conditioned long-term rent, which derives from the fair value of the land on the future dates of renewal of the lease agreement. Following the initial recognition, the asset is treated in accordance with the accounting policy that is customary in respect of that asset.

The other leases are classified as operating leases, except for leases of real estate that is classified as an investment property, where the leased assets are not recognized in the Group's Statement of Financial Position. Real properties under operating lease, which have been classified by the Group as an investment property, are recognized in the Group's Statement of Financial Position at their fair value, and the lease is accounted as finance lease.

Pre-paid long-term rent to the Israel Land Administration in respect of leases of land which are classified as operating leases are presented in the Statement of Financial Position as pre-paid expenses and are carried to the income statement over the length of the lease period. The lease period and the amounts of the amortization take into account any option to extend the lease period, in the event that at the time of the commitment under the lease it is reasonably certain that the option will be exercised.

In a lease of land and buildings the components of the land and the buildings are examined separately for lease classification purposes, with a significant consideration in the classification of the components of the land being the fact that land usually has an indefinite lifetime.

Note 2 - Significant Accounting Policies (Cont.)

S. Leased assets (Cont.)

(2) Lease payments

Payments in the framework of an operational lease are carried to the income statement using the straight line method throughout the lease period.

Minimum lease payments which are paid in the framework of a financial lease are divided between the financing expenses and reduction of the liability balance. The financing expenditure is allocated to each lease period, so as to obtain a fixed periodic interest rate on the outstanding balance of the liability. The minimum lease payments are updated in respect of conditioned long-term rent, when the condition transpires.

T. Inventory:

(1) Inventory of oil distillates and inventory of gas

The inventory is presented at the lower of cost or market. The cost of the inventory is determined on the basis of "first in first out" (FIFO), and it includes the costs of the purchase of the inventory and of bringing it to its current location and condition. The net realizable value is an estimate of the selling price in the ordinary course of business, net of an estimate of the costs that are required in order to carry out the sale.

(2) Other inventory

The Inventory of oils, spare parts and other items is presented at the lower of cost and net realizable value. The cost of the inventory is determined on the moving average basis.

U. Impairment of non-derivative financial assets:

Impairment of a financial asset that is not presented at fair value through profit and loss is tested where there is objective evidence that a loss event has occurred after the time of the initial recognition of the asset and that this loss event has had a negative impact on the estimated future cash flows from the asset, which can be measured in a reliable manner.

Objective evidence that an impairment of financial assets has occurred may include the breach of a contract by a debtor, the re-organization of an amount that is due to the Group based on terms that the Group would not have considered in other cases, the existence of indications that a debtor or debt issuer will become bankrupt, negative changes in the status of the payments of borrowers, changes in the economic environment which attest to insolvency of debt issuers or the absence of an active market for a security. Projected information which indicates that there is a measurable decline in the projected cash flow from a group of financial assets.

In the testing for impairment of financial assets available for sale, which are capital instruments, the Group also tests the difference between the fair value of the asset and its original cost, for the length of time in which the fair value of the asset is lower than its original cost and for changes in the technological, economic or legal environment or in the environment in the market in which the company that issued the instruments operates. In general, an impairment of 30% of the original cost will be considered to be material, where the impairment is over the face of a year. This policy was determined in according to the nature of two of the company's most significant investments, see Note 12(1)-(2).

Note 2 - Significant Accounting Policies (Cont.)

U. Impairment of non-derivative financial assets (Contd.):

The Group examines evidence of impairment in respect of loans, trade and other receivables both at the level of the individual asset and also on a Group-wide level. The balances of trade accounts receivable, loans and other receivables that are significant individually are tested specifically for impairment. The balances of trade accounts receivable, loans and other receivables, in respect of which no specific impairment has been identified, are grouped together and are tested on a Group-wide basis for impairment, with the objective of identifying any impairment that has occurred and has not yet been identified. In respect of the balances of the trade accounts receivable, loans and other receivables that are not individually significant, the Group-wide testing for impairment is carried out by grouping them together on the basis of similar risk characteristics.

In the Group-wide testing for impairment the Group makes use of historical trends of the probability of a breach, the timing of the receipt of the repayment and the total actual loss, in accordance with management's judgment in respect of the question of whether the actual losses are expected to be larger or smaller by comparison with the losses that arise from the historical trends, in the light of the economic situation and the existing credit terms.

A loss from the impairment of a financial asset, which is measured at amortized cost, is calculated as the difference between the book value of the asset and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate. Losses are carried to the income statement and are presented as a provision for a loss against the balances of the trade accounts receivable, the other receivables and the loans. Interest income in respect of assets whose value has been impaired is recognized by means of the use of the interest rate used to discount the future cash flows for the purposes of measuring the loss from impairment.

Losses from impairment due to financial assets available for sale, are recognized by carrying the cumulative loss that was recorded under a capital reserve due to assets available for sale, to the income statement. The cumulative loss that is carried from the other comprehensive income to the income statement is the difference between the acquisition cost and the current fair value, net of impairments that were recognized in the past in the income statement. A loss from impairment is cancelled where it can be objectively attributed to an event that occurred after the recognition of the loss from the impairment. A cancellation of a loss from impairment due to financial assets, which are measured at depreciated cost, is carried to the income statement. A cancellation of a loss from impairment due to financial assets that are classified as available for sale, which are capital instruments, is carried directly to the other comprehensive income.

V. Impairment of non-financial assets:

At the end of each reporting period, the Group tests the book value of intangible and intangible assets, except for inventory, investment property and deferred tax assets with the objective of determining whether any signs whatsoever exist, which evidence an impairment of those assets. In the event that signs exist, as aforesaid, an estimate is made of the recoverable amount of the asset, with the objective of determining the amount of the loss from impairment that has arisen, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Common assets are also allocated to the individual cash generating units in the event that it is possible to identify a reasonable and consistent basis for such an allocation.. In the event that it is not possible to allocate the common assets to the individual cash generating units on the said basis, the common assets are allocated to the smallest cash generating units in respect of which it is possible to identify a reasonable and consistent basis for the allocation.

Note 2 - Significant Accounting Policies (Cont.)

V. Impairment of non-financial assets (Contd.):

A recoverable amount is the higher of the fair value of an asset net of sale costs and its value in use. In the evaluation of the value in use, estimated future cash flows are discounted to their present value, using a pre-tax discount rate, which reflects the market's present evaluation in respect of the time value of the money, and the specific risks that relate to the asset, in respect of which the estimated future cash flows have not been adjusted.

Where the recoverable amount of an asset (or of a cash generating unit) is estimated to be lower that the carrying value, the book value of the asset (or of the cash generating unit) is written down to its recoverable amount. A loss from impairment is recognized immediately as an expense in the income statement, unless the relevant asset is measured in accordance with the revaluation model. In that case, the loss from impairment is treated as a reduction of the revaluation reserve, until it is reduced to zero, and the balance of the reduction, if there is one, is recognized in the income statement.

Where a loss from impairment that has been recognized in previous periods is cancelled, the book value of the asset (or of the cash generating unit) is increased back to the updated estimated recoverable amount, but not more than the book value of the asset (or of the cash generating unit) that would have been set if it were not for the recognition of a loss from impairment in respect of its in previous periods. The cancellation of a loss from impairment is recognized immediately in the profit and loss.

W. Employee benefits:

(1) Post-employment benefits

The Group maintains a number of post-employment benefit plans. The plans are generally financed by the making of deposits in insurance companies or central severance pay funds and they are classified as defined deposit plans and also as defined benefit plans.

Defined deposit plans

A defined deposit plan is a post-termination plan whereby the Group makes fixed payments to a separate entity without having a legal or implied obligation to make additional payments.

The Group's commitment to make deposits in a defined deposit plan is recognized as an expense in the income statement during the periods in which the employees provided related services.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan which is not a defined deposit plan. The Group's net commitment, which relates to a defined benefits plan in respect of post-employment benefits, is calculated separately for each plan by means of an estimate of the future amount of the benefit that will be due to an employee in consideration for their services, in the current period and in previous periods. This benefit is presented in accordance with the present value net of the fair value of the plan assets.

The Group determines the net interest on the liability (asset), net in respect of a defined benefit, by the multiplication of the net liability (asset), in respect of a defined benefit by the cap rate which was used for measuring the commitment in respect of a defined benefit, as they had both been determined in the beginning of the annual reporting period.

Note 2 - Significant Accounting Policies (Cont.)

W. Employee benefits (Contd.):

(1) Post-employment benefits (Cont.)

Defined benefit plans (Cont.)

The cap rate is determined in accordance with the yield, on the reporting date, on high-quality index-linked corporate bonds whose currency is NIS and whose maturity is similar to the terms of the Group's undertaking.

The Group carries all of the actuarial gains and losses deriving from a defined benefit plan, directly to retained earnings through other comprehensive income.

Remeasurement of the net liability (asset) in respect of a defined benefit includes actuarial profits and losses, return on a plan's assets (except for interest) as well as any change in the effect on the asset ceiling (if relevant, excluding interest). Remeasurement is recorded immediately, through other comprehensive income, directly to retained earnings.

Interest costs due to commitment to a defined benefit, interest revenues in respect of the plan's assets and interest in respect of effect of the ceiling of the assets carried to profit and loss, are presented in the Financing Revenues and Expenses items, respectively.

The Group recognizes profit or loss from the settlement of a plan for a defined benefit when the settlement occurs. Profits or losses as aforesaid are the difference between the settled part out of the current value of the commitment to a defined benefit on the settlement date, and the settlement price, including carried plan assets.

(2) Benefits in respect of termination of employment

Benefits in respect of termination of employment are recognized as an expense where the Group has clearly undertaken, without a real possibility of cancellation, to dismiss employees before they reach the customary retirement age in accordance with a formal, detailed program or to provide benefits in respect of termination as the result of an offer that has been made to encourage voluntary termination of employment. The benefits that are extended to employees on voluntary termination of employment are carried as an expense where the Group has made a proposal to employees of a program that encourages voluntary termination, it is expected that the proposal will be accepted and it is possible to make a reliable estimate of the number of employees who will respond to the proposal.

If the benefits are to be paid more than 12 months after the end of the reporting period, they are discounted to their present value. The cap rate is determined in accordance with the yield on the reporting date on high-quality index-linked corporate bonds whose currency is NIS and repayment dates are similar to the terms of the Group's commitment.

Note 2 - Significant Accounting Policies (Cont.)

W. Employee benefits (Contd.):

(3) Short-term benefits

Commitments in respect of short-term benefits to employees include the Group's liability in respect of leave, recuperation pay, bonuses and salary. These benefits are measured on a non-discounted basis, and the expense is reflected at the time that the relevant service is provided, or in the event of non-accrued absences (such as maternity leave), at the actual time of absence.

A provision in respect of short-term benefits to employees in respect of a cash bonus or a profit participation plan, is recognized in the amount that is expected to be paid where the Group has a current legal or implicit commitment to pay the said amount in respect of service that has been provided by the employee in the past and the amount of the commitment can be reliably estimated.

Classification of employee benefits as short-time benefits or as other long-term employee benefits is performed in accordance with the date on which the liability is due to be settled.

X. Provisions:

A provision is recognized where the Group has a current commitment, whether legal or implicit, as the result of an event that has taken place in the past, which can be reliably measured, and where it is expected that economic resources will be required in order to clear the commitment.

(1) Site restoration

In accordance with the Group's declared policy on preservation of the environment and pursuant to legal requirements, a provision is recognized for the restoration of a site with contaminated soil and the relevant expenditure, on the date on which the soil is contaminated.

(2) Legal claims

A provision for claims is recognized where the Group has a present legal commitment or an implicit commitment as the result of an event that has taken place in the past, it being more likely than not that the Group will be required to use economic resources to settle the commitment and it may be reliably estimated. Where the impact of the time value is material, the provision is measured in accordance with its present value.

(3) Warranty

A provision for warranty is recognized when the products or the services for which the liability is provided, are sold. The provision is based on historic data and also on assessments of the management and the weighting all the possible outcomes by their probabilities.

Note 2 - Significant Accounting Policies (Cont.)

Y. Revenues:

(1) The sale of products

The Group recognizes income where there is convincing evidence (usually performance of a sale agreement) that the significant risks and benefits of the ownership of the product are transferred to the purchaser, the receipt of the consideration is expected, the possibility exists of reliably estimating the possibility that the goods will be returned, the costs that have been incurred, or which will be incurred in respect of the transaction may be reliably estimated, where the management has no continuing involvement with the goods, and also where the income can be reliably estimated. If it is expected that a discount will be provided and its amount can be reliably measured, the discount is deducted from the revenues from the sale of the products.

In the sale of the Group's products in Israel, the transfer of the risks and the yields generally takes place on the date of delivery of the product to the customer. In respect of the sale of the Group's products outside Israel, in general, the transfer of risks and yields exists on the date of loading the products on the transporter's means of transportation.

Income from the sale of products in the ordinary course of business is measured at the fair value of the consideration that is received or which is to be received, net of trade discounts and quantity discounts.

(2) Rent income

Rent income in respect of investment property is recognized on the straight line basis over the length of the relevant rent period.

(3) Income from management and maintenance fees and net income from the use of electricity

Income from management and maintenance fees and net income from the use of electricity is reflected pro-rata over the length of the period in which the relevant services are provided.

(4) Dividend income

Dividend income in respect of investments is recognized at the time at which the shareholders' entitlement to receive the income is created.

(5) Senior housing revenues

(1) The revenues from management and maintenance fees are recorded in the income statement upon performance of the service.

(2) The revenues from forfeiture of deposits are recorded in the income statement as incurred.

(3) Financing revenues and expenses in respect of revaluation of the deposit balance are recorded in the income statement as incurred.

Note 2 - Significant Accounting Policies (Cont.)

Y. Revenues: (Cont.)

(6) Revenues from provision of senior housing services

The revenues from provision of services are recorded proportionately over the term of the agreement or upon provision of the service if the likelihood of the flow of the economic benefits attributed to provision of the service is certain.

Z. Franchise arrangements for provision of services:

Franchise arrangements for provision of services are arrangement in which the State (the franchise issuer) engages in a contract with an entity from the private sector in which such operator undertakes to plan, build and finance some property or infrastructure for service to the public and in consideration for construction of such property, the operator receives a franchise from the State to operate the property for a defined period, and also to provide other services related to the property. Below are the Group's main franchise arrangements:

Granite as an operator, engaged through the consolidated company Via Maris (which was presented in the 2014 statements as a disposal group classified as held for sale), in a franchise arrangement for provision of BOO (Build, Own, Operate) services with the State for construction, building and operation of a water desalination plant.

Granite, through the consolidated company Supergas, engaged in BOO (Build, Own, Operate) franchise arrangements with the Electricity Authority for the construction of midsize plants for the production of electricity through photovoltaic technology, which feed all of the energy produced at the plants to the distribution grid.

In 2014, Supergas closed a sale of shares of a subsidiary S. Super Solar Ltd., which holds facilities, as aforesaid, via consolidated companies. Accordingly, revenues and expenses related to the franchise arrangements were classified as discontinued operations.

Since the State and/or the Electricity Authority controls and regulates the services which the operator is required to provide through the infrastructure, the persons to whom he is required to provide them and the price at which they shall be provided, the operator is obligated to supply the product in respect of which the franchise was given through the infrastructure, and since the franchise arrangement constitutes in essence an arrangement for the whole useful lifetime of the plant, considering that the discard value of the infrastructure at the end of the arrangement period is not significant, the Group treated the said arrangements in accordance with interpretation provision number 12 (IFRIC 12).

In addition, the Group engaged, via GES Environmental Solutions Ltd., with authorities from the public sector, to provide BOT (Build, Operate, Transfer) services for construction of facilities, wastewater treatment, and improvement of wells.

In accordance with IFRIC 12, the infrastructure constructed is not recognized as a fixed asset in the financial statements of the Group. Some of the Group's franchise arrangements are treated according to a financial asset model and other part of the franchise arrangements are treated as according to an integrated model which includes both a financial asset and intangible asset. The period of the arrangement is divided into two periods: a construction period and an operation period which began upon completion of construction of the infrastructure. The Group's rights pertaining to the franchise are recognized in part as a financial asset, receivables in respect of franchise arrangement, under the application of IAS 39 (loans and receivables), since the Group has an unconditional right to receive from the entity granting the franchise guaranteed proceeds in consideration for the services. The asset is recognized during the construction period in respect of the construction costs, plus the accepted contractor margin according to the Group's estimation, and is repaid through the proceeds during the operation period. After initial recognition, interest income is recognized along the arrangement period according to the effective interest method.

Note 2 - Significant Accounting Policies (Cont.)

Z. Franchise arrangements for provision of services: (Cont.)

The Group's rights for the franchises are recognized partly as an intangible asset, in respect of franchise arrangement, which reflect the right available to the Company to collect payment, which is not guaranteed by the franchisor, in accordance with the extent of the use by the public using the infrastructure. The intangible asset is recognized through the construction period and its cost is determined in reference to the construction costs plus the gross margin in the Company's estimation.

AA. Financing Income and Expenses:

Financing income includes interest income on amounts invested (including financial assets from franchise agreements), income from dividend on marketable shares, changes in the fair value of financial assets which are presented at fair value through profit or loss and profits from defined instruments recognized in the profit or loss. Interest income is recognized upon its accrual through the effective interest method.

Income from dividends on marketable shares which is recognized as income on the X-date. Changes in the fair value of the financial assets which are presented at fair value through profit or loss also include income from dividends and interest.

Financing expenses include interest expenses on loans received, bonds issued, changes to the fair value of financial assets presented at fair value through profit or loss, and losses from hedge instruments recognized in the profit or loss. Credit costs, which are not discounted on qualifying assets are carried to the income statement according to the effective interest method.

Profits or losses from exchange rate differences on financial assets and liabilities are reported net as financing income or financing expenses, depending on the exchange rate fluctuations, and depending on the their position (net profit or loss).

BB. Taxes on income:

(1) General

Tax expenses (income) on income include the sum of the current tax as well as the change in the deferred tax balances, except in respect of deferred taxes that derive from transactions that are reflected directly under shareholders' equity.

(2) Current taxes

The current tax on income expenses is calculated based on the Company and the consolidated companies' chargeable income for tax purposes, during the course of the reporting period. The chargeable income is different from the income before taxes on income, as the result of the inclusion or the non-inclusion of income and expense items that are chargeable to taxation or which are allowable as a deduction in different reporting periods, or which are not chargeable to tax or allowable as a deduction. Current tax assets and liabilities have been calculated on the basis of the tax rates and the tax laws that have been legislated or whose legislation has been effectively completed as of the Date of the Statement of Financial Position.

A provision for uncertain tax positions including additional tax and interest expenses, is recognized when it is more likely than not that the Group will resort to its financial resources to settle the liability.

Current tax assets and liabilities are presented as offset, where the entity has an enforceable legal right to setoff the amounts recognized as well as an intention to settle on a net basis, or to realize the asset and settle the liability at the same time.

Note 2 - Significant Accounting Policies (Cont.)

BB. Taxes on income: (Cont.)

(3) Deferred taxes

The companies in the Group record deferred taxes in respect of timing differences between the values of assets and liabilities for tax purposes and their values in the Financial Statements. Deferred tax balances (assets or liabilities) are calculated in accordance with the tax rates that are expected to apply at the time that they are realized, based on the tax rates and the tax laws that have been legislated or whose legislation has been effectively completed as of the Date of the Statement of Financial Position. Deferred tax liabilities are generally recognized in respect of all of the temporary differences between the value of assets and liabilities for tax purposes and their values in the Financial Statements. Deferred tax assets are recognized in respect of temporary differences that can be deducted up to the amount of the chargeable income against which it is expected that the deductible temporary differences can be exploited. The deferred taxes in respect of the structure component of investment property are calculated in accordance with a business model whose purpose is significant consumption over time of all of the economic benefits incorporated therein.

The calculation of the deferred taxes does not take into account the taxes that would have applied in the event of the disposition of the investments in investee companies, since in the Group's management estimate, the temporary differences which are the subject matter of such deferred taxes are under the control of the Group and are not expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are presented as offset, where the entity has an enforceable legal right to offset current tax asset against current tax liabilities, and where they refer to income taxes that are imposed by such tax authority, and the Group intends to settle the current tax assets and liabilities on a net basis.

CC. Earnings per share:

The Company calculates the amounts of the basic earnings per share in respect of the profit or loss that is attributable to the shareholders in the Company by dividing the profit or loss that is attributable to the shareholders in the Company by the weighted average number of ordinary shares in circulation during the course of the reporting period.

DD. Classification of interest paid, dividends paid, interest and dividends received and income taxes paid, net, in cash flow statement:

The Group classifies cash flows due to interest and dividends received thereby as cash flows from investment activity, as well as cash flows due to interest that was paid as cash flows used for the financing activity. Cash flows due to income taxes are classified in general as cash flows used for operating activities, other than cash flows that are easily identifiable with cash flows used for investment or financing activity. Dividends paid by the Group are classified as cash flows from financing activity.

Note 2 - Significant Accounting Policies (Cont.)

EE. Exchange rates and linkage base:

(1) Balances that are stated in foreign currency or which are linked thereto are recorded in the Financial Statements in accordance with the representative exchange rates that were published by the Bank of Israel and which were in force as of the Date of the Statement of Financial Position.

(2) Balances that are linked to the CPI are presented in accordance with the last known index as of the Date of the Statement of Financial Position (the index for the month preceding the date of the Financial Statements), or in accordance with the index in respect of the last month of the reporting period (the index for the month in which the date of the Financial Statements lies), in accordance with the terms of the transaction.

(3) The following are details in respect of the exchange rates and Index:

	Representative exchange rate of		Index in Israel	
	Euro	Dollar	Index for	Known index
	NIS to 1 Euro	NIS to 1 Dollar	Basis 1993	Basis 1993
The date of the Financial Statements:				
December 31, 2015	4.247	3.902	221.13	221.35
December 31, 2014	4.725	3.889	223.36	223.36
December 31, 2013	4.782	3.471	223.80	223.58
	%	%	%	%
Rates of the change as of the year ended:				
December 31, 2015	(10.11)	0.33	(1.00)	(0.90)
December 31, 2014	(1.20)	12.04	(0.20)	(0.10)
December 31, 2013	(2.82)	(7.02)	1.82	1.91

Note 2 - Significant Accounting Policies (Cont.)

FF. Amendments to standards that affect the current period and/or previous reporting periods:

- **Amendment to IAS 24 "Related Party Disclosures" (Key management personnel):**

  The amendment clarifies that a management company providing key management personnel services to a reporting entity or to the parent company of the reporting entity is a "Related Party" of the reporting entity. The amendment is applied retroactively to annual reporting periods commencing on or after July 1, 2014.

  For information on transactions with a management company providing key management personnel services to the Group, see Note 37 on transactions with related parties.

- **Amendment to IAS 40 "Investment Property" (Distinction between investment property and business)**

  The amendment clarifies that a discretion is required in the determination whether an acquisition of investment property constitutes an acquisition of an asset, a group of assets or a business combination in the scope of IFRS 3. It was clarified that the discretion in the determination whether this is a business combination is not based on the distinction between fixed asset and investment property that is specified in IAS 40, rather it needs to be determined whether this is a business according to IFRS 3. The standard will be applied prospectively for annual periods commencing on or after July 1, 2014. There is a possibility to apply retroactively, based on a single transaction, provided that the information required therefor is accessible.

GG. Standards, interpretation and amendments to standards that were released and are not invalid, and were not pre-adopted by the Group, that have or may have an effect on future periods:

- **IFRS 9 "Financial Instruments":**

  General:

  IFRS 9 (2014) "Financial Instruments" (the "Standard") is the final standard of the financial instruments project. The Standard cancels the previous stages of IFRS 9 which were published in 2009, 2010 and 2013. This final Standard includes the provisions for classification and measurement of financial assets, as published at the first stage in 2009 and amended in this version, and also includes the provisions for classification and measurement of financial liabilities, as published at the second stage in 2010, offers a more updated and principal-based model regarding hedge accounting and presents a new model for assessment of projected loss from impairment as specified below. In addition, the Standard cancels the IFRIC Interpretation 9 "Reassessment of Embedded Derivatives".

  Financial assets

  The Standard determines that the financial assets be recognized and measured as follows:

  - Debt instruments will be classified and measured after initial recognition under one of the following alternatives: at depreciated cost, fair value through profit or loss or fair value through other comprehensive income. The measurement model will be determined in consideration of the business model of the entity regarding the management of financial assets, and according to the characteristics of the contractual cash flows deriving from the same financial assets.

Note 2 - Significant Accounting Policies (Cont.)

GG. Standards, interpretation and amendments to standards that were released and are not invalid, and were not pre-adopted by the Group, that have or may have an effect on future periods: (Cont.)

- **IFRS 9 "Financial Instruments": (Cont.)**

Financial assets (Cont.)

- A debt instrument which, according to the tests, is measured at depreciated cost or at fair value through other comprehensive income, may be designated at fair value through profit or loss only when the designation cancels out an accounting mismatch in recognition and measurement that would have been created had the asset been measured at depreciated cost or at fair value through other comprehensive income.

- As a rule, capital instruments will be measured at fair value through profit or loss.

- At the time of initial recognition, capital instruments may be designated at fair value through other comprehensive income. Instruments so designated will no longer be subject to impairment tests, and profit or loss thereon will not be carried to profit and loss, including upon disposal.

- Embedded derivatives will not be separated from a host contract which is within the Standard's applicability. Instead, hybrid contracts will be measured in their entirety at depreciated cost or at fair value, according to the business model and contractual cash flow tests.

- Debt instruments will be reclassified only when the entity changes its business model to financial assets management.

- Investments in capital instruments having no quoted price in an active market, including derivatives of such instruments, will be measured at fair value. The alternative to measuring at cost in certain circumstances was eliminated. However, the Standard provides that in certain circumstances, cost may be an appropriate approximation of fair value.

Financial liabilities

The Standard also sets forth the following provisions regarding financial liabilities:

- The change in the fair value of a financial liability which was designated upon initial recognition as fair value through profit or loss, and which is attributable to changes in the credit risk of the liability, will be carried directly to other comprehensive income, unless doing so creates or increases an accounting mismatch.

- When the financial liability is repaid or discharged, amounts carried to other comprehensive income will not be classified to profit or loss.

- All of the derivatives, whether assets or liabilities, will be measured at fair value through profit or loss, including a derivative financial instrument which constitutes a liability and is related to an unquoted capital instrument, whose fair value cannot be reliably measured.

Note 2 - Significant Accounting Policies (Cont.)

GG. Standards, interpretation and amendments to standards that were released and are not invalid, and were not pre-adopted by the Group, that have or may have an effect on future periods: (Cont.)

- **IFRS 9 "Financial Instruments": (Cont.)**

Hedging

The Standard sets forth new hedging provisions and provides the option to choose, as an accounting policy, whether to apply the new hedging provisions, which will be briefly specified below, or alternatively, the existing provisions under IAS 39. When the hedging project is completed in the future, the said policy choice option will be reexamined by the IASB.

The Standard retains the three types of hedge accounting: Cash flow hedging, fair value and net investment in foreign operations. However, material changes were made regarding the types of transactions eligible for hedge accounting, particularly expansion of the risks eligible for hedge accounting of non-financial items. In addition, changes occurred in the manner in which forward contracts and derivative options will be treated, when they constitute hedging instruments.

In addition, some of the hedge effectiveness tests have been replaced with a more fundamental test which is based on “economic relations”. Retroactive estimation of the hedge effectiveness will no longer be required.

The disclosure requirements in relation to the risk management activity of the Company have been expanded in the new Standard.

Impairment

The new impairment model, which is based on expected credit losses, will be implemented for debt instruments which are measured at depreciated cost or at fair value through other comprehensive income, receivables for lease, contract assets recognized according to IFRS 15 and written obligations to provide loans and financial guaranty contracts.

The provision for impairment will be in respect of projected losses according to the probability of insolvency in the coming 12 months (in the coming year), or according to the probability of insolvency over the lifetime of the instrument. Examination throughout the instrument’s lifetime is required if the credit risk significantly increased since the date of first recognition of the asset. Another approach applies if the financial asset was created or purchased credit-impaired.

The Standard adds presentation and disclosure requirements in connection with impairment of financial instruments.

Commencement date and early adoption possibilities

The Standard will take binding effect in respect of annual reporting periods commencing on or after January 1, 2018. Early application is possible.

In general, the provisions of the Standard regarding financial assets and liabilities will be applied retroactively, except for certain exceptions which were set forth in the Standard's transition provisions. It was further determined, that despite the retroactive application, companies applying the Standard for the first time, will not be forced to amend their comparison figures for previous periods. Moreover, the comparison figures will be amendable only when the amendment as aforesaid will not use hindsight information. Provisions referring to hedging will be applied, as a general rule, by way of prospective application, with limited retroactive application.

At this stage, the Company's Management cannot estimate the effect of the Standard's application on the financial position and business results thereof.

Note 2 - Significant Accounting Policies (Cont.)

GG. Standards, interpretation and amendments to standards that were released and are not invalid, and were not pre-adopted by the Group, that have or may have an effect on future periods: (Cont.)

- **IFRS 15 "Revenue from Contracts with Customers":**

  The new standard determines a comprehensive and uniform mechanism which regulates the accounting treatment of revenue deriving from contracts with customers. The standard cancels IAS 18 "Revenue" and IAS 11 "Construction Contracts" and their related interpretations. The core principle of the standard is that recognition of revenue shall depict the transfer of goods or services to customers in an amount that reflects the economic benefits that the entity expects to receive in consideration therefor. To this end, the standard determines that revenue be recognized when the entity transfers to the customer the goods and/or services listed in the contract therewith such that the customer obtains control of such goods or services.

  The standard determines a five-step model for application of this principle:

  1. Identify the contract(s) with the customer.
  2. Identify the performance obligations in the contract.
  3. Determine the transaction price.
  4. Allocate the transaction price to each performance obligation.
  5. Recognize revenue when a performance obligation is satisfied.

  Implementation of the model is dependent on the facts and circumstances specific to the contract and sometimes requires the exercise of broad discretion.

  In addition, the standard determines extensive disclosure requirements with respect to contracts with customers, the significant estimates and the changes thereto which were used at the time of application of the provisions of the standard, in order to enable users of the Financial Statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from the contracts with the customers.

  Application of the standard is mandatory for annual reporting periods commencing on or after January 1, 2018. Early application is possible. As a rule, the standard will be applied retroactively, although entities will be entitled to choose certain adjustments in the framework of the standard's transition provisions regarding its application to previous reporting periods.

  At this stage, the Company is studying the effect of the standard on its contracts with its customers and the manner of recognition of the revenue therefrom. This examination is still in progress.

- **IFRS 16 "Leases":**

  The new standard which was published in January 2016 cancels IAS17 "Leases" and the commentaries related thereto, and sets forth the rules for recognition, measurement, presentation, and disclosure of leases with regards to both of the parties to the transaction, i.e. the customer ("**Lessee**") and the supplier ("**Lessor**").

  The new standard cancels the currently existing distinction relating to a Lessee, between finance leases operating leases and determines a uniform accounting model with regards to all types of leases. In accordance with the new model, for any leased asset, the lessee is required on the one hand to recognize an asset for the right of use and on the other hand, a financial liability for the lease payment.

Note 2 - Significant Accounting Policies (Cont.)

GG. Standards, interpretation and amendments to standards that were released and are not invalid, and were not pre-adopted by the Group, that have or may have an effect on future periods: (Cont.)

- **IFRS 16 "Leases": (Cont.)**

  The directives on the recognition of an asset and liability, as aforesaid, shall not apply to assets which are leased for a term of up to only 12 month, and with regards to leases of low value assets (such as personal computers).

  The standard does not change the currently existing accounting treatment in the Lessor's books.

  The standard takes binding effect for the annual reporting periods which commence on January 1, 2019, or thereafter. Early implementation is possible, on condition that IFRS 15 "income from contracts with customers" is also implemented. As a rule, the standard will be implemented retroactively, however entities may choose certain adjustments in the framework of the transitional provisions of the standard for the purpose of its implementation for earlier reporting periods.

  At this stage, the Company is examining the effect of the standard on contracts for the lease of assets in its possession. This examination is not yet completed.

Note 3 - Critical estimates and the determination of the fair value

A. General:

In the implementation of the Group's accounting policy, which is described in Note 2 above, the managements of the companies in the Group are required to exercise broad accounting judgment in respect of estimates and assumptions, in connection with the carrying values of assets and liabilities, which cannot necessarily be found in other sources. The estimates and the related assumption are based on past experience and on other factors, which are considered to be relevant. The actual results may well be different from those estimates.

The estimates and assumptions that they are based on are reviewed routinely by the management of the companies in the Group. Changes in the accounting estimates are recognized only in the period in which the change is made in the estimates in the event that a change affects only one period or they are recognized in the said period and also in future periods in cases where the change affect both the current period and also the future periods.

B. Critical estimates:

The following is information in respect of critical estimates, which have been prepared whilst implementing the accounting policies, and which have a significant impact on the Financial |Statements:

(1) The revaluation of investment property and investment property under construction – (see Notes 14 and 36) in accordance with the IFRS and in accordance with the Company's selection, the Group presents investment property and investment property under construction in accordance with the fair value, based mainly on an evaluation by independent external appraisers, possessing the appropriate professional skills.

The fair value is examined at least once a year and at any time at which indications exist that there has been a significant change in value. Even in the case where the indications do not exist, the Company's management may, per its discretion, choose to perform valuations. In each case where the Company's management decides to update the fair value of all or part of the assets, as the case may be, the BOD report for such quarter shall include the Board's explanations in respect of the valuation that it made itself, as required by law.

Changes in the fair value are carried to the income statement and accordingly they may have a material effect on the Company's results.

(2) Contingent liabilities (see Note 33) – in the evaluation of the chances of the legal claims that have been filed against the Company, its consolidated companies and associates, the companies have relied on the opinions of their legal counsel as well as on estimates made by their managements. These evaluations by the legal counsel and the managements are based on their best professional judgment, taking into account the stage at which the proceedings are to be found, and also on the legal experience that has accumulated on various subjects. Since the results of the claims will be determined in the courts, those results may be different from those evaluations.

Note 3 - Critical estimates and the determination of the fair value (Cont.)

B. Critical estimates (Cont.)

(3) Impairment of assets (excluding goodwill) (see Note 16) – at each balance sheet date the Group tests if events have occurred or if changes have taken place in the circumstances that indicate that an impairment has occurred in the value of one or more of the non-monetary assets. If signs of impairment exist, a test is conducted as to whether the amount at which the investment in the asset is presented can be recovered out of the discounted cash flow that are expected from that asset, and in the event that it is necessary, a provision for impairment is recorded up to the level of the amount that is recoverable. The discount cash flows is calculated in accordance with a post-tax cap rate, which reflects the market's estimate in respect of the time value of the money and the specific risks that relate to that asset. The determination of the estimates of the cash flows is based on past experience with the asset or similar assets, and on the Company's best estimate in respect of the economic conditions that will be extant during the course of the balance of the useful life of the asset. In the determination of the net selling price of some of the assets use was made of evaluations by a valuator.

In respect of real properties, the estimates also take into account the market conditions in the area in which the asset is located.

In respect of impairment of goodwill, see Note 2J.

Changes in the Group's estimates, as aforesaid, may lead to significant changes in the book value of the assets and in the operating results.

(4) Fair value of financial assets available for sale (see Note 12) – the fair value of financial instruments that are not traded on an active market (for example: call options, put options, and investments in non-marketable instruments) is determined using evaluation techniques. The Group exercises judgment in the determination of the appropriate methodology and in the determination of the assumptions, based on generally accepted practice and the current conditions in the market and also based on calculations of fair value performed by appropriate independent external appraisers. Changes in the assumptions may lead to the recognition of impairment or losses in future periods.

(5) Income taxes (see Note 30) – the Group is subject to the tax laws. Broad judgment is required in order to determine the current tax liability for each of the companies in the Group.

The Group has many transactions, whose tax results are uncertain. The Group recognized liabilities in respect of the tax results of those transactions, based on management's estimates, which place reliance on professional advisors, in respect of the timing and the level of the tax liability that derives from those transactions. Where the tax results of those transactions is different from management's estimates, the tax expenses and the current tax liabilities will be reduced or increased at the time that the final assessments are determined.

(6) Distinction between investment property and business:

In every transaction for acquisition of an investment property, the Group examines whether the acquisition of an investment property constitutes an acquisition of an asset/group of assets or a business combination transaction. The Group's discretion is based on the number of the acquired assets, the existence of associated services in a significant scope (maintenance, cleaning, security, bookkeeping, etc.) that are related to the operation of the asset and the complexity of the management of the asset.

Note 3 - Critical estimates and the determination of the fair value (Cont.)

C. Determination of fair value:

As part of the accounting principles and the disclosure requirements, the Group is required to determine the fair value of non-financial and financial assets and liabilities. The fair values have been determined for the purposes of measurement and/or disclosure on the basis of the methods that are described below. Additional information in respect of the assumptions that have been used in the determination of the fair value is provided in the noted that relate to this asset or liability.

(1) Investment property and investment property under construction – As aforesaid in Note 2P, the Group's investment property is presented at fair value, where changes in the fair value are carried to the income statement as income or as expenses.

For the purpose of the determination of the fair value of investment property, the Company's management bases itself, primarily, on evaluations that are performed once a year by independent appraisers of land, having the required knowledge, experience and expertise. The Company's management is in the habit of determining the fair value in accordance with generally accepted evaluation methods of real properties, primarily discounted cash flow and comparison with selling prices of similar assets and the Group's assets in the near environment. Where use has been made of the discounted cash flow method, the interest rate used in the discounting of the net cash flows that are expected from the asset can have a significant impact on the fair value.

In the determination of the fair value of investment property, the Company takes into account, *inter alia*, and so far as is relevant, the location of the property and its physical state, the quality of the tenants and their stability, the rent period, the rent prices in similar properties, the adjustments that are required to the existing rent prices, the actual and forecast occupancy levels for the property and the costs of operating it. In the determination of the fair value of investment property under construction, taken into account, *inter alia* and insofar as relevant, are the duration of the construction of the project, the amount of the rent, the additional cost required for construction thereof until the current operation thereof and the interest rate, the project's risk premium, deduction of developer profit and the required cap rate. A change in the value of any of these components, or all of them, could have a significant impact on the fair value of the property as estimated by the Company's management.

The Group strives to determine as objective a fair value as possible, but at the same time, the process of estimating the fair value of investment property also includes subjective elements, which are sources, *inter alia*, in the past experience of the Company's management and its understanding of what is expected to take place in the investment property market at the time at which the estimate of the fair value is determined. In the light of what is stated in the previous paragraph, the determination of the fair value of the Group's investment property mandates the exercise of judgment. Changes in the assumptions that were used in the determination of the fair value could have a significant effect on the Group's state of affairs and the results of its activities.

The Company reviews in its quarterly reports the need to update the value of the investment property by examining macro-economic changes that may have a material effect on the fair value of the properties and/or upon the occurrence of a material event in an asset that was defined as a material or a very material asset in the Company's statements, due to population, material change in rent, etc. Also, with regard to investment property under construction, the costs actually invested during the period, the updated forecast of costs for completion and lease agreements signed during the period are taken into account. Upon initial classification of a property that was under construction as investment property, and insofar as no valuation was received therefor in the six months preceding the classification date, an external valuation will be performed therefor, as of the end of the quarter in which it was first classified as investment property.

Note 3 - Critical estimates and the determination of the fair value (Cont.)

C. Determination of fair value (Cont.)

(2) Impairment of goodwill – in order to determine whether an impairment has taken place in the value of goodwill, the Company's management prepares an estimate of the value in use of the cash generating units to which the goodwill has been allocated, for the purpose of the calculation of the value in use, the Group calculates an estimate of the future cash flows that are expected to derive from each of the cash generating units as well as the appropriate discount rate in order to calculate the present value.

(3) Investments in shares – the fair value, net of sale costs, of financial assets that are classified as available for sale (mainly investments in Bank Leumi and in Leumi Card) is determined whilst relating to their average quoted closing bid prices at the reporting date. In the absence of quoted prices, the evaluations are carried out using the discounted cash flow method under "going concern" assumption and/or the net asset value method.

(4) Loans and receivables including trade and other receivables – the fair value of loans and receivables including trade and other receivables, except for construction works in progress, but including receivables in respect of franchise arrangements, is determined on the basis of the current value of the future cash flow, discounted at the market interest rate, which takes into account, inter alia, the risk of the borrower as of the measurement date. Short term trade and other receivables without a stated interest rate, are measured at the original invoice amount, if the discounting effect is immaterial. The fair value of loans and receivables is determined on the initial recognition date. In the periods following the initial recognition date, the fair value is calculated solely for the purposes of providing disclosure.

(5) Financial liabilities which are not derivatives – the fair value, which is determined for the purpose of providing disclosure, is calculated on the basis of the current value of the future cash flows for the principal and interest component, which are discounted at the market interest rate as of the reporting date.

(6) Derivatives – the fair value of derivative financial instruments is calculated by using quoted prices, if any. In the absence of quoted prices, as aforesaid, the fair value of forward contracts on foreign currency is assessed based on a discounting of the difference between the forward price stated in the contract and the current forward price for the remaining period of the contract until maturity, while using an appropriate interest rate.

The fair value of forward contracts on the Index is assessed based on a discounting of the future flow stated in the contract at the appropriate interest rates for the remaining period until the maturity of the contract.

Note 4 - Cash and cash equivalents

The composition:

	As of December 31	
	2015	**2014**
	NIS in thousands	**NIS in thousands**
Balances with banks	132,740	127,876
Short-term deposits – unlinked	714,060	16,207
Short-term deposits – in dollars	62,919	19,495
Financial funds	25,005	-
Total cash and cash equivalents	934,724	163,578

Note 5 - Trade accounts receivable

The composition:

	As of December 31	
	2015	**2014**
	NIS in thousands	**NIS in thousands**
Open debts	1,233,861	1,398,749
Income receivable	30,237	30,472
Current maturities of long-term loans provided	8,937	8,850
	1,273,035	1,438,071
Net of – provision for doubtful debts	(170,875)	(177,822)
	1,102,160	1,260,249

For details regarding balances in respect of related and interested parties – see Note 37C.
For details regarding the credit risk management by the Group – see Note 34B.

Note 6 - Other receivables

The composition:

	As of December 31	
	2015	2014
	NIS in thousands	NIS in thousands
Institutions	22,952	35,561
Pre-paid expenses	40,958	30,392
Deposits in trust	19,222	22,616
Advances to suppliers	13,576	13,917
Receivables due to the sale of shares and shareholder loans (see Note 10D below)	-	161,442
Receivables due to the construction of natural gas conversion plants	-	8,645
Current maturities of receivables in respect of franchise arrangement	1,267	2,699
Receivables for work in progress	19,206	16,698
Other receivables	54,296	(*) 32,710
	171,477	324,680
Net of – provision for doubtful debts	(4,250)	(*) (3,900)
	167,227	320,780

(*) Reclassified

For details regarding balances in respect of related and interested parties – see Note 37C.

Note 7 - Inventory

The composition:

	As of December 31	
	2015	2014
	NIS in thousands	NIS in thousands
Raw materials	11,251	13,271
Work in progress	9,828	9,534
Finished works	139,649	205,703
Servicing material, spare parts and installations	12,722	12,783
	173,450	241,291

Note 8 – Discontinued Operations

On June 12, 2014 a consolidated company of the Company, Granite Hacarmel Investments Ltd., closed the transaction for the sale of all of its holdings (100%) in Tambour Ltd. to a third party, in accordance with an agreement signed on May 26, 2014.

The consideration for the sale is NIS 500 million before transaction expenses received in cash. As a result of the sale, the Company recognized a profit in the sum of approx. NIS 55 million, which was carried to the income statement in 2014 and is presented under the "Income from discontinued operations, net of tax" item.

In accordance with the provisions of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", Tambour's results are presented separately in the income statement as discontinued operations and comparative figures in the income statement have been re-presented according to Section 34 of IFRS 5.

Below are the results attributable to the discontinued operations:

	As of the year ended December 31	
	2014	**2013**
	NIS in thousands	**NIS in thousands**
Results of the discontinued operations		
Revenues	472,482	923,684
Expenses	446,296	867,700
Profit before income taxes	26,186	55,984
Income taxes	7,496	18,118
Profit after income taxes	18,690	37,866
Sales costs and expenses	(10,904)	-
Income from sale of discontinued operations, net of tax	65,719	-
Profit for the year	73,505	37,866
Cash flow from discontinued operations		
Net cash deriving from current operations	38,075	93,104
Net cash (used for operations) deriving from investment activity	472,181	(40,168)
Net cash used for financing activity	(21,484)	(54,447)
Effect of exchange rate fluctuations on cash balances and cash equivalents	(206)	(217)
Net cash deriving from (used for) discontinued operations	488,566	(1,728)

Note 8 – Discontinued Operations (Contd.)

Effect of disposal on the Group's Statements of Financial Position:

	As of disposal date (Unaudited) NIS in thousands
Cash and cash equivalents	784
Trade accounts receivable	389,805
Trade and other receivables, including derivatives	12,877
Inventory	172,918
Current tax assets	3,195
Long-term investments and loans	7,582
Fixed assets, net	456,752
Intangible assets, net, including realized long-term rent	34,343
Deferred tax assets	3,174
Credit from banks and other credit providers	(240,111)
Trade payables	(149,293)
Other payables, including derivatives	(54,730)
Current tax liabilities	(878)
Provisions	(5,026)
Long-term liabilities to banks and other credit providers	(114,516)
Other long-term liabilities	(4,969)
Employee benefits	(2,808)
Deferred tax liabilities	(70,563)
Non-controlling interests	(4,255)
Assets and liabilities, net	434,281
Proceeds received in cash and cash equivalents (net of sale costs)	489,096
Cash and cash equivalents balance written off	(784)
Positive cash flow, net	488,312

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

Note 9 – Disposal group held for sale

GES Latin America:

GES engaged, during 2015, in agreements with third parties for the purpose of selling its rights in a number of GES Latin America Holding, S.A. companies, including subsidiaries thereof which operate in Central America ("**Latin America**") and the other Latin American companies (excluding a subsidiary in Nicaragua, with respect to which advanced negotiation are being conducted for the sale thereof), entered a process of liquidation.

The effect of the Latin American business on the results of operations and the financial position in the consolidated statements is negligible.

The assets and liabilities of Latin America as of December 31, 2015 were presented in the Financial Statements as a disposal group held for sale.

Via Maris Desalination (Holdings) Ltd. ("Via Maris"):

On August 6, 2014, the consolidated company, GES, signed an agreement with a third party SPV, unaffiliated with the Company or with any of the companies controlled thereby (the "Buyer"), whereby GES shall sell all of its rights in the Via Maris desalination plant in Palmachim (the "Desalination Plant"), in consideration for NIS 429 million, linked to the January 2014 index, subject to adjustments due to changes occurring during the period until the closing date of the transaction, by way of sale of the holdings of GES in Via Maris and Via Maris Desalination – Construction Partnership (further to the engagement in an MOU signed in December 2013).

In the transaction, GES committed to certain indemnities for warranties and for specific exposures specified in the agreement, and in addition GES or the Company, as the case may be, shall remain liable, under certain conditions, after the closing date, for certain guarantees and undertakings pertaining to the Desalination Plant and/or the Via Maris corporations, including the Construction Partnership's warranty for the construction of the plant, all subject to and in accordance with the provisions of the agreement.

Granite provided a full guarantee for all of the undertakings of GES under the agreement. Furthermore, upon the occurrence of certain events stipulated in the agreement, the Company undertook to guarantee the undertakings of GES under the agreement, in lieu of Granite.

On June 2, 2015, all of the conditions precedent set forth in the agreement were fulfilled and the transaction for the sale of the rights in Via Maris was closed.

The consideration amounted to approx. NIS 403 million and the Company recorded a loss in an insignificant amount in the income statement of 2015.

Via Maris's financial results were consolidated and included in the Financial Statements until the period ended June 30, 2015.

The assets and liabilities of Via Maris as of December 21, 2014, were presented in the Financial Statements as a disposal group held for sale.

Note 9 – Disposal group held for sale (Cont.)

A. Assets and liabilities of a disposal group held for sale: (*)

	As of December 31	
	2015	2014
	NIS in thousands	NIS in thousands
Assets of disposal groups classified as held for sale:		
Cash and cash equivalents	936	51,423
Investments in securities and deposits	-	35,455
Trade accounts receivable	7,347	37,859
Other receivables	388	13,628
Long-term investments and loans	-	3,739
Restricted investments	-	75,718
Receivables in respect of franchise arrangement	-	869,882
Fixed assets, net	179	18,098
Intangible assets, net	-	100,513
Deferred tax assets	-	819
	8,850	1,207,134
Liabilities of disposal groups classified as held for sale: (*)		
Trade payables	554	6,621
Payables and other current liabilities	1,237	17,546
Current tax liabilities	39	12,994
Liabilities to banks	1,557	732,727
Other long-term liabilities	-	7,278
Deferred tax liabilities	-	26,180
	3,387	803,346
Assets of disposal groups classified as held for sale, net	5,463	403,788

(*) As of December 31, 2014, assets and liabilities of the disposal group are in respect of Via Maris only, as of December 31, 2015 in respect of Latin America only.

B. The results and cash flows of the disposal group classified as held for sale were fully consolidated in the income statement and the cash flow statement until the disposal date, as the case may be.

Set forth below is a table of material financial figures in connection with the disposal group's activity:

	For the year ended December 31		
	2015	2014	2013
	NIS in thousands	NIS in thousands	NIS in thousands
Sales turnover	78,055	142,281	256,243
Income before tax	6,361	16,045	26,794
Income after tax	6,694	12,813	17,505

Note 10 - Investments in and loans to investee companies

A. Material consolidated companies and partnerships that are held directly by the Company:

	State of incorporation	Operating Segment	Rates of Ownership and Control of the Holding Company as of December 31, 2015
			%
Consolidated companies:			
Canit Hashalom Investments Ltd. (*)	Israel	Income-producing property	99.12
Gemel Tesua Investments Ltd.	Israel	Income-producing property	100.00
Otzma & Co. Investments Maccabim Ltd.	Israel	Income-producing property	100.00
Palace America Senior Housing Ltd. (**)	Israel	Senior housing	100.00
Otzem Enterprise and Investments (1991) Ltd.	Israel	Income-producing property	100.00
International Consultants (E-Consult) Ltd. (***)	U.S.	Income-producing property	100.00
AG Plaza at Enclave Inc.	U.S.	Income-producing property	100.00
Granite Hacarmel Investments Ltd.	Israel	Holdings	100.00
Sonol Israel Ltd.	Israel	Marketing of fuels	100.00
GES Global Environmental Solutions Ltd.	Israel	Water treatment	100.00
Supergas Israel Gas Distribution Company Ltd.	Israel	Gas	100.00
Partnership – held by the Company, AG Galleria office buildings, LP	U.S.	Income-producing property	90.00
Assisted Living Modi'in Ltd.	Israel	Senior housing	100.00
AG 8 West Centre, LP	U.S.	Income-producing property	100.00

(*) On the Company's engagement in an agreement for the purchase of one share of Canit Hashalom from Azrieli Foundation (Israel) (R.A) after the date of the Financial Statements, see Note 37C(10).

(**) For details on the acquisition of Palace America Senior Housing Ltd. in 2015 - see Note 14H(3).

(***) The Company provided a guaranty, unlimited in amount, to secure a loan from a bank, the balance of which as of December 31, 2015 is NIS 24,382 thousand (as of December 31, 2014 – NIS 25,560 thousand).

Note 10 - Investments in and loans to investee companies (Cont.)

B. Restrictions applicable to Granite Hacarmel Investments Ltd. ("Granite") with respect to its subsidiaries:

(1) The ability of Granite's subsidiaries to distribute dividends to Granite is contingent upon their compliance with financial covenants which they undertook with respect to credit received from banks or upon obtaining the banks' consent or upon the provisions of the law.

(2) In tenders which companies in the Granite Group had won and/or in relation to agreements for the receipt of credit, restrictions were imposed on Granite with respect to the transfer of control and/or ownership, whereby the transfer of control and/or ownership shall be subject to the approval of the financing bodies or relevant governmental authorities, as the case may be.

C. On September 24, 2012, a full tender offer was accepted, which was released by the Company together with Canit Hashalom, a company controlled by the Company, which held approx. 60.61% of Granite's issued and paid-up share capital, for the purchase of all of the shares not held by the offerors, 57,955,689 shares, constituting approx. 39.39% of Granite's issued and paid-up capital, in consideration for the sum of 549 *Agorot* per NIS 1 share of Granite's stock, for a total consideration of approx. NIS 318 million. Accordingly, as of the Report Date, the Company holds the full share capital and voting rights of Granite, which has become a private company pursuant to Section 339 of the Companies Law and whose shares have been delisted from the TASE.

The purchase of the shares was financed through internal financing of the Group.

The difference between the consideration paid and the change in the non-controlling interests in the sum of approx. NIS 22 million is carried to a capital reserve as a credit balance.

On a claim against the Company and a consolidated company in connection with the tender offer, see Note 33B(1).

D. On September 4, 2014, the consolidated company Supergas Israel Gas Distribution Company Ltd. ("Supergas") entered into an agreement with a third party, whereby Supergas shall sell all of its shares and rights in a shareholder loan which it extended to S. Super Solar Ltd. ("Super Solar"), which holds corporations owning solar systems with an installed capacity of approx. 18.2 megawatt, in consideration for a total amount of approx. NIS 174 million (the "Sale Transaction"). On December 31, 2014, all of the conditions precedent for the closing of the transaction have been fulfilled, and accordingly, in January 2015 the consideration was received.

In October 2014, the partners of Super Solar in one of the sold partnerships (the "Dimona Partnership") announced the exercise of their right of refusal, in consideration for approx. NIS 14 million. On December 15, 2014, Supergas signed an agreement with the partners for the sale of its rights in the Dimona Partnership. On December 31, 2014, all of the conditions precedent for the closing of the transaction have been fulfilled, and accordingly, in January 2015 the consideration was received.

The capital gain after tax which was recorded as a result of the sale of Super Solar and the rights in the Dimona Partnership totaled approx. NIS 30 million.

E. On February 2, 2016, the Company announced that Granite Hacarmel notified it, with regards to the sale of Granite Hacarmel's entire holdings in Sonol, that it is in advanced negotiations with Mr. Dudi Weissman (via a company under his control), as well as with others at the same time. As of the date of the statement, these are non-binding understandings of principles which have not yet ripened into an execution of a binding agreement with any of the parties, including Dudi Weissman, and there is no certainty that the negotiations will ripen into a detailed agreement and/or that such a transaction will be consummated. According to the Company's estimation, the transaction, if and insofar as any is consummated with any of the said parties, is not expected to have a material effect on the Company's results and/or profits. In respect of impairment of goodwill attributed to the fuels operations, see Note 16B.

Note 11 – Long term investments, loans and receivables

A. The composition:

	As of December 31	
	2015	**2014**
	NIS in thousands	**NIS in thousands**
Loans provided (see B below)	82,281	94,671
Net of current maturities	(12,994)	(11,836)
	69,287	82,835
Outstanding checks	2,312	2,604
Prepaid expenses	3,813	2,857
Assets in respect of employee benefits	1,977	1,720
Receivables in respect of the averaging of income from rent	84,767	69,365
Restricted investments (see C below)	21,470	21,665
Other receivables (see D below)	34,695	16,562
	218,321	197,608

B. Additional information:

(1) The loans that were extended, mainly to lessors of assets in Sonol, are presented at a discount for the difference between the interest stated in the loans and the market interest on the date of the granting of the credit, which was carried to financing expenses upon provision of the credit.

(2) Unlinked loans in the amount of NIS 4,588 thousand extended at an interest at the range of 0%-2% and NIS 32,315 thousand at an interest at the range of 2%-10% (in 2014 a total of NIS 4,695 thousand was given at an interest at the range of 0%-2% and NIS 35,512 thousand at an interest at the range of 2%-7%).

In addition, index-linked loans in the amount of 28,486 thousand were extended at an interest at the range of 0%-4% and NIS 11,771 thousand at an interest at the range of 4%-8% (in 2014, an amount of NIS 23,980 thousand and NIS 27,033 thousand, respectively).

C. As collateral for the full and accurate payment of the debt for bondholders issued by a consolidated company of Supergas (see Note 21B(5)). Supergas had undertaken to provide, as collateral to the benefit of the bond trustee a deposit which will be in at the quarterly payment amount (principal and interest) which is the highest expected to be paid according to the bond's payment schedule, until the expiration of the bond period. The deposits are Index-linked and bear interest at a rate of 1%.

D. The balance of the other receivables includes mainly long term customer debts as well as customer debts in respect of initial filling of oil distillates linked to the distillates prices. These balances do not bear interest.

Note 12 - Financial assets

The composition:

	As of December 31	
	2015	**2014**
	NIS in thousands	**NIS in thousands**
Financial assets available for sale	1,634,765	1,604,088
Financial assets designated at fair value through profit and loss	25,162	24,784
	1,659,927	1,628,872

Financial assets available for sale:

(1) Investment in Bank Leumi Le'Israel Ltd. ("Bank Leumi")

On April 30, 2009 the Company acquired approx. 4.8% of the shares in Bank Leumi (approx. 71 million shares) for a consideration that was equivalent to NIS 742 million.

As of the Date of the Statement of Financial Position, the balance of the Company's investment in Bank Leumi's shares is approx. NIS 954 million according to the value of Bank Leumi's shares on TASE.

(2) Investment in Leumi Card Ltd. ("Leumi Card")

As of the Report Date, the Company holds 20% of the issued and paid-up capital of Leumi Card and 18% of the voting rights therein.

Leumi Financial Holdings Ltd. ("Leumi Holdings") has the right of first refusal on the sale of the shares that are held by the Company to a third party which is not a permitted transferee of the Company, as defined in the agreement.

Commencing from May 26, 2008, Mr. Menachem Einan has served as the Company's representative on the Board of Directors of Leumi Card.

As of Date of the Statement of Financial Position, Leumi Card's Board is made up of 9 directors (of whom 4 are external directors).

In the light of the number of directors and the control structure in Leumi Card, the Company has reached the conclusion that it does not have material effect in Leumi Card and therefore the investment is presented as a "financial asset available for sale".

In April 2015, the Antitrust Commissioner released a list of the significant financial bodies under the Competition Promotion and Concentration Reduction Law, 5774-2013, and also listed Leumi Card thereon. Insofar as the Group continues to be deemed a significant real corporation, and insofar as Leumi Card continues to be deemed a significant financial body, by December 11, 2019, the Group shall be required to reduce its holdings of Leumi Card shares to below a holding rate of 10%.

As of Date of the Statement of Financial Position, the Company's investment balance in Leumi Card totaled at an amount of approx. NIS 603 million.

Note 12 - Financial assets (Cont.)

Financial assets available for sale: (Cont.)

(2) Investment in Leumi Card Ltd. ("Leumi Card") (Cont.)

The fair value has been determined by an independent external appraiser, where the evaluation is based on the discounted cash flow method (DCF), based on the net profit as extrapolated from the business plan, adjustments to the profit and net of investments. In the determination of the recoverable amount of the cash flows, a weighted average cost of capital (WACC) of 9% has been taken into account and the long-term growth rate has been set at 2.5%.

In 2015, the Company received a dividend in the sum of approx. NIS 10 million from Leumi Card (in 2014 – approx. NIS 10 million). After the date of the Financial Statements, on March 1, 2016, the Company received an additional dividend in the sum of approx. NIS 10 million from Leumi Card.

(3) Other financial assets available for sale include investments in company shares, which do not exceed 20% and over which the Group has no material influence.

Note 13 - Long-term receivables in respect of franchise arrangement

A. Construction and operation of wastewater treatment plants:

GES has franchise arrangements with local authorities which are defined according to IFRIC 12 as a financial asset – receivables in respect of franchise arrangements. Regarding one of the facilities, an agreement was signed in 2000 between a subsidiary of GES and a local authority for the planning, financing, building and maintenance of a wastewater treatment plant ("WTP"). Within the agreement, the Company undertook to build and operate the WTP for a term of 30 years, and in return the Company shall be entitled to an agreed payment per cubic meter, which is linked to the CPI. During 2012, an addendum to the agreement was signed, whereby the Company shall expand the existing WTP. As of December 31, 2015, expansion of the WTP has been completed.

During December 2014 a grant receivable was recorded in accordance with an agreement with the local municipality in the amount of NIS 9,386 thousand of which an amount of NIS 9,031 thousand was received as of the report date.

B. A Franchise Arrangement for the Planning, Construction and Operation of a Wastewater Treatment Facility for the Recycling of Water in Production Processes:

On April 2, 2015, an agreement was signed between the consolidated company GES Facility Operations Ltd. and a third party (the "**Customer**") for the rehabilitation, upgrade and operation of a facility for the recycling of wastewater commencing April 2015.

In the agreement, after the completion of the construction, the Company undertook to operate the facility for a period of 10 years with an option for an extension of another 3 additional years.

GES Facility Operations Ltd. engages in rehabilitation, upgrade of the facility and the operation thereof throughout its useful life as a financial asset - receivables in respect of a franchise arrangement. GES Facility Operations recognizes income throughout the construction period pursuant to IAS 11 and for the services it provides pursuant to IAS I8.

C. The collection dates of the balances for the receivables in respect of franchise arrangement after the date of the Financial Statements are as follows:

	As of December 31, 2015					
	First year	Second year	Third year	Fourth year	Above five years	Total
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Receivables in respect of franchise arrangement	1,267	2,995	3,072	2,694	35,611	45,639

	As of December 31, 2014					
	First year	Second year	Third year	Fourth year	Above five years	Total
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Receivables in respect of franchise arrangement	2,699	2,735	2,491	2,416	21,646	31,987

Note 14 - Investment property and investment property under construction

A. Movements and composition:

	As of December 31, 2015			As of December 31, 2014		
	Land, buildings and leasable retail areas	Investment property under construction	Total	Land, buildings and leasable retail areas	Investment property under construction	Total
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Balance as at the beginning of the year	16,353,410	2,232,453	18,585,863	15,482,204	1,540,592	17,022,796
Additions during the year:						
Investments	321,758	654,165	975,923	507,395	829,217	1,336,612
Adjustments to fair value	181,781	(1,474)	180,307	21,009	7,904	28,913
Net translation differences deriving from the translation of the financial statements of foreign operations	6,516	-	6,516	197,542	-	197,542
Entry to consolidation (*)	552,083	-	552,083			
Transfer from investment property under construction, net	1,009,254	(1,009,254)	-	145,260	(145,260)	-
Total additions	2,071,392	(356,563)	1,714,829	871,206	691,861	1,563,067
Write-offs during the year:						
Dispositions	5,472	-	5,472	-	-	-
Exit from consolidation	24,081	-	24,081	-	-	-
Total dispositions	29,553	-	29,553	-	-	-
Balance at the end of the year	18,395,249	1,875,890	20,271,139	16,353,410	2,232,453	18,585,863
Advance payments on account of investment property (see Notes 14E and 14F below)			257,415			252,600
			20,528,554			18,838,463

(*) See Note 14H(3).

Note 14 - Investment property and investment property under construction (Cont.)

B. Additional information:

(1) Canit Hashalom has leased the land on which the "Azrieli Center" was built from the City of Tel Aviv-Jaffa under a capitalized lease for a period of 200 years. The lease period is until February 6, 2195. Mortgages apply to Canit Hashalom's lease rights in part of the lobby floor, the roof floor and floors 11-49 of the Round Tower, which constitutes part of Azrieli Center in Tel Aviv, in favor of an institutional body which provided the Company with a loan.

(2) From December 24, 2003, Canit Hashalom has been leasing the land on which the "Azrieli Modi'in" mall was built from the Israel Lands Authority (ILA) under a capitalized lease for a period of 98 years in respect of residential units and for a period of 49 years in respects of units with other designations (the mall and offices) with an option for additional periods of 98 years and of 49 years, respectively. As of the date of the approval of the Financial Statements, the lease agreement has not yet been actually signed.

(3) The Company has leased the land on which the "Azrieli Jerusalem (Malha)" mall was built from the ILA under a capitalized lease for a period of 49 years, ending on August 15, 2039, with an option for an additional period of 49 years.

(4) The Company has leased the land on which the "Azrieli Ayalon" mall was built from the ILA under a capitalized lease for a period of 49 years, ending on August 1, 2031, with an option for an additional period of 49 years.

(5) The Company is leasing the land on which the Azrieli Or Yehuda Outlet Mall was built from the ILA under a capitalized lease for a period of 49 years, ending on March 24, 2040, with an option for an additional period of 49 years.

(6) The Company is leasing the land on which the Azrieli Givatayim Mall was built from the ILA under a capitalized lease for periods of 49 years, ending on September 5, 2053 and February 9, 2051. The rights in the property are subject to pledges in favor of a bank that extended loans to the Company.

(7) The Company is leasing the land on which the Azrieli Haifa Mall was built from the ILA under a capitalized lease for periods of 49 years ending October 31, 2042 and March 2, 2035 with an option for an additional period of 49 years.

(8) The Company is leasing the land on which the industrial buildings in Caesarea Industrial Park were built from the Caesarea Edmond Benjamin de Rothschild Development Corporation Ltd. under a capitalized lease for a period of 49 years, ending on July 7, 2053 and March 12, 2049, with an option for an additional period of 49 years.

(9) The Group is leasing the land on which the Ramla Azrieli Mall was built from the ILA under a capitalized lease until January 14, 2050. As of the date of approval of the Financial Statements, the lease agreement has not yet been signed. The rights in the land are subject to pledges in favor of an institutional body which provided the Company with a loan.

(10) The Group is leasing parts of the land on which the Azrieli Holon Center is building from the City of Holon under a capitalized lease, in accordance with its share in the transaction for a period of 99 years, with an option for another 99 years for payment.

On the Group's engagement with the City of Holon through Canit Hashalom, see Note 31B(4).

(11) The consolidated company is entitled to be registered as the owner of sub-lease rights in the framework of a set of agreements with a third party, in Palace Tel Aviv Senior Housing, until 2097.

Note 14 - Investment property and investment property under construction (Cont.)

B. Additional information: (Cont.)

(12) Some of the assets of consolidated companies are registered in their names in the Lands Registry. Another part has not yet been registered for technical reasons, the main reason for the non-registration deriving from the proceedings of the land arrangements and the reparcellation arrangements of the land have not yet been settled.

(13) In respect of charges and guarantees, see Note 32.

(14) The Group has several additional development projects in the retail centers and malls segment and in the office space for lease segment and in the senior housing segment:

- **Azrieli Sarona Center** – in Tel Aviv of an area of approx. 9,400 sqm. The land on which the project is built is leased under a capitalized lease from the ILA for a period of 49 years, ending on May 29, 2060, with an option for another period of 49 years from the end of the lease period.

- **Azrieli Rishonim Center** – in Rishon LeZion with a net area of approx. 19,000 sqm, under ownership.

- **Lands Holon** – in Holon of an area of 12,400 sqm, under ownership.

- **Assisted Living Modi'in** – in Modi'in, of an area of 10,500 sqm. The land on which the project is built is leased under a capitalized lease for 49 years, ending on January 25, 2063, with an option for another period of 49 years. For further details, see Note 14H(1).

- **Land Lehavim Senior Housing** – in Lehavim, of an area of 28,000 sqm, leased under a capitalized lease for 49 years, ending on November 30, 2063, with an option for another period of 49 years. For further details, see Note 14H(2).

- **Azrieli Holon Center** – see Section 14B(10).

(15) With respect to techniques for the fair value estimation of the Group's investment property, see Note 36B(3).

(16) The amounts recognized in the income statement:

	As of the year ended December 31		
	2015	**2014**	**2013**
	NIS in thousands	**NIS in thousands**	**NIS in thousands**
Rental, management and maintenance income	1,622,543	1,471,111	1,433,324
Direct operating expenses deriving from rent, management and maintenance	385,098	329,110	320,472

Note 14 - Investment property and investment property under construction (Cont.)

C. Purchase of an office building in Houston:

On September 11, 2014, a transaction was closed for the purchase of an office building in Houston, Texas, U.S., from a third party (the "Seller"), by AG 8 WEST CENTRE, LLC., an American corporation, 100% of which are indirectly held by the Company (the "Purchaser"), in accordance with an agreement for the purchase of the property (the "Agreement"), following the expiration of the due diligence period.

The Acquired Property –

All of the rights in an office building located in the area known as WESTBELT in Houston, Texas, U.S., consisting of 4 floors, of a total area of approx. 21,093 sqm (approx. 227,045 sqf), and approx. 949 covered parking spaces and 124 outdoor parking spaces (most of which are located in a separate parking structure adjacent to and serving the office building), construction of which was completed in 2013.

The Consideration –

A total of approx. US $76 million (including transaction and financing costs).

Mode of Financing of the Purchase –

The Purchaser has engaged with foreign financing entities for receipt of credit in the amount of approx. US $49.2 million (the "Loan Principal"), which constitute approx. 65% of the consideration, with the balance financed from self-funded sources. The principles of the loan are as follows:

- The loan was provided for a 5-year period, at a fixed annual interest rate of approx. 3.16%.
- The interest on the loan shall be paid on a current basis. Approx. 11% of the Loan Principal shall be paid in monthly installments during the loan period, from November 2014. The balance of the Loan Principal shall be paid at the end of the loan period (bullet) on October 1, 2019.
- The credit was extended to the Purchaser on a non-recourse basis, and, as collateral, the Purchaser's rights in the property were pledged and guarantees and indemnifications by the Company were provided in respect of exceptional events only, per the standard practice in transactions of this type.
- The Purchaser is entitled to repay the full amount of the loan after 12 full months from the date of provision thereof, subject to a prepayment fee.

D. On February 24, 2015, the Company won a tender conducted by the ILA, for the purchase of 4 plots designated for industry in Holon's industrial zone of a total area of 12,400 sqm, in consideration for approx. NIS 64 million.

E. In December 2012, an agreement was signed with Clalit Health Services ("Clalit") whereby the Company purchased Clalit's rights in a lot of an area of approx. 10,000 sqm located at 146 Menachem Begin Road, in the Northern Tel Aviv Central Business District, in consideration for the sum of NIS 240 million (excluding V.A.T.), which amount is linked to the CPI. The purchased lot is designated for the construction of the Azrieli Town project of approx. 75 thousand sqm, comprising leasable office and retail space of approx. 58 thousand sqm (approx. 48 thousand sqm offices and approx. 10 thousand sqm retail), and residential areas of approx. 17 thousand sqm.

By December 31, 2015, the Company had paid a sum of NIS 108 million, plus linkage differentials on account of the consideration.

Possession of the lot is expected to be handed over no later than August 31, 2016.

Note 14 - Investment property and investment property under construction (Cont.)

F. On May 22, 2013, the Company engaged in an agreement for the purchase of the full rights of a non-related third party in a lot adjacent to the Azrieli Center in Tel Aviv, of an area of approx. 8,400 sqm, at the intersection of Menachem Begin Road and Noah Moses St. in Tel Aviv, in consideration for an amount of NIS 374 million, plus V.A.T. and linkage differentials on the December 2012 index. By December 31, 2015, the Company paid an amount of NIS 90 million, plus linkage differentials, as an advance on the consideration. An amount of NIS 284 million plus linkage differentials and V.A.T., with the addition of linked annual interest at a rate of 2.25% as of the date of the signing of the agreement, shall be paid against the handing over of the possession of the lot.

Possession of the lot is expected to be handed over to the Company by March 31, 2016.

G. After the date of the Financial Statements, on March 2, 2016, the Company entered into a contingent sale agreement for the purchase of all the ownership rights of Lodzia-Rotex Investment Ltd. (the "Seller") in a real estate property on a registered area of 53 thousand sqm. located in the Holon Industrial Zone (the "Sale Agreement"). Below are the main details of the Sale Agreement.

- The property – all the rights in the property and in the area built thereon which includes an area for an income producing rental area of approximately 14,300 sqm., which was leased to various tenants and the assignment of all the rights and liabilities of the Seller according to lease agreements, which were signed with respect to space in the property.

- The consideration – a total amount of NIS 280 million, plus VAT and linkage differentials, if applicable. On the date of the execution of the Sale Agreement, the Company paid (by means of a deposit with a trustee) an amount of NIS 28 million. The consideration balance will be paid to the Seller/trustee (as the case may be) within 21 days following the fulfillment of the condition precedent ("the Closing Date") against the hand-over of the legal possession. A mechanism for the release of the consideration balance was determined subject to the fulfillment of the conditions and the delivery of the documents required for the transfer of ownership in the property as accepted in transactions of this type and as detailed in the Sale Agreement. As of the report date the costs of the transaction are estimated (including with regards to Purchase Tax) at an amount of approximately NIS 19 million. In the period of 12 months from the Closing Date (the "Interim Period"), the Seller will be entitled to all the income net of the property management expenses (NOI), up to an aggregate amount which shall not exceed NIS 10 million. After the Interim Period or from the 15 month anniversary from the execution of the agreement, whichever is earlier, the Company shall receive full possession of the property and will be entitled to all the income from the property.

- Condition Precedent – the closing of the transaction is conditioned on the approval of the Antitrust Commissioner.

- Designation of the Land – the designation of the land according to the valid zoning plan is a special employment area with a commercial front and it includes above-ground and underground parking building rights of approximately 193 thousand sqm.

Note 14 - Investment property and investment property under construction (Cont.)

H. Senior Housing

(1) On May 1, 2014, the Company closed a transaction in which it engaged with unrelated third parties for the purchase of 100% of the shares of a private company (the **"**Acquired Company**"**), which has the right to a capitalized lease of about 10.5 thousand sqm situated in the town of Modi'in, on which, pursuant to the valid zoning plan, a senior housing facility may be constructed.

In consideration for the Acquired Company's shares, the Company has paid (including by way of providing a shareholder loan to the Acquired Company) overall consideration in a sum of about NIS 51.5 million (plus V.A.T.).

(2) On December 1, 2014, the Company won a tender conducted by the ILA for the purchase of land in Lehavim in the south, of an area of approx. 28,000 sqm, in consideration for NIS 6.6 million. The Company intends to build a senior housing complex on the land.

As of the Report Date, the Company has paid the consideration for the land and the development expenses in respect thereof to the ILA.

(3) On July 29, 2015, Canit Hashalom (the "Buyer"), a company controlled by the Company, completed the purchase of 100% of the shares of a private company which holds and manages "Palace Tel Aviv", a prestigious senior housing facility in central Tel Aviv (the "Acquired Company" and the "Property", respectively), which includes approx. 231 senior housing units and 4 nursing wings, after receiving the approval of the Antitrust Commissioner for the transaction on July 23, 2015.

In consideration for the Acquired Company's shares, the Buyer paid a total consideration of NIS 270 million, with approx. NIS 7 million thereof directly paid to the Acquired Company in repayment of a debt of the sellers to the Acquired Company.

Upon closing of the transaction, goodwill of NIS 64 million was created as a result of the business combination.

(4) After the date of the Financial Statements, on March 13, 2016, a consolidated company of the Company's won a tender issued by the Israel Land Authority for the purchase of leasehold rights in a lot of 3,400 sqm, designated for senior housing, at HaRakafot neighborhood in Rishon LeZion East, designated for the construction of at least 250 senior housing units and approx. 3,000 sqm of retail spaces, in consideration for NIS 26 million. According to the terms of the tender, the consolidated company is required to pay development expenses in the sum of approx. NIS 22 million.

Note 14 - Investment property and investment property under construction (Cont.)

H. Senior Housing (Cont.)

(4) (Cont.)

Effect of the purchase on the Group's results

The net profit attributable to the shareholders for 2015 includes approx. NIS 35,556 thousand, attributed to the Acquired Company.

In addition, the sum of the profit for 2015 includes approx. NIS 17,918 thousand, attributed to the Acquired Company.

***Pro forma* report**

Had the purchase been performed at the beginning of 2015, the sum of the Group's revenues would have amounted to approx. NIS 6,362,450 thousand, and the net profit attributable to the shareholders of the Group would have amounted to approx. NIS 831,193 thousand.

For the purpose of determining the *pro forma* profit, the excess reduction fee was calculated based on an estimate of the fair value and the period of the excess reduction fee, as estimated on the date of the business combination.

I. Projected revenues due to signed lease contracts:

Set forth below are the minimal lease payments due to be received due to lease contracts for the agreement periods (including revenues from rent, management fee and parking (and excluding extension options):

The revenue recognition period	Revenues from fixed components
	NIS in thousands
Up to one year	1,489,814
From one to four years	2,960,985
Over four years	1,786,627
	6,237,426

Note 15 - Fixed Assets

A. The movement and composition:

	Land and buildings at cost	Machines and equipment	Furniture, equipment and computers	Vehicles	Installations and leasehold improve-ments	Total
	NIS in thousands					
Cost						
Balance as of January 1, 2014	1,321,832	1,453,060	215,871	81,870	25,774	3,098,407
Additions	(*) 63,134	(*) 37,482	(*) 12,258	14,435	419	127,728
Write-offs	(48,629)	(10,245)	(2,997)	(9,380)	-	(71,251)
Exit from consolidation (3)	(424,553)	(572,078)	(39,678)	(7,979)	(14,350)	(1,058,638)
Effect of changes in exchange rates	-	6,677	41	94	5	6,817
Balance as of December 31, 2014	911,784	914,896	185,495	79,040	11,848	2,103,063
Additions	33,040	48,012	7,894	12,932	632	102,510
Write-offs	(4,363)	(14,026)	(4,051)	(8,312)	(200)	(30,952)
Classification as held for sale	-	-	-	(534)	-	(534)
Entrance to consolidation (2)	76,176	-	5,204	-	-	81,380
Exit from consolidation	-	-	(220)	-	(266)	(486)
Effect of changes in exchange rates	105	82	16	63	-	266
Balance as of December 31, 2015	1,016,742	948,964	194,338	83,189	12,014	2,255,247
Accumulated depreciation and loss from impairment						
Balance as of January 1, 2014	559,238	900,582	159,304	37,978	17,086	1,674,188
Depreciation for the year (1)	25,684	57,522	10,066	8,657	1,338	103,267
Write-offs	(39,260)	(6,156)	(2,882)	(8,047)	-	(56,345)
Exit from consolidation (3)	(192,838)	(359,565)	(34,121)	(4,470)	(8,784)	(599,778)
Effect of changes in exchange rates	-	266	34	55	2	357
Balance as of December 31, 2014	352,824	592,649	132,401	34,173	9,642	1,121,689
Depreciation for the year	24,195	43,394	7,747	9,030	787	85,153
Write-offs	(2,354)	(12,750)	(3,372)	(6,113)	(199)	(24,788)
Classification as held for sale	-	-	-	(355)	-	(355)
Entry to consolidation (2)	10,599	-	3,462	-	-	14,061
Exit from consolidation	-	-	(209)	-	(194)	(403)
Effect of changes in exchange rates	96	75	54	9	(1)	233
Balance as of December 31, 2015	385,360	623,368	140,083	36,744	10,035	1,195,590
Depreciated Cost:						
As of December 31, 2015	631,382	325,596	54,255	46,445	1,979	1,059,657
As of December 31, 2014	558,960	322,247	53,094	44,867	2,206	981,374

(*) Reclassified

(1) The depreciation expenses for 2014 include expenses in the sum of NIS 18,006 thousand from discontinued operations (see also Note 8).

(2) See Note 14H(3).

(3) Primarily sale of Tambour Ltd. – for further details see Note 8.

Note 15 - Fixed Assets (Cont.)

B. In the matter of charges - see Note 32.

C. Details in respect of interests in land used by the Group as fixed assets

(1) Consolidated companies in the Granite Group have buildings on lands held under capitalized lease from the ILA with a depreciated cost, including the buildings thereon and the capitalized long-term rent as of December 31, 2015 in the amount of NIS 62,211 thousand (2014 - NIS 72,673 thousand). The original lease periods are 49-98 years, ending in the years 2039-2062. Some of the lands have renewal options of the lease period for additional 49 years.

(2) Consolidated companies in the Granite Group have buildings on lands held under non-capitalized lease from the ILA with a depreciated cost of NIS 5,030 thousand as of December 31, 2015 (2014 - NIS 5,575 thousand). The original lease periods are 49 years, ending in the years 2016-2023, other than one lease agreement which terminated and is in the process of renewal of the option for additional 49 years.

(3) Consolidated companies in the Granite Group have buildings on land that is leased from third parties, buildings on leased land, leasehold improvements with a depreciated cost and land which is leased through financing lease in a sum of NIS 156,070 thousand as of December 31, 2015 (2014 - NIS 156,071 thousand).

(4) The consolidated company is entitled to be registered as the owner of sub-lease rights, in the framework of a set of agreements with a third party, in land until 2097, at a depreciated cost as of December 31, 2015 in the amount of NIS 50,856 thousand.

Some of the lands that are owned or leased in Israel have not yet been registered in the name of the consolidated companies at the Land Registry. The main reason for the absence of the registration is that the processes of the organization of the land and the organization of the reparcellation of the land have not yet been organized.

Note 16 - Intangible assets

A. The movement and composition:

	Goodwill	Customer relations	Rights to supply and distribution rights to oil distillates and others	Franchise arrangements	Software	Others (*)	Total
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
Cost							
Balance as of January 1, 2014	319,283	159,107	(**) 99,105	21,837	79,538	(**) 81,297	760,167
Additions	-	-	441	6,148	4,463	3,017	14,069
Write-offs	-	-	-	-	(477)	(3,227)	(3,704)
Grant	-	-	-	(9,386)	-	-	(9,386)
Transfer to disposal group held for sale	(51,057)	-	-	-	-	-	(51,057)
Exit from consolidation	(23,891)	(24,177)	-	-	(22,455)	(18,760)	(89,283)
Effect of changes in exchange rates	(7)	-	-	-	-	-	(7)
Balance as of December 31, 2014	244,328	134,930	99,546	18,599	61,069	62,327	620,799
Additions	-	-	6,877	21	2,964	1,342	11,204
Write-offs	(12,185)	-	-	-	-	(18,597)	(30,782)
Entry to consolidation (***)	64,046	-	-	-	-	10,427	74,473
Exit from consolidation	-	-	-	-	(65)	-	(65)
Effect of changes in exchange rates	-	-	-	-	-	48	48
Balance as of December 31, 2015	296,189	134,930	106,423	18,620	63,968	55,547	675,677

(*) The 'Others' item includes primarily amounts in respect of a brand, trademarks, vacating of premises fees and haulage rights.
(**) Reclassified
(***) For further details, see Note 14H(3).

Note 16 - Intangible assets (Cont.)

a. The movement and composition (Cont.):

	Goodwill	Customer relations	Rights to supply and distribution rights to oil distillates and others	Franchise arrange-ments	Software	Others	Total
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
Amortizations and losses from impairment							
Balance as of January 1, 2014	21,904	108,905	15,553	408	68,899	59,701	275,370
Amortization for the year (1)	-	7,474	3,825	246	5,023	2,862	19,430
Write-offs	-	-	-	-	(477)	(3,227)	(3,704)
Impairment	765	-	-	-	-	-	765
Exit from consolidation	-	(20,557)	-	-	(20,131)	(14,801)	(55,489)
Effect of changes in exchange rates	-	-	-	-	-	26	26
Balance as of December 31, 2014	22,669	95,822	19,378	654	53,314	44,561	236,398
Amortization for the year	-	6,131	4,642	858	3,944	2,332	17,907
Write-offs	(5,944)	-	-	-	-	(18,597)	(24,541)
Impairment (Section B(1))	103,000	-	-	-	-	-	103,000
Exit from consolidation	-	-	-	-	(43)	-	(43)
Effect of changes in exchange rates	-	-	-	-	-	1	1
Balance as of December 31, 2015	119,725	101,953	24,020	1,512	57,215	28,297	332,722
Book value							
As of December 31, 2015	176,464	32,977	82,403	17,108	6,753	27,250	342,955
As of December 31, 2014	221,659	39,108	80,168	17,945	7,755	17,766	384,401

(1) The amortization expenses for 2014 include expenses in the sum of NIS 1,896 thousand due to discontinued operations (see also Note 8).

Original Amount of Goodwill	
As of December 31, 2013	305,544
As of December 31, 2014	227,694
As of December 31, 2015	291,740

Note 16 - Intangible assets (Cont.)

b. Allocation of goodwill to cash generating units:

The goodwill has been allocated to cash generating units for the purposes of the testing for impairment, as follows:

	As of December 31		
	2015	**2014**	**2013**
	NIS in Thousands	**NIS in Thousands**	**NIS in Thousands**
A operations – Fuels (1) (2)	49,361	152,361	152,361
B operations – Gas (2)	63,057	63,057	63,057
C operations - Paint	-	-	23,891
D operations – Ecology (3)	-	6,241	58,070
E operations – Senior Housing (4)	64,046	-	-
	176,464	221,659	297,379

Key assumptions used to calculate a recoverable amount:

(1) The testing for impairment of the main part of the goodwill attributed to the fuels operations in 2015 was determined based on the expected fair value, net of sale costs, of the unit, following which an impairment of NIS 103 million was made, in view of indications received in recent months during the attempts made to sell Sonol. For further details, see Note 10E. On an examination of an impairment of the balance of the goodwill attributed to the fuels operations, see Section 2 below.

(2) The testing for impairment is determined based on the capitalization of the future cash flows, which will be generated from the continuing use of the units, based on the following assumptions:

(a) The cash flows are estimated based primarily on the actual results of activities and on the business plans for the coming five years.

(b) The main forecast annual rate of growth that is included in the forecast cash flows in the representative year is 1.5%-2.6% (last year - 1.5%-2%), in accordance with management's evaluation. This growth rate is based on the long-term growth rate of the GDP, the rate of population growth in Israel, business trends in operations in each sector and on the expected increase in competition for the various products.

(c) For the purposes of the estimation of the cost of capital for the activities, an estimate has been made of the pre-tax weighted average cost of capital (WACC), whilst using the CAPM model for the calculation of the price of the capital and additional assumptions in respect of the price of debt and its appropriate debt structure. In the determination of the recoverable amount of the unit, cap rates of primarily: A operations Fuels – 2015 – 13.45% (2014 – primary cap rate - 9.91%), and B operations Gas – 12.30% (2014 – 10.21%) were taken into account. The estimate of the cap rate was made in reliance, *inter alia*, on the price of the capital for each activity, including the taking into consideration of the risk free interest rate, the market premium and the beta, the price of debt and comparison to similar public companies and other competing companies, as the case may be.

The evaluations and the assumptions were determined in accordance with the estimations of the managements in the Group in respect of future trends in the sector, and they are based on both external and internal sources (historical data) and in accordance with economic evaluations by independent appraisers.

Note 16 - Intangible assets (Cont.)

Key assumptions used to calculate a recoverable amount: (Cont.)

(3) The testing for impairment in 2014 is determined based on the fair value of a transaction , which is based, *inter alia*, on the sale transaction, as stated in Note 9.

For details on the sale of the holdings of a consolidated company in Via Maris Desalination (Holdings) LTD. and Via Maris Desalination – Construction Partnership, see Note 9.

(4) For further details, see Note 14H(3).

Note 17 – Pre-paid long-term lease payments

Leases in which the Group is the lessee:

A consolidated company has lease agreements, which are for up to 25 years for the most part. Most of the lease agreements include additional lease payments, based on changes in the CPI or other market data.

The following are details of the lease payments and income from sub-lease that were carried to the income statement:

	For the year ended December 31		
	2015	2014	2013
	NIS in Thousands	NIS in Thousands	NIS in Thousands
Minimal lease payments recognized as an expense	178,693	188,617	183,839
Conditioned lease payments recognized as an expense	21,407	20,200	22,451
Income in respect of sub-lease	(6,929)	(20,371)	(19,510)
	193,171	188,446	186,780

Note 18 - Trade payables

The composition:

	As of December 31	
	2015	2014
	NIS in Thousands	NIS in Thousands
Open debts	480,252	660,751
Checks payable	44,386	44,998
	524,638	705,749

Note 19 - Other payables

The composition:

	As of December 31	
	2015	**2014**
	NIS in Thousands	**NIS in Thousands**
Advance payments from customers and income in advance	41,991	50,718
Liabilities for the completion of work in progress	16,291	15,039
Liabilities to employees and other liabilities in respect of salaries and wages	48,421	52,288
Interest and expenses payable	55,005	45,405
Liability for work	-	13,000
Institutions	197,756	162,291
Others	15,744	19,723
	375,208	358,464

For further information regarding payables that constitute related and interested parties, see Note 37C.

Note 20 - Deposits from customers

A. A consolidated company charges its customers with a deposit for ensuring the recovery of the equipment provided to them at the time of the engagement therewith, which it is required to return upon the end of the engagement and the recovery of the equipment. In 2015, the Products and Services Price Control Order (Determination of the Level of Control and Maximum Deposit Prices for Gas Equipment) 5776-2015, was approved, which regulates the price of the maximum deposit from a customer for the supply of gas equipment, linkage of the deposit rates and refund to a customer who discontinues his engagement. The financial statements include a liability for deposit refunds in accordance with the aforesaid order, on the assumption that the company is liable to all of the customers of the consolidated company using gas canisters, except for one segment, for the full deposit in the Order.

B. Liability due to senior housing deposits and liabilities due to apartment keeping deposits

A consolidated company has liabilities due to deposits received from tenants with whom contracts were signed in a senior housing project, which is operated by the consolidated company. The liabilities due to the Dollar deposits that were converted into Shekel and the liabilities due to the Shekel deposits are linked to the CPI and are presented after erosion pursuant to the agreements signed by the consolidated company with tenants.

According to agreements with some of the tenants, a certain percentage of the balance of the deposits is used as an advance payment for the tenant's rights of usage of the property and is not repaid to the tenant. The "income received in advance" component is included as part of the liability due to the deposits and is carried to the income statement as an income from usage fees throughout the term of the agreement.

Furthermore, consolidated companies have a liability due to apartment keeping deposits.

On June 4, 2012, the Senior Housing Law was approved. The law affected a reform in the senior housing sector and regulated several issues, including: licenses to operate a senior home, the terms and conditions for receipt of licenses, the duty to build a nursing wing, limitations in connection with the raising of maintenance fees, the manner of linking of deposits, guarantees for tenants, etc.

Note 21 - Loans from banks and other credit providers

A. Current liabilities:

	As of December 31	
	2015	2014
	NIS in Thousands	NIS in Thousands
Credit from banks		
Overdrafts	18,277	24,805
Short-term loans	881,928	1,228,710
	900,205	1,253,515
Credit from other credit providers		
Commercial paper	629,992	480,000
Short-term loans	716	1,621
	630,708	481,621
Current maturities of long-term liabilities		
Current maturities of loans from banks	210,605	476,601
Current maturities of loans from others	90,254	341,052
Current maturities of bonds	198,433	409,354
	499,292	1,227,007
Total current liabilities	2,030,205	2,962,143

On June 23, 2014, the Company raised a new (rated) series of commercial paper for investors listed in the First Schedule to the Securities Law, 5728-1968, with a total par value of NIS 480 million, which replaces all three existing series of commercial paper of the Company (both rated and unrated). The commercial paper principal bears variable NIS interest comprising Prime interest less 1.2%, due after the earlier of twenty 90-day terms or at maturity or at an exit point. The commercial paper will not be listed on TASE.

The commercial paper received an "ilA-1+" rating from Maalot.

In March 2015, the Company issued a new un-rated series of commercial paper with a total par value of NIS 116 million, in June 2015 expanded this series with additional par value of NIS 40 million, and in November 2015 repaid NIS 6 million of the par value of this series. The commercial paper principal bears variable NIS interest comprising Prime interest less 1.2%, due after the earlier of twenty 90-day terms or at maturity or at an exit point. The balance of the unrated commercial paper series as of December 31, 2015 is par value NIS 150 million.

Note 21 - Loans from banks and other credit providers (Cont.)

B. Non-current liabilities:

	As of December 31	
	2015	**2014**
	NIS in thousands	**NIS in thousands**
Bonds		
Bonds (1), (2), (3), (4), (5)	3,161,164	1,366,886
Loans from banks	2,412,276	2,750,010
Other long-term liabilities		
Long-term loans from others	877,824	1,243,562
Capital notes	215	215
	878,039	1,243,777
	6,451,479	5,360,673
Net of current maturities	(499,292)	1,227,007
Total non-current liabilities	5,952,187	4,133,666
Presented under the following items:		
Loans from banks and other credit providers	2,989,456	3,176,134
Bonds	2,962,731	957,532
	5,952,187	4,133,666

(1) In 2007, the Company performed a private placement to institutional investors of Series A bonds, with a par value of 740 million bonds of par value NIS 1 each. The bonds are linked to the CPI (principal and interest) and bear interest at a rate of 4.8% a year. The Company will repay an amount equivalent to 5% of the amount of the principal (NIS 37 million) in the month of March in each of the years 2008 to 2016 and in March 2017 it will repay an amount that is equivalent to 55% of the amount of the principal (NIS 407 million). The interest payments will be executed once every three months.

For the purposes of this issue, the bonds were rated Aa2 by Midroog and AA/Stable by Standard & Poors Maalot ("Maalot").

On January 20, 2015, Maalot upgraded the Company's rating to AA+/Stable and the Company's Series A Bonds rating to AA+.

On November 1, 2015, Midroog announced the upgrade of the Company's Series A Bonds rating to Aa1 with a stable outlook.

The Series A Bonds have listed on the TACT-institutional on the TASE, where the Company is entitled to list the Series A Bonds on the TASE, at its sole discretion. The bonds will be accelerated upon certain conditions, including on receivership, arrears in payments, a change in control, the sale of rights in at least two of the following assets: the Ayalon Mall, Hanegev Mall or the Jerusalem Mall, where as the result of the sale there is a lowering of the rating of the bonds is lowered, as it may be from time to time. The grounds for immediate repayment in respect of a change in control, the sale of at least two of the Group's assets, as aforesaid, and the lowering of the rating of the bonds below BBB+ or an equivalent rating thereof, will be cancelled when the Company's bonds are registered for trading. Within the framework of the issuance of the Series A bonds, the Company has undertaken not to distribute a dividend to its shareholders, so long as such a distribution would cause a lowering of the rating for the bonds.

Note 21 - Loans from banks and other credit providers (Cont.)

(1) (Cont.)

The balance, the principal and linkage differentials of the Series A Bonds (net of issue expenses) as of December 31, 2015 is approx. NIS 533,746 thousand (as of December 31, 2014 – NIS 583,297 thousand). As of the date of the Financial Statements the Company is in compliance with the contractual restrictions that have been set.

(2) In June 2005, the subsidiary Canit Hashalom issued Series A Bonds with a total par value of NIS 500 million. In July 2009, Canit Hashalom increased the Series A Bonds to institutions by approx. NIS 89.5 million par value. In June 2015, the balance of the bonds was paid and consequently all charges registered and guarantees given in favor of the holders of Series A bonds of Canit Hashalom were removed.

(3) In February 2015, the Company made a public offering of approx. NIS 623.3 million par value of registered Series B Bonds, based on the Company's shelf prospectus. The bonds are linked (principal and interest) to the CPI and bear interest at a fixed rate of 0.65% per year.

The principal payments will be paid in 10 equal annual installments on April 1 of each one of the years 2016 to 2025 (each installment will be 10% of the principal's par value). The interest will be paid in semiannual installments from October 1, 2015 and on April 1 and October 1 of each one of the years 2016 to 2025. The bonds were issued without a discount.

The issue proceeds totaled approx. NIS 623.3 million, and after attributing the issue expenses, the net proceeds amounted to approx. NIS 618.9 million. The effective interest rate in respect of the bonds is 0.78% per annum.

On January 20, 2015, Maalot rated the Series B Bonds as ilAA+ (stable outlook).

The bonds are not secured by any collateral.

At the time of the offering, the Company undertook to meet financial covenants and undertakings, the main ones being:

(a) So long as the Series B Bonds are not fully paid-up, the Company shall neither encumber nor pledge by way of a floating charge all of the Company’s existing or future assets and rights, except under certain conditions set forth in the Indenture.

(b) Maintaining minimal equity (equity attributable to the Company’s shareholders, excluding minority rights) of at least NIS 5 billion for two or more consecutive calendar quarters, according to its last consolidated financial statements.

The net financial debt to net assets ratio, according to the definitions in the Indenture, exceeded 60% for two or more consecutive calendar quarters.

The Indenture determines that in lieu of the said financial covenants, the Company may, at its sole discretion, pledge (either itself or through an investee company) in favor of the trustee for the Series B bondholders, by way of a fixed charge, Permitted Assets as defined in the Indenture (i.e., insofar as the Company pledges Permitted Assets as aforesaid, and the pledges are in force and effect, the Company shall not be bound by the said financial covenants).

Note 21 - Loans from banks and other credit providers (Cont.)

B. Non-current liabilities: (Cont.)

(3) (Cont.)

(c) The Company shall not perform a Distribution (as defined in the Companies Law) to its shareholders, if: (1) the Company's equity (equity attributable to the Company's shareholders, excluding minority rights) according to its last published consolidated financial statements, net of the amount of the Distribution, is less than NIS 6 billion; (2) the Company's net financial debt to net assets ratio (as defined in the Indenture), net of the amount of the Distribution, exceeds 50%; (3) there are grounds for acceleration according to the definitions in the Indenture of the Series B Bonds on the date of the decision to perform the Distribution or as a result thereof.

As of the balance sheet date, the Company meets the financial covenants.

It was further determined that in the event that the rating of the Company's Series B Bonds falls below Maalot's ilAA rating, or a corresponding rating determined by another company that rates the bonds, the rate of the annual interest borne by the unpaid balance of the bond principal shall rise, in which case, the annual interest rate that shall be added to the annual interest in respect of the bonds will range between 0.25% and 1%, according to the bonds' rating.

In addition, the Series B Bonds shall be accelerated upon fulfillment of certain conditions, including: delisting or dissolution of the Company, receivership, delinquency in payments under the bonds, attachments on all or most of the Company's assets, changes in control, a fundamental breach of the terms and conditions of the bonds or the Indenture, non-compliance with the above financial covenants, performance of a distribution contrary to the above restriction on the performance of a distribution, suspension of trading of the bonds (except on grounds of ambiguity), a demand for acceleration by financial creditors above NIS 200 million or another bond series of the Company, discontinuation of rating of the bonds due to circumstances within the Company's control, a bond rating lower than BBB-, or the sale of most of the Company's assets.

In June 2015, the Company made another public offering of approx. NIS 600.3 million par value by way of expansion of the Series B Bonds, based on a shelf prospectus of the Company. The gross issue proceeds amounted to approx. NIS 599.1 million, and the net proceeds after the attribution of the issue expenses amounted to approx. NIS 593.6 million.

As of September 22, 2015, the adjusted value of the Series B Bonds was approx. 100.24 *Agorot* per each NIS 1 par value of the Series B Bonds.

The additional Series B Bonds were issued at a discount at a rate of approx. 0.44% relative to their adjusted value.

On June 21, 2015, Maalot gave the expansion of the Series B Bonds in the amount of up to NIS 685 million par value a rating of ilAA+ (stable outlook).

The balance of the Series B Bonds, principal and linkage differentials (net of issue expenses and discounting) as of December 31, 2015 is NIS 1,213,177 thousand.

Note 21 - Loans from banks and other credit providers (Cont.)

B. Non-current liabilities: (Cont.)

(4) In September 2015, the Company made a public offering of approx. NIS 1,005.1 million par value registered Series C Bonds based on a shelf prospectus of the Company. The bonds are linked (principal and interest) to the CPI and bear fixed interest at a rate of 1.64% per annum.

The principal payments will be made in 10 equal annual installments on July 1 of each one of the years 2018-2027 (each installment will be 10% of the principal's par value). The interest will be paid in semi-annual installments from July 1, 2016 and on January 1 and July 1 of each one of the years 2017-2027. The bonds were issued without any discount.

The issue proceeds totaled approx. NIS 1,005.1 million, and after attributing the issue expenses, the net proceeds amounted to approx. NIS 996.9 million. The effective interest rate in respect of the bonds is 1.78% per annum.

On September 3, 2015, Maalot rated the Series C Bonds as ilAA+.

The bonds are not secured by any collateral.

At the time of the offering, the Company undertook to meet financial covenants and undertakings, similar to the financial covenants to which it committed in respect of the Series B Bonds (for a description of the terms and conditions, see Section 3 above).

As of the balance sheet date, the Company meets the financial covenants.

It was further determined that in the event that the rating of the Company's Series C Bonds falls below Maalot's ilAA rating, or a corresponding rating determined by another company that rates the bonds, the annual interest rate borne by the unpaid balance of the bond principal shall rise, in which case, the annual interest rate that shall be added to the annual interest in respect of the bonds will range between 0.25% and 1%, according to the bonds' rating.

In addition, the Series C Bonds shall be accelerated upon fulfillment of certain conditions, similar to the terms that were determined in respect of the Series B Bonds (for a description of the terms and conditions, see Section 3 above).

The balance of the Series C Bonds, principal and linkage differentials (net of issue expenses) as of December 31, 2015 is NIS 997,076 thousand.

(5) In July 2007, a consolidated company of Supergas which was established for the purpose of the issuance, and to which, primarily, the domestic gas operations were transferred, executed an issue of bonds to institutional investors through a private placement, with a total par value of NIS 600 million. The bonds, which are rated with a rating of Aa1 by Midroog Ltd., are for a period of 18 years, and are repaid in quarterly installments of the principal from 2010. The bonds are linked to the CPI (principal and interest) and bear interest at a rate of 4.9% a year, which is paid once every calendar quarter. The balance of the bonds is presented net of net issue expenses, which amount to NIS 756 thousand as of December 31, 2015 (December 31, 2014 – NIS 913 thousand). The effective rate of interest for the bonds is 5.26% a year.

Note 21 - Loans from banks and other credit providers (Cont.)

B. Non-current liabilities: (Cont.)

(5) (Cont.)

In June 2014, the consolidated company of Supergas completed a process to modify the bonds issued thereby in 2007, which includes prepayment of certain principal payments (which constitute approx. 11.5% of the bond balance), which, according to the original terms of the issuance, were due to be paid over the coming five years, and in fixed quarterly principal payments such that they will be uniform and equal. Accordingly, the consolidated company of Supergas paid 51,829,380 par value in total of approx. NIS 75 million, which includes the sum of approx. NIS 12.3 million that was paid due to the prepayment. In addition, it was determined that in the event that Canit Hashalom ceases to be a controlling shareholder of the Company, then Granite shall make an offer to the bondholders to purchase the bonds at a scope of no less than 45 million par value, and at a price which reflects the adjusted value of the bonds on such date.

The bonds are secured by a first-ranking floating charge, in an unlimited amount, on all of the assets of the consolidated company of Supergas, in addition, Supergas charged by a first ranking fixed charge in an unlimited amount all of the shares of the consolidated company owned and held thereby, including the rights deriving from such shares.

According to the bond terms, the consolidated company of Supergas is required to meet financial covenants. Deviation from the financial covenants would allow the holders of the bonds to demand the acceleration of repayment or early repayment as described below.

In the event that the ratio between the available cash flow of the domestic operations (the quarterly income flow from domestic operations net of expenses (gas and other) on an annual average), and the quarterly bond debt (the "Debt Coverage") shall fall below 126.5%, it will not be possible to withdraw surpluses from the reserve account in which cash surpluses which exceed the service charges and gas purchases are deposited.

Acceleration of payments:

(a) If the ratio between the average quarterly free cash flows from the domestic gas operations (the cash flow of the receipts from the domestic operations net of actual purchases of gas and expenses in respect of the services agreement in respect of the domestic gas operations), for the past year and the quarterly installment (principal and interest) which are expected to be paid to the bondholders at the time of the first expected payment (the "Debt Coverage Ratio") falls below 111%.

(b) If the rate of the margin on the commercial gas operations in containers falls below 12% (as of the date of the Financial Statements, the rate of the margin is materially higher than such rate).

Note 21 - Loans from banks and other credit providers (Cont.)

B. Non-current liabilities: (Cont.)

(5) (Cont.)

Acceleration of payments: (Cont.)

Acceleration and realization of collateral:

1. If the Debt Coverage Ratio falls below 103%.
2. In the event of insolvency.
3. The non-payment of a payment of principal or interest.
4. A decision for dissolution or receivership of Supergas' consolidated company.
5. The imposition of an attachment or execution of the entire or material assets of Supergas' consolidated company.
6. A fundamental breach of the terms of the bonds.
7. In the event that Supergas' consolidated company loses the gas license.
8. In the event of a change in control such that Granite ceases, under certain conditions, to control Supergas.
9. The lowering of the rating of the bonds rating below Baa1 or if the rating is not monitored.

In addition, there are grounds for the replacement of Supergas as a provider of services in the transaction, the main ones being: if the debt cover ratio falls below 106%; events in which Supergas becomes insolvent or if it loses its gas supplier license.

As of the date of the Financial Statements, Supergas's consolidated company meets the covenants while the debt service coverage ratio as of the Report Date is 354%.

(6) On May 21, 2014, the Company entered into a loan agreement with several companies in an institutional body group affiliated neither with the Company nor with its controlling shareholders, to receive a loan of NIS 300 million, linked to the CPI, bearing annual interest at the rate of 0.74%. The loan (principal and interest) will be repaid in 36 equal quarterly installments linked to the rate of increase in the Index from the end of three months from the date of provision of the loan. To secure repayment of the loan, a consolidated company has pledged, in favor of the lender, its rights in the land on which the Azrieli Ramla Mall is being built, including its rights to receive rent from tenants in the Mall, and the Company's rights by virtue of the insurance policy in connection with the Mall will also be pledged. The lender will be entitled to accelerate the loan on accepted grounds that are set forth in the loan agreement, including, *inter alia*, upon the occurrence of a change of control, the acceleration of a debt of the Company to other financial institutions, or the imposition of an attachment in the amounts and under the conditions as are defined in the loan agreement, and also if after the population of the Mall and the opening thereof to the public, the LTV is higher than the ratio set forth in the loan agreement and no other or supplementary collateral was provided. It was further determined that if the Company grants a floating charge to another entity in the future, it shall grant the lender, on the same date, a floating charge of identical ranking and scope (*pari passu*).

As of December 31, 2015, the Company meets the financial covenants.

(7) On the terms of a loan for the purchase of an office building in Texas in 2014, see Note 14C.

Note 21 - Loans from banks and other credit providers (Cont.)

C. Details in respect of interest and linkage:

	Currency	As of December 31 2015 Nominal interest	As of December 31 2015 Par value	2015 Book value	2014 Par value	2014 Book value
		%		NIS in thousands		NIS in thousands
Overdrafts from banks	Unlinked	2.60		18,277		24,805
Short-term loans from banks (*)	Unlinked	2.50-3.30		827,779		1,163,733
Short-term loans from banks	Foreign currency	1.68-5.00		54,149		64,977
Short-term loans from other credit providers	Index	4.00		716		1,621
Commercial paper	Unlinked	Bank of Israel + 0.3		629,992		480,000
Bonds that are not convertible into shares	Index	0.65-4.90	3,030,673	3,161,164	1,135,143	1,366,886
Long-term loans from banks	Index	1.10-5.80		1,207,425		1,470,277
Long-term loans from banks (*)	Unlinked	1.80-5.90		174,172		274,277
Long-term loans from banks	Linked to the Dollar	3.16-6.00		1,030,679		1,005,456
Liability in respect of finance lease	Index	4.00-8.00		508		732
Liability in respect of finance lease	Unlinked	6.00-9.50		6,908		7,703
Liability in respect of finance lease	Linked to the Dollar	8.00		3,846		3,733
Capital notes	Unlinked	-		215		215
Long-term loans from others	Index	0.74-1.16		782,500		1,156,008
Long-term loans from others (*)	Unlinked	2.50		8,804		-
Long-term loans from others	Foreign currency	5.51		86,520		87,554
Other long-term payables	Unlinked	-		-		335
Total loans and credit from banks and other credit providers			3,030,673	7,993,654	1,135,143	7,108,312

(*) Some of the Shekel loans bear variable interest which is dependent on the Prime interest. The Prime interest rate as of December 31, 2015 is 1.60% (2014 - 1.75%).

For details on loans that are secured by charges, see Note 32.

Note 21 - Loans from banks and other credit providers (Cont.)

D. Contractual restrictions and financial covenants in the Company:

If certain conditions exist, as detailed in the loan agreements (primarily at the time of a change in the structure and the control in the Company, arrears in payments, receivership and a reduction in the value of the collateral), the loan providers are entitled to accelerate the loans. The total sum of credit for which the Company committed for the aforesaid terms amounted as of December 31, 2015 to approx. NIS 1,958 million. As of the date of the Financial Statements, the Company is in compliance with the contractual restrictions that have been set.

Note 22 - Employee benefits

Employee benefits include post-employment benefits, other long-term benefits, benefits upon the termination of employment, short-term benefits, including due to wages and salary and also share-based payments.

In respect of post-employment employee benefits, the Group has defined benefits plans, in respect of which it deposits amounts in appropriate severance pay funds and insurance policies. Moreover, the Group has a defined deposit plan in respect of some of its employees, with regard to whom section 14 of the Severance Pay Law, 5723-1963 applies.

	As of December 31	
	2015	2014
	NIS in thousands	NIS in thousands
Present value of unfunded liability	9,100	13,062
Present value of funded liability	58,420	48,472
Total present value of liability	67,520	61,534
Fair value of the plan assets	57,403	48,368
Liability recognized due to defined benefit plan	10,117	13,166
Liability due to other short-term benefits	32,348	33,472
Liability due to other long-term benefits	4,158	7,730
Liability due to termination of employment (early pensions)	6,821	9,169
Liability in respect of share-based payment	-	3,512
Total employee benefits	53,444	67,049
Presented under the following items:		
Investments and loans – assets in respect of employee benefits	(1,977)	(1,720)
Other payables	36,440	43,108
Long-term employee benefits	18,981	25,661
	53,444	67,049

Note 23 - Capital

A. The share capital and share rights as of December 31, 2015 and 2014:

	Authorized		Issued and paid-up	
	As of December 31		As of December 31	
	2015	2014	2015	2014
	NIS	NIS	NIS	NIS
Ordinary shares of par value NIS 0.1	12,750,150	12,750,150	12,127,276	12,127,276

Each fully paid-up ordinary share of par value NIS 0.1 grants the right to participate and vote at general meetings. Each shareholder will have one vote for every fully paid-up share he owns. All the shares have equal rights relating to the amounts of capital paid or credited as paid on their par value, and everything connected with distribution of dividend, bonus shares and any other distribution, repayment of capital and participation in the distribution of the Company's surplus assets upon liquidation.

B. Dividend:

In March 2011, the Company's Board determined that until the receipt of another decision, in view of the Company's main operations in income-producing property, a dividend will be distributed from the Company's net profit, subject to any law and the Company's needs, net of revaluations and net of the tax effect thereon, and also taking into consideration other indexes typical to income-producing property companies such as the FFO Index.

The amount of the dividends distributed in the future is expected to be affected by the Company's profits and operation needs, including investments and business opportunities when the investment in them is likely to reduce the liquidity.

On March 22, 2016, after the Date of the Statement of Financial Position, the Company's Board, following the recommendation of the Finance Committee, decided on a dividend distribution, after determining that the Company meets the profit test and the solvency test set forth in Section 302 of the Companies Law (the distribution tests). In addition, restrictions on distribution within the Company were examined, including the Company's undertaking to the trustee in the indenture for the Company's Series A Bonds, not to distribute a dividend to its shareholders, insofar as such a distribution will lead to a downgrade of the bond rating, and to the trustee in connection with the indentures for the Company's Series B and Series C Bonds, see Notes 21B(3) and (4).

C. On March 18, 2014, the Company's Board decided upon the distribution of a NIS 280 million dividend (which reflects NIS 2.31 per share), for 2013 which was paid on May 7, 2014.

On March 16, 2015, the Company's Board decided upon the distribution of a NIS 320 million (which reflects NIS 2.64 per share), for 2014 which was paid on May 4, 2015.

On the decision of the Company's Board regarding the distribution of a dividend for 2015 in the sum of NIS 400 million after the Date of the Statement of Financial Position, see Note 39A.

D. The retained earnings available for distribution as of December 31, 2015 is NIS 11,218,947 thousand (this retained earnings also include the revaluation fund for financial assets available for sale and revaluation of real property profits).

Note 24 - Income

The Composition:

	For the year ended December 31		
	2015	**2014**	**2013**
	NIS in thousands	**NIS in thousands**	**NIS in thousands**
Income	10,220,720	11,014,364	11,681,602
Net of government levies	(4,133,975)	(3,882,846)	(3,805,331)
Net income	6,086,745	7,131,518	7,876,271
Composition of the income, net:			
Sales	4,269,854	5,382,663	5,836,659
Services	51,884	47,320	46,240
Construction contracts	42,209	57,715	396,127
Franchise agreements	100,255	172,709	163,921
Total income from sales, work and services	4,464,202	5,660,407	6,442,947
Rent, management and maintenance and senior housing fees	1,622,543	1,471,111	1,433,324
Total income	6,086,745	7,131,518	7,876,271

Note 25 - Cost of income

The composition:

		For the year ended December 31		
		2015	2014	2013
		NIS in thousands	NIS in thousands	NIS in thousands
A.	**According to the sources of income:**			
	Sales	3,386,301	4,526,078	4,943,713
	Services	52,374	45,370	39,312
	Construction contracts	38,140	69,630	327,626
	Franchise agreements	82,153	133,391	131,811
		3,558,968	4,774,469	5,442,462
	Rent, management and maintenance fees	385,098	329,110	320,472
	Total cost of income	3,944,066	5,103,579	5,762,934
B.	**According to its components:**			
	Oil distillates, gas and other material consumed	3,356,406	4,643,181	5,247,406
	Labor and external work salary	133,030	116,282	116,398
	Depreciation and amortization	15,035	11,559	12,484
	Production expenses and others	374,381	340,485	323,380
		3,878,852	5,111,507	5,699,668
	Net of increase in inventory of work in progress	(284)	(1,009)	(103)
	Net of increase/plus decrease in inventory of finished products	65,498	(6,919)	63,369
		3,944,066	5,103,579	5,762,934

Note 26 - Sales and marketing expenses

The composition:

	For the year ended December 31		
	2015	2014	2013
	NIS in thousands	NIS in thousands	NIS in thousands
Wages, salaries and related expenses	207,030	198,894	196,671
Automatic fueling and commissions paid	34,464	30,013	28,411
Advertising	38,467	27,455	18,856
Depreciation and amortization	76,161	78,594	75,951
Maintenance of buildings, facilities and gasoline stations	40,285	41,452	41,166
Rent and municipal taxes	226,887	231,037	229,041
Haulage and maintenance of commercial motor vehicles	26,723	27,250	27,413
Other sales and marketing expenses	28,855	29,884	31,854
	678,872	664,579	649,363

Note 27 - General & administrative expenses

The composition:

	For the year ended December 31		
	2015	2014	2013
	NIS in thousands	NIS in thousands	NIS in thousands
Management fees, wages, salaries and related expenses (**)	67,488	(*) 76,448	(*) 86,472
Share-based payments (**)	2,742	1,197	8,763
Consultancy, legal and audit fees	35,743	(*) 43,454	(*) 42,604
Provision for legal claims and doubtful and lost debts	45,920	(*) 17,699	(*) 21,471
Depreciation and amortization	11,957	12,190	12,260
Other general and administrative expenses	34,713	38,800	40,154
	198,563	189,788	211,724

(*) Reclassified.
(**) For details in respect of transactions with related and interested parties - see Note 37B.

Note 28 - Other income (expenses)

"Other income" includes primarily dividends received from investments in financial assets available for sale (Leumi Card) in the sum of NIS 10,000 thousand (in 2014 - NIS 10,000 thousand and in 2013 - NIS 6,000 thousand).

In 2015, "Other expenses" includes primarily impairment of goodwill attributed to Sonol's operations in the sum of NIS 103 million (see Note 16B(1)).

In 2014, "Other income" includes profit from the sale of shares in investee companies of Granite in the sum of NIS 42,709 thousand (see Note 10D).

Note 29 - Financing revenues and expenses

The composition:

	For the year ended December 31		
	2015	**2014**	**2013**
	NIS in thousands	**NIS in thousands**	**NIS in thousands**
Financing revenues			
Revenues from interest on loans and receivables	13,399	(*) 8,245	11,518
Financing revenues from a financial asset in respect of franchise arrangement	-	55,723	52,208
Profit (loss) from a change in exchange rates, net	2,156	(21,153)	17,399
Revenues from interest on deposits in banks	765	1,456	2,562
Interest and dividend from financial assets held for trading	-	388	5,713
Other financing revenues	4,688	(*) 10,543	3,135
Financing revenues carried to profit and loss	21,008	55,202	92,535
Financing expenses			
Interest expenses on loans, liabilities and bonds	195,316	281,635	420,157
Change in the fair value of derivative financial instruments	2,915	(47,835)	54,462
Miscellaneous bank expenses and charges	12,142	13,336	10,224
Linkage on deposits from customers	(743)	177	2,838
Other financing expenses	4,097	4,694	8,311
Financing expenses	213,727	252,007	495,992
Net of capitalized credit costs	(40,048)	(46,890)	(69,795)
Financing expenses carried to the income statement	173,679	205,117	426,197
Net financing expenses carried to the income statement	152,671	149,915	333,662

(*) Reclassified.

Note 30 – Taxes on income

A. Details in respect of the tax environment in which the Group operates:

(1) Amendments to the Income Tax Ordinance and the Land Appreciation Tax Law

(a) In August 2013, the "Arrangements Law" (the "Law") was published in the Official Gazette.

Following are the main significant tax changes that were set forth in the Law:

[1] Increase of the corporate tax from the tax year 2014 to 26.5% (a 1.5% increase).

[2] Revaluation profits (surpluses not subject to corporate tax of the type determined by the Minister of Finance in an amount exceeding one million New Israeli Shekels, calculated on an aggregate basis from the date of purchase of the asset), will be taxable, based on a mechanism of a notional sale and purchase of an asset at any time for which a revaluation thereof was performed, from which revaluation profits were also distributed. Accordingly, a parallel provision was set forth in the Land Taxation Law (Appreciation and Purchase) with respect to appreciation tax on a right in land or a right in a land association for which a distribution from revaluation profits was recorded in the Company's financial statements, as if the right was sold on the date of distribution of the revaluation profits, and re-purchased on the same day.

The applicability provisions determine that they shall apply to assets outside of Israel on the effective date of regulations to be promulgated by the Minister of Finance, and provisions shall be set for the avoidance of double taxation within the meaning thereof in Section 200 of the Income Tax Ordinance. Furthermore, the definition of "Revaluation Profits" determined that they are "surpluses not subject to corporate tax of the type determined by the Minister of Finance". As of the date of approval of these Financial Statements, not such regulations have been published.

In view of the Company's dividend policy, as aforesaid in Note 23B, such legislation has no significant tax implications for the Company.

(b) On January 4, 2016, the plenum of the Knesset approved the Law for Amendment of the Income Tax Ordinance (No. 216) 5776-2016, which determined, *inter alia* a decrease in the corporate tax rate, commencing 2016 and onwards, by a rate of 1.5%, to 25%. Had the legislation been actually completed by December 31, 2015, the effect of the change on the financial statements as of December 31, 2015 would have been expressed in a reduction of the deferred tax liability balances in an amount of NIS 167 million and a reduction in the deferred tax asset balances in an amount of NIS 3 million. The update of the deferred tax balances would have been recognized against deferred tax income in an amount of NIS 159 million and the other comprehensive income of the Company would have increased by NIS 164 million.

(c) On September 17, 2009, the Income Tax Regulations (Determination of interest rate for purposes of Section 3(j)) (Amendment), 5769-2009 were published, in the framework of which the provisions in the Income Tax Regulations (Determination of interest rate for purposes of Section 3(j)), 5746-1986 were changed comprehensively.

The regulations determined a mechanism for the annual update of the interest rate. In view of the aforesaid, notices of the Minister of Finance in respect of determining the interest rate for the purposes of Section 3(j) of the Tax Ordinance, are published in the Official Gazette, as follows:

Note 30 – Taxes on income (Cont.)

A. Details in respect of the tax environment in which the Group operates: (Cont.)

The interest rate for purposes of Section 3(j) of the Ordinance for 2015 was set at 3.05% (2014 – 3.23%, 2013 – 4.1%).

On February 9, 2016, a notice of the Minister of Finance in respect of determining the interest rate for the purposes of Section 3(j) of the Ordinance for 2016 at the rate of 2.56%, was published in the Official Gazette.

Conversely, where the loans are extended in foreign currency (as defined in the Regulations), the interest rate for purposes of Section 3(j) has been set as the rate of the change of the exchange rate for that currency plus 3%.

(2) The Company and a subsidiary have a holding (90%-99%) in American partnerships, which hold real property. The profits (losses) of the American partnerships from the rental of the real properties and from the sale thereof are attributable directly to the partners, in accordance with their shares in the capital, because under American tax law, a partnership which has been registered in the USA is considered to be transparent for tax purposes.

Accordingly, the Group will be attributed the profits (losses) of the American partnerships in which it serves as a limited partner and accordingly will be liable for tax in the USA in respect of the profits, attributed thereto as aforesaid in accordance with the Federal corporate tax rate (at a rate of 15%-35%) and Texas state tax (whose rate on December 31, 2015 was 0.95% of the "taxable margin", as defined in the law), which constitutes an expense for the purposes of the calculation of the Federal tax. In addition, under certain circumstances, a "branch tax" at the rate of 12.5% may be levied on part of the profits of the partnerships (even if not yet actually distributed). If such profits are reinvested for business in the USA and subject to compliance with additional conditions, the "branch tax" may be deferred.

In a similar manner, the general partners in the American partnerships will be liable for tax in the USA in respect of their share (1%) of the profits (losses) from the rental of the real properties and/or from the sale thereof, in accordance with the tax rates that are mentioned above (with the exclusion of "branch tax").

In accordance with the provisions of Section 63 of the Ordinance, the limited partners (the Company and its subsidiary), will be liable for corporate tax in Israel in respect of their share of the profits from the rental of the land in the USA and in the real capital gain that is derived from their sale by the American partnerships.

In the case of tax payable in the USA, in respect of which it is not possible to obtain a tax credit in Israel in the tax year in which it was paid, *inter alia*, by reason of losses for tax purposes incurred by the subsidiary - a credit may be obtained in respect thereof (in adjusted values, in accordance with the rate of the rise in the CPI) against the tax imposed on the subsidiary in Israel in respect of revenues from lease overseas in the 5 subsequent years.

(3) The Company has a holding (100%) in U.S. subsidiaries that are liable for tax in the USA. The subsidiaries are liable for Federal Tax rate on the companies' current income and capital gains from the sale of the real properties of 35%, and for Texas state tax.

Note 30 – Taxes on income (Cont.)

B. Tax revenues (expenses) on income recognized in the income statement:

	For the year ended December 31		
	2015	**2014**	**2013**
	NIS in thousands	**NIS in Thousands**	**NIS in thousands**
Current tax revenues (expenses)			
For the current period	(201,609)	(193,212)	(124,159)
Net taxes in respect of previous years	1,081	(4,671)	439
	(200,528)	(197,883)	(123,720)
Deferred tax expenses	(164,252)	(114,433)	(324,447)
Total expenses of taxes on income	(364,780)	(312,316)	(448,167)

Note 30 – Taxes on income (Cont.)

C. Taxes on income in respect of the components of other comprehensive income:

	2015			2014			2013		
	Amounts before tax	Tax income (expenses) (*)	Amounts net of tax	Amounts before tax	Tax income (expenses) (*)	Amounts net of tax	Amounts before tax	Tax expenses (*)	Amounts net of tax
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Translation differences from foreign operations	1,506	-	1,506	91,239	-	91,239	(45,249)	-	(45,249)
Profit (loss) for cash flow hedge	-	-	-	95	2	97	1,105	(274)	831
Change in the fair value of financial assets available for sale	30,677	(12,505)	18,172	(51,865)	13,394	(38,471)	184,393	(46,279)	138,114
Actuarial profits (losses) due to defined benefit plan	(1,327)	350	(977)	310	(89)	221	239	(62)	177
Total other comprehensive income	30,856	(12,155)	18,701	39,779	13,307	53,086	140,488	(46,615)	93,873

(*) The deferred taxes have been calculated in accordance with a tax rate of 26.5%.

Note 30 – Taxes on income (Cont.)

D. Compatibility between the theoretical tax on the income before income taxes and the tax expenses:

	For the year ended December 31		
	2015	2014	2013
	NIS in thousands	NIS in thousands	NIS in thousands
Income before income taxes	1,192,445	1,098,350	1,354,103
The Company's principle tax rate	26.50%	26.50%	25%
Tax calculated at the Company's principle tax rate	315,998	291,063	338,526
Addition (saving) in the tax liability in respect of:			
Different tax rates and laws in subsidiaries that operate outside of Israel	4,312	21,000	(1,799)
Net of tax calculated in respect of the Company's share in the losses of associates accounted for by the equity method	2,269	2,529	1,575
Exempt income	(3,584)	(2,961)	(9,805)
Recording of a reserve for tax on an investment in a consolidated company	2,754	3,410	-
Expenses not recognized	2,467	4,937	2,890
Company's share in partnerships	(1,615)	(1,674)	(1,676)
Utilization and creation of deferred taxes in respect of losses and benefits from previous years, in respect of which deferred taxes were not recorded	(4,287)	(21,539)	(5,616)
Losses and benefits for tax purposes from the period in respect of which deferred taxes were not recorded	41,680	7,291	504
Taxes in respect of previous years	(1,081)	4,671	(439)
Differences in the definition of capital, assets and expenses for tax purposes and others	5,535	649	(14,127)
Effect of the change in the tax rate on temporary differences in the report period	-	-	884
Effect of the change in the statutory tax rate	-	-	139,272
Other differences	332	2,940	(2,022)
Tax expenses on income	364,780	312,316	448,167

Note 30 – Taxes on income (Cont.)

E. Deferred tax assets and liabilities:

(1) Deferred tax assets and liabilities that have been recognized:

The deferred taxes in respect of companies in Israel have been calculated in accordance with the tax rates that are expected to apply at the time of the reversal, as detailed above. Deferred taxes in respect of subsidiaries that operate outside of Israel have been calculated in accordance with the relevant tax rates in each country.

The deferred tax assets and liabilities are attributed to the following items:

	Real estate and fixed assets	Employee benefits	Financial instruments (1)	Deductions and losses to be carried forward for tax purposes	Others (2)	Total
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Deferred tax as of January 1, 2014	(2,718,826)	22,048	(125,343)	63,294	68,855	(2,689,972)
Changes carried to profit and loss (3)	(123,234)	(3,949)	(6,402)	10,916	(1,435)	(124,104)
Changes carried to other comprehensive income	-	(154)	13,461	-	-	13,307
Others (4)	-	-	12,492	-	-	12,492
Exit from consolidation	73,687	(3,598)	12,784	(9,009)	(2,540)	71,324
Deferred tax as of December 31, 2014	(2,768,373)	14,347	(93,008)	65,201	64,880	(2,716,953)
Changes carried to profit and loss (3)	(170,015)	(4,426)	(777)	5,658	3,425	(166,135)
Changes carried to other comprehensive income	-	350	(12,505)	-	-	(12,155)
Others	-	12	-	215	(328)	(101)
Exit from consolidation	4,365	-	-	-	-	4,365
Entry to consolidation	(86,229)	543	-	2,826	(7,005)	(89,865)
Deferred tax as of December 31, 2015	(3,020,252)	10,826	(106,290)	73,900	60,972	(2,980,844)

(1) Primarily for financial assets available for sale and financial asset – receivables in respect of franchise arrangement.

(2) Primarily doubtful debts and linkage differentials on deposits from customers.

(3) In 2015, including deferred tax income in the sum of NIS 1,883 thousand in respect of a disposal group classified as held for sale.

In 2014 deferred tax expenses were included regarding discontinued operations in the amount of NIS 264 thousand, and the deferred tax expenses in the amount of NIS 9,407 thousands for a disposal group which is classified as held for sale.

(4) In 2014, including acceleration of a taxable income liability in a consolidated company in the Granite Group (according to a ruling received from the Income Tax Authority).

(*) The deferred taxes have been calculated mainly at a tax rate of 26.5%.

Note 30 – Taxes on income (Cont.)

E. Deferred tax assets and liabilities: (Cont.)

(2) Deferred tax assets that have not been recognized:

Deferred taxes not recognized in respect of the following items:

	As of December 31	
	2015	**2014**
	NIS in thousands	**NIS in thousands**
Losses for tax purposes	82,998	87,000
Capital loss for tax purposes	217,973	294,047
Real difference from securities	6,905	7,000
	307,876	388,047

(3) Losses and deductions for tax purposes that are available to be carried forward to the coming years

(a) The current business losses for tax purposes of consolidated companies, which are carried forward to the following year amounted on December 31, 2015 to approx. NIS 253,866 thousand (December 31, 2014: approx. NIS 189,136 thousand).

As of December 31, 2015 and December 31, 2014, the balance includes current business losses for tax purposes of a disposal group which is classified as held for sale in the amount of approx. NIS 134,000.

As of December 31, 2015, consolidated companies have recorded a deferred tax asset in an amount of NIS 50,697 thousand in respect of the accumulated business losses (December 31, 2014 – NIS 38,495 thousand) in accordance with the management's evaluation that there is a high level of confidence that these losses will be realized in the coming years.

(b) A consolidated company has a real difference on marketable securities that have not been allowed as a deduction in the reporting year and which are available to be carried forward to the coming years, whose balance is approx. NIS 6,905 thousand as of December 31, 2015 (December 31, 2014 – NIS 7,000 thousand). This difference will be allowable as a deduction in the coming years only against income from marketable securities, if there is such income in those years. Deferred taxes assets have not been created in respect of these accumulated losses.

(c) The Company and consolidated companies have accumulated capital losses for tax purposes in an amount of approx. NIS 305,533 thousand (December 31, 2014 - NIS 378,389 thousand). The Company and consolidated companies have recorded deferred tax asset of NIS 23,203 thousand in respect of the accumulated capital losses (December 31, 2014 – NIS 22,325 thousand).

Note 30 – Taxes on income (Cont.)

E. Deferred tax assets and liabilities: (Cont.)

(3) Losses and deductions for tax purposes that are available to be carried forward to the coming years (Cont.)

(d) According to the existing tax laws, there is no time restriction for the exploitation of losses for tax purposes, or on the exploitation of the deductible temporary differences. Deferred tax assets have not been recognized in respect of such losses and differences, in cases where it is not expected that there will be sufficient chargeable income in the coming years against which it will be possible to exploit the tax benefits.

(e) The Group does not create deferred taxes that relate to investments in consolidated companies in respect of which the decision as to the disposition thereof is in the Group's hands whenever there is no decision to realize them in the foreseeable future.

F. Tax assessments:

The Company and some of the consolidated companies have final tax assessments until tax year 2010 inclusive.
Some of the consolidated companies have final tax assessments until tax year 2011, 2012 and 2013 inclusive.
Save for the above mentioned companies, the Group's other companies have final tax assessments up to and including the 2011 tax year, in the framework of Section 145(a)(2) of the Income Tax Ordinance (Prescription).

Note 31 – Engagements

The consolidated companies have engagements and liabilities as of the Date of the Statement of Financial Position, as follows:

A. Material engagements:

		NIS in thousands
(1)	For the purchase of fixed assets	13,200
	For fuel, oils and equipment suppliers (supply January-December 2016)	2,330,475
	For the performance of projects	859,955
	For rentals and leases of stations, facilities and buildings (*)	1,707,202
	For the rental and maintenance of computers and ancillary equipment for a period of up to one year	869
	For operating leasing agreements for motor vehicles	11,371
	(*) Following are the repayment times for rental and leasing undertakings:	
	2016	193,920
	2017	175,492
	2018	159,901
	2019	136,713
	2020 forth	1,041,176
		1,707,202

(2) On the engagements with related and interested parties, see Note 37.

Note 31 – Engagements (Cont.)

B. Engagements for investments:

(1) The Company and its subsidiaries engaged with OPC Rotem Ltd. ("OPC"), a private electricity producer, in an agreement to purchase electricity. In addition, the companies of the Group engaged in a parallel agreement between them, which regulates the relationship between the companies of the Group in relation to the aforesaid agreement. Pursuant to the agreement, OPC shall sell electricity to the companies of the Group in the volume that is set forth in the agreement, in consideration for a tariff which varies according to actual consumption which is based on the tariffs of the Israel Electric Corporation Ltd. (the "IEC"), net of various discount rates determined in the agreement, which depend on the companies' volumes of consumption. The agreement is effective for a 15-year period, commencing from July 2013. The agreement sets forth special conditions that allow the parties to terminate it by giving an advance notice. In the event that OPC's power plant does not work and does not supply electricity for any reason whatsoever, electricity shall be supplied directly from the IEC. The agreement sets forth maximum and minimum volumes of electricity consumption by the companies of the Group. In the event of failure to meet the minimum volumes, the discount shall be gradually reduced.

The Company reserves the right to purchase 100 megawatt hour more, in the event of the construction of an additional power plant by OPC's parent company.

(2) In July 2013, Supergas Natural Ltd., a consolidated company of Supergas, signed an agreement with the partners in the Tamar holding for the supply of natural gas for a period of 5 years, whereby Supergas Natural Ltd. shall purchase natural gas from the sellers for the marketing thereof to its customers. The total financial scope of the said agreement is estimated at about NIS 530 million, and the supply period according thereto begun in August 2013.

(3) Investee companies of Supergas (50%), hold licenses for the establishment and operation of a natural gas distribution network in the center of Israel and in the Hadera and valleys area. The licenses for the center of Israel and for Hadera and the valleys were received in November 2009 and April 2013, respectively, and are for a 25-year period. Pursuant to the terms of the licenses, the companies are required to invest approx. NIS 160 million in the establishment of the distribution network in the center of Israel and approx. NIS 218 million the in Hadera and the valleys area, according to the milestones determined in the licenses. Until December 31, 2015 a total amount of approx. NIS 97 million was invested.

(4) Holon Azrieli Center

The Group, via Canit Hashalom, is entitled to receive leaseholds in a reserve of land of a total area of approx. 34,000 sqm in the East Holon Industrial Area (in this section: the "Land Reserve") under an agreement that was signed between the City of Holon and Canit Hashalom on June 5, 2008 (in this section: the "Agreement") and approved by the Minster of the Interior in December 2008. Within the framework of the Agreement, Canit Hashalom made guarantees available to the Economic Company for the Development of Holon Ltd., which is intended to ensure the compliance with Canit Hashalom's undertakings under the Agreement. As of the date of the financial statement, the balance of the guarantee is NIS 1.2 million.

The entire Land Reserve is owned by the City of Holon, without any known charges or mortgages. In accordance with the Agreement the project is for the construction of a business park (with no more than four sub-stages), including buildings for hi-tech offices, display halls and retail, service areas and parking areas as well as for additional uses (the "Project"). The Project will be built and operated as an income-producing property (for rental) by way of a joint venture, where the material terms of the transaction are as follows:

Note 31 - Engagements (Cont.)

B. Engagements for investments: (Cont.)

(4) Holon Azrieli Center (Cont.)

(a) The City of Holon is leasing to Canit Hashalom, in accordance with the Agreement, for a period of 99 years with an option for an additional 99 years for a payment, 83% of the areas and land of the Project.

(b) Canit Hashalom is executing and completing the construction of the buildings and the works in accordance with the sub-stages that have been determined between the parties, such that it can be registered as the lessee of those constructed parts in accordance with the sub-stages of the Project.

As of the report preparation date, phase A and phase B1 of the Project have been completed (3 buildings of offices, retail and parking), and the Company is in the midst of completing the construction of phase B2 (an additional and last office building).

For registration purposes only, division of the areas is performed by Canit Hashalom and the City of Holon through appraisers on behalf of the parties.

Canit Hashalom is acting for the registration of the rights in the part that has been completed in its name.

(c) The Project is managed and operated by the Company as an income-producing property that is held jointly by the two parties, where the areas of the Project are leased as a common reserve for the two parties. The areas are leased through a management company wholly owned by the Company, and the division of the rent is carried out using a mechanism that has been agreed by the two parties.

(d) The Project is managed by a management company. Management is executed on the basis of cost +15%, which constitute the fees of the management company.

(e) The Agreement sets various restrictions on the transfer of rights in areas in the Project and/or in the rights and undertakings of Canit Hashalom thereupon. It is further determined in the Agreement that the transfer of shares, including by way of a public offering, in shares of Canit Hashalom in an amount of up to 25% will be permitted. It is further clarified that the provisions relating the transfer of rights and a change in the ownership structure will not apply to the parent company or to a subsidiary or an affiliate of Canit Hashalom.

(f) The Group treats this Project as a joint operation.

(5) Purchase of land from Clalit Health Services

For details of the terms and conditions of the purchase – see Note 14E.

(6) Purchase of land in a lot adjacent to Azrieli Center in Tel Aviv

For details regarding terms of purchase – see Note 14F.

Note 32 - Charges and guarantees

A. Fixed and floating charges:

	As of December 31,		
	2015	2014	
	NIS in thousands	NIS in thousands	Secured by
Short-term credit from banks	818,699	1,120,961	A floating charge on all of the current assets of a consolidated company and on land of some of the consolidated companies.
Long-term loans from banks and others (including accumulated interest that is presented as short-term, and including loans that are classified as liabilities of a disposal group held for sale)	2,838,239	3,537,522	A charge on the rights to receive monies in respect of investment property of the Company and of some of the investee companies. The book value of the pledged assets – approx. NIS 6.2 billion. Moreover, the Company has given an undertaking to banks not to create floating charges on the generality of its assets. Moreover, the Company and one of its consolidated companies have made an irrevocable commitment to a bank that they have not and will not create a floating charge on the generality of its property and its assets, whether they are owned thereby and whether they will be owned thereby in the future, and including all of its goodwill and share capital and it has also undertaken not to make an undertaking in any form whatsoever to create a floating charge, as aforesaid, without the agreement of the bank, in advance and in writing. The Company will be entitled to create a floating charge, as aforesaid, and solely that in parallel to the creation it also creates a floating charge in favor of the bank. In a consolidated company, the charge of the shares of some of the investee companies. Floating charges on all of the assets and rights of some of the principal investee companies thereof and a floating charge on the assets of some of its investee companies. Fixed charge on the fixed assets of some of the investee companies. The book value of the pledged assets – approx. NIS 61 million. In another consolidated company, a fixed charge on the consolidated company's assets, including real properties, deposits in banks and revenues from customers.
Bonds (including accumulated interest)	432,724	801,863	In a consolidated company, the bonds are collateralized by a first ranking floating charge, in an unlimited amount, on all of the assets of the consolidated company. In addition, the investee company has created a first ranking fixed charge in an unlimited amount over all of the shares in the consolidated company that it owns and in its holding, including the rights that derive from those shares.

Note 32 - Charges and guarantees (Cont.)

A. Fixed and floating charges: (Cont.)

	As of December 31,		
	2015	2014	
	NIS in thousands	NIS in thousands	Secured by
Tenant deposits	291,688	-	On the date of the entrance of tenants, the consolidated company registered a caveat in favor of the tenants or the depositors, the purpose of which is to ensure the refund of the deposit balance. Currently, the land is in a process of registration of the condominium. Upon the completion of the process, the consolidated company will register a mortgage for every tenant on his apartment, in lieu of the caveat. Pursuant to the provisions of the Senior Housing Law which took effect on June 3, 2015, the consolidated company is required to provide the tenants with collateral. The options for collateral include, *inter alia*, a bank guarantee or a mortgage. The consolidated company is acting, as stated, to register mortgages in favor of the tenants. Insofar as the condominium registration process will not be completed, and it will not be possible to register mortgages in favor of the tenants, the consolidated company will examine additional options as required by law.

Note 32 - Charges and guarantees (Cont.)

B. The Company and consolidated companies have contingent liabilities:

		As of December 31	
		2015 NIS in thousands	2014 NIS in thousands
(1)	Financial guarantees to banks:		
	Financial guarantees to banks for associates and third parties	5,534	9,721
	Financial guarantees to banks extended by a consolidated company for a consolidated company thereof	66,000	-
(2)	Performance guarantees and others:		
	- Performance guarantees for customers and others, including tender guarantees	59,892	65,104
	- Guarantees to authorities - of which sum of c. NIS 98 million due to demands for betterment levies (as of the execution date of this Report, c. NIS 75 million).	162,407	139,049
(3)	Guarantees extended in connection with the desalination plant (in respect of Via Maris which was sold – see Note 9)		
	- Operation and supply guarantees	-	163,311
	- Guarantees for the financing of energy costs in excess of the receivables from the State in respect of the energy component	-	Unlimited in amount
(4)	Guarantees to suppliers	20,000	-
(5)	A guarantee extended by the Company to a consolidated company for its liabilities vis-à-vis a bank. The balance of the liability as of December 31, 2015 is in the sum of approx. NIS 24.4 million.	Unlimited in amount	Unlimited in amount
(6)	A guarantee extended by the Company to a consolidated limited partnership thereof overseas in respect of its liabilities to a financing corporation exercisable only in certain cases defined in the loan agreement.	486,197	491,433
(7)	A guarantee extended by the Company in favor of a consolidated company overseas in respect of its liabilities to a financing corporation, exercisable only in several certain cases defined in the loan agreement.	258,355	262,986
(8)	A guarantee extended by the Company in favor of a consolidated company overseas with respect to its liabilities to a financial corporation, which is exercisable only in a number of specific events which were defined in the loan agreement.	187,223	190,522
(9)	A guarantee extended by a subsidiary in favor of a consolidated company thereof in respect of its liabilities to banks.	46,787	-
(10)	A guarantee extended by a consolidated company in favor of a consolidated company thereof in respect of its liabilities to its customers.	24,000	-

Note 33 - Contingent liabilities

A. Claims against Sonol of IDF disabled veterans operating gasoline stations as part of an arrangement between the IDF disabled veterans, the Ministry of Defense, the Israel Land Administration and the fuel companies:

The parties	Amount of claim	Nature of claim	Prospects of claim
3 claims against Sonol.	The claims are for declaratory relief and a monetary remedy amounting to approx. NIS 60 million.	Claims by IDF disabled veterans (some by the heirs of an IDF disabled veteran) who received operating rights for gasoline stations as part of an arrangement between the disabled veterans and the Rehabilitation Department of the Ministry of Defense, the Israel Lands Administration/ a local authority and the fuel companies (the "Plaintiffs"), for termination of the agreements between the Plaintiffs and Sonol, alleging that they involve a restrictive arrangement, which is prohibited under the Restrictive Trade Practices Law. In addition, in some of the said claims, it is alleged that the series of agreements between the parties includes discriminatory conditions in a uniform contract, bad faith and discrimination against the Plaintiffs relative to other gasoline stations. Monetary compensation is also claimed in respect of alleged overcharging as a result of restrictive arrangements and/or overpricing and price discrimination and discrimination in commercial conditions.	In the Company's estimation, based on the estimation of Sonol's management, in reliance on Sonol's legal counsel, the chances of two of the claims being granted are higher than 50%. With respect to one claim, in the estimation of Sonol's management, in reliance on Sonol's legal counsel, the chances of the claim being granted are estimated at less than 50%. In the Company's estimation, based on the estimation of Sonol's management, in reliance on Sonol's legal counsel an adequate provision was made in the Financial Statements.

Note 33 - Contingent liabilities (Cont.)

B. Class actions and claims in respect of which motions for class certification were filed:

The parties	Amount of claim	Nature of claim	Prospects of claim
1. Claim against the Company and a consolidated company.	If not certified as a class action – NIS 4,561. If certified as a class action only in relation to the class of offerees whose shares were subject to a forced purchase – approx. NIS 18 million. If certified as a class action in relation to all offerees – approx. NIS 157 million.	In August 2013, a motion for an appraisal remedy pursuant to Section 338 of the Companies Law, 5759-1999 and a motion for cancelation of the tender offer, as well as a motion for class certification thereof were filed against the Company and against Canit Hashalom with the Economic Division of the Tel Aviv District Court by a petitioner alleging to have been an offeree in the framework of a full tender offer that was completed by the Company at the end of September 2012, for shares that were held by the public in Granite Hacarmel Investments Ltd. (despite the lapse of the six (6) month period set forth in the law for the filing of a claim for an appraisal remedy). The claim alleges, *inter alia*, that the petitioner was forced to sell his shares to the Company in the tender offer at a price lower than the value of the shares and that the conditions for performance of a forced purchase pursuant to the tender offer were not fulfilled and that therefore it was not possible to delist Granite Hacarmel Investments Ltd.	The Company filed a motion for summary dismissal of the motion as well as its response to the motion, and the hearing was scheduled for March 2014. At the hearing, the petitioner, in view of the court's comment, withdrew his motion for the remedy of cancelation of the tender offer and relisting of the shares on TASE. On February 19, 2015, the court summarily dismissed the motion for an appraisal remedy with prejudice. However, the court ruled that the same does not preclude claims in respect of misleading or fraud, and limited the hearing of the class certification motion to this issue only. In the estimation of the Company's management, based on its legal counsel, the probability of the motion for class certification being granted and the claim being accepted is lower than 50%.

Note 33 - Contingent liabilities (Cont.)

B. Class actions: (Cont.)

	The parties	Amount of claim	Nature of claim	Prospects of claim
2.	Claim against Sonol and other fuel companies.	The relief claimed is declaratory relief to order the fuel companies to cease raising charges for fuel not supplied, and a monetary remedy totalling approx. NIS 124 million, with the proportional share of Sonol being approx. NIS 24 million.	A claim and a class certification motion from October 2009, concerning the plaintiff's claim whereby the fuel companies charge the customers when refueling at the automatic refueling pumps, with the meter starting to operate and charge the customers even before fuel had come out of the pumps. The plaintiff alleges that with this conduct, the refueling companies breached their obligations vis-à-vis their customers and the provisions of the Promotion of Competition Law, and caused a number of civil wrongs.	The parties delivered to the court a request for the approval of a settlement arrangement, and accordingly examiners were appointed to examine the data underlying the settlement agreement which was filed by the parties. In the estimation of the Company, based on Sonol's management, based on its legal counsel, the chances of the class certification motion being accepted are higher than 50%. In the Company's estimation, based on Sonol's management, an adequate provision was made in the Financial Statements.
3.	Two claims against Sonol.	Two claims and motions (for partially overlapping causes of action) for class certification in the sum of NIS 899.4 million and NIS 1 billion; filed in 2011.	Two claims against Sonol and a motion for class certification thereof, filed with the District Court. One concerns the charging by Sonol of customers which are engaged therewith in a "Dalkan" agreement and who purchase diesel oil. According to the plaintiffs, the prices charged were higher than the prices which Sonol charges the general public, or the prices which were advertised at the fueling stations, contrary to law and/or the Dalkan agreement between the plaintiffs and Sonol. The other claim alleges that Sonol misled those of its customers engaged in a "Dalkan" agreement therewith, and charged them fuel prices which are significantly higher than the prices it charges the general public or the prices which were advertised at the fueling stations, and that Sonol raised the recommended list price of diesel oil regardless of diesel oil cost prices or the price of diesel oil at the station.	In the estimation of Sonol's management, an adequate provision was made in the Financial Statements, based on a settlement outline which is being discussed between the parties for the resolution of both claims, which, in the estimation of Sonol's management, based on its legal counsel, is likely to be accepted in court.

Note 33 - Contingent liabilities (Cont.)

B. Class actions: (Cont.)

	The parties	Amount of claim	Nature of claim	Prospects of claim
4.	Claim against Sonol and other fuel companies.	A claim in the sum of NIS 1 billion, while Sonol's relative share pursuant to its market share is at the alleged rate of 21%.	A claim and a motion for class certification of August 2011 against Sonol and other fuel companies, alleging that they misled the regulator over the years, and thus loaded on the marketing margin that was collected thereby expenses that they were prohibited from loading. It was further claimed that they sold gasoline at a more expensive price than permitted.	In the estimation of the Company, based on the estimation of Sonol's management, in reliance on Sonol's legal counsel, the chances of the claim and the motion are lower than 50%. The parties reached an understanding regarding the conclusion of the proceeding by way of withdrawal, however the withdrawal notice was not yet submitted to the Court.
5.	Claim against Sonol and a consolidated company of Sonol	A claim and a motion for class certification in the sum of NIS 50 million	A claim and a motion to recognize it as a class action of August 2012, alleging that Sonol breached its duties to maintain sanitary conditions at stations.	In the estimation of the Company, based on Sonol's management, in reliance on Sonol's legal counsel, the chances of the motion and the claim being granted are lower than 50%. However, negotiations are being held between the parties with respect to a settlement agreement which has not yet been approved by the court, in which Sonol committed to an insignificant amount.
6.	Claim against Supergas and other gas companies	A claim in the sum of approx. NIS 1 billion	A claim and a motion for class certification of December 2003, alleging that between 1994 and 2003 there were restrictive arrangements in the field of the private gas market and the commercial gas market.	On January 3, 2016, a judgment was issued in which the court approved the settlement agreement, according to which the respondents undertook to provide several alternatives of compensation to the class members. In the financial statements of Supergas, a provision was made which reflects the expected costs, which in the estimation of Supergas's management are a reasonable approximation of the outcome of the settlement of the claim.

Note 33 - Contingent liabilities (Cont.)

B. Class actions: (Cont.)

The parties	Amount of claim	Nature of claim	Prospects of claim
7. Claim against Supergas	A claim in the sum total of NIS 40 million	A claim and a motion for class certification of March 2014. The action concerns a claim of collection of money by Supergas contrary to law and/or to agreement by Supergas raising gas rates per cubic meter and the fixed usage fees, without detailing the manner of calculation and/or informing the customers of the price rise. In addition, it was claimed in the action that Supergas is raising prices to which it committed in discount agreements vis-à-vis the petitioners, contrary to the agreements and without updating the petitioners regarding the price rise in advance and/or retroactively.	In the estimation of Supergas's management, in reliance on its legal counsel, at this stage of the proceeding, the probability of the court granting the certification motion does not exceed 50%.
8. Claim against a consolidated company of Sonol and other companies.	A claim and a motion for class certification in the sum total of approx. NIS 30 million of April 2014 (Sonol's share is estimated at approx. NIS 10 million)	The action concerns the allegation that the defendants breached their duty pursuant to the Consumer Protection Law, which instructs the marking of prices on goods (for the purpose of the claim, ice cream sold at Sonol's convenience stores).	A settlement agreement was signed between the parties which has not yet been sanctioned as a judgment, in which Sonol undertook to pay an insignificant amount.
9. Claim against a consolidated company of Sonol.	A claim and a motion for class certification in the sum of NIS 12 million, of March 2015.	The action concerns the allegation that Sonol's consolidated company does not credit its customers with a discount as appears on the invoice at the time of payment in respect of a purchase with a credit company's credit card. The plaintiff further alleges that Sonol's consolidated company charges the price per litre of gasoline with full service, even when fueling is performed at self-service pumps.	In the estimation of Sonol's legal counsel, the chances of the claim in some of the causes of action are higher than 50%. In the estimation of Sonol's management, a fair and adequate provision was made in the Financial Statements for the outcome of the settlement of the claim.

Note 33 - Contingent liabilities (Cont.)

B. Class actions: (Cont.)

The parties	Amount of claim	Nature of claim	Prospects of claim
10. Claim against Sonol and other companies.	A claim and a motion for class certification in the sum of NIS 14.3 billion, of June 2015.	The action concerns claims ostensibly pertaining to air pollution in Haifa Bay and to damage ostensibly caused by such pollution. Sonol's share is unknown and was not specified in the complaint.	At this preliminary stage, in reliance on Sonol's legal counsel, the chances of the claim and the motion for class certification are lower than 50%.
11. Claim against a credit company and against a consolidated company of Sonol.	A claim and a motion for class certification against a credit card company and against a consolidated company of Sonol in the sum of more than NIS 3 million from March 2015.	The action concerns the claim that the defendants do not give the discounts that are supposed to be given to the customers in respect of purchases at the consolidated company made through the credit card issued by the defendant credit company.	In the estimation of Sonol's legal counsel, the chances of the claim in some of the causes of action are higher than 50%. In the estimation of Sonol's management, a fair provision was made in the Financial Statements for the outcome of the settlement of the claim.
12. Claim against a credit company and against a consolidated company of Sonol.	A claim and a motion for class certification against a credit card company and against a consolidated company of Sonol in the sum of more than NIS 3 million of February 2015.	The action concerns the claim that the defendants do not give the discounts that are supposed to be given to the customers in respect of purchases at the consolidated company made through the credit card issued by the defendant credit company, and that when the said discounts are given, the consolidated company unlawfully rounds-off the discount to the detriment of the customers (so as to reduce the discount rate), contrary to the New Shekel Currency Law, 5745-1985 and the Bank of Israel Law, 5714-1954.	In the estimation of Sonol's legal counsel, the chances of the claim in some of the causes of action are higher than 50%. In the estimation of Sonol's management, a fair and adequate provision was made in the Financial Statements for the outcome of the settlement of the claim.

Note 33 - Contingent liabilities (Cont.)

C. Other claims:

The parties	Amount of claim	Nature of claim	Prospects of claim
1. Local authorities' demands from Sonol	Demands in the sum of approx. NIS 17 million.	Several local authorities submitted to Sonol demands for payment of additional municipal tax (*arnona*). Sonol rejected the demands and filed an appeal in respect thereof.	In the estimation of the Company, based on the estimation of Sonol's management, in reliance on Sonol's legal counsel, an adequate provision was made in the Financial Statements.
2. Various local authorities against Supergas	Demands in the sum of approx. NIS 66 million.	A demand for the payment of municipal tax (*arnona*) on gas containers located in condominium courtyards. Supergas filed an administrative appeal in connection with the charge. The court accepted the appeal and dismissed the municipal tax charge. One of the authorities filed a motion for leave to appeal with the Supreme Court, which dismissed the motion and returned the deliberations to the Appeals Committee.	In the Company's estimation, based on the estimation of Supergas's management, based on Supergas's legal counsel, and in view of a judgment issued by the Supreme Court in February 2016 in a case conducted between other gas companies and a large number of municipalities, whereby the gas companies are not to be charged municipal tax for the gas containers buried in their areas, Supergas's chances of defeating the municipal tax demands are higher than 50%.
3. A municipality against Supergas	Approx. NIS 13 million.	A demand for the amendment of a municipal tax assessment (including interest and linkage differentials) for a gas container farm, for years from 1997 through 2004. In addition, Supergas received additional payment demands up to and including 2015.	In the Company's estimation, based on the estimation of Supergas's management, based on Supergas's legal counsel, with respect to the claim for retroactive payment, the chances of defeating the city's demand for payment of municipal tax for past years are higher than 50%. With respect to the challenging of the amended assessment on the merits, from the date of submission thereof, at this preliminary stage it is difficult to estimate the claim's chances, but in the opinion of the Company's management, based on the estimation of Supergas's management, in reliance on Supergas's legal counsel, Supergas has justified defence claims due to which the chances of the claim are lower than 50%.

Note 33 - Contingent liabilities (Cont.)

C. Other claims: (Cont.)

	The parties	Amount of claim	Nature of claim	Prospects of claim
4.	An agency operator against Supergas	Approx. NIS 34 million.	A claim from 2004 for monetary refunds in respect of investments made in an agency that was operated for several years by the claimant, and thereafter was returned to Supergas.	Deliberation of the claim was transferred to arbitration. In the Company's estimation, based on the estimation of Supergas's management, based on Supergas's legal counsel, the chances of the claim being accepted over and above the amount paid and for which a provision was made on the books, are lower than 50%.
5.	An agency operator against Supergas	Approx. NIS 16.4 million.	A claim of October 2012 filed by a former agent of Supergas and companies owned by him, alleging that Supergas owes them money for work done by them, payments and additional alleged damage.	In the Company's estimation, based on the estimation of Supergas's management, in reliance on Supergas's legal counsel, the chances of the claim are lower than 50%.

Note 33 - Contingent liabilities (Cont.)

C. Other claims: (Cont.)

The parties	Amount of claim	Nature of claim	Prospects of claim
6. Payment demand of Supergas	A demand in the sum total of approx. NIS 117.2 million.	In the years 2011-2012, the Local Committee of the City of Kiryat Ata issued betterment levy assessments for the approval of NOP 32/C, following Supergas' application for a building permit for Supergas' gas facility site in Kiryat Ata.	In December 2012, a decision was made by the Appeals Committee whereby the subject matter of the claim does not establish a betterment levy liability. The City of Kiryat Ata filed a motion for leave to appeal with the court, which granted its motion in November. In the estimation of the Company's management, based on the estimation of the management of Supergas, based on Supergas' legal counsel, the chances that Supergas will be charged a betterment levy are lower than 50%.
	A demand in the sum total of approx. NIS 8.1 million.	In addition to the aforesaid, demands were sent to Supergas for payments, fees, levies and usage fees from 2004, all in connection with Supergas' gas facility in Kiryat Ata.	With respect to the fees and levies, Supergas delivered its arguments regarding the demands to the City of Kiryat Ata. The demand for payment of the water and sewage fee was withdrawn by the City, and in its place a demand was received from the Kiryat Ata Water Corporation. In December 2012 a preliminary hearing was held in both proceedings, in which it was ruled that the proceedings shall be consolidated and that Supergas is entitled to deposit with the court the amounts of the demands for payment of fees and development levies, or bank guarantees, at its choice, which shall be used as collateral for the City and the water corporation to collect any amount awarded in their favor at the end of the proceeding, in order for Supergas to receive the building permit. Supergas deposited a guarantee and received the building permit. In the meantime, the parties also commenced negotiations in an attempt to settle the dispute out of court, and therefore the hearing of the case was postponed until the negotiations are exhausted. As for the levies and fees, in a mediation proceeding agreed on by the parties, the parties reached an in-principle arrangement, whereby the amount that Supergas would be required to pay if the agreement is signed, is significantly lower than the requested amount. As for the usage fees, in the Company's estimation, based on the estimation of Supergas, based on its legal counsel, the chances of the demand being granted in the amount stated therein, are lower than 50%.

Note 33 - Contingent liabilities (Cont.)

C. Other claims: (Cont.)

The parties	Amount of claim	Nature of claim	Prospects of claim
7. Indictment against Supergas and directors thereof.	Criminal.	In October 2011, the City of Kiryat Ata filed two proceedings against Supergas with the Local Affairs Court in Krayot – (1) an indictment pursuant to the Business Licensing Law in respect of the operation of the gas farm in Kiryat Ata without a business license. This proceeding was filed both against Supergas and against the directors thereof. (2) A motion for a cessation of occupation in a business order, in the context of which the granting of an order against Supergas was sought to order it to immediately halt the gas farm's activity due to the absence of a business license. This motion was filed as an interim motion in the framework of the abovementioned indictment proceeding.	With respect to the motion for a cessation of occupation order – in January 2012, the Court's decision was issued, in which the City's motion was denied. With respect to the indictment proceeding, negotiations are being held between the parties in an attempt to end the proceeding out of court. In the Company's estimation, in reliance on the estimation of Supergas's management, at this stage, and in view of the type of the proceeding, it is impossible to estimate the chances thereof.
8. Claim against a subsidiary of GES.	Approx. 5.6 million (in the context of a counter claim of April 2011 in a claim of a subsidiary of GES against the plaintiff in the sum of NIS 5.2 million, for declaratory enforcement remedies and a perpetual injunction, of November 2010).	A claim pertaining to alleged damage caused to the counter-plaintiff due to GES alleged failure to comply with an agreement therewith.	The court appointed a professional expert to examine the professional claims raised by the parties against one another. In the Company's estimation, in reliance on the estimation of GES's management, in reliance on GES legal counsel, the chances of the claim against the operation company are lower than 50%.

Note 33 - Contingent liabilities (Cont.)

C. Other claims: (Cont.)

The parties	Amount of claim	Nature of claim	Prospects of claim
9. Arbitration proceeding against GES.	A claim against GES in the sum of approx. NIS 15 million and a claim of GES in the sum of approx. NIS 2 million.	An arbitration proceeding since 2010.	In November 2015, an arbitration award was issued in the proceeding, and in January 2016, the agreement was sanctioned as a decision in the arbitration award, in which GES was charged with payment of an insignificant amount over and above the insurance coverage.
10. Claim of a supplier against GES and others.	Approx. NIS 19 million (GES's share NIS 9.5 million).	A subcontractor's claim of December 2013 for a debt allegedly owed to him by GES and additional parties in respect of a settlement of accounts in a project in which GES served as lead contractor together with an additional third party (the "Lead Contractors").	In the estimation of the Company's management, based on the estimation of GES's management, in reliance on GES's legal counsel, the chances of the amount with which the Lead Contractors will be charged exceeding the sum reserved in the project account are lower than 50%.
11. City against Azrieli Group .	Approx. NIS 29 million.	Demands for development levies, municipal tax (*arnona*) and levies in respect of open public areas in the Hanegev Mall in Beer Sheva.	A settlement agreement was signed between the parties, in which context the Company paid an immaterial amount.

Note 33 - Contingent liabilities (Cont.)

C. Other claims: (Cont.)

The parties	Amount of claim	Nature of claim	Prospects of claim
12. Claim against Sonol and against a consolidated company thereof.	Employees' claim for a monetary remedy in the sum of approx. NIS 7 million, of May 2015.	A financial claim against Sonol and a consolidated company of Sonol, alleging that Sonol and the consolidated company did not pay related benefits and other bonuses as required by law.	In the Company's estimation, based on Sonol's estimation, in reliance on Sonol's legal counsel, the chances of the claim being accepted on most of the causes of action are lower than 50%. In respect of one of the causes, whose chances of being accepted are higher than 50%, Sonol has a claim as to the possibility of setoff of the sued remedy from bonuses that were paid.
13. Claim in tort against Supergas.	A claim in tort in the sum of approx. NIS 36 million.	In August 2015, a claim in tort was filed against Supergas due to alleged damage that occurred in the customer's plant as a result of an alleged failure in the gas system that was planned and installed by Supergas in the plant.	In the estimation of Supergas's management, its exposure in this claim does not exceed its deductible (in an insignificant amount) according to its insurance policy.

D. Additional claims (mostly legal and in insignificant amounts) arising from the ordinary course of business have been submitted against the Group companies.

E. The Group recorded provisions against the claims in the sum of approx. NIS 65 million (December 31, 2014 – NIS 34 million). In the estimation of the Company's management (and in respect of the Granite Group companies, based on the estimation of Granite's management), the provisions recorded to settle the results of the claims outlined above are fair.

Note 34 - Management of financial risks

A. General:

The Group is exposed to the following risks, which derive from the use of financial instruments:

- Credit risk.
- Liquidity risk.
- Market risk (including currency risk, interest risk and other price risks).

Information is provided in this Note in respect of the Group's exposure to each of the abovementioned risks, the Group's objectives, its policy and its processes in respect of the measurement and management of the risk. Additional, quantitative disclosure is provided throughout these Consolidated Financial Statements (the note does not include quantitative information regarding liquidity risk, interest risk and credit risk exposures of balances in respect of assets and liabilities of a disposal group which is classified as held for sale).

The comprehensive responsibility for the institution of the framework for the management of the financial risks of the Company and of its subsidiaries (except for the management of the risks of Granite and of its subsidiaries and of Palace, which is executed by them) (the "Company") and for the supervision thereof lies in the hands of the Company's management.

The Company's Finance Committee is responsible, *inter alia*, for supervision and monitoring of the management of the Company's financial risks, and supervises the management of implementation of its resolutions.

The person in charge of financial risks management in the Company is Ms. Irit Sekler-Pilosof, the Company's CFO.

The Company's managers routinely examine the market risks in the fields of interest, the index and the exchange rates and act to reduce the economic exposure that is inherent in those risks, whilst taking cost-benefit considerations, such as changes in the composition of the long-term and short-term bank credit, into account.

B. Credit risk:

Credit risk is the risk of a financial loss that would be caused to the Group if a customer or a counter party to a financial instrument does not meet its contractual commitments, and it derives primarily from the debts of customers and other receivables, from the long-term loans that have been extended and from investments in securities.

The Group is not under a significant credit risk stemming from its customers in the retail centers and malls segment, the office and other space for lease segment and the income-producing property segment in the U.S., since the Group is in the custom of collecting its income in respect of rent and management fees in advance. Moreover, in most cases, as collateral for the rent, the tenants are required to prove personal guarantees from third parties and/or bank guarantees and/or deposits, to the Company's satisfaction.

The Group has a credit risk deriving from companies in the Granite Group. The income of the companies in the Granite Group derives primarily from sales in Israel to customers in the oil distillates sectors as well as from sales to customers in the gas segment and from sales to customers in the water and wastewater segment.

Note 34 - Management of financial risks (Cont.)

B. Credit risk: (Cont.)

The companies in the Granite Group have a procedure for the extension of credit to a customer, which includes guidelines in respect of what is to be done when a new customer is opened, the procedure includes, *inter alia*, a check on its financial position, a check on stability and control over the credit extended to the customer, which relies on past experience and external raisings, as well as, where possible, the receipt of collateral, such as: bank guarantees, personal guarantees, charges on land, motor vehicles, and debt notes.

Moreover, the procedure includes a hierarchy of authority for the approval of the maximum amount of a customer's credit, which starts with the credit manager and going up to the credit committee, which is headed by the Chief Executive Officer of each subsidiary. The procedure on authorities for the approval of credit is presented to the financial forum of the boards of directors of each of the subsidiaries for approval. The procedure determines and defines a framework of responsibility for the collection of the payment from customers and also the ways in which customers' balances that are in arrears are to be dealt with. The routine monitoring of the receipts from customers is conducted by the credit and collection departments and by the credit committees and management in each subsidiary.

The Companies in the Granite Group recognize provisions for doubtful debts, which reflect their evaluation made in respect of the loss that is contained in the debts whose collection is in doubt. This provision is made up of specific balances as well as a general component of the loss, which is determined for certain groups of similar customers, in respect of losses that have occurred, but which have not yet been identified.

The abovementioned general provision for a loss is determined on the basis of historical information in respect of the payments statistics in respect of similar financial assets.

C. Liquidity risk:

Liquidity risk finds expression in the non-ability to meet the Group's financial commitments when they are due for payment. The Group's approach to the management of its liquidity risk is to ensure, in so far as it is possible, that there is a sufficient level of liquidity to meet its commitments on time. The Group verifies the existence of sufficient levels of cash and/or credit lines in accordance with the expected needs for the payment of the operating expenses, including the amounts that are required to meet the financial liabilities; the aforesaid does not take into account the potential impact of extreme occurrences, which it is not reasonably possible to forecast.

The Group is of the opinion that at the time of need, financing entities will grant it the credit required thereby for the purposes of its business.

D. Market risks:

Market risk is the risk that changes in market prices, such as the exchange rates of foreign currencies, the CPI, interest rates, the prices of capital instruments and risks associated with the prices of goods, will have an impact on the Group's income or on the value of its holdings in financial instruments and on inventory balances.

The objective of the management of the market risks is to manage and to supervise the exposure to market risk within the framework of generally accepted parameters.

During the ordinary course of business, Sonol buys and sells derivatives and it also takes financial commitments upon itself in order to manage the market risks. The said transactions are carried out in accordance with guidelines that have been set by Sonol's Board of Directors.

Note 34 - Management of financial risks (Cont.)

D. Market risks: (Cont.)

Currency risk

The Company's functional currency is the New Israeli Shekel (NIS).

Companies in the Granite Group are exposed to currency risk in respect of the purchase of raw materials, fixed assets and export sales, which are stated in currencies that are different from the functional currency. The currencies in which most of the transactions are stated are the Euro and the US Dollar (most of the purchases of oil distillates are linked to the US Dollar).

Companies in the Granite Group are taking actions in order to reduce the currency exposure through the performance, from time to time, of forward transactions in foreign currencies, in accordance with an outline that has been approved by their boards. As of the Report Date, the Group has forward currency contracts in an amount of approx. $80 million to be repaid by February 2016, which are intended to hedge the cash flow exposure mainly in respect of the purchase of oil distillates.

The Group has loans in U.S. dollars, therefore its financial results are exposed to the risk of a change in the dollar exchange rate. Most of the Group's income in the U.S. income-producing property segment is stated in U.S. dollars, such that a rise in the exchange rate as aforesaid leads to an increase in income from rent and in the value of the property and reduces this risk.

Interest rates risk

The Group has short-term and long-term credit at variable interest rates. Accordingly, its financial results (financing income/expenses) are exposed to the risk of a change in the interest rates.

Index risks

The Group has loans and bonds that are Index-linked, and therefore its financial results (financing income/expenses) are exposed to the risk of a change in the Index.

Most of the Group's income in the retail centers and malls segment and in the office and other space for lease segment are linked to the CPI, such that an increase in the Index, as aforesaid, will lead to an increase in the rent income and a reduction in this risk.
Furthermore, the index rise bears an impact on the calculation of the value of investment properties due to the increase in rent revenues.

Companies in the Granite Group purchase from time to time forward transactions on the CPI, in accordance with the outline that was approved by their boards of directors. As of the date of the Financial Statements, there are no forward contracts on the CPI.

Currency risk - cash

As of December 31, 2015, a small part of the cash is managed overseas in the dollar currency, and therefore the Company may be exposed to fluctuations in the currency exchange rates. In general, and other than as specified by the Company in the 2010 Prospectus, the Company takes no protective measures against such exposures.

In addition, the Company has a material holding in Bank Leumi’s shares that are traded in TASE. Changes in the rate of Bank Leumi’s share may affect the equity. The Company does hedge against such exposures (see also Note 2U).

Note 34 - Management of financial risks (Cont.)

D. Market risks: (Cont.)

Risks associated with the prices of goods

The inventory in Sonol and Supergas is comprised primarily of oil distillates and accordingly they are exposed to changes in the prices of oil distillates. It arises from checks that have been conducted by the companies, using external consultants, that the financial instruments market does not offer appropriate hedging tools for the mechanism under which the prices of oil distillates are fixed in Israel (which are determined on the basis of the CIF prices at Lavera port in Italy). Accordingly, there is no effective possibility of hedging this exposure. Therefore, the companies do not carry out hedging activity in respect of this exposure, however they do act to reduce the quantity of inventory that is exposed and are adjusting the quantities of the inventory of distillates in accordance with the sales forecasts. It should be emphasized that this exposure primarily affects the quantities of the inventory of distillates. Distillates that are purchased and sold during the course of the month are not exposed to this risk.

Note 35 - Financial instruments

A. Credit risk:

(1) Exposure to credit risk

The book value of the financial assets represents the maximum credit exposure. The maximum exposure to credit risk, as of the Date of the Statement of Financial Position, was as follows:

	Book Value	
	As of December 31	
	2015	2014
	NIS in thousands	NIS in thousands
Financial assets at fair value through profit and loss:		
Financial assets held for trading	506	657
Derivative financial instruments	1,584	838
Financial assets at amortized cost:		
Short-term deposits and investments	35,796	45,845
Trade accounts receivable	1,102,160	1,260,249
Other receivables	67,684	220,675
Receivables for work in progress	19,206	16,698
Non-current loans	106,189	102,002
Restricted investments	21,470	21,665
Loans to associates	70,535	32,647
Receivables in respect of franchise arrangement	45,639	31,987
	1,470,769	1,733,263

The maximum exposure to credit risk in respect of trade accounts receivable, other receivables, including derivative financial instruments, receivables for work in progress, long-term loans , as of the Report Date, by geographical region, is mainly local and the exposure overseas is negligible.

Note 35 - Financial instruments (Cont.)

A. Credit risk (Cont.):

(2) The aging of debts and losses from impairment

The following is the aging of the trade accounts receivable, other receivables, including derivative financial instruments, receivables for work in progress, long-term loans:

	As of December 31 2015		As of December 31 2014	
	Gross	Impairment	Gross	Impairment
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Not in arrears	1,194,169	3,939	1,512,801	4,119
0–30 days in arrears	29,708	160	17,100	170
31-120 days in arrears	19,486	709	33,223	2,102
121 days to one year in arrears	21,027	7,403	22,756	(*) 7,752
More than one year in arrears	207,558	162,914	203,050	(*) 167,579
	1,471,948	175,125	1,788,930	181,722

(*) Reclassified

The movements in the provision for impairment in respect of trade receivables, other receivables and non-current loans during the year were as follows:

	As of December 31	
	2015	2014
	NIS in thousands	NIS in thousands
Balance as of January 1	181,722	210,046
Recovery of impairment loss recognized	5,869	9,538
Exit from consolidation	-	(18,933)
Doubtful debts that became bad debts	(12,466)	(18,929)(*)
Balance as of December 31	175,125	181,722

(*) Reclassified

Several times in each reporting period, the Group reviews the impairment and takes into account the period of the debt, the collateral that is available thereto, the financial of the debtors and the chances of legal proceedings against them.

Based on past experience, the Group has a general provision for impairment due to losses that occurred but have not yet been recognized that as of December 31, 2015 amount to NIS 3,692 thousand (December 31, 2014 - NIS 3,872 thousand).

Note 35 - Financial instruments (Cont.)

B. Liquidity risk

Set forth below are the projected repayment dates of the financial liabilities, including an estimate of interest payments:

	As of December 31, 2015							
	Book value	Forecasted cash flow	2016	2017	2018	2019	2020 forth	No repayment date
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Non-derivative financial liabilities								
Short-term credit from banks and other credit providers (1)	1,531,146	1,531,146	1,531,146	-	-	-	-	-
Trade accounts payable	524,638	524,638	524,638	-	-	-	-	-
Other payables	62,365	62,365	62,365	-	-	-	-	-
Deposits from customers	402,066	402,066	-	-	-	-	-	402,066
Loans from banks and other credit providers (2)	3,291,923	3,644,875	408,121	1,400,625	257,957	399,619	1,178,553	-
Bonds (2)	3,173,645	3,473,090	263,850	693,736	298,950	299,376	1,917,178	-
Liability for finance lease	12,488	17,743	1,772	1,731	1,744	1,575	10,921	-
Long-term deposits from customers	42,383	42,383	-	-	42,383	-	-	-
Other long-term liabilities	8,857	9,216	2,632	2,633	2,634	1,317	-	-
Capital notes	215	215	-	-	-	-	215	-
Financial liabilities - Derivatives								
Forward contracts on exchange rates not used for hedge accounting	56	56	56	-	-	-	-	-
	9,049,782	9,707,793	2,794,580	2,098,725	603,668	701,887	3,106,867	402,066

Note 35 - Financial instruments (Cont.)

B. Liquidity risk (Cont.)

Set forth below are the projected repayment dates of the financial liabilities, including an estimate of interest payments: (Cont.)

	As of December 31, 2014							
	Book value	Forecasted cash flow	2015	2016	2017	2018	2019 forth	No repayment date
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Non-derivative financial liabilities								
Short-term credit from banks and other credit providers (1)	1,735,379	1,735,379	1,735,379	-	-	-	-	-
Trade accounts payable	705,749	705,749	705,749	-	-	-	-	-
Other payables	73,006	73,006	73,006	-	-	-	-	-
Deposits from customers	108,730	108,730	(*) -	-	-	-	-	(*) 108,730
Loans from banks and other credit providers (2)	4,006,091	4,437,872	938,230	411,749	1,408,915	256,492	1,422,486	-
Bonds (2)	1,372,586	1,578,909	466,297	123,508	554,972	55,955	378,177	-
Liability for finance lease	13,387	20,049	1,889	1,835	1,780	1,784	12,761	-
Long-term deposits from customers	39,893	39,893	-	-	39,893	-	-	-
Other long-term liabilities	335	335	-	-	-	-	335	-
Capital notes	215	215	-	-	-	-	215	-
Financial liabilities Derivatives								
Forward contracts on exchange rates not used for hedge accounting	1,699	1,699	1,699	-	-	-	-	-
	8,057,070	8,701,836	3,922,249	537,092	2,005,560	314,231	1,813,974	108,730

(*) Reclassified

(1) The book value includes the accumulated interest as of December 31, 2015 and 2014.

(2) The book value includes current maturities and accumulated interest as of December 31, 2015 and 2014.

(3) In the matter of guarantees, see Note 32B.

Note 35 - Financial instruments (Cont.)

C. Index and foreign currency risks:

(1) Exposure to Index and foreign currency risk

The Group's exposure to Index and foreign currency risk, based on nominal values, is as follows:

	As of December 31, 2015		
	Israeli currency	Foreign currency	
	Index-linked	Dollar	Other (*)
Assets	137,215	188,161	7,663
Liabilities	(5,629,294)	(1,405,336)	(30,714)
Total balance of balance sheet, net	(5,492,079)	(1,217,174)	(23,051)

(*) Mainly Euro and GBP.

	As of December 31, 2014		
	Israeli currency	Foreign currency	
	Index-linked	Dollar	Other (*)
Assets	663,482	222,164	145,746
Liabilities	(4,569,864)	(1,559,814)	(150,263)
Total balance of balance sheet, net	(3,906,382)	(1,337,650)	(4,517)

(*) Mainly Euro and GBP.

Note 35 - Financial instruments (Cont.)

C. Index and foreign currency risks: (Cont.)

(2) Sensitivity analysis

The strengthening of the New Israeli Shekel against the following currencies as of December 31, 2015 and an increase in the CPI would increase (decrease) the capital and the profit or loss, net of tax, by the amounts that are presented below. This analysis has been made on the assumption that the other variables, and especially the interest rates, remain fixed. The analysis in respect of the year 2014 was made on the same basis.

	As of December 31, 2015	
	Capital	Profit (loss)
	NIS in thousands	NIS in thousands
1% rise in the CPI	(40,366)	(40,366)
3% rise in the exchange rate of the US Dollar	(18,150)	(18,150)

	As of December 31, 2014	
	Capital	Profit (loss)
	NIS in thousands	NIS in thousands
1% rise in the CPI	(28,712)	(28,712)
3% rise in the exchange rate of the US Dollar	(19,793)	(19,793)

A decrease in the exchange rate of the US Dollar by a similar rate and a decrease in the CPI by a similar rate as of December 31, 2015 would have had an identical effect, although in an opposite direction, in the same amount, assuming that all of the other variables remain constant.

Note 35 - Financial instruments (Cont.)

C. Index and foreign currency risks: (Cont.)

(3) Derivative instruments

a. Following are details of the Group's derivative financial instruments:

	As of December 31, 2015				
	Par value	Currency receivable	Currency payable	Expiry/ repayment/ exercise date	Fair value
	Thousands				NIS in thousands
Instruments that are not used for hedge accounting:					
Forward transactions on exchange rates	79,538	Dollar	NIS	January-February 2016	1,528

	As of December 31, 2014				
	Par value	Currency receivable	Currency payable	Expiry/ repayment/ exercise date	Fair value
	Thousands				NIS in thousands
Instruments that are not used for hedge accounting:					
Forward transactions on exchange rates	114,000	Dollar	NIS	January-February 2015	(861)

Note 35 - Financial instruments (Cont.)

C. Index and foreign currency risks: (Cont.)

(3) Derivative instruments (Cont.)

b. Following is a sensitivity analysis in respect of the Group's derivative instruments. A change in the CPI or the exchange rate of the Dollar and the Euro, would have increased (decreased) the profit and loss and the equity by the amounts that are presented below. This analysis is made on the assumption that all of the other variables remain constant and is ignoring the effect of tax.

	December 31, 2015								
	An increase of 10%		An increase of 5%			A decrease of 5%		A decrease of 10%	
	Capital	Profit (loss)	Capital	Profit (loss)	Fair Value	Capital	Profit (loss)	Capital	Profit (loss)
	NIS in thousands								
Instruments that are not used for hedge accounting:									
Change in the Dollar exchange rate									
Forward transactions	30,830	30,830	14,537	14,537	1,528	(14,537)	(14,537)	(30,830)	(30,830)

	December 31, 2014								
	An increase of 10%		An increase of 5%			A decrease of 5%		A decrease of 10%	
	Capital	Profit (loss)	Capital	Profit (loss)	Fair Value	Capital	Profit (loss)	Capital	Profit (loss)
	NIS in thousands								
Instruments that are not used for hedge accounting:									
Change in the Dollar exchange rate									
Forward transactions	32,585	32,585	16,292	16,292	(861)	(16,292)	(16,292)	(32,585)	(32,585)

Note 35 - Financial instruments (Cont.)

D. Interest rate risk:

Type of interest

Following are details in respect of the types of interest in the Group's interest bearing financial instruments:

	Book value	
	As of December 31	
	2015	2014
	NIS in thousands	NIS in thousands
Fixed interest instruments		
Financial assets	170,471	145,109
Financial liabilities	6,441,809	5,362,746
Variable interest instruments		
Financial assets	77,699	73,881
Financial liabilities	1,591,212	1,760,171

(1) Sensitivity analysis for the fair value in respect of fixed interest instruments

The Group's assets and liabilities at fixed interest are not measured at fair value through profit and loss, therefore, a change in the interest rates as of the Report Date is not expected to have any impact on the profit or loss in respect of changes in the value of assets and liabilities with fixed interest rates.

(2) Sensitivity analysis for variable interest instruments

A change of 1% in the interest rates on the reporting date would increase or reduce the capital and the profit or loss, net of tax, by the sum of NIS 11,146 thousand. This analysis was made assuming that the other variables remained fixed.

E. Other price risk:

Sensitivity analysis of the security price:

If the prices of the held securities (other than bonds with fixed interest rates) were higher/lower by 1%, the effect after tax would be as follows:

Financial assets available for sale – (see Note 12(1))

The net income for the year ending on December 31, 2015 would not be affected since these investments are treated as available for sale and they were not disposed of and their value does not decline.

The other comprehensive income would increase by NIS 7,009 thousand as of December 31, 2015 as a result of the change in the fair value of the shares.

Note 35 - Financial instruments (Cont.)

F. Offsetting financial assets and liabilities:

	As of December 31, 2015		
	Gross amounts of financial assets (liabilities) recognized	**Gross amounts of financial assets (liabilities) recognized and offset in the Statement of Financial Position**	**Net amounts of financial assets (liabilities) presented in the Statement of Financial Position**
	NIS in thousands	**NIS in thousands**	**NIS in thousands**
Financial Assets:			
Forward contracts on foreign currency	319,964	(318,380)	1,584
Financial Liabilities:			
Forward contracts on foreign currency	(9,607)	9,551	(56)

	As of December 31, 2014		
	Gross amounts of financial assets (liabilities) recognized	**Gross amounts of financial assets (liabilities) recognized and offset in the Statement of Financial Position**	**Net amounts of financial assets (liabilities) presented in the Statement of Financial Position**
	NIS in thousands	NIS in thousands	NIS in thousands
Financial Assets:			
Forward contracts on foreign currency	260,617	(259,779)	838
Financial Liabilities:			
Forward contracts on foreign currency	(184,482)	182,783	(1,699)

Note 36 – Fair Value

A. Assets and liabilities measured at fair value in the Statement of Financial Position

For the purpose of measurement of the fair value of the assets or liabilities, the Group classifies them in accordance with the rating that includes the following three levels:

Level 1: Quoted (not adjusted) prices in active markets for identical assets or identical liabilities to which the entity has access at the time of measurement.

Level 2: Data, other than quoted prices included in level 1, that are directly or indirectly observable for the asset or liability.

Level 3: Non-observable data for the asset or liability.

The classification of the assets or liabilities that are measured at fair value is based on the lowest level significantly used for measuring the fair value of the entire asset or liability.

Below are the Group's assets and liabilities measured at fair value in the Company's Statement of Financial Position as of December 31, according to their measurement levels.

Fair value of items measured at fair value on a periodic basis

	As of December 31, 2015		
	Level 2	Level 3	Total
	NIS in thousands	NIS in thousands	NIS in thousands
Investment property (without downpayments):			
Retail centers and malls in Israel	-	10,590,618	10,590,618
Land and office and other space for lease in Israel	208,825	4,996,370	5,205,195
Investment property under construction in Israel	-	1,875,890	1,875,890
Senior housing	-	588,667	588,667
Total investment property in Israel	208,825	18,051,545	18,260,370
Income-producing property U.S.	-	2,010,769	2,010,769
Total investment property	208,825	20,062,314	20,271,139

	As of December 31, 2014		
	Level 2	Level 3	Total
	NIS in thousands	NIS in thousands	NIS in thousands
Investment property (without downpayments):			
Retail centers and malls in Israel	-	9,529,066	9,529,066
Land and office and other space for lease in Israel	125,400	4,614,901	4,740,301
Investment property under construction in Israel	-	2,232,453	2,232,453
Others	75,802	24,081	99,883
Total investment property in Israel	201,202	16,400,501	16,601,703
Income-producing property U.S.	293,962	1,690,198	1,984,160
Total investment property	495,164	18,090,699	18,585,863

Note 36 – Fair Value (Cont.)

A. Assets and liabilities measured at fair value in the Statement of Financial Position (Cont.)

Financial assets and liabilities:

	As of December 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
	NIS in thousands	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**
Financial assets held for trading:				
Securities	506	-	-	506
Derivatives not used for hedging:				
Forward contracts on foreign currency	-	1,584	-	1,584
Financial assets available for sale:				
Marketable shares	953,652	-	-	953,652
Non-marketable shares	-	-	681,113	681,113
Financial assets designated at fair value through profit and loss:				
Non-marketable investments	-	25,162	-	25,162
Total financial assets	954,158	26,746	681,113	1,662,017
Financial liabilities:				
Forward contracts on foreign currency not used for hedging	-	56	-	56
Total financial liabilities	-	56	-	56
Total fair value of financial assets and liabilities	954,158	26,690	681,113	1,661,961

Note 36 – Fair Value (Cont.)

A. Assets and liabilities measured at fair value in the Statement of Financial Position (Cont.)

Financial assets and liabilities: (Cont.)

	As of December 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
	NIS in thousands	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**
Financial assets held for trading:				
Securities	657	-	-	657
Derivatives not used for hedging:				
Forward contracts on foreign currency	-	838	-	838
Financial assets available for sale:				
Marketable shares	945,176	-	-	945,176
Non-marketable shares	-	-	658,912	658,912
Financial assets designated at fair value through profit and loss:				
Non-marketable investments	-	24,785	-	24,785
Total financial assets	945,833	25,623	658,912	1,630,368
Financial liabilities:				
Forward contracts on foreign currency not used for hedging	-	1,699	-	1,699
Total financial liabilities	-	1,699	-	1,699
Total fair value of financial assets and liabilities	945,833	23,924	658,912	1,628,669

Note 36 – Fair Value (Cont.)

B. Assets and liabilities measured at fair value at level 3 in the Statement of Financial Position:

(1) Movement in investment property measured at fair value

	Real estate in Israel				Real estate in the U.S.	
	Retail centers and malls	Offices and other	Under construction	Others	Income-producing property	Total
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Balance as of January 1, 2014	9,488,397	4,364,708	1,540,594	34,491	1,481,116	16,909,306
Profits or losses recognized:						
in profit or loss	(130,912)	136,453	7,904	(10,641)	15,487	18,291
Purchases	77,684	62,377	829,215	231	19,578	989,085
Classifications	93,897	51,363	(145,260)	-	-	-
Net translation differences deriving from the translation of the financial statements of foreign operations	-	-	-	-	174,017	174,017
Balance as of December 31, 2014	9,529,066	4,614,901	2,232,453	24,081	1,690,198	18,090,699
Profits or losses recognized:						
In profit or loss	122,971	63,099	(1,474)	14,099	(28,294)	170,401
Entry to consolidation (*)	-	-	-	552,083	-	552,083
Purchases	153,588	43,202	654,165	3,062	48,387	902,404
Write-offs	-	(5,300)	-	(24,253)	-	(29,553)
Classifications	784,993	280,468	(1,065,461)	-	-	-
Carried from level 2	-	-	56,207	19,595	293,962	369,764
Net translation differences deriving from the translation of the financial statements of foreign operations	-	-	-	-	6,516	6,516
Balance as of December 31, 2015	10,590,618	4,996,370	1,875,890	588,667	2,010,769	20,062,314

(*) See Note 14H(3).

Note 36 – Fair Value (Cont.)

B. Assets and liabilities measured at fair value at level 3 in the Statement of Financial Position (Cont.):

(2) Movement in assets and liabilities measured at fair value

	For the year ended December 31	
	2015	**2014**
	NIS in thousands	**NIS in thousands**
Financial assets available for sale:		
Balance as of beginning of the year	658,912	692,389
Total profits (losses) recognized:		
in other comprehensive income	22,201	4,366
in the income statement	-	(5,932)
Sales (*)	-	(35,387)
Investments	-	3,476
	681,113	658,912

(*) On November 23, 2014, Granite closed the sale of all of its holdings in Focal Energy Holdings B.V. ("Focal") in consideration for approx. $9.2 million. As a result, an impairment loss of approx. NIS 5.6 million was carried to the income statement.

Note 36 – Fair Value (Cont.)

B. Assets and liabilities measured at fair value at level 3 in the Statement of Financial Position (Cont.)

(3) Description of evaluation techniques

Description of the measured instrument	Fair value as of December 31, 2015	Evaluation technique	Description of significant non-observable data	Range	Other data	Range
	NIS in Thousands					
Financial assets available for sale	681,113 (1)	Discounted cash flow	Weighted average cost of capital (WACC) Growth rate	Mainly 9% 2.5%		
Retail centers and malls in Israel	10,590,618 (2)(3)	Income approach - discounted cash flow (DCF)	Estimated average rent per sqm in NIS (*) Primary cap rate Fair value per sqm in NIS in thousands (4) Occupancy rate (**) (4)	NIS 82-297 6.75% - 8% NIS 12-52 thousand 77% - 100%	Marketable space (in sqm in thousands)	6-40 sqm in thousands
Offices and others in Israel:						
Space for lease for existing offices	4,850,214 (2)	Income approach - discounted cash flow (DCF)	Estimated average rent per sqm in NIS (*) Primary cap rate (4) Fair value per sqm in NIS in thousands Occupancy rate (**) (4)	NIS41-101 7% - 8.5% NIS 6-17 thousand 82%-100%	Marketable space (in sqm in thousands)	2-151 sqm in thousands
Other space for lease	73,835 (2)	Income approach - discounted cash flow (DCF)	Estimated average rent per sqm in NIS (*) Primary cap rate	NIS 28 8%		
Land	72,321	Comparison method	Specific adjustment for estimated rate of betterment levy			

Note 36 – Fair Value (Cont.)

B. Assets and liabilities measured at fair value at level 3 in the Statement of Financial Position (Cont.)

(3) Description of evaluation techniques (Cont.)

Description of the measured instrument	Fair value as of December 31, 2015	Evaluation technique	Description of significant non-observable data	Range	Other data	Range
	NIS in Thousands					
Buildings under construction in Israel	130,268	Discounted cash flow capitalization (DCF), net of the estimated construction costs expected to be generated for its completion	Estimated average rent per sqm in NIS (*) Primary cap rate	NIS 27-60 8% - 8.75%	Estimate of balance of expected building cost per sqm	540-620 per sqm
	1,745,622	Cost approach				
U.S. income-producing property	2,010,769	Income approach – discounted cash flow (DCF)	Estimated average rent per sqm in NIS (*) Estimated average rent per sqm in Dollars (*) Primary cap rate Fair value per sqm in NIS in thousands Occupancy rate (**)	NIS 68-80 $17-20 5.75% - 7.25% NIS 9 - 16 thousand 70% - 100%	Marketable space (in sqm in thousands)	3-89 sqm in thousands
Senior housing	588,667	Income approach – discounted cash flow (DCF)	Cap rate Tenants' Annual rotation rate	9% 10%		

(*) Calculated on the basis of rent per marketable meter for each asset separately.
(**) Calculated on the basis of each asset separately.

Note 36 – Fair Value (Cont.)

B. Assets and liabilities measured at fair value at level 3 in the Statement of Financial Position (Cont.)

(3) Description of evaluation techniques (Cont.)

(1) The fair value estimate will increase if the growth rate increases and/or the weighted cap rate decreases.

(2) The fair value estimation will increase if the rent payments increase and/or the weighted cap rate decreases. A 5% increase or decrease in the average rent per sqm, will increase or decrease the market value of the offices at Azrieli Center by approx. NIS 125 million, respectively. In addition, a 0.25% decrease or increase in the cap rate will increase their market value by approx. NIS 101 million or decrease the same by approx. NIS 95 million, respectively.

(3) The fair value estimate will increase if the building costs per sqm decrease, the rent payments increase and/or the weighted cap rate decreases.

(4) Including properties under lease-up.

Note 36 – Fair Value (Cont.)

B. Assets and liabilities measured at fair value at level 3 in the Statement of Financial Position (Cont.)

(3) Description of evaluation techniques (Cont.)

Description of the measured instrument	Fair value as of December 31, 2014	Evaluation technique	Description of significant non-observable data	Range	Other data	Range
	NIS in Thousands					
Financial assets available for sale	658,912 (1)	Discounted cash flow	Weighted average cost of capital (WACC) Growth rate	9% 2.5%		
Retail centers and malls in Israel	9,529,066 (2)(3)	Income approach - discounted cash flow (DCF)	Estimated average rent per sqm in NIS (*) Primary cap rate Fair value per sqm in NIS in thousands (4) Occupancy rate (**) (4)	NIS 95 - 303 6.75% - 8.5% NIS 13 - 54 thousand 89% - 100%	Marketable space (in sqm in thousands)	6-40 sqm in thousands
Offices and others in Israel:						
Space for lease for existing offices	4,470,236 (2)	Income approach - discounted cash flow (DCF)	Estimated average rent per sqm in NIS (*) Primary cap rate (5) Fair value per sqm in NIS in thousands Occupancy rate (**) (5)	NIS 46 - 98 7% - 8.5% NIS 7 - 17 thousand 84%-100%	Marketable space (in sqm in thousands)	3-151 sqm in thousands
Other space for lease	70,645 (2)	Income approach - discounted cash flow (DCF)	Estimated average rent per sqm in NIS (*) Primary cap rate	NIS 28 8.25%		
Land	74,020	Comparison method	Specific adjustment for estimated rate of betterment levy			

Note 36 – Fair Value (Cont.)

B. Assets and liabilities measured at fair value at level 3 in the Statement of Financial Position (Cont.)

(3) Description of evaluation techniques (Cont.)

Description of the measured instrument	Fair value as of December 31, 2014	Evaluation technique	Description of significant non-observable data	Range	Other data	Range
	NIS in Thousands					
Buildings under construction in Israel	958,851	Discounted cash flow capitalization (DCF), in deduction of the estimated construction costs expected to be generated for its completion	Estimated average rent per sqm in NIS (*) Primary cap rate	NIS 58 - 169 7% - 8.75%	Estimate of balance of expected building cost per sqm	650-2,100 per sqm
	1,273,602	Cost approach				
U.S. income-producing property	1,690,198 (2)	Income approach – discounted cash flow (DCF)	Estimated average rent per sqm in NIS (*) Estimated average rent per sqm in Dollars (*) Primary cap rate Fair value per sqm in NIS in thousands Occupancy rate (**)	NIS 66 - 79 $17-20 5.75% - 7.25% NIS 9 - 16 thousand 88% - 100%	Marketable space (in sqm in thousands)	3-89 sqm in thousands
Others – communication sites	24,081	Income approach – discounted cash flow (DCF)	Cap rate	9.5%-15%		

(*) Calculated on the basis of rent per marketable meter for each asset separately.
(**) Calculated on the basis of each asset separately.

Note 36 – Fair Value (Cont.)

B. Assets and liabilities measured at fair value at level 3 in the Statement of Financial Position (Cont.)

(3) Description of evaluation techniques (Cont.)

(1) The fair value estimate will increase if the growth rate will increase and/or the weighted cap rate will decrease.

(2) The fair value estimation will increase if the rent payments increase and/or the weighted cap rate decreases. A 5% increase or decrease in the average rent per sqm, will increase or decrease the market value of the offices at Azrieli Center by approx. NIS 123 million, respectively. In addition, a 0.25% decrease or increase in the cap rate will increase their market value by approx. NIS 100 million or decrease it by approx. NIS 93 million, respectively.

(3) The fair value estimate will increase if the building costs per sqm decrease, the rent payments increase and/or the weighted cap rate decreases.

(4) The data exclude properties under lease-up. Including properties under lease-up - fair value per sqm is NIS 11-54 thousand and the occupancy rate is 68%-100%.

(5) The data exclude properties under lease-up. Including properties under lease-up - the primary cap rate is 7%-9% and the occupancy rate is 74%-100%.

Note 36 – Fair Value (Cont.)

C. For a description of the evaluation processes used in determining the fair value – see Note 3C.

D. Fair value of items that are not measured at fair value in the Statement of Financial Position:

(1) Fair value by comparison to the book value

Following are details regarding the fair value of certain items that are not measured at fair value in the Statement of Financial Position.

		As of December 31			
		2015		2014	
	Level of fair value	Book value	Fair value	Book Value	Fair value
		NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Non-current assets:					
Receivables in respect of franchise arrangement (1)	2	45,639	55,074	31,987	40,388
Current liabilities:					
Deposits from customers		106,825	72,433	108,730	73,302
Non-current liabilities:					
Loans from banks and other credit providers (1)	2	3,300,780	3,388,536	4,006,090	4,166,901
Bonds (2)	2	3,173,645	3,264,573	1,372,586	1,520,856
		6,474,425	6,653,109	5,378,676	5,687,757
Surplus of liabilities over assets		(6,535,611)	(6,670,468)	(5,455,419)	(5,720,671)

(1) The book value includes current maturities and accrued interest.
(2) In the matter of the basis of the determination of the fair value, see Note 3C.

Note 36 – Fair Value (Cont.)

D. Fair value of items that are not measured at fair value in the Statement of Financial Position: (Cont.)

(2) The interest rates used in the determination of the fair value

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

	As of December 31	
	2015	2014
	%	%
Non-current assets:		
Receivables in respect of franchise arrangement	3.31-5.7	5.2
Current liabilities:		
Deposits from customers	1.45	1.2
Non-current liabilities:		
Loans from banks and other credit providers	1.0-4.2	0.4-4.2
Bonds	1.2-1.6	0.4-1.6

Note 37 – Related and interested parties

A. Parent company, controlling shareholder and subsidiary:

As aforesaid in Note 1A, the Company is a company that is held by Nadav Investments (a company that is resident in Canada) (the "**Parent Company**"), a company controlled by Ms. Sharon Azrieli, Naomi Azrieli and Danna Azrieli. On material subsidiaries, see Note 10A in respect of the Group's entities.

B. Benefits for key managerial personnel (including directors who are employed by the Company):

Benefits in respect of the employment of key management personnel (including directors who are employed in the Company) include:

	For the year ended December 31					
	2015		2014		2013	
	No. of persons	Amount NIS in thousands	No. of persons	Amount NIS in thousands	No. of persons	Amount NIS in thousands
Short-term benefits (1) (2)	12	15,822	15	26,068	15	37,403
Other long-term benefits	1	34	3	(1,558)	3	1,080
Share-based payments	3	2,332	3	858	6	9,082
		18,188		25,368		47,565

(1) See also Note 37C below.
(2) Including 7 directors who are not employed by the Company.

Note 37 – Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties:

	For the year ended December 31			As of December 31	
	2015	2014	2013	2015	2014
		Amounts of transactions		Balance in balance sheet	
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Interested party and affiliates owned by interested party					
Rent income	1,438	532	498		
Financing income, net	6	30	17		
Donations (7)	12,492	13,943	13,600		
Trade and other payables				1,267	2,579
Associates					
Financing income	5,169	3,670	3,515		
Loans and capital notes to associates				199,445	154,397

	For the year ended December 31		
	2015	2014	2013
	Amounts of Transactions		
	NIS in thousands		
Key management personnel (including directors) in the Company (*)			
Interested parties who are employed by the Company	8,613	15,315	37,831
Number of persons to whom the benefit relates	2	4	5
Director remuneration for interested parties who are not employed by the Company	212	204	209
Number of persons to whom the benefit relates	2	2	2
Remuneration for directors who are not employed by the Company	1,458	1,149	1,023
Number of persons to whom the benefit relates	5	5	5

(*) This information is included in Section B above.

Note 37 – Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties: (Cont.)

(1) On July 9, 2014, upon the passing of Mr. David Azrieli, OBM, the founder of the Company, the Chairman of the Board and controlling shareholder of the Company, his office as Chairman of the Board came to an end, and the management agreement with the companies controlled by him ended as well.

According to the management agreement, the annual bonus was calculated according to the proportionate part of the year, based on the annual financial statements. Accordingly, appropriate provisions were made in the Financial Statements for 2014 for an estimate of the annual bonus until the date of termination of the management agreement.

Following are the main provisions of the management agreements between the Company and the companies controlled by Mr. David Azrieli, OBM, until the date of his passing, the amounts for which are included in comparison figures for years 2014 and 2013:

On June 20, 2013, the general meeting approved the continuance of management services between the Company and Canadian companies wholly owned and fully controlled by Mr. Azrieli (the "Management Companies"), whereby the Company would be provided with management services, through Mr. Azrieli, for a three-year period, starting on June 3, 2013, at the scope of an 80% position (the "2013 Management Agreement").

The annual management fee determined in the Management Agreement were in a fixed amount of NIS 4.5 million, linked to the CPI for April 2013, in addition to an annual bonus at a phased rate deriving from the adjusted profit as specified in the agreement, which shall not exceed NIS 5.5 million.

In addition to the management fee and the annual bonus, the Company bore the costs of the car and communication expenses, and expenses in respect of provision of the services, including entertainment expenses, flight expenses (first class or a private jet, as necessary), travel expenses and *per diems* in Israel and overseas, up to a cap which was determined by the Company's Audit Committee. Every year, the Audit Committee examines compliance with the said expense caps.

Furthermore, according to the Management Agreement, the Management Companies will be entitled to borrow from the Company up to the sum of NIS 1 million a year, to be repaid plus interest in accordance with the regulations for determination of the minimum interest rate for the purpose of Section 3(i) of the Income Tax Ordinance, by and no later than 60 days after approval of the date of the annual bonus payment (the "Withdrawal Arrangement").

Until June 2013, a previous management agreement, as approved by the Company's board and general meeting (prior to the Company's IPO) on May 5, 2010 (the "2010 Management Agreement") was in effect. Its main provisions are specified below:

Note 37 – Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties: (Cont.)

In consideration for the services, the Company paid the Management Companies an annual management fee in the sum of NIS 8 million for each calendar year, linked to the CPI for March 2010 (the "Management Fee") and an annual bonus in an amount equal to the rate of 1% of the EBITDA of the Company (operational income plus depreciation and amortization) in accordance with the annual consolidated and audited financial statement of the Company, provided that the EBITDA is not negative (the "Annual Bonus"), all up to a cap of NIS 24 million (linked to the CPI as aforesaid). In addition, the 2010 Management agreement included reimbursement of expenses and a withdrawal arrangement similarly to the 2013 Management Agreement.
The Management Fee in 2014, until the passing of Mr. David Azrieli, OBM, amounted to the sum of approx. NIS 4,913 thousand (2013 – approx. NIS 14,854 thousand).

(2) On July 3, 2014, in view of the deterioration in Mr. David Azrieli's health, Ms. Danna Azrieli was appointed as Active Chairman of the Board, and on July 21, 2014, after his passing, the Company's Board of Directors appointed Ms. Danna Azrieli as Chairman of the Company's Board.

On December 28, 2014, after receiving the approval of the Company's Compensation Committee and Board of Directors, the general meeting of the Company approved the engagement in a new management agreement with Ms. Danna Azrieli with respect to the terms and conditions of her office and employment as Active Chairman of the Board of the Company, an agreement which took effect on January 1, 2015, and the principles of which are specified below:

The Management Services, as hereinafter defined, shall be provided to the Company by Ms. Danna Azrieli through a company wholly-owned by Ms. Danna Azrieli (the "Management Company"), in the framework of which services, Ms. Danna Azrieli shall serve as the Active Chairman of the Board of the Company on a full-time basis (100% position) (it is clarified that Ms. Danna Azrieli may continue to take additional actions, including philanthropic activities in which she is involved, from time to time, provided that the performance thereof does not affect the discharge of her duties in the Company) and shall provide the following services to the Company, through the Management Company: chairman of the executive board of the Company's management, overseeing the implementation of strategic decisions, formulating business and managerial decisions related to the development and management of the Company's properties, business development, financing and budget, targets and the examination of new operating segments, providing ongoing managerial and professional advice to the Company's management and the managers of the principal operating segments, overseeing, accompanying and analyzing business opportunities and leading transactions and acquisitions in Israel and overseas, overseeing existing projects and monitoring their progress, overseeing development and construction and business development abroad, responsibility for outlining the Company's community relations and representing the Company in conferences in Israel and abroad (the "Management Services").

In consideration for the provision of the Management Services, the Company shall pay Ms. Danna Azrieli (through the Management Company) the following consideration:

Note 37 – Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties: (Cont.)

(2) (Cont.)

Fixed component – Annual management fee in the amount of approx. NIS 2.7 million (in nominal terms) (constituting, as of December 2014, monthly management fee of approx. NIS 225,000), plus V.A.T. as required by law, linked to the rise in the CPI for November 2014, which was published on December 15, 2014 (the "Fixed Management Fee") (in the event of a decline in the Index in a particular month, the consideration will not be reduced, but the reduction will be offset against future index rises). The Fixed Management Fee will be paid every current calendar month.

Variable component – for the Management Services, the Management Company shall be entitled to an annual bonus, for each calendar year, deriving from the Adjusted Profit, as specified below:

The "Adjusted Profit" for purposes of this section, for every calendar year – the annual pre-tax profit, according to the Company's audited consolidated annual financial statements, net of the following amounts: (1) a dividend received from financial assets available for sale included in the annual pre-tax profit; (2) profit (loss) deriving from the revaluation of real estate properties; (3) results of companies which do not engage in the Company's core business segments (real estate) and were included in the annual pre-tax profit; (4) linkage differentials accrued on financial liabilities; (5) interest expenses, at the actual weighted effective interest rate for such year, of the Company and companies controlled thereby, which engage in the Company's core business, on loans (regardless of whether or not they were taken) at a financing rate of 65% on the historical purchase cost in the books of the investment in companies which are not in the core business; (6) the sum total of the management fee (including bonus) to Ms. Danna Azrieli for such year, as included in the annual pre-tax profit; and (7) profit (loss) from financial assets (marketable securities) held for trading, including interest and dividend in respect thereof.

Bonus threshold and brackets – in a year in which the Adjusted Profit is less than NIS 925 million – there is no bonus entitlement. In a year in which the Adjusted Profit ranges between NIS 925 million and NIS 1,050 million – a bonus shall be paid at the rate of 0.5% of the difference between the bonus threshold and the actual Adjusted Profit; in a year in which the Adjusted Profit exceeds NIS 1,050 million – for the portion of the Adjusted Profit exceeding NIS 1,050 million – the amount paid shall be 0.75% of the amount in excess of NIS 1,050 million, plus 0.5% of the difference between NIS 925 million and NIS 1,050 million.

Bonus cap and payment for a partial year –the sum total of the annual bonus for any calendar year as aforesaid shall not exceed NIS 1.5 million. If the Management Services shall have been rendered during part of a calendar year, the Management Company shall be entitled to a bonus calculated according to the relative part in the annual calculation results, on the basis of a 365 day year, in accordance with the part of the year during which the Management Services were rendered and based on the consolidated annual statements for such year in which the Management Agreement commenced or ended.

Repayment clause – if and insofar as it transpires *post factum* that the data on which the Company relied when granting the annual bonus as aforesaid to Ms. Danna Azrieli are incorrect and that restatement thereof is required in the Company's Financial Statements, Ms. Danna Azrieli shall repay the Company the difference between the amount of the bonus paid to her based on such incorrect data and the amount of the annual bonus to which she is entitled based on the data after such restatement thereof.

Note 37 – Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties: (Cont.)

(2) (Cont.)

Reimbursement of expenses, car and telecommunication – the Company shall bear all of the expenses of the Management Company in the context of the provision of the Management Services, including entertaining expenses, travel and *per diem* expenses in Israel and abroad, all in accordance with the Company's procedures and against presentation of appropriate evidence up to a maximum amount as shall be determined by the Company's Board of Directors from time to time and which shall be determined appropriate thereby, taking into account the Company's business and the scope thereof. The Company shall further bear the costs of making available and maintaining a car for the purpose of providing the Management Services, the costs of use of telephony and telecommunication, and may also, from time to time and in accordance with the compensation policy, grant Ms. Danna Azrieli additional related benefits, such as a laptop, internet connection, subscriptions to financial newspapers and daily newspapers, payment for participation in professional conferences, professional literature, seminars, etc. Reimbursement of car and telecommunication expenses shall not exceed a maximum amount as shall be determined from time to time by the Audit Committee and which shall be determined appropriate thereby, considering the Company's business and the scope thereof.

The agreement also includes the Company's undertaking of inclusion within an officers' insurance policy, and the grant of letters of exemption and indemnification in the standard language granted to the other officers of the Company, all subject to the provisions of the Companies Law and the approvals required thereunder, the Company's articles of association and the Company's compensation policy.

Term of the agreement and termination thereof – the management agreement took effect on January 1, 2015, and shall be in force and effect for a three-year period as of such date, unless extended prior thereto by agreement between the parties and subject to receipt of all of the approvals required under law. The management agreement may be terminated by the Management Company, on the one hand, and by the Company, by way of a board resolution, on the other hand, subject to a prior notice of 6 months in advance (with no adjustment period), other than in exceptional events in which it may be terminated by the Company with immediate effect.

The total management fee for 2015 amounted to NIS 3,418 thousand.

Following is a specification of the management agreement between the Company and a company controlled by Danna Azrieli until December 31, 2014 in respect of her terms of office and employment as Active Vice Chairman of the Company's Board of Directors (the "Vice Chairman Management Agreement").

The Management Services that included, in accordance with the parties' agreements, as being from time to time, services of active vice chairman of the board and/or substitute chairman of the board and/or chairman of the board and/or director and/or a managerial position in the Company. On June 1, 2010 Ms. Danna Azrieli was appointed as a director of the Company, and on June 8, 2010 the board ratified her appointment as Active Vice Chairman of the Board of the Company, in accordance with the Vice Chairman Management Agreement, as stated above.

The Management Services were granted at an 80% position. The Management Company shall be entitled to give the Company prior written notice of 7 days in advance, at any time, of the need to change the scope of the Management Services by reducing the scope thereof, and the monthly consideration due to the Management Company shall accordingly be reduced proportionately.

Note 37 – Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties: (Cont.)

(2) (Cont.)

The Management Company was entitled to a fixed monthly payment of NIS 164,711 (the "Monthly Consideration"), linked to the rise of the CPI, from the known index for September 2009. The Management Company was entitled to related benefits, including the provision of a Grade 7 or higher car, landline and mobile telephone (including the expenses thereof), and reimbursement of expenses.

The Management Services that were rendered according to the New Vice Chairman Management Agreement are: active vice chairman, a member of the Company's narrow executive management, engaging, *inter alia*, in forming the Company's policy and strategy, forming the Company's financial forecasts, business development decisions, outlining material transactions, overseeing existing projects and monitoring their progress, responsibility for outlining the Company's community relations and representing it in conferences in Israel and overseas. The consideration and other terms and conditions in respect of the Management Services will be under the same terms and conditions as the Vice Chairman Management Agreement.

In addition to an advance notice period of 90 days, the Management Company was entitled to an adjustment period of 270 days, and in any event of termination of the engagement, the Management Company was paid the full Monthly Consideration, plus all of the aforesaid consideration components, for the adjustment period.

In addition, Ms. Danna Azrieli was granted compensation for her office as a director of Granite Hacarmel and GES. From October 2012, Ms. Danna Azrieli ceased holding office as a director of Granite Hacarmel and GES.

(3) Granite's general meeting has approved:

(a) The provision of an indemnification in advance to all of the officers who are so entitled in Granite and in its consolidated companies, including officers who are considered to be controlling interests, in the past, present and future. The commitment to indemnification is limited to certain types of events and to amounts as detailed in the decision that was passed. The indemnification is in respect of the period in which Granite was a public company (until September 2012) and in connection with the office of the officers at such time.

The cumulative maximum amount of the indemnification, for all of the officers, may not exceed 20% of Granite's equity in accordance with the last financial statements that are known at the time of the passing of the decision in respect of the indemnification, with the addition of amounts that will be received from the insurance company.

(b) The granting of an exemption in advance to all of the officers who are so entitled in Granite and in its consolidated companies, including officers who are considered to be controlling interests, from liability in respect of damage caused as the result of a breach of the duty of care vis-à-vis the Company.

(c) Directors and officers liability insurance in Granite and in its subsidiaries, for a period of 12 months from July 9, 2015 and with limits of overall liability per case and for a period of U.S. $40 million.

Note 37 – Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties: (Cont.)

(d) Expansion of the indemnification granted to Granite's directors and officers to apply also to events arising from the Improvement of Enforcement Law, within the limits of the law. Granite further limited the retroactive indemnification amount to 20% of its equity according to the Financial Statements, as being on the date of actual granting of the indemnification. Further approved was the granting of indemnification also to Ms. Danna Azrieli, who is deemed a controlling shareholder of the Company. The granting of an exemption to Ms. Danna Azrieli is subject to approval by the general meeting of Granite's shareholders.

(4) On the guarantees that the Group has made available to companies in the Group, see Note 33B.

(5) On September 16, 2014 Mr. Menachem Einan gave notice of his retirement from his office as a director of the Company and from his duties as Active Deputy Chairman of the Board of the Company, at the end of June 2015. On November 18, 2014, Mr. Menachem Einan updated the Company and the Board of his retirement from his office as a director of the Company and from his duties as Active Deputy Chairman of the Board and as Chairman of Granite Hacarmel, upon expiration of the agreement effective as of February 28, 2015.

On March 18, 2015, the Company's Board approved, after the Audit Committee's approval, for the sake of caution only, engagement in an agreement to receive consulting services from a company wholly owned and fully controlled by Mr. Menachem Einan (the "Management Company") (the "Consulting Agreement"). According to the Consulting Agreement, the Management Company will provide consulting services on various strategic matters according to the Company's requirement and up to a scope of 40 monthly hours, in consideration for monthly consulting fees of approx. NIS 60 thousand, linked to the Index, plus reimbursement of reasonable expenses. In addition, it was determined that insofar as the process of disposition of Sonol Israel Ltd. and/or Supergas Israel Gas Co. Ltd., from Granite Hacarmel Investments Ltd. group, which is controlled by the Company, is completed, by March 31, 2016, the Management Company will be entitled to a one-time bonus of NIS 500 thousand in respect of each one of the dispositions. The agreement is for a period of 24 months from March 1, 2015 (the "Term of the Agreement"), while each party is entitled to terminate the Consulting Agreement at any time after a period of 12 months from the date of its taking effect, in which case, the Company will continue to pay the Management Company monthly consulting fees for the entire remainder of the Term of the Agreement (all unless the agreement is breached). In the framework of the agreement, the Management Company committed to confidentiality and non-competition.

Following are details on the management agreements between the Company and the Management Company until February 28, 2015:

On January 16, 2011, the Company's Board confirmed, after the approval and recommendation of the Company's Audit Committee, that Mr. Menachem Einan, the Company's former CEO ("Mr. Einan") was promoted and appointed as Active Deputy Chairman of the Company's Board, in lieu of his position as CEO of the Company. In his said position, Mr. Einan was deemed as one of two deputy chairmen of the Board who the Board may choose, as stated in the Company's articles of associations, in addition to Ms. Danna Azrieli, who served, as of such date, as active vice chairman of the board from June 2010. Mr. Einan was responsible, in this position, for the strategic fields relating to the continued business development of the Group, and realization of its long-term vision. The appointment took effect on April 1, 2011. In accordance with a management agreement that was signed between the Company and Mr. Einan dated March 1, 2010, the terms and conditions of the management agreement with Mr. Einan remained in effect.

Note 37 – Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties: (Cont.)

(5) (Cont.)

The Management Company was entitled to a fixed monthly payment of NIS 300,000, linked to the CPI, which was published on June 15, 2009 and it is entitled to ancillary benefits, including the making available of a motor vehicle (up to Group 7), cellular telephones (including the expenses in respect thereof, reimbursement of expenses and the tax gross-up therefor).

In addition, the Management Company was entitled once a year to fixed annual remuneration in an amount of NIS 1,000,000, which was paid no later than the month of April in the following year. The said amount was linked to the CPI, where the base index will be the Index for May 2009.

On May 5, 2010 the Company's Board and general meeting approved the agreement of March 1, 2010.

In addition, in 2010, the Management Company was granted 395,778 phantom units in the total value of approx. NIS 12 million.

In addition, Mr. Menachem Einan also held office as the Chairman of Granite Hacarmel.

(6) On April 2, 2013, the Company's Board approved the appointment of Mr. Yuval Bronstein ("Mr. Bronstein") as the Company's CEO as of May 1, 2013, in lieu of his office as the Company's CFO.

On June 20, 2013, the general meeting approved the terms of the Company's engagement in an agreement with a Company wholly-owned by Mr. Bronstein (the "Management Company").

The Management Company is entitled to a fixed monthly payment in the amount of NIS 255,000, linked to the rate of increase of the CPI for February 2013, as released on March 15, 2013, and is entitled to related benefits, including the provision of a vehicle (Group 7) and a mobile phone.

Each of the parties to the agreement may terminate the agreement, for any reason whatsoever, by a prior written notice of three months.

Furthermore, the Management Company will be entitled to adjustment compensation in an amount equal to 9 monthly payments.

Mr. Bronstein was granted 82,454 phantom units during his service as the Company's CFO, in accordance with the approval by the Company's Board and general meeting of May 2010 at a value set on the date of the grant of the options in the sum of approx. NIS 2.5 million pursuant to a base price determined according to a share price, in May 2010, of NIS 83.25. From the date of the grant to the date of approval of his office as the Company's CEO by the general meeting, the Company recorded an aggregate amount of approx. NIS 2.4 million in its books for the phantom units. The total cost carried to the income statement in the year ended on December 31, 2015, amounted to approx. NIS 1.1 million (in 2014 - NIS 0.4 million).

In addition, in 2015, Mr. Bronstein received a bonus in the sum of NIS 652 thousand (2014 – NIS 520 thousand).

Note 37 – Related and interested parties (Cont.)

C. C. Transactions and balances with related and interested parties: (Cont.)

(7)

a. On May 5, 2010, shortly before the Company's IPO, the Company's general meeting, after the approval of the Company's Board had been received on May 5, 2010, gave its approval that within the framework of the annual contributions which are given to NPO's by the Company, whose scope shall be determined by the Company's Board from time to time, the Company shall remit, *inter alia*, through contributions to the Azrieli Foundation (Israel) (R.A.), ("AFI"). The resolution was adopted based on an examination of the main objectives of AFI which are to act to promote education and culture in Israel, through projects in the field of education, culture, welfare and science, the execution of project and the conducting of research alone and/or in conjunction with other organizations, including by means of awarding grants to organizations and/or individuals for the purpose of the performance of projects and/or research work that accords with the objectives of the Foundation, which have been examined and found to accord with the Company's policy on contributions. There is nothing in the said decision that prevents the Company's Board from resolving to make contributions to other charitable entities, whose objectives accord with the Company's policy on contributions, as they may be from time to time.

Within the framework of the said decision by the general meeting, it was determined that during the period until May 2015, the company will donate to the Foundation, in each calendar year, by itself or by means of companies that it controls (except for Granite), an amount that constitutes 1.5% of the Company's annual profit and in any event not more than an amount of NIS 14 million.

The contributions remitted by the Company to AFI were used for the making of donations and for the current needs of the AFI. This contribution is deemed as a contribution out of the Company's annual contribution budget, as determined by the Company's Board from time to time.

The Company's internal auditor was appointed by the Company's Board, to examine in each calendar year and prior to the time of the signing of the financial statements for that year, the total scope of the contributions that AFI has contributed in that year, and the correlation between the contribution that stood at the basis of the decision by the general meeting that approved the annual contribution, as aforesaid and shall submit a written report to the Audit Committee. In view of Amendment 16 to the Companies Law that shortened the transaction to 3 years, on March 14, 2013, the Company's Audit Committee approved the reasonableness of the period which was set at 5 years (namely – May 2015).

In May 2015, the general meeting (after the approval of the Audit Committee and the Company's Board) approved the Company's engagement with AFI in a new contribution arrangement, which extended the arrangement for contribution to AFI by another five years commencing on June 1, 2015 and ending on May 31, 2020.

b. On March 13, 2014, a contribution agreement (the "Contribution Agreement") was signed between Azrieli Holdings and the Azrieli Foundation (Israel) R.A. ("AFI"), a non-profit association registered in Israel, which works, *inter alia*, to promote education and culture through projects in the fields of culture, welfare and science.
According to the terms of the Contribution Agreement, Azrieli Holdings granted AFI, by way of a contribution, 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.

Note 37 – Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties: (Cont.)

(7) (Cont.)

According to the provisions of the Contribution Agreement, the contribution of the Contribution Shares to AFI was made subject to the following 3 conditions:

(a) AFI shall hold the Contribution Shares, shall not transfer the same nor make any other disposition therein, for a period of at least 10 years from the date of execution of the contribution agreement (the "Limitation Period"); upon expiration of the Limitation Period, any transfer of the Contribution Shares by AFI will require a resolution by a special majority of at least 75% of the members of the board (or any other required organ), who are entitled to participate in a vote on such resolution ("Special Approval");

(b) Upon expiration of the Limitation Period and subject to receipt of the Special Approval as aforesaid, any future transfer of the Contribution Shares will be subject to a right of first refusal in favor of Azrieli Holdings;

(c) Azrieli Holdings shall retain all of the voting rights under the Contribution Shares, to which end AFI has signed the necessary powers of attorney. In the case of a future sale of the Contribution Shares by AFI, the voting rights under the Contribution Shares shall pass to the buyer.

As a result of receipt of the Contribution Shares, AFI became an interested party, as this term is defined in the Securities Law, 5728-1968 (the "Securities Law"), in the Company. Pursuant to the provisions of the Contribution Agreement, Azrieli Holdings and AFI are considered "Joint Holders" within the definition thereof in the Securities Law. In the matter of duties applying or relating, according to the Companies Law, to controlling shareholders of a company, the Company chose to relate to AFI as if it is the controlling shareholder of the Company, even if this is not required according the provisions of the law, so long as the Company did not give another reporting.

On the Company's engagement in an agreement for the purchase of one share of Canit Hashalom from AFI, after the date of the Financial Statements, see Section 10 below.

c. On March 24, 2014, Azrieli Holdings transferred to The Azrieli Foundation, a registered Canadian philanthropic foundation whose assets are designated for donations and to fund philanthropic activity in Israel and in Canada (the "Azrieli Foundation Canada"), 460,000 shares of the Company as a contribution for no consideration, constituting approx. 0.38% of the Company's issued capital. After the transfer of the shares, the Azrieli Foundation Canada held 13.68% of the Company's share capital.

On February 24, 2015, Azrieli Foundation Canada sold 150,000 shares of the Company, and after the sale of the shares, Azrieli Foundation Canada holds 13.55% of the Company's share capital.

Note 37 – Related and interested parties (Cont.)

C. Transactions and balances with related and interested parties: (Cont.)

(8) In November 2014, Gemel Tesua Investments Ltd. ("Gemel Tesua") entered into an agreement with Azrieli Foundation (Israel) R.A. ("AFI") (see Section 7 above), according to which Gemel Tesua will lease to AFI, under market conditions, from January 2015, an area of approx. 457 sqm out of the office space in the Herzliya Business Park project, which is owned by the Group, and will also provide AFI with management and maintenance services as it provides to the other tenants in the project, which include, *inter alia*, cleaning, maintenance, building insurance and third party insurance for the public areas, payments of municipal taxes in respect of the public areas and gardening, for a period of five years, with an option to extend the period for an additional five years, in consideration for a monthly payment of approx. NIS 58 thousand.

It was further agreed that Gemel Tesua will receive one-time compensation from AFI in respect of the investment budget provided in relation to the old area in the sum of NIS 313 thousand, linked to the index according to the previous agreement of 2010.

The Company classified the transaction as a negligible transaction, under market conditions and in the ordinary course of business, and that it is not a transaction which requires special approvals pursuant to the Companies Law.

(9) Remuneration of the directors - in accordance with the decision of the Company's Board and the Company's general meeting, from May 10, 2010 and August 24, 2010, the remuneration of the external directors, who are appointed in the Company, to be in accordance with the Companies Regulations (Principles for the remuneration and expenses for an external director) – 2000 (the "Remuneration"). The annual remuneration and the remuneration for participation (including remuneration as an expert outside director) will be paid in accordance with the maximum amount that is set in the remuneration regulation, in accordance with the Company's capital grade, as it may be from time to time.

In accordance with the decision of the Company's Board and general meeting as of May 6, 2010, the payment to the Company's directors, except for the independent external directors and except for directors who receive fees from the Company (whether themselves or by means of management companies that they control), in an amount of NIS 65 thousand and remuneration for participation in meetings in an amount of NIS 2,300. The amounts of the Remuneration will be Index-linked in accordance with the provisions of the Remuneration Regulations, In addition, the provisions of Sections 5 (B) and 6 (A) of the Remuneration Regulations will apply to the Remuneration paid to the directors, *mutatis mutandis*. On May 13, 2013, following Amendment 16 to the Companies Law, after the approval of the Company's Compensation Committee had been received, the Company's Board approved the continued payment of the annual remuneration and the said participation remuneration to Naomi Azrieli and Sharon Azrieli under the same terms and conditions as specified above. This approval was reported to the public pursuant to Regulation 1B(3) of the Companies Regulations (Relaxations in Transactions with Interested Parties), 5760-2000.

(10) After the date of the Financial Statements, on March 6, 2015, the Company's general meeting approved the Company's engagement in an agreement for the purchase of one share of Canit Hashalom, a subsidiary in which the Company held approx. 99.1% from Azrieli Foundation (Israel) (R.A.), in consideration for NIS 51 million. Following the purchase, the Company holds 100% of the issued share capital of Canit Hashalom.

The closing of the transaction is not expected to affect the Company's income statement.

Note 37 – Related and interested parties (Cont.)

D. Exemption, insurance and indemnification for officers and directors:

In accordance with the decision passed by the Board and the Company's shareholders meeting on May 6, 2010, the Company has granted officers and the directors, as they may be from time to time, an exemption in advance and retrospectively from their responsibility, in whole or in part, as a result of any damage that may be caused to it and/or that has been caused to it, whether directly or indirectly, as a result of a breach of a duty of care of the directors and the officers to it and to its subsidiaries, and as officers and/or as directors in the Company or officers and/or directors acting on the Company's behalf in the subsidiaries.

On such date the Company's Board and general meeting approved the grant of indemnification to all of the officers in the Company and the directors of the Company, as being from time to time, for any liability or expenses as specified below, imposed thereon as a result of actions made (including actions made prior to the grant of letter of indemnification) and/or will make in their capacity as officers and/or directors of the Company and/or as officers and/or directors acting on the Company's behalf in the subsidiaries or affiliates of the Company or any other company in which the Company has an interest: (a) a financial indebtedness that is placed on an officer and/or director in favor of another person under a judgment, including a judgment issued by way of compromise or an arbitration award that is approved by a court and solely that those actions relate to one or more of the events that are detailed in the letter of indemnification;
(b) reasonable litigation expenses, including lawyers' fees, which are expended by an officer and/or a director or that they were charged to pay by a court, in proceedings that were presented against them by the Company or in its name or in the name of another person, or on a criminal indictment that they are acquitted of, or on a criminal indictment on which they are found guilty and which does not require proof of criminal intent; (c) reasonable litigation expenses, including lawyers' fees that have been expended by an officer and/or a director, as the result of an investigation or proceedings that are conducted against them by an authority that is authorized to conduct the investigation or proceedings, and which ended without the presentation of an indictment against them and without any financial liability being placed upon them as an alternative to criminal proceedings, or which ended without the presentation of an indictment against them but with the placement of a financial liability as an alternative to criminal proceedings in a transgression which does not require proof of criminal intent.

The amount of the indemnification that the Company will pay to each officer (including directors), cumulatively in accordance with each letter of indemnification that is issued to them by the Company in accordance with the indemnification decision, in respect of one or more of the events that are detailed in the letter of indemnification, may not exceed 20% of the capital that is attributed to the shareholders in the Company in accordance with the last financial statements of the Company (audited or reviewed), which were published before the date of the indemnification.

After receipt of the approval of the Company's Board and the Audit Committee dated June 28, 2011, the general meeting approved the amendment to the language of the letters of exemption and indemnification which the Company granted and grants to the Company's officers and directors, including officers and directors of the Company who are deemed controlling shareholders and/or in the granting of which the controlling shareholders of the Company have a personal interest, as shall hold office from time to time, in order to adjust the same to the provisions of Section 56H of the Securities Law, such that they shall include an indemnification undertaking with respect to payments to persons injured by a breach and expenses in connection with administrative enforcement proceedings, including reasonable litigation expenses.

On December 28, 2014, after receipt of approval from the Company's Compensation Committee and Board, the Company's general meeting approved the extension of the letters of indemnification to the directors who are indirect controlling shareholders of the Company (Mmes. Danna, Sharon and Naomi Azrieli) for an additional three-year term from August 15, 2014, with no change in the terms and conditions of the letter of indemnification (whose language is identical to that to which the other directors are entitled as described in the Note), with the exception of the exemption component, which was not included in the letter of indemnification whose extension was approved as aforesaid.

Note 37 – Related and interested parties (Cont.)

D. Exemption, insurance and indemnification for officers and directors: (Cont.)

In addition, at the same time, the Board and the general meeting of the Company's shareholders gave their approval for the Company being entitled to purchase directors and officers insurance policies, as detailed below:

On May 6, 2010, the Company's Board and the Company's general meeting approved a resolution whereby the Company is entitled, at any time during five periods of insurance, commencing on June 3, 2010, and with the approval of the Audit Committee and the Board of the Company, without requiring an additional approval of the general meeting therefor, to purchase policies to insure the liability of directors and officers as shall serve in the Company from time to time, to extend and/or to renew the existing insurance policy and/or to engage in a new policy at the time of renewal or during the period of the insurance, with the same insurer or another insurer in Israel or abroad, on terms similar to the policy which was approved on such date and as specified below, to insure the liability of directors and/or officers, provided that such engagements shall be on the basis of the principal conditions set forth below. The Company's engagements as aforesaid shall not be brought before the general meeting for additional approval thereby, and shall be approved by the Audit Committee and the Board of the Company, including with respect to directors on behalf of the controlling shareholder, which shall confirm that the new policies comply with the following conditions:

(1) The limits of liability in the framework of the insurance policies, as taken out from time to time by the Company, shall not exceed U.S. $100 million per event and for the period of the insurance, plus reasonable legal defense costs, over and above the limits of liability pursuant to the Israeli law.

(2) The deductible per claim for the Company shall not exceed U.S. $150 thousand, in accordance with the cause of action and the place of filing thereof.

(3) The annual insurance premium shall not exceed the amount of U.S. $250,000.

(4) The insurance policy was extended to cover claims that are filed against the Company (as distinguished from claims against directors and/or officers thereof), which concern the violation of securities laws at least in Israel (entity coverage for securities claims), and procedures for the payment of insurance benefits shall be determined, whereby the right of the directors and/or officers to receive indemnification from the insurer pursuant to the policy shall precede the right of the Company.

(5) The policy also covered the liability of the controlling shareholders in their capacity as directors and/or officers in the Group, from time to time, provided that the terms of coverage with respect thereto shall not exceed those of the other directors and/or officers in the Group.

In accordance with the aforesaid, on June 1 and 2, 2014, the Company's Audit Committee and Board approved the extension of the Company's engagement in a D&O insurance policy, on a claim made basis, for a period of 12 months from June 3, 2014. The said insurance policy covered all of the directors and officers in the Company and in the subsidiaries, as they may be from time to time, including by virtue of their positions as directors and officers in the Company's subsidiaries, except in relation to the Granite Hacarmel Group, which holds an independent D&O insurance policy (all of the directors and officers of the Company who hold office in the Granite Hacarmel Group will be covered under the Company's policy in connection with their office at Granite Hacarmel only in excess of the coverage of Granite Hacarmel's D&O policy). The maximum limits of liability of the insurer is U.S. $100 million per event and for the insurance period, plus reasonable legal defense costs over and above the limits of liability pursuant to Israeli law. The annual premium to be borne by the Company is U.S. $122 thousand, and the deductible per claim for the Company alone in respect of claims against directors and officers will not exceed U.S. $50 thousand, in accordance with the cause of action and the place of filing.

Note 37 – Related and interested parties (Cont.)

E. Exemption, insurance and indemnification for officers and directors: (Cont.)

The insurance policy has been expanded to cover claims that are filed against the Company (to differentiate from claims against directors and/or officers in it), the subject matter of which is a breach of the Securities Law, at least in Israel (entity coverage for securities claims), however, the right of the directors and/or the officers to receive indemnification from the insurer in accordance with the policy has preference over the right of the company.
In addition, the Company's Audit Committee and Board have confirmed that the engagement in the said policy complies with the conditions approved by the Company's general meeting.

On May 31, 2015, the Company's Board approved (after the Compensation Committee's approval of the same date) engagement for renewal of the Company's insurance policy for directors and officers (including from among the Company's controlling shareholders) of the Company and the Company's subsidiaries, except in relation to the Granite Hacarmel group which holds an independent D&O insurance policy, from June 3, 2015 until June 2, 2016 (the "Engagement").

The Engagement will be on the basis of the main terms of engagement specified in the Company's compensation policy and below:

(1) The limits of liability in the insurance policy shall not exceed U.S. $100 million per event and for the period of the insurance, plus reasonable legal defense costs in Israel, over and above the limits of liability, and in respect of claims filed outside of Israel – reasonable legal defense costs over and above the limits of liability, in accordance with trial costs customary in Israel and pursuant to the Israeli law.

(2) The deductible per claim for the Company alone shall not exceed U.S. $50 thousand, in accordance with the cause of action and the place of filing thereof, and at an annual premium of approx. U.S. $116 thousand.

(3) The insurance policy was extended to cover claims that are filed against the Company (as distinguished from claims against directors and/or officers thereof), which concern the violation of securities law at least in Israel (entity coverage for securities claims), and procedures for the payment of insurance benefits shall be determined, whereby the right of the directors and/or officers to receive indemnification from the insurer pursuant to the policy shall precede the right of the Company.

(4) The policy covers also the liability of the controlling shareholders in their capacity as directors and/or officers of the Company, and the terms of the coverage with respect thereto do not exceed those of the other directors and/or officers of the Company.

POSI type policy – On June 3, 2010 the Company purchased a POSI (Public Offering of Securities Insurance) type insurance policy, which covers the responsibility of the Company, the directors and the officers in it, the controlling interests and additional parties, who have taken part in public offering of the Company's shares in accordance with the prospectus that was issued in May 2010 (the "Offering"), against claims that may be filed against them in connection with the Offering and this for a period of 7 years from the time of the Offering. The maximum limits of liability of the insurer in accordance with this policy will not exceed U.S. $100 million per event and for the period of the insurance, plus reasonable legal defense costs over and above the limits of liability pursuant to the Israeli law. The annual premium is U.S. $250 thousand. The deductible per claim for the Company in respect of claims under this policy will not exceed U.S. $35 thousand.

Note 37 – Related and interested parties (Cont.)

D. Exemption, insurance and indemnification for officers and directors: (Cont.)

On May 13, 2013, following approval by the Compensation Committee, the Company's Board approved the continued inclusion of the Company's controlling shareholders and their relatives, who serve as directors and officers of the Company, in the Company's D&O insurance policies, in accordance with the Company's general meeting resolution of May 6, 2010, on the same terms as were applicable prior to the date of such approval.

E. Negligible transactions:

On November 24, 2010, the Company's Board decided to adopt guidelines and rules regarding the classification of transactions which are not irregular transactions, of the Company or of a consolidated company thereof with interested parties therein or controlling shareholders, as a negligible transactions. Such guidelines were prescribed, *inter alia*, considering the scope of the Company's assets, the diversity of its businesses, the nature of the transactions performed thereby and the level of effect thereof on the Company's business and results. In May 2015, the Company's Board adopted a master procedure for transactions with related parties, which consolidated and incorporated procedures that were approved at the Company in the years preceding the approval thereof, including in respect of classification of negligible transactions.

Such rules and guidelines will serve on the one hand for examining the need to approve the transaction at the relevant institutions in the Company, and on the other hand, for examining the duty and/or scope of disclosure in the periodic report and the prospectus (including in shelf offer reports), and/or the provision of an immediate report in respect of such a transaction. It is noted that the transactions are examined at the group level, including material companies controlled by the Company.

The Company's Board determined that a negligible transaction at the Company is a transaction of the Company with controlling shareholders or another person in which the controlling shareholder has a personal interest, which is not irregular (i.e. is in the ordinary course of business, under market conditions and not material), and meets the following tests:

(1) In respect of the duty to provide an immediate report in connection with a negligible transaction – a single transaction in a company or a subsidiary controlled thereby is a negligible transaction if the financial scope thereof does not exceed the rate of 0.1% of the Company's consolidated equity according to the last financial statements; in case of ongoing transactions (including rent, leases and so forth), according to the monthly transaction amount, or the total sum of the transaction for the whole duration of the engagement, according to the shorter/lower between them. For the purpose of immediate report, the negligibility of a transaction will be examined on the basis of the specific single transaction, and to the extent such will pass the negligibility threshold, the Company will report such transaction through an immediate report.

(2) In respect of providing specification in the annual report in connection with negligible transactions – the total sum of all of the transactions of a certain type in the Company or a subsidiary controlled thereby, in a calendar year has not exceeded a rate of 0.5% of the Company's consolidated equity according to the last annual reports. The Company will include the types of transactions and aggregate amount thereof within its annual report only if the total amount exceeds the rate stated above. For the purpose of reporting within a periodic report, financial statements and a prospectus (including a shelf proposition report), the negligibility of the aggregate of all of the transactions of the same type of the Company with the controlling shareholder or with corporations controlled by the controlling shareholder, will be examined on an annual basis.

Note 37 - Related and interested parties (Cont.)

E. Negligible transactions: (Cont.)

(3) Integrated transactions - upon the classification of transactions as negligible or non-negligible, each transaction will be examined in itself, however, the negligibility of integrated transactions, or such that are contingent upon each other or transactions of the same type, will be examined in the aggregate as one transaction. In respect of multiannual transactions (agreements for a period of several years), the scope of transaction will be calculated for examination of the negligibility threshold on an annual basis (i.e. – the total monetary amount deriving from the transaction exceeding the negligibility threshold as aforesaid). In insurance transactions, the premium will be examined as the transaction amount. Regardless of the insurance coverage provided, multiannual insurance transactions will be measured on the basis of the annual insurance fees paid or collected.

(4) Negligible transactions at the subsidiaries – the transactions classified as negligible by the Company's investees will be deemed as negligible at the Company level too, while those classified by them as non-negligible, will be examined on the Company level. In case that the Company does not have available information allowing the examination of the classification of transactions as negligible or non-negligible transactions, then the aggregate of all of the transactions of the same type will be deemed as a negligible or non-negligible transaction, except if according to the figures in the Company's possession, one of the two conditions has been fulfilled: (1) According to the quantitative parameter above, the transaction in itself as a single transaction is not negligible; (2) the aggregate of the transactions is material to the Company.

(5) Non-quantitative examination – notwithstanding the aforesaid, the examination of the qualitative considerations of a negligible transaction from the quantitative aspect, may lead to the classification thereof as a transaction which is not negligible, if due to its nature, materiality and effect on the Company it is perceived as a significant event by the Company's management and serves as a basis for adoption of important managerial decisions or if within the context of the Company's transaction with controlling shareholders or another person in which the controlling shareholder has a personal interest, the other party is expected to receive benefits with regards to which there is significance in the reporting thereof to the investor public. It is clarified that even if a transaction of the Company with controlling shareholders or another person in which the controlling shareholder has a personal interest meets the quantitative test below, it will not be deemed negligible if such qualitative considerations indicate a material aspect thereof.

The Approving Entity

Pursuant to Section 22.3 of the Company's articles of association, the Board determined that the classification of an interested parties' transaction as a negligible transaction will be examined by the CFO and the Company secretary in cooperation with the General Counsel, to the extent required, and in any approval of a transaction as negligible the examination and classification proceeding will be documented.

Note 37 - Related and interested parties (Cont.)

E. Negligible transactions: (Cont.)

(5) (Cont.)

The Approving Entity (Cont.)

In accordance with the Company's master procedure, the classification of a transaction of the Company with controlling shareholders or with another person in which the Controlling Shareholder has a personal interest as a negligible transaction will be examined by the CFO and the General Counsel, to the extent required, and in every approval of a transaction as a negligible transaction, the examination and classification proceeding will be documented. In addition, the Board has authorized the Company's CEO or the CFO to approve the performance of transactions which meet the definition of negligibility according to this procedure, subject to the following two exceptions: (a) a situation in which both of the said persons have a personal interest in the same transaction, in which case such person will be replaced by another senior officer at the Company; and (b) a transaction concerning the terms of office and employment of an officer, or an engagement with a controlling shareholder or his relative, directly or indirectly, including through a company controlled by him, in respect of receipt of services from him by the Company, and if he is an employee of the Company and not an officer thereof – in respect of his employment at the Company, in which case the approval proceeding will be carried out pursuant to the Companies Law.

Competitive Proceeding or Another Proceeding

In May 2015, the Audit Committee approved an amendment to the procedure, whereby unless decided otherwise by the Audit Committee, for Irregular Transactions and Non-negligible Transactions specified in Section 270(4) of the Companies Law, the Company's management shall conduct a competitive proceeding or another proceeding at the Company under the supervision of the Audit Committee, in accordance with the following principles.

In transactions for the purchase of services and/or the purchase of equipment and systems, the amount of annual expense in respect of which exceeds the quantitative threshold set for in the procedure, proposals from at least 3 different relevant suppliers in the required field, which were given in accordance with a specification of requirements to be determined thereby according to its needs and in accordance with the Group's procurement procedures, as being from time to time, will be presented to the Audit Committee with a recommendation to the Audit Committee of the chosen bidder and the reasons for the choice. The invitation to submit proposals will be supervised by the CFO of the Company who may instruct, according to his discretion, the performance of changes and/or improvements in the proceeding and/or negotiations with the bidders.

Note 37 - Related and interested parties (Cont.)

E. Negligible transactions: (Cont.)

(5) (Cont.)

Competitive Proceeding or Another Proceeding (Cont.)

With respect to transactions for the lease of income-producing spaces, which are the Company's core business, and in view of the fact that during the regular course of business the proper proceeding is not necessarily a competitive proceeding, especially when such proceeding may create a business advantage for competing companies vis-à-vis potential lessees who are good for the Company, and the length of time for conducting such proceeding may jeopardize good transactions, the Company has adopted another proceeding, whereby a transaction, the amount of annual expense in respect of which exceeds the quantitative threshold set for in the procedure, and assuming that the marketing stages for such asset shall have commenced (i.e., pricing, hiring brokers etc.), the Company shall act to collect comparative data for the transaction (price per sqm, benefits and investments, lessees and their characterization, fittingness to the mix) in similar properties of the Company and similar properties of third parties in that area, and, to the extent required, shall be assisted by external consultants for this purpose. The Audit Committee and/or Board of Directors may request the Company's management to provide additional details or a comparison from other aspects. The Company's management shall present the Audit Committee with the details of the transaction proposed for approval and the reasons with respect to its advantageousness relative to the comparative transactions. It is clarified, that if it is a transaction which the Audit Committee determines to be uncharacteristic of the Company due to its scope and content (such as the construction or purchase of an entire building for the purpose of leasing it to one lessee which is a Related Party), the Audit Committee shall determine the procedures and the transaction shall be approved according to the requirements of the law.

Related Party Transactions for the purchase of products from companies owned by Granite Hacarmel, whose activity is not in the core business of the Group and their products are mostly sold "over the counter", will not be deemed a transaction under the procedure.

Transactions with respect to terms of office and employment, other transactions with companies in the Granite Group and/or the contribution to bodies in which the Controlling Shareholder has a Personal Interest, shall be discussed at the Audit Committee, which shall determine, for every transaction, the suitable procedure for approval thereof. Nothing in the aforesaid shall derogate from the duties of approval of such engagements under any law.

In types of transactions in respect of which this chapter does not stipulate whether there is a duty to conduct a competitive proceeding or another proceeding, the Audit Committee shall determine in advance, ad hoc, for any concrete future transaction, whether the competitive proceeding or another proceeding will be conducted and the nature thereof as aforesaid.

Supervision and Audit

Internal bi-quarterly review – until July 15 and January 15 of each year, the coordinator will report to the Company's CFO on transactions as stated in the procedure (including negligible and non-negligible transactions) in which the Company engaged in the two quarters that lapsed, and in respect of transactions with affiliates in which other companies in the Group engaged, stating the terms and conditions of each transaction (annual financial volume, general financial volume, nature of the transaction, identity of the related party and other material conditions).

Note 37 - Related and interested parties (Cont.)

E. Negligible transactions: (Cont.)

(5) (Cont.)

Annual follow-up

Once a year, before the deliberation on the Company's annual financial statements, or in special cases if the Audit Committee so requests prior thereto, the coordinator will report to the Audit Committee on transactions as stated in the procedure (including negligible and non-negligible transactions and including the Company's engagements in lease agreements with related parties in view of the Company's undertaking in the Company's IPO prospectus released in May 2010) and in which the Company engaged during the previous year and during the months until the date of approval of the financial statement at the Company's institutions, insofar as relevant. The report will also include related party transactions in other companies of the Group which were brought to the coordinator's attention during such period, stating the terms and conditions of each transaction (annual financial volume, general financial volume, nature of the transaction, identity of the related party and other material conditions), and regarding the sum total of the related party transactions in such year. In the framework of the annual follow-up as aforesaid, the officer shall attach a statement signed by him, whereby to the best of his knowledge and understanding, all of the relevant processes for mapping and identifying transactions with related parties were carried out at the Company and that all of the checks required by virtue of the undertaking in the prospectus were carried out, all in accordance with the provisions of the procedure, and that the transactions he reported were duly disclosed in the annual financial statements.

The Company's Board of Directors will examine, from time to time and at least once every three years, after receipt of the Audit Committee's recommendation, the implementation of the procedure by the Company and the need to update the procedure and/or the criteria therein and/or the proceedings prescribed for approval of the transactions, considering related party transactions in which the Company engages, material changes in the scope of the business of the Company and the Company's investee companies, and the relevant financial figures, and changes in the relevant statutory provisions. The provisions of the procedure do not derogate from the authority of the Audit Committee to decide to hold a discussion, from time to time, on various aspects relating to interested party transactions and to invite to such discussions the relevant entities, including the Company's management, the coordinator, the internal auditor and the General Counsel.

After discussing the implementation of the provisions of the negligible transactions procedure and reviewing the consideration for the negligible transactions signed in 2015 and their other characteristics vis-à-vis the market conditions, that was held on March 20, 2016 and March 22, 2016, the Audit Committee and the Board determined, respectively, that they were all transactions duly approved in 2015, including at the material companies controlled by the Company, and made under accepted market conditions and they have no material effect on the Company's business position and results of operations. They further determined that all of the transactions examined as aforesaid were found to be transactions that meet the definition of "negligible transaction" in accordance with the Company's procedure in respect of negligible transactions, and that this procedure was adequately implemented by the Company.

Note 38 – Segment reporting

A. General:

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

The Company's business activities focus primarily on the income-producing property segment, while most of the Group's business activity is in the retail centers and malls segment, primarily in Israel and in the office and other space for lease segment, primarily in Israel. Furthermore, the Company has an income-producing property in the USA (office space for lease). In addition, the Company engages, through its (indirect) holding in Sonol Israel Ltd., also in another operating segment, which includes oil distillates through direct marketing, and fueling and commerce complexes. The Company further engages in the development of the senior housing segment and has recently purchased the "Palace" senior housing home in Tel Aviv (see Note 14H(3)). The Company has other operations, such as energy, water and other wastes (through its holding in Granite Hacarmel Investments Ltd.).

The following are the Company's operating segments:

Segment A – Retail centers and malls in Israel.
Segment B – Office and other space for lease in Israel.
Segment C – Income-producing property in the USA.
Segment D – Sonol.

In the following business segments: the retail centers and malls in Israel, office and other space for lease in Israel and income-producing property in the U.S., the data of each one of the segments was aggregated.

Following are the considerations exercised by the management in implementing the criteria for aggregation of each one of these segment:.

The Group's management examined the financial characteristics of each one of these segments and reached the conclusion that the financial characteristics of each one of them are similar, due to the fact that each one of the segments is managed in the same geographical region (Israel or the USA), stated in the same currency (NIS or USD), subject to similar political and legal conditions, and has similar profitability rates. In addition, the Group's management considered that each one of these segments is similar in all of the following characteristics:

- The nature of the projects – all of the projects in each one these segments are in the same operating segment.
- The nature of the development and enterprise processes – all of the projects in each one of these segments involve similar development and enterprise processes.
- Type of customers – all of the projects in each one of these segments, are marketed to similar clientele, which generally includes business customers.
- The methods used for marketing the projects – the methods for marketing all of the projects in each one of these segments are similar and include identical advertising and marketing processes.
- The nature of the supervisory environment – similar laws, regulations and rules apply to all of the projects in each one of these segments, including in respect of real property, planning, construction, and leasing, environmental protection, as well as laws on the municipal level and in respect of land taxation.

Based on the considerations specified above, the Group's management believes that the aggregation of each one of the segments: the retail centers and malls in Israel, office and other space for lease in Israel and income-producing property in the U.S. are in accordance with IFRS 8.

Note 38 – Segment reporting (Cont.)

B. Operating segments:

	For the year ended December 31, 2015					
	Retail centers and malls in Israel	Office and other space for lease Israel	Income-producing property in the U.S.	Sonol	Others	Consolidated
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Income:						
Total external income	931,135	419,607	236,247	3,737,834	761,922	6,086,745
Total segment expenses	183,508	72,122	104,602	3,807,306	661,816	4,829,354
Segment profit (loss) (NOI)	747,627	347,485	131,645	(69,472) (1)	100,106	1,257,391
Net profit (loss) from adjustment to fair value of investment property and investment property under construction	122,972	70,294	(28,294)	-	15,335	180,307
Unallocated costs						(95,147)
Financing expenses, net						(152,671)
Other income, net						11,127
Company's share in the results of associates, net of tax						(8,562)
Income before taxes on income						1,192,445
Additional information as of December 31, 2015:						
Segment assets (2)	11,055,969	6,829,670	2,052,023	1,912,532	1,978,533	23,828,727
Unallocated assets (3)						2,616,378
Total consolidated assets						26,445,105
Capital investments	373,734	535,870	48,387	55,612	(4) 765,444	1,779,047

(1) Includes impairment of goodwill in the sum of NIS 103 million, see Note 16B(1).

(2) Other segment assets include property for senior housing in the sum of NIS 803 million.

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

(4) Includes the acquisition of Palace Tel Aviv senior home in the sum of NIS 694 million, see Note 14H(3).

Note 38 – Segment reporting (Cont.)

B. Operating segments: (Cont.)

	For the year ended December 31, 2014					
	Retail centers and malls in Israel	**Office and other space for lease Israel**	**Income-producing property in the U.S.**	**Sonol**	**Others**	**Consolidated**
	NIS in thousands	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**
Income:						
Total external income	877,464	386,954	191,467	4,818,160	857,473	7,131,518
Total segment expenses	167,995	69,039	84,163	4,769,637	783,175	5,874,009
Segment profit (NOI)	709,469	317,915	107,304	48,523	74,298	1,257,509
Net profit (loss) from adjustment to fair value of investment property and investment property under construction	(89,278)	117,106	8,873	(2,853)	(4,935)	28,913
Unallocated costs						(83,937)
Financing expenses, net						(149,915)
Other income, net						55,325
Company's share in the results of associates, net of tax						(9,545)
Income before taxes on income						1,098,350
Additional information as of December 31, 2014:						
Segment assets (*)	10,595,488	6,134,174	2,026,057	2,207,960	2,654,786	23,618,465
Unallocated assets (**)						1,810,646
Total consolidated assets						25,429,111
Capital investments	512,049	458,497	291,282	57,844	147,187	1,466,859

(*) Other segment assets include senior housing property in the sum of NIS 76 million.

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

Note 38 - Segment reporting (Cont.)

B. Operating segments: (Cont.)

	For the year ended December 31, 2013					
	Retail centers and malls in Israel	Office and other space for lease Israel	Income-producing property in the U.S.	Sonol	Others	Con-solidated
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Income:						
Total external income	873,267	365,195	179,163	5,308,761	1,149,885	7,876,271
Total segment expenses	167,933	64,182	80,273	5,206,844	1,011,771	6,531,003
Segment profit (loss) (NOI)	705,334	301,013	98,890	101,917	138,114	1,345,268
Net profit from adjustment to fair value of investment property and investment property under construction	183,874	175,014	69,011	(450)	(2,792)	424,657
Unallocated costs						(93,018)
Financing expenses, net						(333,662)
Other income, net						17,157
Company's share in the results of associates, net of tax						(6,299)
Income before taxes on income						1,354,103
Additional information as of December 31, 2013:						
Segment assets	10,122,616	5,608,440	1,518,364	2,333,107	2,765,932	22,348,459
Unallocated assets (*)						3,203,965
Total consolidated assets						25,552,424
Capital investments	351,232	634,182	23,439	57,570	(**)143,893	1,210,316

(*) Including assets from Tambour's operations which were discontinued in the sum of approx. NIS 1.1 billion and financial assets available for sale in the sum of approx. NIS 1.6 billion.

(**) Including capital investments in respect of Tambour's operations which were discontinued in the sum of approx. NIS 41 million.

Note 39 - Material subsequent events

A. Pursuant to a resolution of the Board on March 22, 2016, it has been resolved to distribute a dividend in the total amount of NIS 400 million.

B. As to in-principle understandings in connection with the acquisition of real property of an area of approx. 53,000 sqm in Holon after the date of the Financial Statements, see Note 14G.

C. As to advanced negotiations in connection with the sale of all of the holdings in Sonol, see Note 10E.

D. As to the change in the corporate tax rate in 2016 and the expected effect of the change on the Financial Statements, see Note 30A(1).

E. As to the Company's engagement in an agreement for the purchase of one share of Canit Hashalom from Azrieli Foundation (Israel) (R.A) after the balance sheet date, see Note 37C(10).

F. As to a consolidated company winning a tender issued by the Israel Land Authority for land designated for senior housing and retail, after the date of the Financial Statements, see Note 14H(4).

G. For updates on claims after the Date of the Statement of Financial Position - see Note 33 regarding contingent liabilities.

Azrieli Group Ltd.

Separate Financial Information

For Year 2015

Prepared pursuant to the provisions of Section 9C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

Azrieli Group Ltd.

Separate Financial Information
For year 2015

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

Dear Sir/Madam,

Re: Special report of the Auditor on separate financial information pursuant to Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

We have audited the separate financial information, which is presented according to Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, of **Azrieli Group Ltd.** (the "Company") as of December 31, 2015 and 2014 and for each of the years in the three-year period ended December 31, 2015. The Company's Board and Management are responsible for this separate financial information. Our responsibility is to express an opinion on this separate financial information based on our audit.

We did not audit the separate financial information from the financial statements of investee companies, the total investments in which amounted to approx. NIS 1,037 million and approx. NIS 883 million as of December 31, 2015 and 2014, respectively, and the profit from which investee companies amounted to approx. NIS 97 million, approx. NIS 158 million and approx. NIS 124 million for the years ended on December 31, 2015, 2014 and 2013, respectively. The financial statements of such companies were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to the amounts that have been included in respect of such companies, is based upon the reports of the other auditors.

We performed our audit in accordance with generally accepted auditing standards in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and details included in the separate financial information. An audit also includes assessing the accounting principles used in the preparation of the separate financial information and significant estimates made by the Company's Board and Management, as well as evaluating the overall separate financial information presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of other auditors, the separate financial information was prepared, in all material respects, according to the provisions of Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Without qualifying our aforesaid conclusion, we draw attention to Note K regarding a legal claim against the Company and an investee company, in respect of which a motion for class certification was filed.

Brightman, Almagor, Zohar & Co.
Certified Public Accountants

Tel Aviv, March 22, 2016

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Azrieli Group Ltd.

Information on the Financial Position

	As of December 31	
	2015	2014
	NIS in thousands	NIS in thousands
Assets		
Current assets		
Cash and cash equivalents	761,281	19,330
Financial assets held for trade	506	657
Trade accounts receivable	7,375	6,272
Other receivables	142,801	108,511
Total current assets	911,963	134,770
Non-current assets		
Financial assets	1,581,575	1,563,180
Investment property and investment property under construction	7,565,747	7,083,177
Investments in investee companies	6,909,576	6,400,214
Loans to investee companies	3,413,982	3,178,104
Fixed assets	7,147	4,989
Receivables	5,915	6,137
Total non-current assets	19,483,942	18,235,801
Total assets	20,395,905	18,370,571
Liabilities and capital		
Current liabilities		
Credit from banks and other credit providers	1,019,599	1,353,965
Trade payables	51,417	58,944
Payables and other current liabilities	33,778	29,145
Current tax liabilities	37,683	34,000
Total current liabilities	1,142,477	1,476,054
Non-current liabilities		
Loans from banks and other credit providers	1,733,284	1,969,119
Bonds	2,579,151	538,577
Other liabilities	15,595	15,500
Deferred tax liabilities	1,151,592	1,111,661
Employee benefits	2,581	7,973
Total non-current liabilities	5,482,203	3,642,830
Capital		
Share capital	18,223	18,223
Premium	2,477,664	2,477,664
Capital reserves	447,747	428,229
Retained earnings	10,827,591	10,327,571
Total capital attributed to shareholders of the Company	13,771,225	13,251,687
Total liabilities and capital	20,395,905	18,370,571

March 22 , 2016

Date of approval of the separate financial information	Danna Azrieli Chairman of the Board of Directors	Yuval Bronstein CEO	Irit Sekler-Pilosof Chief Financial Officer

Azrieli Group Ltd.

Information on the Comprehensive Income

	For the year ended December 31		
	2015	2014	2013
	NIS in thousands	NIS in thousands	NIS in thousands
Revenues			
From rent and management and maintenance fees	458,981	444,446	445,824
Net profit (loss) from adjustment to fair value of investment property and investment property under construction	(18,693)	(85,688)	54,603
Financing	145,406	154,510	169,881
Other	10,042	9,914	6,000
Total revenues	595,736	523,182	676,308
Costs and expenses			
Cost of revenues from rent and management and maintenance fees	14,395	15,365	10,332
Sales and marketing	25,087	14,538	7,039
General and administrative	49,072	47,133	57,920
Financing	68,307	70,357	115,638
Total costs and expenses	156,861	147,393	190,929
Profit before Company's share in the profits of investee companies	438,875	375,789	485,379
Share in profits of investee companies, net of tax	492,110	483,972	574,338
Profit before income taxes	930,985	859,761	1,059,717
Taxes on income	(109,994)	(83,779)	(168,034)
Profit from continuing operations	820,991	775,982	891,683
Profit from discontinued operations (after tax)	-	73,505	37,866
Net profit for the year	820,991	849,487	929,549
Other comprehensive income:			
Amounts that were or will be classified in the future to income or loss, net of tax:			
Change in fair value of financial assets available for sale, net of tax	10,286	(39,724)	135,582
Translation differences due to foreign operations	2,940	65,532	(28,674)
Share in the other comprehensive income (loss) of investee companies, net of tax.	5,399	23,887	(10,744)
Total	18,625	49,695	96,164
Amounts that were or will not be classified in the future to income or loss, net of tax:			
Actuarial loss due to defined benefit plan, net of tax	(78)	(54)	(198)
Other comprehensive income for the year, net of tax	18,547	49,641	95,966
Total comprehensive income for the year	839,538	899,128	1,025,515

Azrieli Group Ltd.

Information on the Cash Flows

	For the year ended December 31		
	2015	2014	2013
	NIS in thousands	NIS in thousands	NIS in thousands
Cash flows - current operations			
Net profit for the year	820,991	849,487	929,549
Depreciation and amortization	894	939	871
Capital loss (profit) from the liquidation of fixed assets	(20)	5	-
Net loss (profit) from adjustment of fair value of investment property and investment property under construction	18,693	85,688	(54,603)
Financing and other expenses, net	(84,014)	(87,115)	(59,855)
Share in profits of investee companies, net of tax	(492,110)	(557,477)	(612,204)
Tax expenses recognized in the income statement	109,994	83,779	168,034
Income tax paid, net	(70,709)	(49,033)	(52,658)
Change in financial assets	151	554	432,572
Change in trade and other receivables	(34,996)	937	(19,537)
Change in trade and other payables	(6,151)	1,333	5,797
Change in employee provisions and benefits	(11,288)	(3,104)	(17,521)
Financial assets designated at fair value through profit and loss	(2,715)	(6,760)	124
Change in benefit recorded in respect of share based payment and employee benefits	2,637	1,089	8,411
Net cash – current operations	251,357	320,322	728,980
Cash flows - investment activities			
Proceeds from the liquidation of fixed assets	436	319	-
Acquisition and investment in investment property and investment property under construction	(445,891)	(367,159)	(176,157)
Down payments on account of investment property	(4,815)	(2,081)	(202,017)
Purchase of fixed assets	(3,468)	(895)	(1,412)
Investments in investee companies	(781)	(1,036)	(363)
Proceeds from the liquidation of financial assets available for sale	-	-	2,913
Change in financial assets designated at fair value through profit and loss, net	2,338	782	1,157
Receipt (Granting) of long-term loans to investee companies, net	(163,590)	152,247	(1,046,034)
Acquisition of investee companies	-	(82,439)	-
Interest and dividend received	31,021	16,193	9,798
Return of investment in an investee company	1,962	4,436	17,276
Institutions pertaining to purchase of real estate	-	-	(2,663)
Net cash - investment activities	(582,788)	(279,633)	(1,397,502)

	For the year ended December 31		
	2015	**2014**	**2013**
	NIS in thousands	**NIS in thousands**	**NIS in thousands**
Cash flows - financing activities			
Issue of bonds net of issue expenses	2,209,284	-	-
Dividend distribution to the shareholders	(320,000)	(280,000)	(265,000)
Repayment of bonds	(44,183)	(44,636)	(44,108)
Receipt of long-term loans from banks and other corporations	-	300,000	1,410,000
Repayment of long-term loans from banks and other corporations	(624,913)	(208,948)	(256,781)
Short-term credit from banks and other corporations, net	(53,116)	(12,962)	200,494
Customer deposits, net	223	(1,618)	(1,306)
Interest paid	(91,927)	(100,930)	(101,801)
Net cash - financing activities	1,075,368	(349,094)	941,498
Increase (decrease) in cash and cash equivalents	743,937	(308,405)	272,976
Cash and cash equivalents at the beginning of the year	19,330	327,837	57,413
Effect of exchange rates changes on cash balances held in foreign currency	(1,986)	(102)	(2,552)
Cash and cash equivalents at the end of the year	761,281	19,330	327,837

(*) In 2015 non-cash activities include credits due to credit purchases of non-current assets in the amount of NIS 29,666 thousand (in 2014 and 2013 – NIS 29,233 thousand and NIS 32,146 thousand, respectively).

Azrieli Group Ltd.

Additional Information for the Separate Financial Statements

A. General:

Definitions

The Company	-	Azrieli Group Ltd.
Investee company	-	See Note 10 to the Company's Consolidated Financial Statements as of December 31, 2015.

B. Form of preparation of the financial information:

The financial information out of the Consolidated Statements, attributed to the Company itself as a parent company (the "Financial Information") were prepared according to the provisions of Regulations 9C of and the 10th Schedule to the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

The Notes specified below also include disclosures pertaining to additional material information, according to the disclosure requirements specified in the said Regulation and as specified in the 10th Schedule, insofar as such information is not included in the Consolidated Statements in a manner which explicitly addresses the Company itself as a parent company.

(1) Accounting policy

The Company's separate financial information is prepared according to the accounting policy specified in Note 2 to the Company's Consolidated Financial Statements except for the amounts of the assets, liabilities, revenues, expenses and cash flows in respect of investee companies, as specified below:

a. The assets and liabilities are presented at their value in the consolidated statements attributed to the Company itself as a parent company, except for investments in investee companies.

b. Investments in investee companies are presented as the net sum amount of the total assets net of the total liabilities which present in the Company's consolidated statements financial information regarding the investee companies, including goodwill.

c. The revenues and expenses amounts reflect the revenues and expenses included in the consolidated statements attributed to the Company itself as a parent company, segmented between profit or loss and other comprehensive income, except for amounts of revenues and expenses in respect of investee companies.

d. The Company's share in the results of investee companies is presented as the net amount of the total revenues net of the total expenses presenting in the consolidated statements of the Company business results in respect of investee companies, including impairment of goodwill or the reversal thereof, in segmentation between profit or loss and other comprehensive income.

e. The cash flow amounts reflect the amounts included in the consolidated statements attributed to the Company itself as a parent company, except for amounts of the cash flows in respect of investee companies.

f. Loans given and/or received from investee companies are presented at the amount attributed to the Company itself as a parent company.

g. Balances, revenues and expenses in respect of transactions with investee companies which were written off within the consolidated statements, are measured and presented within the relevant clauses in the information on the financial position and the comprehensive income, in the same manner that such transactions would have been measured and presented had they been performed vis-à-vis third parties. Profits (losses) in respect of such transactions until the level that they are not recognized in the Company's consolidated statements, which were deferred, are presented net of (as an addition) of the items of the Company's share in the profits (losses) of investee companies and investments in investee companies so that the Company's separate profit (loss) is identical to the Company's consolidated profit (loss) attributed to the owners of the parent company.

C. Financial Assets and Liabilities:

(1) Liquidity risk management

Financial liabilities which do not constitute derivative financial instruments:

The following tables specify the Company's remaining contractual maturity dates in respect of financial liabilities which do not constitute a derivative financial instrument. The tables were prepared based on the non-discounted cash flows of the financial liabilities based on the earliest date on which the Company might be required to repay them. The table includes cash flows in respect of both interest and principal.

	As of December 31, 2015					
	Book Value	Projected cash flow	2016	2017	2018	2019 forth
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Financial liabilities which are not derivatives						
Short-term credit from banks and other credit providers (1)	629,992	629,992	629,992	-	-	-
Trade accounts payable	51,417	51,417	51,417	-	-	-
Other payables	13,355	13,355	13,355	-	-	-
Loans from banks and other credit providers (2)	1,964,216	2,060,040	274,151	1,045,721	155,902	584,266
Bonds (2)	2,751,243	2,934,315	209,935	639,083	243,496	1,841,801
Long-term customer deposits	15,578	15,578	-	-	15,578	-
Total	5,425,801	5,704,697	1,178,850	1,684,804	414,976	2,426,067

	As of December 31, 2014					
	Book Value	Projected cash flow	2015	2016	2017	2018 forth
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Financial liabilities which are not derivatives						
Short-term credit from banks and other credit providers (1)	683,108	683,108	683,108	-	-	-
Trade accounts payable	58,944	58,944	58,944	-	-	-
Other payables	17,693	17,693	17,693	-	-	-
Loans from banks and other credit providers (2)	2,602,628	2,756,227	684,438	275,461	1,054,092	742,236
Bonds (2)	583,297	640,231	71,301	69,106	499,824	-
Long-term customer deposits	15,446	15,446	-	-	15,446	-
Total	3,961,116	4,171,649	1,515,484	344,567	1,569,362	742,236

(1) Book value includes interest accrued as of December 31, 2015 and 2014.
(2) Book value includes current maturities and interest accrued as of December 31, 2015 and 2014.

C. Financial Assets and Liabilities (Contd.):

(2) Details regarding investments in other companies:

Details regarding investments in financial assets available for sale

For details pertaining to the Company's investments in Bank Leumi Le-Israel Ltd. and LeumiCard Ltd., see Note 12 to the Consolidated Financial Statements as of December 31, 2015.

D. Taxes on income:

(1) Details regarding the tax environment in which the Group operates:

For details pertaining to the tax environment in which the Company operates, see Note 30A to the Consolidated Financial Statements for the year ended on December 31, 2015.

(2) Taxes on income recognized in profit and loss:

	For the year ended on December 31		
	2015	**2014**	**2013**
	NIS in thousands	**NIS in thousands**	**NIS in thousands**
Current taxes:			
For the current period	(74,854)	(74,344)	(60,088)
Adjustments for previous years, net	892	1,301	(1,777)
	(73,962)	(73,043)	(61,865)
Deferred taxes expenses:	(36,032)	(10,736)	(106,169)
Total income tax expenses:	(109,994)	(83,779)	(168,034)

(3) Tax Assessments:

The Company has final tax assessments until tax year 2010, inclusive.

D. Taxes on income: (Cont.)

(4) Taxes on income due to other comprehensive income components:

	2015			2014			2013		
	Amounts before tax	Tax income (expense)	Amounts net of tax	Amounts before tax	Tax income (expense)	Amounts net of tax	Amounts before tax	Tax income (expense)	Amounts net of tax
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Change in the fair value of financial assets available for sale	18,017	(7,731)	10,286	(53,607)	13,883	(39,724)	179,887	(44,305)	135,582
Actuarial losses for a defined benefit plan	(106)	28	(78)	(74)	20	(54)	(269)	71	(198)
Translation differences due to foreign operations	2,940	-	2,940	65,532	-	65,532	(28,674)	-	(28,674)
Share in the other comprehensive income (loss) of investee companies, net of tax	9,809	(4,410)	5,399	24,468	(581)	23,887	(8,384)	(2,360)	(10,744)
Total other comprehensive income (loss)	30,660	(12,113)	18,547	36,319	13,322	49,641	142,560	(46,594)	95,966

(*) The deferred taxes were calculated according to a tax rate of 26.5%.

D. Taxes on income: (Cont.)

(5) Deferred taxes note:

Deferred taxes assets and liabilities which were recognized

The deferred taxes are calculated according to the tax rate expected to apply on the reversal date as specified above.

Deferred taxes assets and liabilities are attributed to the following items:

	Real estate assets and fixed assets	Employee benefits	Financial instruments (1)	Carry forward deductions and losses for tax purposes	Others (2)	Total
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Deferred tax asset (liability) balance as of December 31, 2013	(1,103,898)	3,803	(85,189)	11,378	50,901	(1,123,005)
Changes carried to profit and loss	(5,845)	(457)	(2,791)	1,558	(3,201)	(10,736)
Changes carried to other comprehensive income	-	20	13,883	-	(581)	13,322
Other changes	-	-	-	-	8,758	8,758
Deferred tax asset (liability) balance as of December 31, 2014	(1,109,743)	3,366	(74,097)	12,936	55,877	(1,111,661)
Changes carried to profit and loss	(25,959)	(2,194)	(2,800)	879	(5,958)	(36,032)
Changes carried to other comprehensive income	-	28	(7,731)	-	(4,410)	(12,113)
Other changes	-	-	-	-	8,214	8,214
Deferred tax asset (liability) balance as of December 31, 2015	(1,135,702)	1,200	(84,628)	13,815	53,723	(1,151,592)

(1) Mainly due to financial assets available for sale.

(2) Mainly due to the capital reserve created due to credit given to subsidiaries other than at arm's length.

(3) The deferred taxes were calculated mainly according to a tax rate of 26.5%.

E. Material engagements and transactions with investee companies:

(1) See Note 10A to the Consolidated Financial Statements as of December 31, 2015 for material investments in companies directly held by the Company.

(2) a. Canit Hashalom Investments Ltd. ("Canit Hashalom") issued to the Company bonds in the amount of NIS 1,220 million, linked to the Consumer Price Index. The linkage differentials in respect of the loan will not be lower, in any case, than the interest set in respect of Section 3(j) of the Income Tax Ordinance. The principal and the linkage differentials will be repaid in one sum on December 31, 2015 and in case that Canit Hashalom will not pay the principal, the interest and the linkage differentials until the maturity date, the bonds shall be deemed as having been paid and reissued on the day following the maturity date. The balance, as of December 31, 2015, is NIS 1,342 million.

b. Canit Hashalom issued to the Company bonds in the amount of NIS 1,080 million linked to the Consumer Price Index and bearing interest at a rate of 4.8% a year. The principal, interest and linkage differentials will be repaid in one sum on December 31, 2015. In case that Canit Hashalom will not pay the principal, interest and linkage differentials until the maturity date, the bonds shall be deemed as having been paid and reissued on the day following the maturity date. The balance as of December 31, 2015 is NIS 1,313 million.

In addition, the Company granted loans without a maturity date to Canit Hashalom, the balance of which as of December 31, 2015, is approx. NIS 264 million, which are not linked to the Index and bear interest according to the Income Tax Regulations.

The credit as of December 31, 2015 is presented and measured at fair value on the first recognition date, according to the current value of the projected returns. The difference between the fair value measured on the first recognition date and the loan amount actually granted, is carried to capital reserve from transactions with a controlling shareholder, and is in the amount of approx. NIS 150 million (December 31, 2014 – approx. NIS 153 million).

(3) Material arrangements between the Company and Investee Companies

(a) The Company and several companies held thereby and other companies in the Group have agreements, according to which the Company is entitled to management fees at a fixed rate out of those companies' total expenses. In the years 2015 and 2014, the Company received management fees as aforesaid at a total sum of approx. NIS 20,580 thousand and approx. NIS 19,101 thousand, respectively.

(b) The Company and several companies held thereby have agreements, according to which the Company is entitled to amounts for a depreciation and replacement fund for the replacement and/or fundamental repair of facilities and equipment serving all of the tenants in the Company's real estate. In the years 2015 and 2014, the Company received proceeds as aforesaid in a total amount of approx. NIS 8,377 thousand and approx. NIS 8,080 thousand, respectively.

(c) The Company and several companies held thereby have agreements, according to which the Company is entitled to amounts for rent due to the companies' use of areas owned thereby. In the years 2015 and 2014, the Company received rent as aforesaid at a total amount of NIS 785 thousand and NIS 794 thousand.

E. Material engagements and transactions with investee companies: (Cont.)

(3) Material arrangements between the Company and Investee Companies (Cont.)

(d) The Company provided loans to several investee companies thereof, as detailed below:

Loans in an amount of approx. NIS 161 million linked to the USD and bearing interest at a rate of approx. 10% per annum.

Capital notes in the amount of approx. NIS 452 million linked to the Index and bearing no interest for a period of 5 years.

The balance is presented net of capital reserve.

With regards to the loans to Canit Hashalom, see Section 2 above.

The remaining loans bear interest pursuant to the Income Tax Regulations.

The interest and linkage differentials which were accrued due to such loans and presented in the Statements of Comprehensive Income of the Company for the year ended on December 31, 2015 and 2014 are in a total amount of approx. NIS 137 million and approx. NIS 143 million, respectively.

(e) The Company bears expenses for office, insurance, compensation and benefits of senior employees at the group (the "Group's Expenses"). The Company and several companies held thereby and other companies in the Group have agreements, according to which the Company is entitled to reimbursement for amounts paid thereby for the companies. In the years 2015 and 2014 the Company received such proceeds in a total amount of approx. NIS 20,173 thousand and approx. NIS 18,169 thousand, respectively.

(f) The Company and companies held thereby have an agreement, according to which the investee companies are entitled to rent, management fee and parking fees for areas owned thereby. In the years 2015 and 2014, the Company paid rent, management fees and parking fees as aforesaid in a total amount of approx. NIS 4,229 thousand and approx. NIS 3,559 thousand, respectively.

(4) In 2015, the Company purchased land for an investment property from an investee company in consideration for NIS 35,000 thousand.

(5) With regards to the purchase of one share of an investee company, after the balance sheet date, see Note 37C(10) to the Consolidated Financial Statements as of December 31, 2015.

F. Guarantees:

(1) On June 1, 2009, the Company provided Bank HaPoalim with a guarantee in an unlimited amount in respect of a loan taken by a subsidiary. The loan balance as of December 31, 2015 is approx. NIS 24 million.

(2) On February 4, 2011, the Company provided an American financial institution a guarantee in the amount of the loan taken by a consolidated limited entity thereof, enforceable only under certain cases defined in the loan agreement. The loan balance as of December 31, 2015 is NIS 486 million.

(3) On January 1, 2012, the Company provided an American financial institution, a guarantee in the amount of the loan taken by a consolidated limited entity thereof, enforceable only under certain cases defined in the loan agreement. The loan balance as of December 31, 2015 is NIS 258 million.

(4) On September 21, 2014, the Company provided an American financial institution, a guarantee in the amount of the loan taken by a consolidated limited entity thereof, enforceable only under certain cases defined in the loan agreement. The loan balance as of December 31, 2015 is NIS 187 million.

G. Contractual restrictions and financial covenants:

For details regarding contractual restrictions undertaken by the Company, see Note 21 to the Consolidated Financial Statements as of December 31, 2015.

H. Dividends from companies directly held by the Company:

Companies directly held by the Company have no contractual restrictions on dividend distribution.

Azrieli Group Ltd.

Additional Information for the Separate Financial Statements

I. Pledges:

(1) The Company committed to banks and financial institutions that it would not create floating charges over its entire assets. The Company also committed, irrevocably, to a bank that it had not created and will not create a floating charge over its entire property and assets, whether they are owned thereby or will be owned thereby in the future, including over the goodwill and share capital thereof, and it also committed not to commit in any manner to create a floating charge as aforesaid, without the advance written agreement of the bank, the Company may create a floating charge as aforesaid, provided that simultaneously with the creation thereof, it will create a floating charge to the benefit of the bank as well.

(2) As of December 31, 2015, the Company has investment property and investment property under construction which are not pledged in an amount of approx. NIS 5,654 million and a balance of approx. NIS 1,911 million charged by a fixed charge for securing loans from banks and other corporations, the balance of which as of December 31, 2015 is in an amount of approx. NIS 723 million.

(3) As of December 31, 2015, the Company has financial assets available for sale which are not pledged in an amount of approx. NIS 1,556 million, see also Note 12 to the Consolidated Financial Statements as of December 31, 2015.

(4) With respect to receipt of loans by the Company and pledging of subsidiaries' assets – see Notes 14B(1) and 14B(9) to the Consolidated Financial Statements as of December 31, 2015.

J. Engagements with affiliated and interested parties:

See Note 37 to the Consolidated Financial Statements as of December 31, 2015 regarding engagements with related and interested parties.

K. Pending liability:

The parties	Amount of claim	Nature of claim	Prospects of claim
1. Claim against the Company and a consolidated company	In case it is not certified as class action – NIS 4,561. Should it be certified as class action only in relation to the class of offerees whose shares were force purchased – approx. NIS 18 million. Should it be certified as class action in relation to the class of all the offerees – approx. NIS 157 million.	In August 2013, a claim and a motion for class certification thereof were filed with the Economic Division in the Tel Aviv District Court by a petitioner alleging to have been an offeree in the framework of a full tender offer that was completed by the Company at the end of September 2012, for shares that were held by the public in Granite Hacarmel Investments Ltd. (despite the lapse of the six (6) month period set forth in the law for the filing of a claim for an appraisal remedy). The claim alleges, *inter alia*, that the petitioner was forced to sell his shares to the Company in the tender offer at a price lower than the value of the shares and that the conditions for performance of a forced purchase pursuant to the tender offer were not fulfilled and that therefore it was not possible to delist Granite Hacarmel Investments Ltd.	The Company filed a motion to summarily dismiss the motion as well as its response to the motion and the hearing was scheduled for March 2014. At the hearing, the petitioner, in view of the court's comment, withdrew his motion for the remedy of cancelation of the tender offer and relisting of the shares on TASE. On February 19, 2015, the court summarily dismissed the motion for an appraisal remedy with prejudice. However, the court ruled that the same does not preclude claims in respect of misleading or fraud, and limited the hearing of the class certification motion to this issue only. In the estimation of the Company's management, based on its legal counsel, the probability of the motion for class certification being granted and the claim being accepted is lower than 50%.

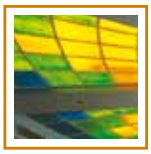
L. Subsequent Events:

In respect of subsequent material events, see Note 39 to the Consolidated Financial Statements as of December 31, 2015.

Azrieli Group

Part D

Further Details about the Corporation



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Chapter D: Additional Details about the Corporation

Regulation 25A – Registered Address

Company Name: Azrieli Group Ltd.

Company Number in the Registrar of Companies: 51-096071-9

Address: 1 Azrieli Center, Tel Aviv, 67021
Telephone: 03-6081400
Facsimile: 03-6081380
email: michalk@azrieli.com

Date of the Statement of Financial Position: December 31, 2015

The Report Date: March 22, 2016

Regulation 10A - Summary of the Reports on Outcomes of the Company's Operations for Each Quarter of 2015 (NIS in thousands)

	1-3/2015	4-6/2015	7-9/2015	10-12/2015	1-12/2015
Income					
From sales, work and services	1,114,063	1,217,082	1,104,327	1,028,730	4,464,202
From rent, management and maintenance fees	383,025	392,572	424,539	422,407	1,622,543
Profit (loss), net of fair value adjustment of investment properties and properties under construction	(12,929)	53,980	(5,038)	144,294	180,307
Financing	22,454	235	(2,045)	364	21,008
Other	4,859	6,248	9,997	(628)	20,476
Total Income	1,511,472	1,670,117	1,531,780	1,595,167	6,308,536
	1,114,063	1,217,082	1,104,327	1,028,730	4,464,202
Costs and Expenses					
Cost of income from sales, work and services	898,203	972,391	886,984	801,390	3,558,968
Cost of income from rent, management and maintenance fees	85,614	87,854	110,368	101,262	385,098
Sale and marketing	165,843	165,566	173,550	173,913	678,872
General and administrative	42,650	48,860	63,926	43,127	198,563
Portion of results of included companies, net of tax	1,833	1,372	1,689	3,668	8,562
Financing expenses	28,901	71,158	36,412	37,208	173,679
Other	129	8,380	80,880	22,960	112,349
Total Costs and Expenses	1,223,173	1,355,581	1,353,809	1,183,528	5,116,091
Profit before tax on income	288,299	314,536	177,971	411,639	1,192,445
Tax on income	(97,106)	(68,747)	(75,729)	(123,198)	(364,780)
Net profit per period	191,193	245,789	102,242	288,441	827,665
Attributed to owners of the Company	187,906	243,685	101,262	288,138	820,991
Non-controlling interests	3,287	2,104	980	303	6,674
	191,193	245,789	102,242	288,441	827,665

Regulation 10C - Use of Proceeds from Securities

On February 10, 2015 approx. NIS 623 million par value of Series B bonds were issued in consideration for approx. NIS 623 million (approx. NIS 619 million net of attribution of issue expenses), in accordance with a shelf offering report released on February 8, 2015 (Ref. No.: 2015-01-027136) under the shelf prospectus released on May 13, 2013 (bearing the date May 14, 2015) (Ref. No.: 2013-01-061090) (the "**Shelf Prospectus**"). The proceeds received from this issue were used and shall be used by the Company, *inter alia*, for the refinancing of an existing financial debt and for current financing needs, from time to time, according to the Company's goals and business plans.

On June 23, 2015, an additional amount of approx. NIS 600 million par value of Series B bonds was issued in consideration for approx. NIS 599 million (approx. NIS 594 million after attribution of issue expenses) in accordance with a shelf offering report released under the Shelf Prospectus on June 21, 2015 (Ref. No. 2015-01-052731), as amended on June 21, 2015 (Ref. No. 2015-01-052971). The proceeds received from this issue were used and shall be used by the Company, *inter alia*, for refinancing an existing financial debt and for current financing needs, from time to time, in accordance with the Company's goals and business plans.

On September 6, 2015, approx. NIS 1 billion par value of a Series C bond were issued in consideration for approx. NIS 1 billion (approx. NIS 997 million after attribution of issue expenses) in accordance with a shelf offering report released on September 3, 2015 (Ref. No.: 2015-01-112788) under the Shelf Prospectus. The proceeds received from this issue were used and shall be used by the Company, *inter alia*, for refinancing an existing financial debt and for current financing needs, from time to time, in accordance with the Company's goals and business plans.

Regulation 11 - List of Investments in Material Subsidiaries and Affiliates as of the Date of the Statement of Financial Position

See **Annex A** to this chapter.

Regulation 12 - Changes in Investments in Material Subsidiaries and Affiliates, Directly and Indirectly, in the Report Period

a. In June 2015, G.E.S. Global Environmental Solutions Ltd. closed the transaction for the sale of all of its holdings (100%) in Via Maris Desalination (Holdings) Ltd.to a third party. For details, see Section 1.3.4(1) of Chapter A of this Report.

b. In July 2015, Canit Hashalom Investments Ltd., a company controlled by the Company, closed the purchase of 100% of the shares of a private company holding and managing "Palace Tel Aviv". For details, see Section 1.3.3(1) of Chapter A of this Report.

Date of Change	Nature of Change	Name of Company	Name of Holder	Notes
June 2015	Sale of shares of a consolidated company	Via Maris Desalination (Holdings) Ltd.	G.E.S Global Environmental Solutions Ltd.	See Section 1.3.4(1) of Chapter A of this Report
July 2015	Purchase of shares of a consolidated company	Palace America Senior Housing Company Ltd.	Canit Hashalom Investments Ltd.	See Section 1.3.3(1) of Chapter A of this Report

c. Subsequently to the Report Period, the general meeting of the Company approved the Company's engagement with the Azrieli Foundation in an agreement for the purchase of a share of Canit Hashalom from the Azrieli Foundation in consideration for NIS 51 million. For details, see Part B of the invitation to a meeting report as released by the Company on January 27, 2016 (Ref. No.: 2016-01-018823), which is included herein by way of reference, and Notes 37C(10) and 39E to the financial statements.

Regulation 13 - Profit of Material Subsidiaries and Affiliates and the Corporation's Income therefrom as of the Date of the Statement of Financial Position (NIS in Thousands)*

Investee Company	Main Business	Profit (Loss) (NIS in thousands)		Company's Income from the Affiliate		
		Before Reserve for Tax	After Reserve for Tax*	Dividend	Management Fee	Interest and Linkage Differentials
Canit Hashalom Investments Ltd.	a. Development, management, construction, acquisition and lease of commercial and office buildings in Israel and in the US. b. Holding Granite Hacarmel.	584,228	428,445	-	-	97,259
International Consultants (Iconsult) Ltd.	Development, construction and lease of offices and industrial buildings.	7,229	5,143	-	-	1,096
Otzem Initiation & Investments 1991 Ltd.	Development, construction and lease of commercial buildings (Or Yehuda and Ramla).	23,714	16,933	-	-	16,292
AG Galleria Office Buildings, LP	Holding 90% of the rights in office buildings situated in Houston, Texas, USA, which are known by the name of Galleria.	(8,138)	(14,951)	-	4,988	-
Gemel Tesua Investments Ltd.	Development, management, construction, acquisition and lease of commercial and office buildings in Israel.	148,229	108,284	-	420	1,720
Otzma & Co. Investments	Development, management,	7,618	5,515	-	180	2,774

Investee Company	Main Business	Profit (Loss) (NIS in thousands)		Company's Income from the Affiliate		
		Before Reserve for Tax	After Reserve for Tax*	Dividend	Management Fee	Interest and Linkage Differentials
Maccabim Ltd.	construction, acquisition and lease of office buildings in Israel					
AG Plaza at Enclave	Holding 100% of the rights in an office building in Houston, Texas, USA - "Houston Dow Center".	11,952	8,023	-	-	9,804
AG 8 West Centre	Holding 100% of the rights in an office building in Houston, Texas, U.S.A., known as "8 West Centre"	5,956	4,560	-	-	7,220
Granite Hacarmel Investments Ltd.	Private holding company holding, *inter alia*, shares of Sonol, , Supergas and GES	(38,714)	(78,333)	-	-	-
Sonol Israel Ltd.	See Section 11of Chapter A of the Report.	2,749	(3,604)	-	-	-
G.E.S. Global Environmental Solutions Ltd.	See Section 13.1.2 of Chapter A.	44,152	35,043	-	-	-
Supergas Israel Gas Distribution Company Ltd.	See Section 13.1.1 of Chapter A of the Report.	55,484	40,679	-	-	-
Palace America Senior Housing Company Ltd.	Operation of a senior housing home for nursing and recuperation	24,716	17,918	-	-	-

* Before results based on balance sheet value.

** Including capital reserve.

Regulation 20 - Trading on the Stock Exchange – Listed Securities / Trading Suspensions - Dates and Reasons

a. Securities / Shares

On February 12, 2015 trade on TASE was opened with a new bond series (Series B) issued by the Company under a shelf offering report released on February 8, 2015 (Ref. No.: 2015-01-027136) in the amount of approx. NIS 623 million par value.
On June 23, 2015, an additional amount of NIS 600,269,000 million par value of Series B bonds was issued in accordance with a shelf offering report released on June 21, 2015 (Ref. No. 2015-01-052731), as amended on June 21, 2015 (Ref. No. 2015-01-052971).

On September 8, 2015, trade on TASE was opened with a new bond series (Series C) issued by the Company under a shelf offering report released on September 3, 2015 (Ref. No.: 2015-01-112788), in the amount of NIS 1,005,110,000 par value.

b. Trading Suspensions

During the Report Period, there was no suspension of trading in the securities issued by the Company, other than the trading suspensions effectuated at the time of release of financial statements.

Regulation 21 - Payments to Senior Officers

For a specification of the compensation granted in the Report Period, as specified in Schedule 6 of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, see Section 1 of Chapter E of this Report – Corporate Governance.

Regulation 21A - Control of the Company

As of the Report Release Date, Azrieli Holdings Inc. ("**Azrieli Holdings**"), a private company incorporated under Canadian law, holds, directly and indirectly, through its holding of the entire share capital of Nadav Investments Inc. ("**Nadav Investments**"), which is the direct controlling shareholder of the Company, 55.62% of the share capital and 61.31%[1] of the voting rights of the Company *de facto* and on a fully-diluted basis. 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.

Until his death, in July 2014, Mr. David Azrieli OBM directly and indirectly held approx. 44.77% of the share capital of Azrieli Holdings and all of the voting rights in Azrieli Holdings (including the voting rights of his children's shares, which were held by him in trust). Following the passing of Mr. David Azrieli OBM, the shares of Azrieli Holdings that had been held by him and his shares in David's 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, shares of Mr. David Azrieli OBM in Azrieli Holdings and in a Canadian holding corporation controlled by him ("**David's Holding Corporation**") were distributed from his estate. Following such distribution, each one of Sharon Azrieli, Naomi Azrieli and Danna Azrieli, holds, directly and through David's Holding Corporation, approx. 27.24% of the capital rights in Azrieli Holdings and approx. 33.13% of the voting rights in Azrieli Holdings, and together they hold approx. 81.73% of the capital rights in Azrieli Holdings and approx. 99.39% of the voting rights therein. The remainder of Azrieli Holdings' shares are mainly held by

[1] Which include all of the voting rights by virtue of the Contribution Shares. See Section 3.1 of Chapter A of the Report.

the Azrieli Foundation of Canada (an interested party in the Company), which, following the distribution of the estate, holds (indirectly, through a holding of shares of David's Holding Corporation) 15.93% of Azrieli Holdings' shares, with no voting rights (which holding indirectly constitutes a holding of approx. 8.86% of the capital rights of the Company), in addition to and separately from its direct holding of 13.55% of the capital and voting rights in the Company. As the Company has been informed, all of the shareholders of Azrieli Holdings are bound by a shareholder agreement between them (for further details, see Section 3.5 of the Company's Shelf Prospectus of May 13, 2013), which, *inter alia*, confers upon each one of Sharon Azrieli, Naomi Azrieli and Danna Azrieli the right to appoint one of the three directors on the boards of directors of Azrieli Holdings and Nadav Investments. In view of the aforesaid, as of the Report Date, Sharon Azrieli, Naomi Azrieli and Danna Azrieli are the controlling shareholders of the Company.

Regulation 22 - Transactions with Controlling Shareholders

For details with respect to transactions with the controlling shareholder or in the approval of which the controlling shareholder has a personal interest, in which the Company or a corporation controlled thereby or an affiliate thereof engaged, see Section 2 of the Company's Corporate Governance Report, which is attached as Chapter E hereof.

Regulation 24 - Holdings of Interested Parties and Senior Officers

For details regarding the holdings of interested parties and senior officers of the Company, see the immediate report regarding the holdings of interested parties and officers released by the Company on January 7, 2016 (Ref. No.: 2016-01-005113), which is included herein by way of reference.

Regulation 24A - Authorized Capital, Issued Capital and Convertible Securities

As of December 31, 2015, the registered share capital of the Company is 127,501,500 ordinary shares par value NIS 0.1 each, and the issued share capital of the Company is 121,272,760 ordinary shares par value NIS 0.1.

Regulation 24B -The Company's Shareholders' Register

Name of shareholder	Company/ ID number	Address	Shares' type	Shares' amount	Par value
Registration Co. of Bank Hapoalim Ltd.	510356603	62 Yehuda Halevi, Tel Aviv	Ordinary par value NIS 0.1	121,272,760	NIS 0.1

Regulation 26 –Directors of the Corporation (as of the Report Date)

Below are personal and professional details with regard to the Company's directors:

(1)	**Director's name:**	Danna Azrieli, Active Chairman of the Board
	Identification number:	321657744
	Date of Birth:	June 3, 1967
	Address for service of process:	Azrieli Center 1, Tel Aviv
	Citizenship:	Israeli
	Membership on board of directors' committees	None
	Outside Director/Independent Director:	No
	Position filled at the Company/Subsidiary/Affiliate of the Company or of an interested party therein:	Active Chairman of the Board
	Date of commencement of service as director of the Company:	June 1, 2010
	Education:	BA in Sociology and Anthropology from Swarthmore College; Juris Doctor of Law from Vermont Law School; member of the Massachusetts State Bar Association in the U.S. and the Israel Bar Association.
	Occupation in the past five years and other corporations in which he holds office as director:	Active Vice Chairman of the Board of the Company; Serves as a director of the companies: Nadav Investments Inc., Azrieli Holdings Inc., Candan Residences Ltd. , Dan Squared Ltd., Candan Constructions' Maintenance and Management Ltd., Candan Management Services Ltd. and Candan Holdings Ltd.; Chair of Azrieli Foundation (Israel), R.A., and Director of Azrieli Foundation (Canada), a Canadian nonprofit organization.

	Family relation to an interested party:	Controlling shareholder. For details see Regulation 21A above.
	Accounting and Financial Expertise or Professional Qualification:	Professional Qualification
(2)	**Director's name:**	Sharon Azrieli
	Identification number:	QI550845
	Date of Birth:	August 4, 1960
	Address for service of process:	Azrieli Center 1, Tel Aviv
	Citizenship:	Canadian
	Membership on board of directors' committees	None
	Outside Director/Independent Director:	No
	Position filled at the Company/Subsidiary/Affiliate of the Company or of an interested party therein:	None
	Date of commencement of service as director of the Company:	June 1, 2010
	Education:	PhD in Music from the University of Montreal; MA in Music from the University of Montreal; BA in Art from Vassar College; Certificate from the Juilliard School of Music; Associate degree from the Parsons School of Design.

	Occupation in the past five years and other corporations in which he holds office as director:	Opera singer, cantor and artist; Conductor at several congregations. Director of the Canadian body, Camp Kinneret Biluim, member of the board of Azrieli Foundation (Israel), R.A. and director of Azrieli Foundation (Canada), a Canadian nonprofit organization. Serves as a President at the Board of Directors of the Mcgill Chamber Orchestra. Opera Cares Foundation, Shir Chadash Synagogue.
	Family relation to an interested party:	Controlling shareholder. For details see Regulation 21A above.
	Accounting and Financial Expertise or Professional Qualification:	No
(3)	**Director's name:**	Naomi Azrieli
	Identification number:	HB510031
	Date of Birth:	September 26, 1965
	Address for service of process:	Azrieli Center 1, Tel Aviv
	Citizenship:	Canadian
	Membership on board of directors' committees	None
	Outside Director/Independent Director:	No
	Position filled at the Company/Subsidiary/Affiliate of the Company or of an interested party therein:	None

	Date of commencement of service as director of the Company:	June 1, 2010
	Education:	PhD (D. Phil) in International History from Oxford University, England; Master of International Affairs in International Relations, Finance and Economics from Columbia University, New York; BA from the University of Pennsylvania in Political Science and Russian Studies.
	Occupation in the past five years and other corporations in which he holds office as director:	CEO and Director of the Azrieli Foundation (Canada), a Canadian nonprofit organization. Member of the board of Azrieli Foundation (Israel), R.A. and Banff Technologies Ltd., Owner and manager of foreign private companies. Director and president of the corporations: Canpro Investments Ltd., Omico Investments Ltd.
	Family relation to an interested party:	Controlling shareholder. For details see Regulation 21A above.
	Accounting and Financial Expertise or Professional Qualification:	Professional Qualification
(4)	**Director's name:**	Joseph Ciechanover
	Identification number:	5991468
	Date of Birth:	October 1, 1933
	Address for service of process:	Azrieli Center 1, Tel Aviv
	Citizenship:	Israeli
	Membership on board of directors' committees	Yes, Audit Committee, Compensation Committee, FSRC and Enforcement Committee, ("**All of the Committees**")
	Outside Director/Independent Director:	Independent Director

	Position filled at the Company/Subsidiary/Affiliate of the Company or of an interested party therein:	None
	Date of commencement of service as director of the Company:	May 6, 2010
	Education:	PhD in Philosophy from Boston University; LLM from the Hebrew University; Completed his studies towards an MBA at the Hebrew University (missing final paper); LLM from the University of Berkeley California.
	Occupation in the past five years and other corporations in which he holds office as director:	Consultant for Etgar 2 Fund by way of the Atidim Funds Management Co. Ltd. Director at Harel Investments, Insurance and Financial Services Ltd., Mifal HaPayis 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, RA and the Israel Science Foundation. Served as a director of Azrieli Foundation (Israel), R.A. Member of the New York State Bar Association and the Israel Bar Association.
	Family relation to an interested party:	No
	Accounting and Financial Expertise or Professional Qualification:	Expert having accounting and financial expertise
(5)	**Director's name:**	Tzipora Carmon
	Identification number:	51528933
	Date of Birth:	December 7, 1952
	Address for service of process:	Azrieli Center 1, Tel Aviv
	Citizenship:	Israeli

	Membership on board of directors' committees	Yes, on all of the Committees.
	Outside Director/Independent Director:	Independent
	Position filled at the Company/Subsidiary/Affiliate of the Company or of an interested party therein:	None
	Date of commencement of service as director of the Company:	May 19, 2013
	Education:	BA in Sociology and Education, the Hebrew University, Jerusalem; MBA, UCLA, California, USA.
	Occupation in the past five years and other corporations in which he holds office as director:	Manager and owner of T.C. Exports Ltd. in the last 21 years; Director of Delta Galil Industries Ltd.
	Family relation to an interested party:	No
	Accounting and Financial Expertise or Professional Qualification:	Expert, having accounting and financial expertise.
(6)	**Director's name:**	Efraim Halevy, Outside Director
	Identification number:	49871718
	Date of Birth:	December 2, 1934
	Address for service of process:	Azrieli Center 1, Tel Aviv
	Citizenship:	Israeli

	Membership on board of directors' committees	Yes (on All of the Committees)
	Outside Director/Independent Director:	Outside Director
	Position filled at the Company/Subsidiary/Affiliate of the Company or of an interested party therein:	None
	Date of commencement of service as director of the Company:	August 24, 2010
	Education:	LL.M. - The Hebrew University in Jerusalem. Management studies of process leadership for senior executives –the Tel Aviv University.
	Occupation in the past five years and other corporations in which he holds office as director:	2003-2011: Head of the Shasha Center for Strategic Studies in the Hebrew University.
	Family relation to an interested party:	No
	Accounting and Financial Expertise or Professional Qualification:	Professional qualifications.
(7)	**Director's name:**	Niv Ahituv, Outside Director
	Identification number:	008115693
	Date of Birth:	August 16, 1943
	Address for service of process:	Azrieli Center 1, Tel Aviv

	Citizenship:	Israeli and Canadian
	Membership on board of directors' committees	Yes (on All of the Committees)
	Outside Director/Independent Director:	Outside Director
	Position filled at the Company/Subsidiary/Affiliate of the Company or of an interested party therein:	None
	Date of commencement of service as director of the Company:	August 24, 2010
	Education:	BA in Mathematics and Physics from the Hebrew University. MBA from Tel Aviv University MA in Information Systems from Tel Aviv University. PhD in Management (specialization in Information Systems) from Tel Aviv University.
	Occupation in the past five years and other corporations in which he holds office as director:	Dean of the Dan School for HiTech Studies, the Academic Studies Center; President of the Dan Academic Center; Director of the Henry Crown Institute of Business Research in Israel at the Tel Aviv University; Member of the Investments Committee in Migdal Insurance; outside Director of Rapac Communication & Infrastructure Ltd.; Outside Director of Discount Investments; Professor Emeritus of the Faculty of Management at the Tel Aviv University; Member of Management at Beit Lessin Theatre.
	Family relation to an interested party:	No
	Accounting and Financial Expertise or Professional Qualification:	Accounting and financial expertise
(8)	**Director's name:**	Oran Dror
	Identification number:	024973315

	Date of Birth:	August 2, 1970
	Address for service of process:	Azrieli Center 1, Tel Aviv
	Citizenship:	Israeli
	Membership on board of directors' committees	Yes (on all of the Committees)
	Outside Director/Independent Director:	Independent Director
	Position filled at the Company/Subsidiary/Affiliate of the Company or of an interested party therein:	None
	Date of commencement of service as director of the Company:	November 18, 2014
	Education:	BA in Economics and East Asian Studies from the Hebrew University, Jerusalem. Research studies in the field of management and marketing for two years at the Waseda University, Tokyo, Japan – School of Commerce.
	Occupation in the past five years and other corporations in which he holds office as director:	CEO and director of Dror Liat Investment Ltd. (a company he controls); executive director and VP Telecom – MEA Regional Management of Microsoft International; executive director and VP Sales at Microsoft Israel; CEO of IncrediPlay Ltd.; CEO and director at N.B.X. e-Service Solutions Ltd. (a company he controls); VP at VATBox Ltd. (through Dror Liat Investment Ltd.).
	Family relation to an interested party:	Fourth level cousin of the directors Danna, Sharon and Naomi Azrieli.
	Accounting and Financial Expertise or Professional Qualification:	Expert, having accounting and financial expertise
(9)	**Director's name:**	Menachem Einan

	Identification number:	008995383
	Date of Birth:	June 17, 1939
	Address for service of process:	Azrieli Center 1, Tel Aviv
	Citizenship:	Israeli
	Membership on board of directors' committees	Finance Committee (which also serves as the Financial Statements Review Committee)
	Outside Director/Independent Director:	No
	Position filled at the Company/Subsidiary/Affiliate of the Company or of an interested party therein:	External consultant of the Company as of March 15, 2015 for a 24-month period.
	Date of commencement of service as a director of the Company:	March 22, 2016
	Education:	BA in Humanities from Tel Aviv University; degree in Business Administration from UCLA.
	Occupation in the past five years and other corporations in which he holds office as director:	Director and Active Deputy Chairman of the Board of the Company until February 2015;, formerly the Company's CEO and the CEO of Canit Hashalom Investments Ltd. until March 31, 2011; Served as Chairman of the Board of Granite Hacarmel Investments Ltd. and as a director at Tambour Ltd., Sonol Israel Ltd., Supergas Israel Gas Distribution Company. Ltd. and GES Global Environmental Solutions Co. Ltd. until February 2015. Serves as a director of Leumi Card Ltd., member of the board of Azrieli Foundation (Israel), R.A.
	Family relation to an interested party:	No
	Accounting and Financial Expertise or Professional Qualification:	Professional qualifications

Regulation 26A: Senior Officers of the Corporation as of the Report Release Date

Name	Yuval Bronstein	Irit Sekler-Pilosof	Arnon Toren	Ofer Avram*	Michal Kamir	Israel Keren	Avraham Jacoby	Gali Gana	Rafi Wunsh	Dor Lev-Ran	Yoram Ben Porat
Identity Number	024297996	025710542	054121678	024895229	022802110	003105657	052253747	059674770	028145738	029444668	056000813
Date of Birth	March 24, 1969	October 31, 1973	July 14, 1957	April 7, 1970	June 29, 1967	September 17, 1947	March 31, 1954	June 2, 1965	February 15, 1971	April 13, 1972	July 29, 1959
Office Commencement Date	May 1, 2013	May 1, 2013	November 1, 2013	January 1, 2014	June 20, 2010	July 1, 2002	July 1, 1987	September 2009	October 15, 2010	March 16, 2015	March 22, 2016
Position held in the Company/Subsidiary/Affiliate or in an interested party	CEO of the Company. CEO of Canit Hashalom Investments Ltd. Chairman of the Board of Directors of Granite Hacarmel, and the subsidiaries thereof. Effective from March 1, 2015 (in lieu of Mr. Menachem Einan whose office ended).	CFO and in charge of market risk management at the Company and a director of Mini Israel and of SONAPCO	Deputy CEO and Head of Malls	VP, Head of Office Segment	General Counsel, Company Secretary and Internal Enforcement Officer	CEO of asset companies Gemel Tesua Investments Ltd., Otzma & Co. Investments-Maccabim Ltd., Urban A.A.R. Ltd., and Herzliya Business Park Operations Ltd.	Chief Comptroller, Azrieli Group Ltd.	The internal auditor	Business Development Manager	VP Engineering and Construction	Head of Senior Housing
Education	B.A. in Economics and Accounting from the Hebrew University; MBA, major in Finance and Accounting,	B.A. in Business Administration, major in Accounting , The College of Management; LL.M., Bar Ilan University; Licensed as a CPA (Israel)	B.A. in Economics and Sociology, Hebrew University	B.A. in Law and Economics, Haifa University; MBA, Haifa University	LLB, Tel Aviv University MA in Business Law, Management and Marketing, Middlesex	B.A. in General History, Tel Aviv University	B.A. in Accounting and Economics, Bar Ilan University; Licensed as a CPA (Israel)	B.A. in Business Administration, The College of Management; M.A. in Internal Auditing and Public Administration, Bar Ilan	B.A. in Economics and Accounting, Hebrew University of Jerusalem	B.Sc. Master of Science in Civil Engineering from the Technion, Haifa	Technion graduate of studies of Business Administration and Hotel Management

Name	Yuval Bronstein	Irit Sekler-Pilosof	Arnon Toren	Ofer Avram*	Michal Kamir	Israel Keren	Avraham Jacoby	Gali Gana	Rafi Wunsh	Dor Lev-Ran	Yoram Ben Porat
	Hebrew University; Licensed as a CPA (Israel)				University, London			University; Certified Internal Auditor (CIA) since 2002; Certified Information Systems Auditor (CISA) since 2001, Certified in risk and information systems control (CRISC).			
Business experience in the last five years	CFO, Azrieli Group Ltd. in the six years prior to his appointment as CEO	Comptroller in Azrieli Group in the 13 years preceding the office commencement date.	Manager of the office segment in Azrieli Group and CEO of Azrieli Center in Tel Aviv in the six years prior to his current appointment; Director of Vardinon Real Estate and Investments Ltd.	VP Marketing and Deputy CEO, Gav Yam Properties Ltd.	Attorney, Partner, Herzog, Fox, Neeman, Law Office Outside Director of Rimoni Industries Ltd.	Manager of properties, property marketing and management of logistics projects and property construction in Azrieli Group	Managing comptroller, Azrieli Group	Partner in Rosenblum Holtzman CPA Offices since 1997	VP Quebec Region, Elad Group Canada Inc. CFO, Elad Group Canada Inc.	Chief Engineer, Azrieli Group	Head of Senior Housing Development at the Group for the past three years. Previously CEO and director of Hon, a real estate management company of the Property & Building Group and the CEO of the chain Mediterranean Towers – Senior Housing for 14 years.

None of the officers is an interested party in the Company or has a family relation to another officer of the Company or to another interested party in the Company.

- In January 2016, Mr. Ofer Avram, VP, Head of Office Segment, notified the Company's management of his intention to leave his position with the Company during 2016. The Company shall report on the conclusion of his term of office as required by law.

Senior officers whose office ended during the Report Period and in the subsequent period until the Report Date:

Mr. Menachem Einan's office as Active Deputy Chairman of the Board ended in February 2015.On March 22, 2016, the Company's board of directors appointed Mr. Einan as a regular director, without consideration. An immediate report shall be released shortly after the release of this report.

Regulation 26B – Authorized Signatories of the Corporation

See Section 8 of Chapter E of this Report - Corporate Governance.

Regulation 27 - The Company's Accountants

The Company's auditors are Brightman Almagor Zohar & Co., CPA, 1 Azrieli Center, Tel Aviv.

Regulation 28 – Changes in the Memorandum or Articles of Association

No change made in the Report Period.

Regulation 29 - Resolutions and Recommendations of the Board of Directors

See Section 4 of Chapter E of this Report - Corporate Governance.

Regulation 29A -The Company's Resolutions

See Section 4 of Chapter E of this Report - Corporate Governance.

Exemption, Indemnification and Insurance of Officers:

For a description of the applicable arrangements with regard to exemption, indemnification and insurance for Directors and Officers in the Company, see Note 37D to the Financial Statements as of December 31, 2015.

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

Date: March 22, 2016

Annex A – Regulation 11

List of Investments in Material Subsidiaries and Affiliates as of the Date of the Statement of the Financial Position

				Rate in %			NIS in thousands						
Company name	**Shares' class**	**Total par value of shares in NIS**	**Total par value of held shares in NIS**	**Of the capital**	**Of voting**	**Authority to appoint Directors**	**Cost of the held shares**	**Book value of investment (*)**	**Balance of the loans from the Company**	**Manner of presentation in the financial statements**	**Company's country of incorporation**	**Securities exercisable into capital rights or voting rights in the Company's investee company**	**Guaranties the Company provided to the investee company**
Directly held companies													
Canit Hashalom Investments Ltd. (**)	ordinary	114	113	99.1%	99.1%	99.1%	-	6,346,212	2,768,594 (1)	Consolidated Company	Israel	-	-
International Consultants (Iconsult) Ltd.	ordinary	3,900	3,900	100%	100%	100%	30,307	66,169	23,996 (2)	Consolidated Company	Israel	-	With no amount limitation in respect of a loan the balance of which as of the Report Date is approx. NIS 24 million
Otzem Initiation & Investments (1991) Ltd.	Management ordinary A ordinary B	80 21,330,220 4,999 21,335,299	80 21,330,220 4,999 21,335,299	 100%	 100%	100% 100%	- -	148,483	379,846 (3)	Consolidated Company	Israel	-	-
AG Galleria Office Buildings, LP (4)		-	-	100%	100%	-	71,064	125,725	-	Consolidated Company	USA	-	Guarantee in several cases which were defined in the loan agreement

AG Plaza at Enclave,LLC (4)		-	-	100%	100%	-	53,017	115,117	92,282	Consolidated Company	USA	-	Guarantee in several cases which were defined in the loan agreement
AG 8 West Center(4)		-	-	100%	100%	-	32,402	41,977	68,285	Consolidated Company	USA	-	Guarantee in several cases which were defined in the loan agreement
Companies held by Canit Hashalom													
Granite Hacarmel Investments Ltd.	ordinary	147,146,834		100%	100%		1,059,192	-	-	Consolidated Company	Israel	-	-
Gemel Tesua Investments Ltd.	ordinary	53,750,000	53,721,650	99.9%	99.9%		346	-	-	Consolidated Company	Israel	-	-
Otzma & Co. Investments Maccabim Ltd.	ordinary	16,100,000	16,091,764	99.9%	99.9%		112	-	42,401 (3)	Consolidated Company	Israel	-	-
Palace America Senior Housing Company Ltd.	ordinary	100	100	100%	100%	-	269,851	-	-	Consolidated Company	Israel	-	-
Companies held by Granit HaCarmel Investments Ltd.													

Sonol Israel Ltd.	ordinary	9,055	9,055	100%	100%	100%	287,730	-	-	Consolidated Company	Israel	-	-
GES Global Environmental Solutions Ltd.	ordinary	17,304,169	17,304,169	100%	100%	100%	57,078	-	-	Consolidated Company	Israel	-	-
Supergas Israel Gas Distribution Co. Ltd.	ordinary	252	252	100%	100%	100%	32,289	-	-	Consolidated Company	Israel	-	-

(*) The data refers solely to the companies directly held by the Company.
(1) After deduction of capital reserve
(2) After deduction of capital reserve
(3) Capital bills after deduction of capital reserve
(4) Foreign partnership

(**) After the Balance Sheet date, the Company purchased an additional share of Canit Hashalom Investments Ltd. Following the purchase, the Company holds 100% of the issued share capital thereof. For further details, see Note 37C(10) to the financial statements.

Azrieli Group

Part E

Corporate Governance

Chapter E – Corporate Governance Report 1

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Chapter E – Corporate Governance Report

Part A – Aspects of Corporate Governance

Following are details regarding corporate governance processes in the Company for 2015, which include both issues relating to corporate governance in accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "**Report Regulations**"), and a corporate governance questionnaire in accordance with the version included in the document on proposed legislative amendments regarding improvement of the reports which was published by the Israel Securities Authority on March 16, 2014.

1. Regulation 21 - Payments to Interested Parties and Senior Officers – 2015

The compensation granted during the year preceding the Report Release Date to the five highest paid individuals among the senior officers of the corporation or a corporation controlled thereby, in connection with their office at the corporation or a corporation controlled thereby, are as follows (in terms of annual costs to the corporation, NIS in thousands, for the twelve-month period that ended on December 31, 2015 (as specified in the Sixth Schedule of the Reports Regulations)):

Details of the Compensation Recipient				**Compensation**					
Name	**Position**	**Position Scope**	**Rate of Holding in the Corporation's Capital**	**Management Fee (a)**	**Bonus**	**Share-based Payment (b)**	**Other**		**Total**
Danna Azrieli (1)	Active Chairman of the Board	100%***	(c)	2,806	718	---	---		3,524
Yuval Bronstein (2)	CEO of the Company	100%	---	3,293	652	1,110	34(d)		5,089
Arnon Toren (3)	Deputy CEO of Azrieli Group and Head of Malls Segment	100%	---	2,525	401	1,110	---		4,036
Nir Galili (4)	CEO of Sonol Israel Ltd.	100%	---	2,022	550(e)	---	---		2,572
Eyal Hankin (5)	CEO of Supergas Israeli Gas Distribution Co. Ltd.	100%	---	1,761	786		---		2,547

***It is clarified that Ms. Danna Azrieli may continue to perform additional activities, including philanthropic activities in which she is involved, from time to time, provided that performance thereof does not compromise the fulfillment of her duties at the Company.

a) The management fee component includes the following components: cost of monthly management fees, social rights, social and related benefits as customary, car maintenance and reimbursement of communication and other expenses.

b) Reflecting the expense recorded by the relevant company in 2015 due to granting of phantom units. For details on the phantom units of Mr. Bronstein, see Note 37C(6) to the financial statements.

c) For details regarding control of the Company on the Report Date see Regulation 21A of Chapter D of the Report.

d) Reflecting an expense in 2015 due to months of adjustment upon retirement.

e) Reflecting bonus payment in 2015 for 2014.

1) Ms. Danna Azrieli – Ms. Danna Azrieli has been serving as the Company's Active Chairman of the Board since July 2014. For details with respect to the management agreement of Ms. Danna Azrieli, which took effect on January 1, 2015, see Note 37C(2) to the financial statements and the transaction report of November 20, 2014 (Ref. No. 2014-01-199977), as amended on December 21, 2014 (Ref. No. 2014-01-225993) and December 23, 2014 (Ref. No. 2014-01-228996), respectively, which are included herein by way of reference.

2) Mr. Yuval Bronstein – Mr. Bronstein serves as the Company's CEO, through a company owned by him. For details regarding the management agreement with Mr. Bronstein, see Section 2.4 of Part A of the meeting convention report as published by the Company on June 6, 2013 (Ref. No.: 2013-01-058431), included herein by way of reference, and Note 37C(6) to the financial statements.

3) Mr. Arnon Toren – As of June 1, 2014, Mr. Toren holds the office of Deputy CEO of Azrieli Group and Head of the Mall Segment (following his former office as CEO of Azrieli Malls), through a company he owns. In consideration for his services, Mr. Toren is entitled to index linked, fixed, monthly management fees which, as of December 31, 2015, amounted to approx. NIS 201 thousand and standard related benefits, including the provision of a (Grade 6) vehicle, cellular telephones, expense reimbursements and advance notice of 6 months. The Company bears the full cost of all the benefits (including the cost of use and gross-up of the tax value). On June 10, 2010, 82,454 phantom units were allotted to Mr. Toren in the context of the Company's phantom unit allotment plan as specified in Note 24A to the financial statements.

4) Mr. Nir Galili – As the Company has been informed by Sonol, Mr. Nir Galili has been serving as the CEO of Sonol since October 19, 2010. For his work, Mr. Galili is entitled to a gross fixed index-linked monthly salary which, as of December 31, 2015, amounts to approx. NIS 115 thousand. The monthly cost of salary amounts to NIS 156 thousand and a 90-day advance notice and in the event of termination of the agreement by both parties, eligibility to 6 monthly payments in the amount of the last effective salary on the termination date. In addition, the Sonol board of directors has adopted a resolution to give Mr. Nir Galili an annual bonus for 2015 in the sum of approx. NIS 525 thousand to be reflected in the 2016 annual statement.

5) Mr. Eyal Hankin – As the Company has been informed by Supergas, as of September 1, 2010, Mr. Hankin, through a company owned by him, serves as CEO of Supergas (subsequently to his previous office as Deputy CEO of Supergas for approx. eight months). In consideration for his services, Mr. Hankin is entitled to a fixed monthly management fee, linked to the index, which, as of December 31, 2015, amounted to approx. NIS 144 thousand (such consideration includes car cost and the value of the tax for car use), and standard related benefits, including use of a cellular telephone, expense reimbursement and a 90-day prior notice, and, in the event of termination of the agreement by either party, entitlement to 6 monthly payments in the amount of the last consideration payment in effect on the termination date. Mr. Hankin is further entitled to an annual bonus derived from the operating profit in Supergas's LPG segment and an annual bonus derived from the business results of the gas

operation, in accordance with the provisions of the management agreement signed with him, which bonuses are limited to a maximum annual amount pursuant to which the cost of salary and bonus will not exceed NIS 2.5 million in 2015.

The compensation which was paid during the year prior to the Report Release Date to interested parties in the Company who are not listed in the table above, in relation to services they provided as functionaries in the corporation or a corporation controlled thereby, are as follows (in terms of annual cost for the corporation, in NIS in thousand, for the period of the twelve months ended on December 31, 2015 (as specified in the Sixth Schedule to the Reports Regulations)):

Name of compensation recipient					Compensation				
Name	**Position**	**Scope of position**	**Rate of holding in corporation's capital**	**Salary**	**Bonus**	**Share-based payment**	**Management fee(a)**	**Other**	**Total**
Directors (7)	Directors of the Company (a)	---		---	---	---	---	1,669 (b)	1,669

a) Five independent directors and two directors who are controlling shareholders.
b) Directors' compensation.

(6) Directors of the Company – In accordance with the Company's compensation policy, the compensation for outside directors and other directors of the Company who are not controlling shareholders of the Company and do not receive a salary or management fee as will hold office from time to time, shall be the compensation in the amount of the "maximum amount" per director, according to the rating of the Company as provided in the Companies Regulations (Rules on Compensation and Expenses for the Outside Director), 5760-2000 (the "**Compensation Regulations**") and the classification of such director. In addition, the directors may be included in an insurance policy for officers of the Company and shall receive an undertaking of indemnification, or indemnification pursuant to an indemnification permit and receive an exemption from liability subject to the provisions of the Companies Law. In 2015, the compensation paid by the Company to all of the independent directors (two outside directors and three independent directors), amounted to a total of approx. NIS 1,458 thousand. For further details, see Note 37C(9) and 37D to the financial statements. In addition, the directors are entitled to the reimbursement of expenses as accepted at the Company and in accordance with the Compensation Regulations.

Compensation of additional directors of the Company who are controlling shareholders: For details see Regulation 22 below – Compensation for additional directors who are controlling shareholders of the Company.

2. **Regulation 22 - Controlling Shareholder Transactions**

Following are details, to the Company's best knowledge, with regard to transactions with the controlling party or in the approval of which the controlling party has a personal interest, in which the Company or a corporation

controlled by it or a company related to it engaged in the Report Period, and which are still in force as of the Report Date:

Transactions listed in Section 270(4) of the Companies Law

- Engagement in a Management Agreement with a Management Company Controlled by Ms. Danna Azrieli

  On December 28, 2014, the Company's general meeting approved the Company's engagement with a Company controlled by Ms. Danna Azrieli in a management agreement through which Ms. Danna Azrieli provides to the Company Active Chairman of the Board services. For details, see Part C of the meeting convention report as published by the Company on December 23, 2014 (Ref. No.: 2014-01-228996), included herein by way of reference, and Note 37C(2) to the financial statements.

- Compensation of Additional Directors who are Controlling Shareholders of the Company

  Ms. Sharon Azrieli and Ms. Naomi Azrieli, controlling shareholders of the Company, are entitled to directors' compensation as approved by the Board and general meeting of the Company on May 6, 2010 and ratified by the Company's Board on May 13, 2013 (following receipt of the approval of the Company's compensation committee) and reported to the public on May 14, 2013, pursuant to Section 1B(3) of the Companies Regulations (Relief in Transactions with Interested Parties), 5760-2000. The aforesaid compensation approval was granted for a 3-year period commencing from June 3, 2013. In addition, the provisions of Sections 5(b) and 6(a) of the Compensation Regulations pertaining to reimbursement of expenses to directors, including flights, *per diems* and hospitality, shall apply also with regard to such directors, *mutatis mutandis*. The audit committee and board of directors approved a framework for such expenses, which is examined from time to time. In 2015, the compensation paid by the Company to Naomi Azrieli and Sharon Azrieli as aforesaid amounted to a total of approx. NIS 212 thousand. For details see immediate report published by the Company on May 14, 2013 (Ref. No.: 2013-01-062026), included herein by way of reference, Regulation 21(6) of this part above and Note 37C(9) to the financial statements.

- Insurance and Indemnification of Controlling Shareholders in the Company

  Ms. Danna Azrieli, Chairwoman of the Board of the Company, Ms. Naomi Azrieli, Director, and Ms. Sharon Azrieli, Director, are entitled to an officers' insurance arrangement to which all of the directors and officers of the Company are entitled. For details see immediate report published by the Company on June 1, 2015 (Ref. No.: 2015-01-036165), included herein by way of reference. In addition, Ms. Danna Azrieli, Ms. Naomi Azrieli and Ms. Sharon Azrieli are entitled to a letter of indemnification that was approved by the Company's general meeting

on December 28, 2014. For details, see Part B of the meeting convention report as published by the Company on December 23, 2014 (Ref. No.: 2014-01-228996), included herein by way of reference, and Note 37D to the financial statements.

- Contributions to the Azrieli Foundation (Israel), a Registered Association

In May 2010 (following approval by the board of directors), the general meeting, approved the Company's policy on contributions to the Azrieli Foundation (Israel) R.A. (the "**Azrieli Foundation**")[1]. On March 14, 2013, the Company's audit committee determined that the length of time which was originally set forth by the general meeting of the Company in respect of the Company's contributions to the Azrieli Foundation, i.e. 5 years, is reasonable under the circumstances. For details see the Company's immediate report dated March 14, 2013 (Ref. No.: 2013-01-005851), which is included herein by way of reference. In May 2015, the general meeting approved (after approval by the audit committee and board of directors of the Company) the Company's engagement with the Azrieli Foundation in a new contribution arrangement, whereby the arrangement for contribution to the Azrieli Foundation would be extended for an additional period of five years, commencing on June 1, 2015 and ending on May 31, 2020. For details about the contribution arrangement, see the invitation to a meeting report of April 16, 2015 (Ref. No. 2015-01-000186), which is included herein by way of reference, and Note 37C(7) to the financial statements. Sharon Azrieli, Naomi Azrieli and Danna Azrieli may be deemed as having a personal interest in the contribution to the Azrieli Foundation due to their office on the Company's Board and the Board of the Azrieli Foundation. It is further clarified that following the receipt of the contribution shares (for details with respect to the contribution shares, see Section 3.1 of Part A of the Report), the Foundation became an interested party in the Company, within the definition of such term in the Securities Law, and following the provisions of the aforesaid contribution arrangement, Azrieli Holdings and the Azrieli Foundation are deemed as "co-holders", within the definition of such term in the Securities Law; for the purpose of duties applicable or relating under the Companies Law to the controlling shareholders of the Company, the Company has chosen to treat the Azrieli Foundation as if it were a controlling shareholder of the Company, together with Azrieli Holdings, even if not required under the provisions of the law, and for as long as no other notice is given by the Company in an immediate report.

[1] For a clarification of such policy, as approved by the Company's board of directors (after receiving approval from the Company's audit committee) on March 29, 2011, see Note 37C(7) to the financial statements and the immediate reports released by the Company on March 30, 2011 (Ref. No. 2011-01-098874) and on February 20, 2012 (Ref. No. 2012-01-046971), which are included herein by way of reference.

- Purchase of a Share of Canit Hashalom

  On March 6, 2016, the general meeting of the Company approved (following approval by the audit committee and board of directors of the Company) the Company's engagement with the Azrieli Foundation in an agreement for the purchase of the share of Canit Hashalom from the Azrieli Foundation in consideration for NIS 51 million and the transaction was closed shortly before the release of this Report. For details, see Part B of the invitation to a meeting report as released by the Company on January 27, 2016 (Ref. No. 2016-01-018823), which is included herein by way of reference, and Note 39C(10) to the financial statements.

Negligible Transactions

In the Report Period, the Group performed negligible transactions with the controlling parties thereof, or that the controlling parties thereof had an interest in their approval, of the kinds and characteristics in accordance with a negligible transactions procedure approved by the Board of Directors of the Company, as specified in Note 37E to the financial statements, including:

- Lease Agreements with Related Parties: the Company, companies controlled by the Company and related companies thereof, have engaged in lease agreements with lessees, in the engagement with whom the controlling party has a personal interest, pursuant to which part of the aforesaid companies lease out for several years now and/or leased out during 2015, in the ordinary course of business and at market conditions, areas in some of the income producing properties of the Company. The income with respect to the aforesaid rentals in the year ending on December 31, 2015, totaled approx. NIS 1,953 thousand (about four lessees, including the Foundation). The Audit Committee and the Board of Directors of the Company examined in their meetings on March 20 and 22, 2016, that these engagements, which were made during 2015, were negligible transactions which are carried out in the ordinary course of business of the Company and at market conditions. For details, see Note 37E to the financial statements.

- Employees of the Group who are Related to Controlling Shareholders: During the Report Period or part thereof, the Group employed one employee who is related to a controlling shareholder of the Company (and does not amount to the definition of “relative” in the Companies Law) in an employment agreement which is not irregular and is also negligible, in a total cumulative annual amount of approx. NIS 666 thousand. As of the Report Release Date, the aforesaid employee is employed.

- Ties with the community: From time to time the Company makes, either itself or through companies which are among the members of the Group, direct contributions as well as contributions through the Foundation as specified in Section 2 above. In addition, to the Company's best understanding, the Foundation may donate to the community and to bodies or entities which require assistance, including bodies to which interested parties of the Company may have a link, or in which interested parties of the Company are volunteer members.

3. Additional Issues in Relation to the Control of the Company

3.1. Restructuring

In the context of a process of restructuring of the companies in the Group and primarily, steps for the consolidation of similar activities of the Group which were performed in fellow subsidiaries, and streamlining of the Group's current operation, the Company engaged, in November 2008, in an agreement with Nadav Investments whereby Nadav Investments transferred its shares in some of the Group's companies to the Company, as is, in consideration for an allotment of shares of the Company (the "**Restructuring Agreement**"). As of the Report Date, the restriction period by virtue of Section 104A of the Income Tax Ordinance (New Version), 5721-1961, pertaining to the sale of shares which have been transferred, has expired.

Due to it being a company which is incorporated under Canadian law, Nadav Investments is governed, *inter alia*, in connection with its operations or investments in Israel, by the rules of taxation which are set forth in the treaty between the State of Israel and Canada pertaining to the prevention of double taxation and tax evasion with regard to taxes on income and capital (the "**Treaty**"), including with regard to the sale of shares in companies whose assets are mainly real properties. For purposes of clarification and interpretation of the sections of the Treaty which contemplate this issue, various tax ramifications and provisions regarding the sale of the Company's shares were set forth in the context of an agreement between the Israel Tax Authority and the Company, Canit Hashalom and Nadav Investments, dated November 2008, in accordance with the rate of the Company's holdings in real properties in Israel. In addition, the aforesaid agreement set forth provisions whereby Nadav Investments shall not act towards receiving any tax benefits in Canada which are not in accordance with the provisions of the law in Canada or the Treaty, provisions pertaining to the possibility to terminate the agreement if in the future the provisions of the Treaty and/or Chapter E of the Ordinance will be materially modified in the manner which has an effect on the manner of taxation of the sale, and additional provisions whereby in any event where there will be a tax liability in Canada due to the sale of the shares, the same shall have no effect on the tax liability which is set forth in the agreement.

Any restructuring in accordance with the provisions of the second part of the Ordinance which addresses the Company's shares and/or the shares of Canit Hashalom shall be performed solely after the receipt of the advance consent of the Mergers and Splits Department of the Tax Authority.

3.2. Definition of Business

In the context of the management agreement with Ms. Danna Azrieli, one of the controlling shareholders of the Company Ms. Danna Azrieli undertook that so long as she is providing management services to the

Company and/or companies of the Group, and during an additional period of six (6) months from the date of termination of the provision of the management services, and so long as no other resolution shall have been adopted by the Company's board of directors, she shall not operate in the Company's Business Segments, as defined below, through acquisition, investment, consultation, management and/or rendering of services, either directly or indirectly.

For purposes of this section the "**Company's Business Segments**", shall mean – (1) Development, maintenance and/or management of a commercial center and/or shopping mall in Israel, the area of which exceeds 12,000 sqm of commercial space for rent; and/or (2) Development, maintenance and/or management of office space for rent in Israel, the area of which exceeds 8,000 sqm of commercial space for rent; and/or (3) Development, maintenance and/or management of income-producing property in Israel, which incorporates commercial and office space, the area of which exceeds 10,000 sqm of commercial space for rent.

The aforesaid notwithstanding, the transactions and/or properties and/or projects which are specified below shall not be deemed as the use of business opportunities of the Company by Ms. Danna Azrieli: (a) Holding of properties and/or projects which are owned and/or controlled by Ms. Danna Azrieli, directly and/or indirectly, as of the date of the Company's Prospectus; (b) Purchasing up to 10% of properties which are in the Company's Business Segments, as aforesaid, and/or purchasing up to 10% of a corporation which holds properties as aforesaid, provided that Ms. Danna Azrieli shall have no active involvement in the management of such property; (c) Purchasing holdings in a corporation, the scope of the properties of which in the Company's Business Segments does not exceed 10% of the total scope of the assets thereof, and the scope of its income from activity in the Company's Business Segments in the year prior to the purchase date does not exceed 10% of the total scope of the income thereof; (d) Holding a corporation as provided in Subsection (c) above, also if after the purchase, which shall have been performed in accordance with the provisions of Subsection (c) above, the scope of the properties in the Company's Business Segments and/or the scope of its income from activity in the Company's Business Segments exceed 10% of the total scope of its income; and/or (e) Performing transactions and/or purchasing properties and/or projects and/or operations in the field of residential real estate in Israel. Ms. Danna Azrieli has operations in the field of real estate overseas and her aforesaid undertaking applies only with regard to the operations in Israel.

At the same time it shall be clarified that if and insofar as Ms. Danna Azrieli will seek to act in one or more of the Company's Business Segments, which are not part of the transactions which are described above, such that a business or legal or other impediment may be created to performance of specific transactions and activities by the Company

and/or companies of the Group, she undertakes to present the outline of the proposed transaction to the Company's audit committee. In such a case, in the event that the Company's audit committee will decide that the Company is not interested in the proposed transaction, then Ms. Danna Azrieli shall be entitled to perform the proposed transaction, either in person or through companies which are owned by her, without the same being deemed as the use of a business opportunity of the Company.

The aforesaid does not derogate from the fiduciary duty of any director in the Company, pursuant to Section 254 of the Companies Law.

4. **Regulation 29 and Regulation 29A - Recommendations and Resolutions of the Board of Directors**

For details on resolutions of the board of directors with regard to dividend distributions see Section 4 of Chapter A of this Report and Notes 23 and 39A to the financial statements.

Resolutions of the Special General Meeting

For details regarding resolutions which were approved in special general meetings of the Company's shareholders held on May 21, 2015 and March 6, 2016, see the Company's immediate reports with regard to the results of the general meetings of May 21, 2015 (Ref. No. 2015-01-025767) and March 6, 2016 (Ref. No. 2016-01-000756), respectively.

Resolutions of the Company – Regulation 29A

In the Report Period, and until the Report Release Date, no Company resolutions were adopted on the issues specified in Regulation 29A of the Report Regulations, other than as specified below:

For details in relation to the resolution to renew the Company's insurance policy for directors and officers (including from among the controlling shareholders of the Company) of the Company and the Company's subsidiaries, with the exception of Granite Hacarmel Group, which holds an independent officers' insurance policy, from June 3, 2015 until June 2, 2016, which was adopted on the Report Date, see Note 37D to the financial statements.

5. **Compensation of Senior Officers**

The Company's compensation policy which was amended by the general meeting of the Company in December 2014, following the update of the agreement of the Chairman of the Board, Ms. Danna Azrieli (the "**Company's Compensation Policy**"), determines a personal compensation plan for a small group of officers of the Company, including directors of the Company who are controlling shareholders.

For details on the Company's Compensation Policy see an immediate report for convening a meeting dated November 20, 2014 (Ref. No.: 2014-01-199977) as amended on December 21 and 23, 2014 (Ref. No.: 2014-01-225993 and 2014-

01-228996, respectively), which are included herein by way of reference. In the compensation committee meeting of March 20, 2016 and the board meeting of March 22, 2016, a discussion was held on the terms of employment and compensation granted to the senior officers and interested parties in the Company in 2015 which are specified in Regulation 21 of Chapter E of this Report as to each one of such senior officers and interested parties separately, and bonuses were also approved for each of them.

The Company's board of directors determined, after having received the recommendation of the compensation committee, *inter alia*, that all of the compensation terms of the officers are consistent with the Company's Compensation Policy. The board of directors noted that the CEO of Supergas and the CEO of Sonol, companies controlled by Granite Hacarmel, were included in the disclosure under Regulation 21 of the Report Regulations, in view of (each one of them) being, during the Report Period, a senior officer of a corporation controlled by the Company, albeit not material to the Company. This being the case, in view of the fact that they are not included in the definition of a senior officer of the Company, the provisions of the Company's Compensation Policy are not applicable to them. Accordingly, in the estimation of the Company's compensation committee and board, the remuneration given as specified in Regulations 21 and 22 above is consistent with the Company's Compensation Policy and/or reasonable and fair.

6. **Internal Audit**

In 2010 the Company adopted an internal audit procedure (the "**Internal Audit Procedure**"), whose purpose is to define the status and scope of activity of the internal auditing of the Company, as well as the methods and means for fulfillment of its tasks. This Procedure was approved by the audit committee in its meeting of November 15, 2010 and by the Company's board of directors in its meeting of November 24, 2010.

Identity of the Internal Auditor: Mr. Gali Gana, CPA, was appointed for the position of the internal auditor of the Company and the Group's companies (excluding Granite Hacarmel) and began his service at the Company in November 2009. Since 2013, subsequently to Granite Hacarmel being turned into a private company, no separate internal auditor holds office therein. An outside internal auditor who is separate from the company's internal auditor holds office in each of the material subsidiaries of Granite Hacarmel.

Compliance of the Internal Auditor with Legal Requirements: To the best of the knowledge of the Company's management, according to the Internal Auditor's statement, he complies with the requirements of Section 146 (b) of the Companies Law and the provisions of Section 3(a) and 8 of the Internal Audit Law, 5752-1992 (the "**Internal Audit Law**").

Holding Securities of the Company or a Body Related Thereto: As of this Report Date, as the Internal Auditor informed the Company, he does not hold securities of the Company or a body related thereto.

Ties of the Internal Auditor with the Company or a Body Related Thereto: To the best of the knowledge of the Company's management, as the Internal Auditor informed the Company, the Internal Auditor does not have material business or other ties with the Company, and nothing in other business ties of the Internal Auditor creates a conflict of interest with his duties as an Internal Auditor of the Company.

Additional Positions of the Internal Auditor in the Company: The internal auditor is an external service provider to the Company on behalf of Rosenblum-Holtzman., CPAs. According to the Internal Audit Procedure, the auditor and the audit workers will not hold a position in the Company in addition to the internal audit. As of the Report Date, except for his position as the Company's internal auditor, the internal auditor is neither employed by the Company nor provides any other external services thereto.

Other positions of the Internal Auditor Outside the Company: Mr. Gali Gana is a partner at Rosenblum-Holtzman & Co., CPAs.

The Method of Appointment of the Internal Auditor: Mr. Gali Gana was appointed to serve as the internal auditor of the Company by the Company's CEO in November 2009 and was approved by the Company's audit committee on November 15, 2010, after an in-depth review of his education, qualifications and experience of many years in internal auditing while considering the obligations, authorities and duties imposed on the internal auditor according to law.

Mr. Gana was found suitable to serve as the internal auditor of the Company, *inter alia* considering the scope of business and complexity of the company. Within the framework of the Internal Audit Procedure which was approved by the audit committee and board of directors of the Company in November 2010, the Company's board of directors shall appoint the internal auditor and determine his status and compensation terms.

The Identity of the Supervisor of the Internal Auditor: The organizational supervisor of the internal auditor is, as of the Report Date, the chairman of the Company's board of directors, in coordination with the Company's audit committee.

The Audit Plans: According to the Internal Audit Procedure, the internal auditor submits a proposal for an annual work plan, in coordination with the chairman of the board and the Company's CEO. The audit committee must discuss the plan and approve it, and thereafter the plan is forwarded for the board's approval. In August 2012 the audit committee adopted the internal auditor's report regarding a multi-annual risk survey, according to which the audit committee laid down a multi-annual plan for the years 2012-2016 for determination of the audit objectives, which will serve as an outline for laying down the annual work plan of the internal audit. The audit plan of the internal auditor is an annual plan, derived from a multi-annual work plan, *inter alia*, according to the following considerations: potential for streamlining and saving, risks inherent to the Company's business, rules and regulations applicable to the

Company and weaknesses which the Company's board of directors, management or internal auditor observe on an ongoing basis.

The annual work plan of the internal audit includes also the performance of an audit of the follow up on implementation of the internal auditor and audit committee's recommendations by the Company's management. The audit is carried out according to the plan under the supervision of the internal auditor and is adapted, according to developments and findings which are discovered during the audit. The work plan leaves discretion with the auditor for change in the audited issues, after a discussion on the subject with the relevant parties.

At the meeting of the Company's board of directors of March 22, 2016, the audit plan for 2016 was approved, after having been presented by the internal auditor to the Company's board of directors, and following the audit committee's recommendation of January 12, 2016, to approve the plan according to the multi-annual plan.

Material Transactions: The internal auditor receives an invitation, including background material for meetings of the Company's audit committee in which transactions are examined and approved, as specified in Section 270 of the Companies Law, 5759-1999. According to his choice, after receiving proper details, he is present at the meetings or is updated in respect thereof. Also, the internal auditor receives, upon his request, minutes of the Company's board meetings in which such transactions had been approved.

Investee Corporations: The internal auditor also serves as the internal auditor of the subsidiaries in the Group, excluding the Granite Hacarmel Group. The audit plan also refers to material investee corporations of the Company in which no internal auditor had been appointed, including overseas.

Scope of Retaining of the Internal Auditor: The scope of retaining of the internal auditor had been approved by the audit committee according to the audit plan which was approved thereby. In 2015, the hours of the internal audit in the Company and in its investee companies (excluding Granite Hacarmel) amounted to approx. 1,000 hours (including overseas operations). The management has the option to expand the scope of retaining according to circumstances.

In the Company's estimate, the scope of the internal auditor's work for 2015 is appropriate.

The scope of hours for the audit work in the Company and in the subsidiaries is determined according to the audit plan proposed by the internal auditor in coordination with the management and is approved by the audit committees of the various boards of directors. In 2015, the internal audit hours in Granite Hacarmel Group amounted to approx. 1,135 working hours.

According to the Internal Audit Procedure, the period of office of an internal auditor in the Company will not exceed six years, unless the audit committee and the board of directors have decided otherwise.

Guideline Professional Standards in the Performance of the Audit: The internal auditor and the team of employees reporting to him perform the audit work in meticulous compliance with necessary standards for the performance of professional, reliable, autonomous audit, independent of the auditee. Pursuant to information provided to the Company's management by the internal auditor, the audit reports rely on the audit findings and the facts recorded in the audit are carried out according to accepted professional standards according to professional guidelines on internal auditing, including standards of the Institute of Internal Auditors in Israel (IIA), and in accordance with the Internal Audit Law, 5752-1992 and the Companies Law. The board of directors relied on the reports of the internal auditor regarding his compliance with the professional standards according to which he performs the audit.

Free Access to the Internal Auditor: The internal auditor of the Company has free, unlimited and direct access, in coordination, to documents, information and the relevant information systems of the Company, and of investee companies, including financial data, as well as an independent status. The internal auditor undertakes to keep in confidence, not to provide to others and not to make any use for his own use or for the use of others, of any information pertaining to the Company.

The Report of the Internal Auditor: The internal audit reports are submitted in writing and discussed on an ongoing basis with the Company's management and the CEO. The dates on which a report was submitted regarding the findings of the internal auditor to the CEO are: January 18, 2015 (two reports), February 4, 2015 (one report), March 9, 2015 (two reports), May 10, 2015 (two reports), November 10, 2015 (four reports), December 31, 2015 (two reports). The dates on which discussions were held at the audit committee with respect to the findings of the internal auditor are as follows: January 22, 2015, February 9, 2015 (one report), March 15, 2015 (one report), May 17, 2015 (3 reports), November 15, 2015 (4 reports), January 12, 2016 (2 reports).

The Evaluation by the Company's Board of Directors of the Activity of the Internal Auditor: According to the evaluation of the board of directors, the qualifications of the internal auditor and his team, the scope, nature and continuity of the activity of the internal auditor and his work plan are reasonable in the circumstances of the matter, and fulfill the purposes of the internal audit at the Company. On March 20, 2016, the chairman of the audit committee held a meeting with the internal auditor of the Company, in the absence of the Company's management, for discussion of the internal auditor's work and found that there are no restrictions on his work, as aforesaid.

Compensation of the Internal Auditor: The payment to the internal auditor of the Company and of subsidiaries in Israel is done according to actual working hours and according to the work plan approved by the audit committee and the progress in the audit work of each and every subject. In the beginning of each year the auditor submits a proposal for an annual audit plan which will include a planned hourly framework.

The audit committee determines the audit plan and the hour quota. The auditor will not deviate from the hour quota without the approval of the audit

committee. In case that further tasks will be imposed on the auditor during the audit year – the audit committee will determine the hour quota for the further tasks.

In 2015 the cost of the fee to the internal auditor and his team amounted approx. NIS 219 thousand (plus VAT). The cost of the internal audit in the Granite Hacarmel Group for 2015, including the cost of external entities, amounted to approx. NIS 237 thousand.

According to the Company's estimation, due to the fact that the remuneration is based on working hours, the aforesaid remuneration cannot affect the exercise of the internal auditor's professional discretion. The Company determined as a matter of essential policy the independence of the internal audit, and therefore, the internal auditor is not dependent at all upon the Company and the management thereof.

7. The Outside Auditor

The Auditor’s Identity

The primary outside auditors of the Company and of the investee companies (excluding Granite Hacarmel and excluding Palace America Senior Housing Co. Ltd.) are the accounting firm of Brightman Almagor Zohar (the "**Auditor**").

It shall be stated that the firm leases offices from the Company at the Azrieli Center in Tel Aviv for amounts which are immaterial to the Company. However, in order to ensure the independence thereof is not prejudiced, the Auditor has assumed (within the framework of an agreement with the Israel Securities Authority) parameters which will be examined from time to time in respect of the engagement, including with respect to the specificity of the terms of the lease agreement and non-modification thereof; written – at arm's length fee agreements; separation between the identity of the service providers and the decision makers in respect of the lease agreement; restrictions regarding the settling of accounts between the lease agreement and the services and agreement that in case of dispute the auditor shall act for termination of his office. The Company confirms with the Auditor the fulfillment of such parameters and the validity thereof on an annual basis.

The Auditor's Fee

In the years 2014 and 2015, the accountant fee for audit services, audit-related services and tax services and consultation services totaled as follows:

2015:		Audit Services, Audit-Related Services and Tax Services		Other Services		Total	
Company	**Auditor**	**NIS in thousands**	**Hours**	**NIS in thousands**	**Hours**	**NIS in thousands**	**Hours**
Azrieli Group Ltd.	Brightman Almagor Zohar & Co., CPAs	1,450	7,630	430	606	1,880	8,236
Granite Hacarmel	Somekh Chaikin KPMG (auditors)	1,400	8,600	700	1,800	2,100	10,400
2014:		**Audit Services, Audit-Related Services and Tax Services**		**Other Services**		**Total**	
Company	**Auditor**	**NIS in thousands**	**Hours**	**NIS in thousands**	**Hours**	**NIS in thousands**	**Hours**
Azrieli Group Ltd.	Brightman Almagor Zohar & Co., CPAs	1,345	8,300	-	-	1,345	8,300
Granite	Somekh Chaikin KPMG (auditors)	1,780	12,000	760	2,000	2,540	14,000

Pursuant to the sale of part of the companies that were held by Granite in 2014 and 2015 (Tambour, the desalination plant and the solar systems) the audit hours were reduced.

Determination of the Auditor's Fee

The Company's board of directors, after receiving the recommendation of the Company's audit committee, was authorized in the Company's articles of association to determine the fee of the outside auditor. The fee is determined based on the work required and past experience, while adjusting such to changes in regulation and scope of work, development of the Company and events which occurred during the passing year. Accordingly, on March 22, 2016, after receiving the recommendation of the audit committee, the Company's board of directors approved an update to the outside auditor's fee for 2015.

8. Independent Authorized Signatory

As of the Report Release Date, the Company does not have an independent authorized signatory.

9. Contributions

The Company has a deep commitment to the improvement and promotion of the community in Israel. The social accountability, the integration and giving to the community are strategic objectives which constitute an integral part of the

Company's business work plan, which allocates financial resources to the matter, in the annual work plan, mainly under the contribution agreement, as specified in Section 2 of this chapter.

Over the course of 2015 the Company made contributions, itself and through consolidated companies (excluding Granite Carmel), in money and in finished products, at a total value of approx. NIS 13 million.

For resolutions adopted by the Company in respect of its contribution policy, through the Azrieli Foundation (Israel) (R.A.), which also includes undertakings to grant future contributions, see Regulation 22 above and Note 37C(7) to the financial statements.

10. Internal Enforcement Plan in the Company

In 2012, the Company has adopted an internal enforcement plan. Within the framework of the internal enforcement plan, the Company's board of directors appointed a board committee designated for the issue of internal enforcement in the Company (the "**Enforcement Committee**") which held a series of discussions regarding required adjustments for an enforcement outline and an enforcement system procedure for the needs of the Company, the unique structure of the Company and its field of business. In 2012, the Company's board of directors appointed, after receiving the recommendation of the enforcement committee, Adv. Michal Kamir, the Company's General Counsel and Secretary, as the supervisor of internal enforcement in the Company.

In the context of the enforcement plan, the Company updated and adopted several procedures regarding corporate governance in the Company, which constitute part of the overall enforcement system in the Company, including: (a) Procedure for the work of the board and its committees; (b) Procedure for identifying transactions with related parties (which also addresses the identification of transactions with interested parties, the classification of irregular and negligible transactions and criteria for types of transactions and acts as being irregular); (c) Immediate reports procedure (for examination of the materiality and the need for submitting an immediate report upon the occurrence of various events); (d) Insider information procedure; (e) Whistleblower employees procedure; (f) Ethical code; (g) Officer holdings procedure; (h) Cluster of companies procedure; and other procedures designated to support and regulate the work of the different organs in the Company and its management.

In 2015, the Company implemented the enforcement plan and acted in accordance therewith, in the context of which it also held the annual training day, which compiles the relevant updates for the managers and employees of the Group. A report for 2015 and an enforcement plan for 2016 were delivered by the supervisor to the Enforcement Committee and to the Company's board of directors and are expected to be discussed shortly after the release of the report.

Part B – Corporate Governance Questionnaire[2]

To clarify, for the avoidance of doubt, the questionnaire is not intended to exhaust all corporate governance aspects relevant to the Company, but only addresses several aspects; for receipt of further information, please inspect the Company's reports, including in this periodic report.

Independence of the Board of Directors			
		Correct	**Incorrect**
1.	Throughout the entire report year, two or more outside directors held office in the corporation. In this question you may reply "Correct" if the period of time in which two outside directors did not hold office does not exceed 90 days, as provided in Section 363A(b)(10) of the Companies Law however, any reply which is (Correct/Incorrect) shall state the period (in days) in which two or more outside directors did not hold office in the corporation in the report year (including also a term of office which was retroactively approved, while distinguishing between the different outside directors): Director A: Prof. Niv Ahituv Director B: Mr. Efraim Halevy Number of outside directors holding office in the corporation as of the date of release of this questionnaire: 2.	ü	
2.	The rate[3] of independent directors[4] holding office in the corporation as of the date of release of this questionnaire: 5/8 The rate of independent directors determined in the articles of association[5] of the corporation[6]: _____. x Irrelevant (no provision set in the articles of association).		
3.	In the report year, an examination was held vis-à-vis the outside directors (and the independent directors) and it was found that in the report year they complied with the provision of Section 240(b) and (f) of the Companies Law regarding the absence of a link of the outside (and independent) directors holding office in the corporation, and that they also fulfill the conditions required for holding office as an outside (or independent) director.	ü	
4.	All of the directors who held office in the corporation during the report year do not, directly or indirectly, report[7] to the CEO (excluding a director who is a workers' representative, if there is a workers' representative body in the corporation).If your answer is "Incorrect", (i.e., the director reports to the CEO as aforesaid) – state the number of directors not complying with the aforesaid restriction: _____.	ü	

[2] According to the language included in the document on proposed legislative amendments regarding improvement of the reports which was published by the Israel Securities Authority on March 16, 2014.

[3] In this questionnaire, "rate" – a specific number out of the total. For example 3/8.

[4] Including "outside directors" as defined in the Companies Law.

[5] In the context of this question – "articles of association" including pursuant to a specific legal provision that applies to the corporation (for example, in a banking corporation – the guidelines of the Supervisor of Banks).

[6] A bond company is not required to answer this section.

[7] For purposes of this question – the mere holding of office as a director in a held corporation which is controlled by the corporation, shall not be deemed as "reporting", conversely, a director's office in a corporation acting as an officer (other than a director) and/or employee in the held corporation which is controlled by the corporation, shall be deemed as "reporting" for purposes of this question.

5.	All of the directors who notified of the existence of a personal interest they have in the approval of a transaction on the meeting's agenda, neither attended the deliberation nor participated in a vote as aforesaid (other than a deliberation and/or vote in circumstances as stated in Section 278(b) of the Companies Law): If your answer is "Incorrect" – Was it for the purpose of presentation of a specific issue by him pursuant to the provisions of the last part of Section 278(a): ¨ Yes ¨ No (check the appropriate box). State the number of meetings in which such directors were present at the deliberation and/or participated in the vote, other than in circumstances as provided in Subsection a.: _____.	ü	
6.	The controlling shareholder (including his relative and/or anyone on his behalf), who is not a director or another senior officer of the corporation, did not attend the board meetings held in the report year. If your answer is "Incorrect" (i.e., the controlling shareholder and/or his relative and/or anyone on his behalf who is not a board member and/or a senior officer of the corporation attended such board meetings) - the following details regarding the attendance of any additional person in such board meetings shall be stated: Identity: Ms. Stephanie Azrieli; Holds no position at the Corporation; the wife of Mr. David Azrieli OBM and the mother of Danna Azrieli, Chairman of the Board, Naomi and Sharon Azrieli, directors. Was it for the purpose of presentation of a certain issue by him: ☐ Yes x **No** (check the appropriate box) The rate of his attendance[8] at board meetings held in the report year for the purpose of presentation of a specific issue by him: _____. Other presence: Ms. Stephanie Azrieli, accompanies her daughters, Danna Azrieli, Chairman of the Board, Naomi and Sharon Azrieli, directors; however, she does not take an active part in the discussions and resolutions.		ü

Directors' qualifications and skills

			Correct	**Incorrect**
7.	In the corporation's articles of association there is no provision limiting the possibility to immediately terminate the office of all of the directors of the corporation who are not outside directors (in this context - a determination by a regular majority is not deemed a limitation)[9]. If your answer is "Incorrect" (i.e., such limitation exists), state -		ü	
	a.	The period prescribed in the articles of association for the office of a director: _____.		
	b.	The required majority prescribed in the articles of association for the termination of office of the directors: _____.		
	c.	The legal quorum at the general meeting prescribed in the articles of association for the termination of office of the directors: _____.		

[8] While separating the controlling shareholder, his relative and/or another on his behalf.

[9] A bond company is not required to answer this section.

	d.	The majority required for amending these provisions in the articles of association: _____.		
8.		The corporation has a training plan for new directors, in the field of the corporation's business and in the field of the law applicable to the corporation and the directors, as well as a continuing plan for the training of incumbent directors, which is adjusted, *inter alia*, to the position held by the director in the corporation. If your answer is "Correct" - state whether the plan was implemented in the report year: x **Yes** □ No (check the appropriate box)	ü	
9.	a.	The corporation determined a required minimum number of directors on the board who must have accounting and financial expertise. If your answer is "Correct" – state the minimum number which was determined: 1 (apart from the outside director having accounting expertise).	ü	
	b.	Number of directors holding office in the corporation during the report year - Having accounting and financial expertise[10]: 4. Having professional qualification: 4. If there were changes in the number of directors as aforesaid in the report year, provide the figure of the lowest number (other than in the 60-day period from the change) of directors of any kind who held office in the report year.	ü	
10.	a.	Throughout the report year, the composition of the board included members of both genders. If your answer is "Incorrect" – state the period (in days) in which the aforesaid was not met: _____. In this question, you may answer "Correct" if the period in which directors of both genders did not hold office does not exceed 60 days. However, in any answer (Correct/Incorrect), state the period (in days) in which directors of both genders did not hold office in the corporation: 0.	ü	
	b.	Number of directors of each gender holding office on the board of the corporation as of the date of publication of this questionnaire: Men: 4 Women: 4.		
Board Meetings				
			Correct	**Incorrect**
11.	a.	Number of board meetings held during each quarter in the report year: Q1:6. Q2:5. Q3:3. Q4:1.		

[10] After the board's estimation, in accordance with the provisions of the Companies Regulations (Conditions and Tests for Directors Having Accounting and Financial Expertise and Directors with Professional Qualifications), 5766-2005.

b. Alongside each of the names of the directors holding office in the corporation during the report year, state their participation rate[11] in the board meetings (in this subsection - including meetings of the board committees of which they are members, and as stated below) held during the report year (in reference to his term of office):

(Add extra lines according to number of directors)

Name of Director	Rate of Participation in the Board Meetings (15 meetings)	Rate of Participation in the Meetings of the Audit Committee[14] (8 meetings)	Rate of Participation in the Meetings of the Financial Statements Review Committee[13] (5 meetings)	Rate of Participation in Meetings of Compensation Committee[12] (2 meetings)	Rate of Participation in Meetings of Additional Board Committees of which he is a Member (state the committee's name)
Danna Azrieli	15/15	----	----	----	----
Naomi Azrieli	15/15	----	----	----	----
Sharon Azrieli	15/15	----	----	----	----
Joseph Ciechanover	15/15	8/8	4/5	2/2	Enforcement Committee - 2/2
Oran Dror (commencing from November 18, 2014)	15/15	8/8	5/5	2/2	----
Niv Ahituv	15/15	8/8	5/5	2/2	Enforcement Committee - 2/2
Efraim HaLevy	15/15	8/8	5/5	2/2	Enforcement Committee - 2/2
Tzipora Carmon	15/15	8/8	5/5	2/2	Enforcement Committee - 2/2

[11] See footnote 9.
[12] With regard to a director who is a member of this committee.
[13] With regard to a director who is a member of this committee.
[14] With regard to a director who is a member of this committee.

12.	.	In the report year, the board held at least one deliberation on the management of the corporation's business by the CEO and the officers reporting to him, in their absence, and they were afforded the opportunity to express their position.	ü	
Separation between the Positions of the CEO and the Chairman of the Board				
			Correct	**Incorrect**
13.	.	Throughout the entire report year, a chairman of the board held office in the corporation. In this question, you may answer "Correct" if the period in which a chairman of the board did not hold office in the corporation does not exceed 60 days, as provided in Section 363A(2) of the Companies Law). However, in any (Correct/Incorrect) answer, state – The period (in days) during which there was no chairman of the board holding office in the corporation as aforesaid: _____.	ü	
14.	.	Throughout the entire report year, a CEO held office in the corporation. In this question, you may answer "Correct" if the period during which there was no acting CEO in the corporation does not exceed 90 days as provided in Section 363A.(6) of the Companies Law, however, in any (Correct/Incorrect) answer, state the period (in days) during which there was no CEO holding office in the corporation as aforesaid: _____.	ü	
15.	.	In a corporation in which the chairman of the board also serves as the CEO of the corporation and/or exercises his powers, the dual office was approved in accordance with Section 121(c) of the Companies Law[15]. x Irrelevant (insofar as such dual office does not exist in the corporation).		
16.		The CEO is not a relative of the chairman of the board.	ü	
17.	.	A controlling shareholder or his relative do not serve as the CEO or as a senior officer in the corporation, other than as a director.	ü	

[15] In a bond company – an approval pursuant to Section 121(d) of the Companies Law.

The Audit Committee					
				Correct	**Incorrect**
18.		The following did not hold office in the audit committee during the report year -			
		a.	The controlling shareholder or his relative.	ü	
		b.	The chairman of the board.	ü	
		c.	A director who is employed by the corporation or by the controlling shareholder of the corporation or by a corporation controlled by him.	ü	
		d.	A director who regularly provides services to the corporation or to the controlling shareholder of the corporation or a corporation controlled by him.	ü	
		e.	A director whose primary livelihood depends on the controlling shareholder.	ü	
19.		No one who is not entitled to be a member of the audit committee, including a controlling shareholder or his relative, was present, in the report year, in the audit committee meetings, other than pursuant to the provisions of Section 115 (e) of the Companies Law.		ü	
20.		The Legal quorum for deliberation and adoption of resolutions in all of the audit committee's meetings held during the report year was a majority of the committee members, where the majority of the attendees were independent directors and at least one of them was an outside director. If your answer is "Incorrect" - state the rate of the meetings in which the said requirement was not met: _____.		ü	
21.		In the report year, the audit committee held at least one meeting in the presence of the internal auditor and the outside auditor, and in the absence of officers of the corporation who are not members of the committee, regarding deficiencies in the business management of the corporation.		ü	was held on February 2, 2014, and with the internal auditor on February 16, 2014, while the previous discussion was held on December 31, 2012)

22.		In all of the audit committee's meetings in which a person who is not entitled to be a committee member was present, it was with the approval of the chairman of the committee and/or at the request of the committee (regarding the general counsel and secretary of the corporation who is not a controlling shareholder or his relative).	ü	
23.		In the report year, there were valid arrangements which were set forth by the audit committee regarding the manner of handling complaints of employees of the corporation in relation to flaws in the management of its business and with regard to the protection that will be provided to employees who complained as aforesaid.	ü	
24.		The audit committee (and/or the Financial Statements Review Committee) is satisfied that the scope of work of the auditor and his fee with respect to the financial statements in the report year were appropriate for the performance of proper audit and review work.	ü	

The Duties of the Financial Statements Review Committee (hereinafter - FSRC) in its Preliminary Work for the Approval of the Financial Statements					
				Correct	**Incorrect**
25.					
		a.	State the period (in days) prescribed by the board of directors as reasonable time for delivery of the committee's recommendations in contemplation of the board's deliberation for the approval of the financial statements: 2 business days apart from cases in which it is otherwise determined under the circumstances.		
		b.	The number of days actually elapsed between the date of delivery of the recommendations to the board and the date of the board's deliberation for the approval of the financial statements : Q1 statement (for 2015): 2 business days. Q2 statement: 2 business days. Q3 statement: 2 business days. Annual Statement: 2.		
		c.	The number of days elapsed between the date of delivery of the draft financial statements to the directors and the date of the board's deliberation for the approval of the financial statements : Q1 statement (2015): 6 days.		

			Q2 statement: 6 days. Q3 statement: 5 days. Annual statement: 5 days.		
26.		The Corporation's outside auditor was invited to all of the FSRC and board meetings, in which the financial statements of the corporation referring to periods included in the report year were deliberated.		ü	
27.		All of the conditions specified below were fulfilled at the FSRC throughout the entire report year and until the release of the annual statement:			
	a.	The number of its members was not less than three (on the date of the deliberation by the FSRC and approval of the statements as aforesaid).		ü	
	b.	All of the conditions specified in Section 115 (b) and (c) of the Companies Law (in respect of the office of audit committee members) were met thereby.		ü	
	c.	The chairman of the FSRC is an outside director.		ü	
	d.	All of its members are directors and most of its members are independent directors.		ü	
	e.	All of its members have the ability to read and understand financial statements and at least one of the independent directors has accounting and financial expertise.		ü	
	f.	The members of the FSRC provided a statement prior to their appointment.		ü	
	g.	The legal quorum for discussion and decision making on the FSRC was the majority of its members provided that most of those present were independent directors including at least one outside director.		ü	

Compensation Committee				
			Correct	**Incorrect**
28.		In the report year, the FSRC consisted of at least three members and the outside directors constituted a majority therein (on the date of the deliberation by the FSRC).	ü	
29.		The terms of office and employment of all of the members of the compensation committee in the report year are in accordance with the Companies Regulations (Rules on Compensation and Expenses for an Outside Director), 5760-2000.	ü	
30.		The following did not hold office in the compensation committee during the report year -	ü	
ae.	a.	The controlling shareholder or his relative.	ü	
	b.	The chairman of the board.	ü	
	c.	A director who is employed by the corporation or by the controlling shareholder of the corporation or by a corporation controlled by him	ü	
	d.	A director who regularly provides services to the corporation or to the controlling shareholder of the corporation or a corporation controlled by him.	ü	
	e.	A director whose primary livelihood depends on the controlling shareholder.	ü	
31.		In the report year, a controlling shareholder or his relative did not attend meetings of the compensation committee, unless the chairman of the board determined that any one of them is required in order to present a specific issue.	ü	
32.		The compensation committee and the board did not exercise their power pursuant to Sections 267A(c), 272(c)(3) and 272(C1)(1)(c) to approve a transaction or compensation policy, despite the objection of the general meeting.	ü	
Internal Auditor				
33.		The chairman of the board or the CEO of the corporation is the organizational supervisor of the internal auditor in the corporation.	ü	
34.		The chairman of the board or the audit committee approved the work plan in the report year. In addition, specify the audit issues addressed by the internal auditor in the report year: In the year of the report, as in every year, the audit plan was preapproved by the audit committee and the board of directors of the Company, and as of the Report Release Date, the internal auditor has completed the reports according to plan, including on financial, operational and corporate governance issues.	ü ü	

35.		Scope of employment of the internal auditor in the corporation in the report year (in hours[16]): According to the specification in Section 6 of Chapter E of the annual report above. In the report year a deliberation was held (by the audit committee or the board) on the internal auditor's findings.	ü	
36.		The internal auditor is neither an interested party in the corporation, nor its relative, auditor or another on its behalf, nor maintains material business ties with the corporation, its controlling shareholder, relative or corporations controlled thereby.	ü	
Transactions with Interested Parties				
			Correct	**Incorrect**
37.		The controlling shareholder or his relative (including a company controlled by him) is neither employed by the corporation nor provides management services thereto.		ü
		If you answer is "Incorrect" (i.e. the controlling shareholder or his relative is employed by the corporation or provides management services thereto) state - - The number of relatives (including the controlling shareholder) employed by the corporation (including companies controlled by them and/or through management companies): 1 (Ms. Danna Azrieli). - Have the agreements for such employment and/or management services been approved by the organs specified in the law: x Yes (the management agreement with Ms. Danna Azrieli, who serves as the Company's Active Chairman of the Board, was approved by the compensation committee, the board of directors and the general meeting of the Company held in December 2014). □ No		
38.		To the best knowledge of the corporation, the controlling shareholder does not have other businesses in the operating segment of the corporation (in one or more segments). If your answer is "Incorrect" - state whether an arrangement was prescribed to define activities between the corporation and the controlling shareholder thereof: x Yes Annex A to the management agreement with Ms. Danna Azrieli, a controlling shareholder serving as Chairman of the Board of the Company, is an undertaking for definition of business. □ No		ü

Chairman of the Board:	Ms. Danna Azrieli	**Chairman of the Audit Committee:**	Efraim Halevy	**Chairman of the FSRC:**	Prof. Niv Ahituv

[16] Including working hours invested in held companies and in auditing overseas, and as the case may be.

Azrieli Group

Part F

Effectiveness of Internal Control over the Financial Reporting and Disclosure

Attached hereto is an annual report on the effectiveness of internal control over financial reporting and disclosure pursuant to Regulation 9B(a) for 2015:

The management, under the supervision of the Board of Directors of Azrieli Group Ltd. (the "Corporation"), is responsible for setting and maintaining proper internal control over financial reporting and disclosure at the Corporation.

For this purpose, the members of management are:

1. Yuval Bronstein, CEO;

2. Irit Sekler-Pilosof, CFO;

3. Michal Kamir, General Counsel and the Company Secretary;

4. Yair Horesh, Chief Comptroller for Accounting and Financial Statements.

Internal control over financial reporting and disclosure consists of controls and procedures existing at the Corporation, designed by, or under the supervision of, the CEO and the most senior financial officer, or by anyone actually performing such functions, under supervision of the Board of Directors of the Corporation, which are designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the reports according to the provisions of the law, and to ensure that information which the Corporation is required to disclose in reports released thereby according to the law is gathered, processed, summarized and reported within the time frames and in the format set forth by the law.

Internal control includes, *inter alia*, controls and procedures designed to ensure that information which the Corporation is thus required to disclose, is gathered and transferred to the management of the Corporation, including the CEO and the most senior financial officer, or anyone actually performing such functions, in order to enable the timely decision making in reference to the disclosure requirement.

Due to its inherent limitations, internal control over financial reporting and disclosure is not designed to provide absolute assurance that misrepresentation or omission of information in the reports is avoided or discovered.

The management, under the supervision of the Board of Directors, carried out an examination and evaluation of internal control over financial reporting and disclosure at the Corporation, and the effectiveness thereof. The evaluation of the effectiveness of internal control over financial reporting and disclosure carried out by the management under the supervision of the Board of Directors included: .

- Mapping and documentation of the controls and identification of the very material processes at the Company and at the main consolidated companies according to the reporting risks, in respect of each of the Company or the main consolidated companies, as the case may be.

  The processes which were defined as very material are: in the Company: revenues from rent in investment property, investment property; in Sonol: the revenues from sales and the trade receivables processes.

- Examination of the actual performance and documentation of the controls defined in the control processes on the organization level (ELC), the information systems (ITGC), the financial statements preparation process and the processes which were identified as very material to the financial reporting and disclosure.

- General evaluation of the internal control effectiveness.

Based on the effectiveness evaluation performed by the management with the supervision of the Board of Directors as specified above, the Board of Directors and management of the Corporation reached the conclusion that internal control over financial reporting and disclosure in the Corporation, as of December 31, 2015 is effective.

Attached please find the statements of the CEO and the CFO, who is responsible for the financial reporting in the Company.

Date: March 22, 2016

Statement of Managers:

Statement of CEO pursuant to Regulation 9B(d)(1):

I, Yuval Bronstein, represent that:

1. I have reviewed the periodic report of Azrieli Group Ltd. (the "Corporation") for the year 2015 (the "Reports").

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

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

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

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

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

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

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

    b. Have set controls and procedures, or confirmed that such controls and procedures have been set and maintained under my supervision, which are designed to reasonably ensure reliability of financial reporting and

preparation of the Financial Statements in conformity with the provisions of the law, including in conformity with GAAP.

c. Have evaluated the effectiveness of internal control over financial reporting and disclosure and presented in this report the conclusions of the Board of Directors and management with regard to the effectiveness of internal control as aforesaid as of the date of the Reports.

The aforesaid does not derogate from my responsibility or from the responsibility of any other person, pursuant to any law.

March 22, 2016

_____

Yuval Bronstein, CEO

Statement of Managers:

Statement of the most senior financial officer pursuant to Regulation 9B(d)(2):

I, Irit Sekler-Pilosof, represent that:

1. I have reviewed the Financial Statements and other financial information included in the reports of Azrieli Group Ltd. (the "Corporation") for year 2015 (the "Reports");

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

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

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

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

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

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

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

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

c. Have evaluated the effectiveness of internal control over financial reporting and disclosure, insofar as it relates to the Financial Statements and the other financial information included in the Reports, as of the date of the Reports. My conclusions in respect of my evaluation as aforesaid were presented to the Board of Directors and management and are incorporated in this Report.

The aforesaid does not derogate from my responsibility or from the responsibility of any other person, pursuant to any law.

March 22, 2016

_____

Irit Sekler-Pilosof , CFO