Azrieli Group Ltd.

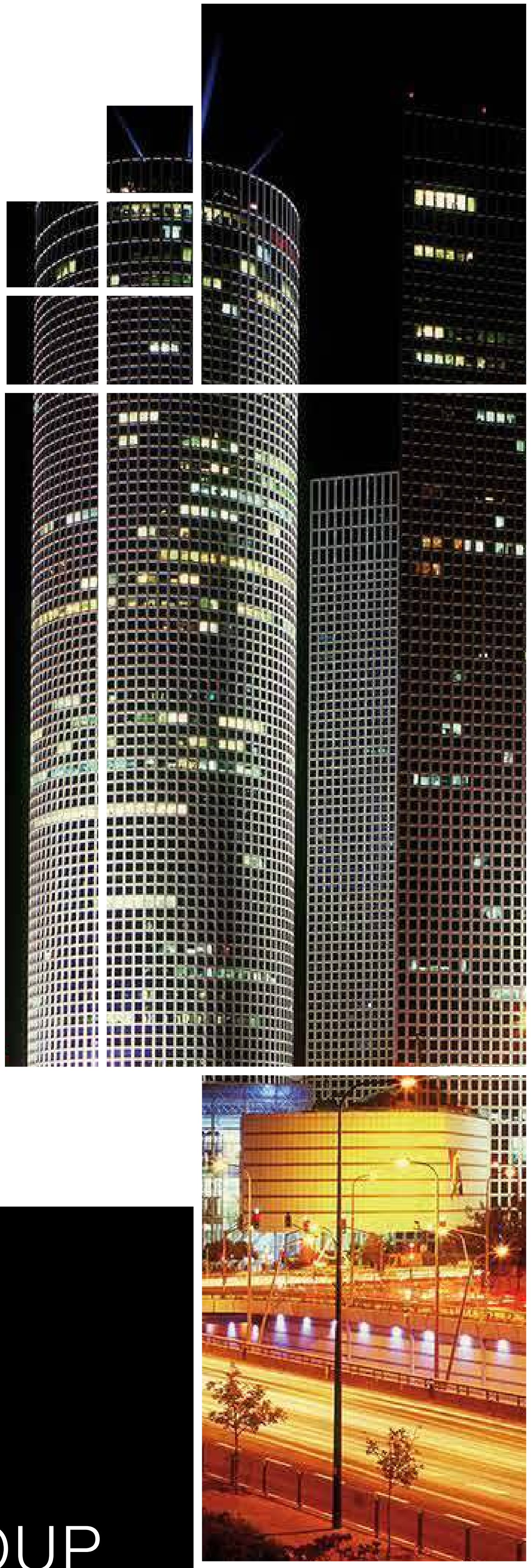
Quarterly Report
Q2/2017
Dated 30 June 2017

Part A Board Report

Part B Update of the Description of the Corporation's Business

Part C Consolidated Financial Statements Dated 30 June 2017

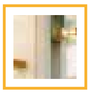
Part D Effectiveness of Internal Control over the Financial Reporting and Disclosure



AZRIELI GROUP

Part A

Board Report



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Azrieli Group Ltd.
Board of Directors' Report on the State of the Company's Affairs for the six months and three months ended June 30, 2017

The board of directors of Azrieli Group Ltd. ((the "**Company**"); the Company together with all corporations directly and/or indirectly held thereby shall hereinafter be referred to as: the "**Group**" or "**Azrieli Group**") hereby respectfully submits the Board of Directors' Report for the six months and three months ended June 30, 2017 (the "**Report Period**" and the "**Quarter**" respectively), pursuant to the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "**Regulations**").

The review that shall be presented below is limited in scope and refers to events and changes which occurred in the state of the Company's affairs in the Report Period, whose effect is material, and should be inspected together with the Description of the Corporation's Business Chapter in the periodic report for December 31, 2016, the Financial Statements and the Board of Directors' Report on the state of the Company's affairs for the year ended on the same date (the "Periodic Report for 2016") and the update to the Corporation's Business Chapter and the Financial Statements for June 30, 2017.

Extended standalone statement – the income-producing property business

The Company's management acknowledges the importance of transparency to the investors, the shareholders, the bondholders and analysts and deems all of the above as its partners. Therefore, the Company had decided to adopt a policy whereby, in the Company's Board of Directors' Report, disclosure shall be made regarding a summary of extended standalone financial statements of the Company, i.e. a summary of the Company's balance sheets and income statements on a consolidated basis, presented according to the IFRS, except for the Company's investments in Granite Hacarmel Investments Ltd. ("Granite" or "Granite Hacarmel") and in Azrieli E-Commerce Ltd.[1] ("Azrieli E-Commerce"), which are presented based on the book value instead of the consolidation of their statements with the Company's statements (the other investments are presented with no change from the statement presented according to the IFRS). The Company's management believes that this Report adds considerable information which helps to understand the large contribution of the real estate business to the total profit of the Company, while excluding material items of the Consolidated Financial Statements, deriving from the consolidation of Granite Hacarmel and Azrieli E-Commerce, such as trade accounts receivable, inventory, sales etc. The extended standalone statement is attached hereto as Annex B. This Report is not audited or reviewed by the Company's auditors.

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[1] Formerly Netex New Media Ltd., a company acquired by the Company in the framework of a transaction for the purchase of an e-commerce business.

Highlights for the Quarter and Half-Year ended June 30, 2017 until the Report Release Date(*)

Improvement in NOI in the Quarter compared with the corresponding quarter

- An increase of approx. 7% in NOI (approx. NIS 343 million) compared with the same quarter last year (approx. NIS 321 million).

Improvement in same-property NOI in Israel in the Quarter compared with the corresponding quarter

- An increase of approx. 2% in same-property NOI in Israel compared with the corresponding quarter (see Section 1.3.3 below).

FFO from income-producing property operations

- An increase of approx. 11% in FFO in the Quarter (NIS 258 million), which is attributed to the income-producing property operations (see Section 1.3.5 below).

Net Profit

- Net profit in the Quarter was approx. NIS 641 million, compared with a net profit of approx. NIS 244 million in the same quarter last year.

Comprehensive Income

- Comprehensive income of approx. NIS 648 million in the Quarter, compared with comprehensive income of approx. NIS 270 million in the same quarter last year.

Business Development and Enterprise

- In the Report Period, the Company invested approx. NIS 660 million in development, the construction of new properties and the upgrade and betterment of existing properties (see Section 1.3.1 below).
- Construction of the Rishonim project has been completed, and in March 2017 the mall was opened to the public and lease-up of the offices in the project begun.
- Construction of the Azrieli Sarona Office Tower project has been completed, and as of the Report Date lease-up of the offices in the project begun.

(*) In the above highlights, the Company included the main issues specified in this Report below. With respect to forward-looking information, including in respect of the progress of projects under development, see Section 1.3.1 below.

1. The Board’s explanations for the state of the corporation's business

1.1 Key Data from the Description of the Corporation’s Business

Summary of the Group's operating segments as of the Report Date

As of the Report Date, the Group's business activity focuses on the various real estate sectors, while the majority 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 segment both in Israel and overseas. The Group also operates in the senior housing segment, in the Granite segment (which mainly includes activities in the fields of marketing of alternative energy resources, treatment of water, wastewater and chemicals) and the Group has other activities of e-commerce and minority holdings in financial corporations.

As of the Report Release Date, the Company reports five business segments to the public:

☒ **The Retail Centers and Malls in Israel Segment** – The Company has 17 malls and retail centers in Israel, with a total leasable area of approx. 331 thousand sqm leased to approx. 1,900 tenants;

☒ **Office and Other Space for Lease in Israel Segment** – The Company has 13 income-producing properties in this segment in Israel, with a total leasable area of approx. 539 thousand sqm leased to approx. 580 tenants;

☒ **Income-Producing Properties Segment in the U.S.**[2] – The Company has 7 income-producing properties in this segment, with a total leasable area of approx. 199 thousand sqm (consolidated) and approx. 189 thousand sqm (the Company’s share) leased to approx. 250 tenants;

☒ **Senior Housing Segment** – The Company has 2 active senior homes of a built-up above-ground area of approx. 49 thousand sqm which include approx. 559 senior housing units, and three projects under development and construction for the construction of approx. 840 residential units of a total area of approx. 107 thousand sqm;

☒ **Granite Segment** – The Company holds through Granite Hacarmel 100% of the rights in Supergas Israeli Gas Distribution Company Ltd. ("**Supergas**") which engages in the marketing of energy substitutes; and 100% (through Granite Hacarmel) of GES Global Environmental Solutions Ltd. ("**GES**") which engages in the treatment of water, wastewater and chemicals.

[2] The “Company’s share” – net of minority holdings in certain companies.

<u>The average occupancy rates in the income-producing properties as of the Report Release Date</u>:

- ☒ The retail centers and malls in Israel segment: approx. 97%;
- ☒ The office and other space for lease in Israel segment: approx. 99%[3];
- ☒ The income-producing property in the U.S. segment: approx. 82%[4];
- ☒ The senior housing segment in Israel: approx. 100%;

<u>Additional operations</u>:

- ☒ The e-commerce business – see below a specification regarding the e-commerce business;
- ☒ Financial investments[5] - an investment in Bank Leumi Le-Israel Ltd. and in Leumi Card Ltd. See below changes in investments in the Report Period (NIS in millions):

	Investment value in the financial statements as of December 31, 2016	Investments (sale proceeds) during the six months ended June 30, 2017	Total investment as of June 30, 2017 before adjustment to changes in fair value during the Report Period	Fair value* of the investment as presented in the financial statements as of June 30, 2017	Change in fair value in the Report Period	Dividend received in the Report Period
Investment in Bank Leumi Le-Israel Ltd. (*)	1,040	(16)	1,024	1,096	72	4
Investment in Leumi Card Ltd. (**)	562	]-	562	562	-	10
Total	1,602	(16)	1,586	1,658	72	14

*Fair value of the investment in Bank Leumi Le-Israel is determined according to the value of the stock on the Stock Exchange as of June 30, 2017.

**Fair value of the investment in Leumi Card is determined by an independent valuator, according to the valuation as of December 31, 2016. For the consideration received from the sale of Visa Europe see Note 3C to the Financial Statements (Part C of the Report).

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[3] Excluding the 2 buildings of Phase B in the Azrieli Holon Center, which were opened in late-2015 and at the end of Q1/2016 and are in lease-up stages and the offices in the Rishonim and Sarona projects, which were opened during the Report Period.

[4] In view of the conclusion of a contract with a tenant which held approx. 18.5 thousand sqm (approx. 10% of the space of the operating segment in the U.S.) in one of the office towers in Houston. As of the Report Date, part of the space has been leased and the Company is conducting negotiations with several entities for the lease of the remaining space.

[5] In addition, the Company has negligible investments in venture capital companies, startups and investment funds as specified in the 2016 periodic report.

<u>Development of income-producing properties</u> - As the Company has reported in the past, the Company is focusing on its core business of real estate. The Group's main growth engine is the development of income-producing property projects: malls, offices, income-producing properties in the U.S. and senior housing. As of the Report Date, the Company has 8 projects at various stages of development in Israel.

During Q2/2017, the Azrieli Sarona project in Tel Aviv received a habitation certificate ([sic] for the office tower. The Azrieli Sarona project includes an office tower with a leasable area of approx. 118,000 sqm, the construction of which ended in Q2/2017, and a boutique mall with an area of approx. 10,500 sqm, whose construction is expected to be completed in 2018. As of the Report Release Date, the project is in advanced marketing stages, in respect of approx. 95% of the leasable office space, contracts (some of which include an option for the lease of additional space) were signed and/or advanced stage drafts were exchanged (while with respect to approx. 90% there are signed contracts including options). In addition, in relation to approx. 85% of the leasable retail space, lease agreements have been signed and/or advanced-stage drafts have been exchanged.

On the Report Date, the Company has completed the construction of the office tower and mall in Azrieli Rishonim in Rishon LeZion, and in March 2017 the mall was opened to the general public and lease-up of the office tower has begun. The project is located in proximity to Route 431 and to the Rishonim railway station which allows for high accessibility to the complex. As of the Report Release Date, lease agreements have been signed or advanced-stage drafts exchanged regarding approx. 85% of the leasable office space in the project (contracts have been signed in relation to approx. 75% of the leasable office space).

An additional project to be constructed on the artery of Menachem Begin North, close to the Azrieli towers, is the Azrieli Town project. On August 31, 2016, the Company received possession of this lot and its construction is expected to be completed in 2020. As of the Report Release Date, the Company has signed agreements to lease approx. 26 thousand sqm of office space in the project, constituting more than one half of the leasable office space in the project. In addition, the Company has several additional projects at development and construction stages: expansion of the Azrieli Tel Aviv mall and the construction of a fourth tower for the Azrieli Tel Aviv center on the land which the Company purchased from Yediot Aharonot and which was handed over to the Company's possession in March 2016. In March 2017, the Company began the demolition of the building on the land. In addition, in Holon the Company purchased a number of plots of land for the development of the industrial and commercial area, close to the Azrieli Holon center. In the senior housing segment, the Company has three plots of land at various development stages (see further details below).

For details and updates with respect to the projects under construction, see Section 1.3.1 below and Section 4 of Chapter B of the Report (Update of the Description of the Corporation’s Business as of June 30, 2017).

Betterment of properties – The Company acts for the promotion and betterment of existing properties, including by way of the addition of retail space and leasable office space.

Senior Housing - As the Company has reported in the past, the Company from time to time looks into expanding its business, including entry into related real estate sectors. Thus, in 2014, the Company began to develop the senior housing segment, with the purchase of land for senior housing in Modi'in. The Company currently has two active senior homes: Palace Tel Aviv, which was purchased in 2015, and Palace Ra'anana (formerly Ahuzat Bayit, Ra'anana), whose purchase was closed in Q2/2016. In addition, the Company has three projects under development and construction for the construction of approx. 840 residential units of a total area of approx. 107 thousand sqm.

Expansion of the overseas office sector - As a development company, the Company from time to time examines growth targets for the expansion of its business, and explores opportunities, *inter alia* for the purchase of income-producing property and land for development also overseas.

eCommerce business – Further to the Company's reports whereby it is continuing to look into business opportunities in connection with expansion of its business to additional segments which are in line with its business strategy, while gaining a foothold in the world of digital commerce which is gaining momentum in Israel and worldwide and creation of an additional growth engine, with the aim of creating a consumer experience, concurrently with the development of its core business in traditional commerce, the Company purchased business in the field of electronic commerce (eCommerce) from Buy2 Networks Ltd.

*The Company's estimates stated in this section, inter alia in connection with the dates for completion of the construction and the scopes of the projects, are forward-looking information, as defined in the Securities Law, 5728-1968 (the "**Securities Law**"), which is based on subjective estimates of the Company as of the Report Date, and there is no certainty that they will materialize, in whole or in part, or they may materialize in a materially different manner, inter alia due to factors beyond its control, including changes in market conditions, changes in the Company's plans, the time that shall be required for approval of the building plan for construction.*

1.2 Business Environment – Income Producing Real Estate Operation

In the estimation of the Company's Board, no material change has occurred in the business environment in which the Group operates, as described in the Board of Directors' Report as of December 31, 2016, except as specified below. The indicators of the economic activity in Q1/2017 show that the Israeli market is continuing to grow. The unemployment rate is low at approx.

4.5% in June 2017. In the income-producing property sector in Israel, stability has been preserved both in terms of demand and in terms of rental prices and the occupancy rate, further to the trend that characterized 2016. The (known) CPI increased by approx. 0.7% in the first half of 2017 and increased by approx. 0.9% in Q2/2017. The Bank of Israel interest rate remained unchanged in the first six months at 0.1%. The Prime interest rate is 1.6%.

The Company's management estimates that the broad dispersion of the portfolio of properties owned thereby, the active current management and maintenance of the properties, their being located mainly in high-demand areas, the high business positioning of the properties and the Company's investments in the betterment of its properties to maintain such advantage, the high occupancy rates, the broad range of businesses existing in the malls and retail centers of the Group, the suitable mix of businesses and the stable capital structure of the Company contribute to reducing the scope of the exposure of the Group's business to significant crisis and/or instability due to the materialization of any of the Company's risk factors.

The Company's above estimations regarding changes in the income-producing property in Israel sector and their effect on the Company's results are merely subjective estimations and constitute forward-looking information within the definition of the term in the Securities Law. Actual effects and results may materially differ from the aforesaid estimations and what they imply, for various reasons, including the further intensification of competition, a decline in demand and a deterioration of the economic situation in Israel.

1.3 Summary of Developments in and after the Report Period, until the Release Date

Financing transactions

Date	Financing Type	Total Amount Raised (NIS in millions)	Nominal Annual Interest Rate	Duration as of the Date of the Expansion	Collateral	Comments
March 2017	Expansion of the Series B bond series	Approx. 223	0.65	4.4	None	According to a shelf offering report published on March 29, 2017 (Ref.: 2017-01-032703), published under the Company's shelf prospectus that was published on May 11, 2016 (Ref.: 2016-01-063049). For further details regarding the Series B-D bonds, see Note 3B to the Financial Statement for June 30, 2017.
March 2017	Expansion of the Series C bond series	Approx. 182	1.64	5.5	None	
March 2017	Expansion of the Series D bond series	Approx. 960	1.34	6.8	None	

Senior officers

On March 21, 2017, Mr. Gali Gana ended his term of office as the Company's Internal Auditor, and in his stead the Company's Board appointed Mr. Moshe

Cohen to the position.

On May 23, 2017, Mr. Menachem Einan, a regular director, was appointed as a member of the Audit, Compensation and Enforcement Committees of the Board of Directors.

In August 2017, Mr. Dor Lev-Ran, the VP Engineering and Construction, notified of his intention to end his office at the Company. The Company will report the termination of his office as required by law.

Receipt of a tax assessment

On December 5, 2016, the Tax Authority issued, for the Company and Canit Hashalom, tax assessments to the best of judgment (the "**Assessment**") in a total sum of approx. NIS 170 million for 2011-2014 (inclusive). It is noted that a tax liability is included in the Company's financial statements in respect of parts of the sum of the Assessment[6]. The Company disputes the positions of the Tax Authority and believes, *inter alia*, in reliance on its professional advisors, that it has sound claims against these positions, and therefore filed, in January 2017, an objection to the Assessment.

For details regarding the Company's strategy and the forecast for its activity, see Sections 26 and 27 of Chapter A of the Periodic Report for 2016 which was published on March 22, 2017 (Ref.: 2017-01-026958).

* * *

As previously reported, the Company is conducting initial contacts only with several entities in Israel and overseas, further to its reports in the 2016 Periodic Report, concerning business opportunities within the Company's business areas or the disposition of holdings that are not in its core business, which are not certain to mature into negotiations. The Company shall report in the future, insofar as there shall be developments which shall require reporting pursuant to law. As of the Report Release Date, there are no short-term plans which deviate from the Company's ordinary course of business and which may have material repercussions on the Company's business and results.

[6] For details, see the Company's immediate report of December 6, 2016 (Ref.: 136948-01-2016), included herein by way of reference.

1.3.1 Developments in enterprise and development

As of the date of this Report, the Company is acting for the development of several properties under construction, as specified below.

Following is a summary of the data regarding properties under construction and expansions as of June 30, 2017

Name of Property	Location	Purchase Date	Usage	Holding Rate	Land Area (sqm)	Marketable Space (sqm)	Construction Commencement Date	Estimated Completion Date	Project Value in the Company's Books as of June 30, 2017 (NIS in millions)	Cost Invested (excluding discounting and tenant fit-out) as of June 30, 2017 (NIS in millions)	Estimated Construction Cost, including Land (NIS in millions)
Azrieli Sarona	Tel Aviv	May 2011	Retail	100%	9,400	10,500	May 2012	Y2018	308	317	330-340
Palace Modi'in Senior Housing	Modi'in	June 2014	Senior Housing	100%	10,500	35,000*	April 2015	Y2018	245	220	360-370
Azrieli Town(1)	Tel Aviv	October 2012	Retail, Offices and Residential	100%	10,000	75,000	September 2016	Y2020	502	313	1,060-1,110
Palace Lehavim senior housing	Lehavim	December 2014	Senior Housing	100%	28,300	Phase A – 32,000* Phase B – 12,000	August 2016	Phase A - Y2019 Phase B – To be determined	43	41	380-390
Expansion of Azrieli Tel Aviv center(2)	Tel Aviv	May 2013	Retail, Offices and Residential	100%	8,400	69,000	September 2016 **	To be determined	606	415	1,000-1,050
Holon Manor land	Holon	Feb. 2015	Retail and Offices	100%	6,200	28,000	August 2017	Y2020	34	37	220-240

Property in Holon Industrial Zone - Lodzia(3)	Holon	April 2016	Retail and Offices	100%	59,200	220,000	December 2017 (estimated)	To be determined	327	348	To be determined
Rishon Lezion Senior Housing Land	Rishon Lezion	March 2016	Senior housing and retail	100%	3,400	*28,750	To be determined	To be determined	50	50	310-320
Total						510,250			2,115	1,741	

(1) The data presented relate to the existing zoning plan for the land. As of the Report Release Date, the Company is promoting a zoning plan for the addition of rights for offices and residences.
(2) The data presented relate to the existing zoning plan for the land. As of the Report Release Date, the Company in promoting a zoning plan for the addition of rights for retail, offices, hotels, residences and senior housing at a scope of above-ground building rights of approx. 147,260 sqm (gross) and in addition, 3,000 sqm of underground main retail space.
(3) Includes another plot of land (approx. 6,200 sqm, and in relation thereto marketing areas of approx. 27,000 sqm) originally purchased in an ILA tender, which constituted part of the Holon Manor land.
(*) The figure constitutes the scope of the building rights in sqm. With respect to the Rishon Lezion senior housing land, the figure includes an area of approx. 3,000 sqm for retail.
(**) In March 2017, the work for demolition of the building begun.

During the Report Period, the Company continued the work on development and construction of its properties specified above, and obtaining the approvals required for the continued development thereof, according to the planned timetables and without significant delays. In addition, progress was made in negotiations for the lease of the space under construction, in relation to dozens of thousands of sqm. For further details, see Sections 4-5 of Chapter B of this Report.

The Company's estimates stated in this Section 1.3.1, including the above table, 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 under construction or the outcome of administrative and legal proceedings are forward-looking information as such term is defined in the Securities Law, 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 in prices of construction inputs.

1.3.2 NOI (Net Operating Income) index[7]

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, from the income-producing property in the USA segment and the senior housing segment.

NIS in millions	For the three months ended		For the six months ended		For the year ended
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	December 31, 2016
Retail centers and malls in Israel	207	193	405	383	779
Growth rate	7%		6%		
Office and other space for lease in Israel	95	92	190	183	369
Growth rate	3%		4%		
Income-producing property in the USA	30	30	62	59	124
Growth rate	-		5%		
Senior housing	11	6	21	12	29
Growth rate	83%		75%		
Total NOI	**343**	**321**	**678**	**637**	**1,301**
Growth rate	**7%**		**6%**		

1.3.3 Same property NOI Index[8]

NIS in millions	For the three months ended		For the six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Retail centers and malls in Israel segment	195	191	388	381
Office and other space for lease in Israel segment	94	92	189	183
Income-producing property in the US segment	27	30	56	59
Senior housing segment	7	6	13	12
Total	**323**	**319**	**646**	**635**
Growth rate	**1%**		**2%**	

[7] As stated in the Board of Directors' Report as of December 31, 2016, the NOI figure (which is unaudited) is one of the most important parameters in valuations of income-producing property companies and the measurement of the free cash flow available for service of financial debt that was taken to finance the acquisition of the property (after offsetting current maintenance costs to preserve the status quo).

[8] Same property NOI – NOI from same properties which were held by the Group throughout all of the reported periods.

Development of actual same property NOI, per quarters (NIS in millions):

	Y2017		Y2016		
	Q2	**Q1**	**Q4**	**Q3**	**Q2**
Same property NOI in all periods (*)	323	326	327	320	319
NOI from properties acquired/launched	20	12	11	8	2
NOI from properties sold during the period	-	-	-	-	-
Total NOI for the period	**343**	**338**	**338**	**328**	**321**

(*) Same-property NOI includes the figures for Azrieli Holon Center, which has been under lease-up during all periods and lease-up of which has not yet been completed.

1.3.4 Weighted cap rate

Following is a calculation of the weighted cap rate derived from the entire income-producing property (excluding senior housing[9]) of the Group as of June 30, 2017**:**

	NIS in millions
Total Investment property in the "Extended Standalone" Statement (See Annex B) (*)	24,740
Net of value attributed to investment property under construction	(1,685)
Net of the value attributed to land reserves	(467)
Net of the value attributed to income-producing senior housing	(1,134)
Total value of income-producing investment properties (including fair value of the vacant space)	21,454
Actual NOI for the quarter ended on June 30, 2017	332
Addition to future quarterly NOI (***)	75
Total standardized NOI	407
Pro-forma annual NOI based on standardized NOI (excluding senior housing)	1,628
Weighted cap rate derived from income-producing investment property (including vacant space) (****)	**7.6%**

(*) Figures are based on an update of the valuations as of June 30, 2017 and include receivables appearing under the balance sheet item "loans and receivables" in respect of averaging attributed to real estate.

(**) Including the offices at Azrieli Sarona.

(***) The figure includes mainly estimations in respect of additional NOI for vacant space not yet leased-up, space leased-up and to be leased-up over the course of 2017 under a full year lease-up for which value was recorded in the update of the valuations as of June 30, 2016 (the main sum in this Section is for the lease-up of the offices at Azrieli Center Sarona in Tel Aviv).

[9] Since the value of senior housing properties derives from the FFO and not from the NOI, these properties were not included in this calculation. The weighted cap rate of the senior housing as of the Report Date is 8.75%.

(****) Annual standardized NOI rate out of the total income-producing investment property (including vacant space).
This figure does not constitute a forecast of the Company for the NOI of 2017 and all of its purpose is to reflect the NOI under the assumption of full lease-up for a whole year of all of the income-producing property.

The Company's estimates mentioned in this Section 1.3.4 includes forward-looking information, as defined in the Securities Law. This information is uncertain and is based, inter alia, on information regarding a contractual engagement with tenants as of the Report Date, parameters in the calculation of the fair value and the Company's estimates in respect of lease-up of space. The actual results may be materially different to the estimates specified above and the implications thereof for various reasons, including immediate termination of lease agreements or a business crisis of any of the tenants or a change in the parameters for fair value or non-achievement of development or lease-up targets.

1.3.5 <u>The FFO (Funds From Operations) index for the real estate business (Calculated in NIS in millions):</u>

The FFO Index is an indicator commonly used around the world that provides an adequate 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.

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, such as 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 three months ended		For the six months ended	
NIS in millions	**June 30, 2017**	**June 30, 2016**	**June 30, 2017**	**June 30, 2016**
Net profit for the period attributed to shareholders	**641**	244	**881**	916
Discounting the net profit, net from Granite Hacarmel and from Azrieli E-Commerce attributed to shareholders (including amortization of surplus costs)	**(4)**	(4)	**(24)**	(24)
Adjustments to profit: (1)				
Appreciation of investment property	**(531)**	(33)	**(516)**	(390)
Depreciation and amortizations	**2**	1	**4**	3
Net non-cash flow financing and other expenses (revenues)	**3**	-	**(14)**	(28)
Tax expenses (income)	**139**	15	**161**	(21)
Net of dividend received from financial assets available for sale	**(4)**	-	**(14)**	(10)
Cash flow due to receipt of deposits from tenants net of return of deposits to tenants(2)	**14**	7	**36**	10
Net of revenues from forfeiture of tenants' deposits	**(5)**	(3)	**(10)**	(6)
Total adjustments to profit	**(382)**	(13)	**(353)**	(442)
Plus interest paid for real investments (3)	**3**	5	**7**	10
Total FFO attributed to income-producing property operations (4)	**258***	**232**	**511***	**460**

Remarks and assumptions:

(1) The adjustments to the profit below do not include adjustments due to Granite Hacarmel and Azrieli E-Commerce since their results were discounted in full.

(2) The deposits of the tenants in the senior housing shall be deemed as received or as repaid on the date of execution or expiration of the agreement, as the case may be.

(3) Calculated according to weighted interest of the Group due to the real investments, which include: Granite Hacarmel, Azrieli E-Commerce Bank Leumi and Leumi Card, due to 65% of the investments' cost.

(4) Which is attributed to the shareholders only.

(*) Including income of approx. NIS 7 million and income of approx. NIS 17 million in the three months and six months ended on June 30, 2017 in respect of apartments in Palace Ra'anana which were leased-up for the first time.
In addition in the Quarter and in the half-year, the figure was adversely affected by the bringing forward of the debt raising that will be used for the Company's operations until the end of the year.

1.3.6 The EPRA indices: 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 index reflects the Company's net asset value of the Company under an immediate liquidation assumption of the "Spot" real estate segment, and therefore certain adjustments are required, such as presentation at fair value of assets and liabilities which are not so presented in the financial statements and adjustments to deferred taxes.

It should be emphasized that the indices specified above do not include the expected profit component in respect of the projects under construction which has not yet been recorded in the financial statements.

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)	**As of**	
	June 30, 2017	**June 30, 2016**
Equity attributed to the Company's shareholders in the financial statements	15,625	14,294
Together with a tax reserve due to revaluation of investment property to fair value (net of the minority share)	2,979	2,974
EPRA NAV	**18,604**	**17,268**
EPRA NAV per share (NIS)	**153**	**142**
EPRA NNNAV (NIS in millions)	**As of**	
	June 30, 2017	**June 30, 2016**
EPRA NAV	18,604	17,268
Adjustment of assets' value to fair value (net of the minority)	16	13
Adjustment of the value of financial liabilities to fair value (net of the minority)	(146)	(206)
Net of tax reserve due to revaluation of investment property to fair value (net of the minority share)	(2,979)	(2,974)
EPRA NNNAV	**15,495**	**14,101**
EPRA NNNAV per share (NIS)	**128**	**116**

1.3.7 Summary of the Company's Results (Consolidated)

a. Analysis of the net profit (consolidated) NIS in millions

	For the three-month period ended		For the six-month period ended		For the year ended
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	December 31, 2016
Net profit for the period attributed to the shareholders	**641**	244	**881**	916	1,810
Net profit attributed to the shareholders and non-controlling interests	**641**	244	**882**	919	1,808
Basic profit per share (in NIS)	**5.29**	2.01	**7.27**	7.56	14.93
Basic profit per share from continued operations (in NIS)	**5.29**	2.01	**7.27**	7.58	15.00
Comprehensive income for shareholders and non-controlling interests	**648**	270	**829**	918	1,893

In the Report Period, the Company recorded an increase in the NOI from the real estate operations, an increase in income from the adjustment of the fair value of investment property and an increase in financing expenses as a result of a higher rate of index increase in the present Quarter compared with the same period last year. In addition, in the corresponding period last year, the Company recorded a one-time tax income due to the tax rate reduction, which did not recur in Report Period.

b. Comprehensive Income

The Company's capital and comprehensive income are also affected by various capital funds, mainly capital funds due to adjustment to the fair value of investments treated as financial assets available for sale and by funds due to translation differences from foreign operations.

The difference between the comprehensive income and the net profit in the six months ended June 30, 2017 mainly derives from an increase in the fair value of the financial assets available for sale net of taxes in the sum of approx. NIS 51 million and net of a decrease from translation differences from foreign operations in the sum of approx. NIS 104 million. The difference between the comprehensive income and the net income in the three months ended on June 30, 2017, mainly derives from an increase in the financial assets available for sale net of taxes in the sum of approx. NIS 49 million and net of a decrease from translation differences from foreign operations in the sum of approx. NIS 42 million.

1.4 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 three months ended:		Segment profit for the six months ended:		Rate of the segment profit from the total consolidated net profit in the three months ended:		Rate of the segment profit from the total consolidated net profit in the six months ended:	
	June 30 2017	June 30 2016	June 30 2017	June 30 2016	June 30 2017	June 30 2016	June 30 2017	June 30 2016
Retail centers and malls in Israel	**207**	193	**405**	383	**32%**	79%	**46%**	42%
Office and other space for lease in Israel	**95**	92	**190**	183	**15%**	38%	**22%**	20%
Income-producing property in the USA	**30**	30	**62**	59	**5%**	12%	**7%**	6%
Senior housing	**11**	6	**21**	12	**2%**	2%	**2%**	1%
Granite	**23**	17	**64**	55	**4%**	7%	**7%**	6%
Others	**(10)**	-	**(18)**	-	**(2%)**	-	**(2%)**	-
Total attributed profit	**356**	338	**724**	692	**56%**	138%	**82%**	75%
Changes in fair value	**531**	33	**516**	390	**83%**	13%	**59%**	42%
Net financing expenses	**(75)**	(45)	**(103)**	(59)	**(12%)**	(18%)	**(12%)**	(6%)
Tax expenses	**(179)**	(59)	**(248)**	(66)	**(28%)**	(24%)	**(28%)**	(7%)
Net administrative and other income (expenses)	**8**	(23)	**(7)**	(35)	**1%**	(9%)	**(1%)**	(4%)
Income from continuing operations	**641**	244	**882**	922	**100%**	100%	**100%**	100%
Loss from discontinued operations	**-**	-	**-**	(3)	**-**		**-**	-
Net profit for the period	**641**	**244**	**882**	**919**	**100%**	**100%**	**100%**	**100%**

The Group's revenues from the operating segments for the six-month period ended June 30, 2017 amounted to approx. NIS 1,307 million, compared with approx. NIS 1,173 million in the same period last year, an increase of approx. NIS 134 million. The difference chiefly derives from an increase of approx. NIS 74 million in the revenues of the income-producing property segments, and from an increase of approx. NIS 54 million in the revenues of the Granite segment, mostly resulting from an increase in Supergas' revenues. As of June 30, 2017, balance sheet assets totaled approx. NIS 29.6 billion compared with approx. NIS 28.6 billion as of December 31, 2016, which increase is attributed mainly to an increase in investment property resulting from investments mainly in investment property under construction and from an increase in the value of the property.

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	
	30.06.2017	31.12.2016	30.06.2017	31.12.2016
Retail centers and malls in Israel	**12,297**	**12,074**	**42%**	**42%**
Office and other space for lease in Israel	**9,043**	**8,219**	**31%**	**29%**
Income-producing property in the USA	**1,993**	**2,176**	**7%**	**8%**
Senior housing	**1,623**	**1,495**	**5%**	**5%**
Granite	**1,297**	**1,298**	**4%**	**4%**
Others and adjustments	**3,365**	**3,321**	**11%**	**12%**
Total	**29,618**	**28,583**	**100%**	**100%**

1.5 Summary of Balance Sheet Data from the Consolidated Statement: (NIS in millions)

	As of June 30, 2017	As of June 30, 2016	As of Dec. 31, 2016
Current assets	**1,926**	2,942	1,877
Non-current assets	**27,692**	25,305	26,706
Current liabilities	**2,789**	5,947	3,315
Non-current liabilities	**11,162**	7,960	9,952
Capital attributed to the Company's shareholders	**15,625**	14,294	15,273
Capital attributed to the Company's shareholders from the total balance sheet (in percent)	**53%**	51%	53%

The Group finances its business activity mostly by its equity, cash and cash equivalents and by using non-bank credit (mostly bonds and loans from institutional bodies), bank credit (short- and long-term) and commercial paper. The Group's financial solidity, which is characterized by low leverage and significant non-mortgaged properties, provides the Group with available sources for obtaining finance under convenient terms.

1.6 Financial Position, Liquidity and Financing Sources (NIS in Millions)

The Item	30.06.2017	31.12.2016	Explanations and Comments
Total balance sheet	**29,618**	28,583	The increase mainly derives from an increase in investment property and investment property under construction as a result of investments and an increase in the fair value.
Current assets	**1,926**	1,877	The increase mainly derives from the classification of land as property held for sale.
Investment property	**24,650**	23,723	The increase derives from progress of the investments in the projects under construction and in the income-producing properties and from an increase in the fair value.
Short-term credit	**1,363**	2,083	The decrease derives from the repayment of balances that were classified as current maturities of long-term bonds and loans,
Loans from banks and from other credit providers	**2,298**	2,488	The decrease derives from current repayments offset against the refinancing of a loan that was repaid and presented on December 31, 2016 as current maturity.
Bonds, net	**5,710**	4,498	The increase derives from a bond issue at the end of Q1/2017.
Capital	**15,667**	15,316	The increase mainly derives from the comprehensive income offset against a dividend distribution.

(a) Liquid Means in the Group

As of June 30, 2017, the cumulative scope of liquid means (cash and cash equivalents and short-term deposits and investments) held by the Group amounted to approx. NIS 1,385 million. The Company deems its liquid means, the considerable cash flow from current operations and its unpledged assets (at a total value of approx. NIS 20.5 billion in addition to approx. NIS 1.4 billion 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 In Section 18 of the Description of the Corporation's Business Chapter in Chapter A of the 2015 Periodic Report, the Company specified additional issues in connection with the financing activity at the Group[10]. 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.

[10] For a specification on additional issues in connection with the financing activity at the Group, see Section 19 of the Description of the Corporation's Business Chapter in Chapter A of the 2016 Periodic Report.

Following is a table of non-pledged assets that are available to serve as collateral against the receipt of credit

Assets	Value of assets as of 30.06.2017 (NIS in millions) as presented in the financial statements
Properties in retail centers and malls in Israel segment	**10,278**
Properties in the office and other space for lease in Israel segment	**7,497**
Other Properties (mainly senior housing)	**393**
The Company's holdings in Azrieli E-Commerce	**70**
Company's holdings in Leumi Card	**562**
Company's holdings in Granite Hacarmel	**568**
Company's holdings in Bank Leumi	**1,096**
Total	**20,464**

In addition, the Company holds pledged income-producing properties, the loan rate for which is lower than their fair value.

(b) Dividends

	Date of Approval	Date of Payment	Sum
Azrieli Group	21.3.2017	10.5.2017	NIS 480 million[11]
Leumi Card	22.2.2017	1.3.2017	NIS 50 million[12]
Bank Leumi	25.5.2017	22.6.2017	NIS 124 million[13]

[11] As of June 31, 2017, the Company has retained earnings in the sum of approx. NIS 13.2 billion (including a revaluation fund for financial assets available for sale).

[12] The Company's share in the sum of the said dividend is NIS 10 million.

[13] The Company's share in the sum of the said dividend is approx. NIS 4 million.

(c) Cash flows

	For the three months ended on June 30, 2017 (NIS in millions)	For the three months ended on June 30, 2016 (NIS in millions)	Explanations and comments
Net cash flows derived by the Group from current operations	**334**	485	In the Quarter and the corresponding quarter, they mainly resulted from the operating profit of the income-producing properties in the sum of approx. NIS 343 million (approx. NIS 321 million in the corresponding period), plus net deposits from senior housing and net of income taxes paid. The corresponding quarter included a current cash flow from the Sonol segment in the sum of approx. NIS 171 million.
Net cash flows used by the Group for investment activities	**(576)**	(647)	The cash flow in the Quarter was mainly used for investment in short-term deposits plus sums used for the acquisition of and investment in investment property and investment property under construction in the sum of approx. NIS 199 million. The cash flow in the same period last year was mainly used for the acquisition of and investment in investment property and investment property under construction in the sum of approx. NIS 532 million and for the purchase of companies consolidated for the first time.
Net cash flows derived (used) by the Group from financing activities	**(677)**	94	The cash flow in the Quarter was mainly used for a dividend distribution in the sum of approx. NIS 480 million and for the repayment of bonds. The decrease versus the corresponding quarter mainly results from the receipt of long term loans in the sum of approx. NIS 806 million in the corresponding quarter.

	For the six-month period ended June 30, 2017 (NIS in millions)	**For the six-month period ended June 30, 2016 (NIS in millions)**	**Explanations and comments**
Net cash flows derived by the Group from current operations	**633**	712	In the period and the corresponding period, they mainly resulted from the operating profit of the income-producing properties in the sum of approx. NIS 678 million (approx. NIS 637 million in the corresponding period), plus net deposits from senior housing and net of income taxes paid. The corresponding quarter included a current cash flow from the Sonol segment in the sum of approx. NIS 187 million.
Net cash flows used by the Group for investment activities	**(208)**	(1,353)	The cash flow in the period was mainly used for the acquisition of and investment in investment property and investment property under construction in the sum of approx. NIS 455 million net of a decrease in short-term deposits and consideration from the disposition of financial assets available for sale. The cash flow in the same period last year was mainly used for the acquisition of and investment in investment property and investment property under construction in the sum of approx. NIS 1,226 million and for the purchase of companies consolidated for the first time.
Net cash flows derived (used) by the Group from financing activities	**(192)**	256	The decrease versus the corresponding period last year mainly resulted from a decrease in long-term loans and short-term credit net that were received in the sum of approx. NIS 1,544 million in the period versus last year and an increase of NIS 80 million in the sum of the dividend distributed offset against an increase in the bond issue net of bond repayment in the sum of approx. NIS 1,121 million in the period versus the corresponding period last year.

Following is the composition of the Group's financing sources

	June 30, 2017		December 31, 2016	
	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	**1,363**	**5%**	2,083	7%
Long-term credit from banks and other credit providers	**2,298**	**8%**	2,488	9%
Long-term bonds	**5,710**	**19%**	4,498	16%
Total	**9,371**	**32%**	**9,069**	**32%**

The increase in the sum of approx. NIS 302 million in the Report Period mainly derives from the bond issue in Q1/2017 net of current loan and bond repayments. As of the Report Date, the Company, on a consolidated basis, has a deficit in the working capital in the sum of approx. NIS 0.9 billion (approx. NIS 0.3 billion in the separate statements), resulting, *inter alia*, from the decision of the Group's management, at this stage, to finance its business also through short-term credit in view of the business opportunity, due to the low interests for such credit.

The Company estimates that if it decides to replace such credit with long-term credit at any time, it will be able to do so in light of its financial soundness and/or the scope of its non-pledged assets, and therefore, the Company's Board determined, at its meeting of August 15, 2017, after having examined the cash flow sources and the financing of the Company, that the deficit in the aforesaid working capital does not affect its ability to repay its liabilities on time.

The Company's estimations mentioned in this Section 1.6 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, which is based on the Company's estimations with regards to developments in markets, inflation levels and projected cash flows, its financial strength 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' encountering financing or other difficulties, in a manner affecting the Company's cash flow.

(d) Rating

As of the Report Date, the Company is rated AA+/Stable/ilA-1+ by Ma'alot and Aa1 by Midroog. For details regarding the rating of the bonds, the commercial paper and private loans of the Company, see the Periodic Report for 2016. From the date of release of the Periodic Report for 2016 until the date of release of this report, the following updates occurred: to inspect Ma'alot's rating report on Series B and C Bonds, in the context of expansion of the Series B, C and D Bonds, see the Company's immediate reports of March 27 and 28, 2017 (Ref.: 2017-01-030003, 2017-01-030966, respectively), included herein by way of reference; to inspect Midroog's rating report on Series D Bonds, in the context of expansion of the Series B, C and D Bonds, see the Company's immediate reports of March 27 and 28, 2017 (Ref.: 2017-01-030939, 2017-01-029991, respectively), included herein by way of reference.

(e) Liabilities and Financing

Financial liabilities of the Group (except for Granite Hacarmel and Azrieli E-Commerce) as of June 30, 2017, in millions of NIS:

	Fixed Interest			Variable Interest		Total		Total
	Index-linked	USD-Linked	Not Linked	GBP-Linked	Not Linked	Fixed Interest	Variable Interest	
Short Term Loans	-	-	-	19	639	-	658	658
Long Term Loans	6,921	1,054	250	-	38	8,225	38	8,263
Total	6,921	1,054	250	19	677	8,225	696	8,921

The date of payment of the Group's financial liabilities (with the exception of Granite Hacarmel and E-Commerce) as of June 30, 2017, in NIS in millions:

Year	Principal	Interest	Total
1	1,282	151	1,433
2	747	137	884
3	1,017	122	1,139
4	1,188	100	1,288
5 forth	4,687	339	5,026
Total	8,921	849	9,770

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 June 30, 2017, short-term loans accounted for approx. 7% of the Group’s total financial liabilities (except for Granite Hacarmel and Azrieli E-Commerce). 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 its policy, from time to time, the Company 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 regarding expansion of the Company’s Series B, C and D Bonds, see Section 1.3 above.

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 633 million in the six months ended June 30, 2017, compared with the sum of approx. NIS 712 million in the same period last year.
- The liquid means and the non-pledged assets as specified in Section 1.6(a) above.
- In addition, the Group has income-producing pledged properties, the amount of the loan for which is significantly lower than their fair value.

1.7 General Administrative and Marketing Expenses (Extended Standalone)

The Company's consolidated administrative and marketing expenses (without Granite Hacarmel and Azrieli E-Commerce) in the Report Period amounted to approx. NIS 49 million, compared with approx. NIS 43 million in the same period last year. The increase mainly derives from an increase of approx. 5 million in marketing expenses. The Company’s consolidated administrative and marketing expenses (without Granite Hacarmel and Azrieli E-Commerce) in the Quarter amounted to approx. NIS 26 million compared with approx. NIS 21 million in the same period last year. The increase mainly derives from an increase of approx. NIS 3 million in marketing expenses.

1.8 Net Financing Expenses

The Group's net financing expenses in the Report Period amounted to the sum of approx. NIS 98 million, compared with approx. NIS 52 million in the same period last year (an increase of approx. NIS 46 million). The increase in net financing expenses mainly derives from a decrease in revenues from linkage on loans, bonds and deposits of senior housing tenants resulting from an increase of approx. 0.7% in the known CPI rate in the Report Period compared with a decrease of approx. 0.4% in the same period last year. The Group's net financing expenses in the Quarter, amounted to the sum of approx. NIS 69 million, compared with approx. NIS 38 million in the same period last year (an increase of approx. NIS 31 million). The increase in net financing expenses mainly derives from an increase in linkage expenses on loans, bonds and deposits of senior housing tenants resulting from an increase of approx. 0.9% in the known CPI rate in the Quarter compared with an increase of approx. 0.5% in the same period last year.

1.9 Taxes on Income

The Group's income tax expenses in the Report Period amounted to the sum of approx. NIS 238 million, compared with tax expenses in the sum of approx. NIS 57 million in the same period last year. The rise in tax expenses in the Report Period is mainly attributed to the reduction of the corporate tax in the corresponding period (which created a tax income, as a result of a decrease in the deferred taxes reserve, in the sum of approx. NIS 162 million), plus an increase in tax expenses in the present period, as a result of the increase in the adjustment of the fair value of investment properties and net of a decrease in the tax expense deriving from a decrease in the current tax rate. The Group's income tax expenses in the Quarter amounted to the sum of approx. NIS 177 million, compared with tax expenses in the sum of approx. NIS 57 million in the same quarter last year. The rise in tax expenses in the current Quarter is mainly attributed to an increase in the deferred tax expenses due to the increase in the adjustment of the fair value of investment property.

1.10 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. With respect to the income-producing property segments, the NOI figure is one of the most important parameters in valuations of income-producing property companies (for the manner of calculation of the figure, see Section 1.3.10 of the Board of Directors' Report for December 31, 2016). In addition, the contribution to the results takes into account the Company's share in the results of the company held (indirectly) by the Company, Granite, which constitutes an operating segment.

1.10.1 Retail Centers and Malls in Israel Segment

Summary of the segment's business results (NIS in millions):

	For the three-month period ended		For the six-month period ended		For the year ended
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	December 31, 2016
Revenues	257	238	504	472	974
% of change	8%		7%		
NOI	207	193	405	383	779
% of change	7%		6%		

The growth in the NOI mainly derives from the opening of the Rishonim mall in Q1/2017 and from the purchase of Azrieli Ra'anana in the course of 2016.

Following is the development of the segment's NOI (NIS in millions):

	For the three-month period ended		For the six-month period ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
For the segment's properties owned by the Company as of the beginning of the period[14]	195	191	388	381
For properties purchased in 2016	4	2	8	2
For properties that were purchased or whose construction was completed in 2017	8	-	9	-
Total	207	193	405	383

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) and was adversely affected by unoccupied space in periods of tenant turnover in some of the malls and by an increase in security and cleaning costs.

The balance of the assets of the retail centers and malls in Israel segment – amounted, on June 30, 2017, to the sum of approx. NIS 12.3 billion, compared with approx. NIS 12.1 billion on December 31, 2016. The change mainly derives from investments in the segment's properties.

[14] Same property NOI – NOI from similar properties that were held by the Group throughout all of the reported periods.

Change due to the adjustment of fair value of investment property and investment property under construction of the segment - The profit from fair value adjustment of the segment's investment property and investment property under construction amounted, in the Report Period, to approx. NIS 8 million compared with a gain of approx. NIS 41 million in the same period last year. The properties are presented according to an update of the valuations performed by an independent appraiser as of June 30, 2017.

1.10.2 Office and other space for lease in Israel segment:

Summary of the segment's business results (NIS in millions):

	For the three-month period ended		For the six-month period ended		For the year ended
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	December 31, 2016
Revenues	115	110	230	220	447
% of change	5%		5%		
NOI	95	92	190	183	369
% of change	3%		4%		

The increase in revenues and in the NOI derives mainly from growth in revenues from existing leasable office space (mainly the continued lease-up of the offices in the Azrieli Holon Center) and the opening of the officers in Rishonim.

Following is the development of the segment's NOI (NIS in millions)

	For the three-month period ended		For the six-month period ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
For the segment's properties owned by the Company as of the beginning of the period[15]	94	92	189	183
For properties that were purchased or whose construction was completed in 2016	-	-	-	-
For properties that were purchased or whose construction was completed in 2017	1	-	1	-
Total	95	92	190	183

The same property NOI in the office and others 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

[15] Same property NOI – NOI from similar properties that were held by the Group throughout all of the reported periods.

options by the tenants and/or execution of new contracts) and the continued lease-up of Azrieli Holon Center, and was adversely affected by an increase in security and cleaning costs.

The balance of the Group's investment properties in the office and other space for lease in Israel segment – amounted on June 30, 2017 to the sum of approx. NIS 9 million compared with approx. NIS 8.2 billion on December 31, 2016. The change mainly derives from an increase in the fair value as specified below and from investments in the segment's properties.

Change from 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 455 million, compared with approx. NIS 339 million in the same period last year. The profit during the Report Period derives mainly from the revaluation of the Sarona office tower and the Azrieli towers in Tel Aviv. The properties are presented according to an update of the valuations carried out by an independent appraiser as of June 30, 2017.

1.10.3 Income-producing property in the USA segment:

Summary of the business results of the segment (NIS in millions):

	For the three-month period ended		For the six-month period ended		For the year ended
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	December 31, 2016
Revenues	56	55	113	110	229
% of change	2%		3%		
NOI	30	30	62	59	124
% of change	-		5%		

The increase in revenues and in NOI mainly derives from the acquisition of an office building in Austin, Texas, U.S.A., net of the effect of the decrease in the dollar exchange rate.

Following is the development of the segment's NOI (NIS in millions)

	For the three-month period ended		For the six-month period ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
For the segment's properties owned by the Company as of the beginning of the period[16]	27	30	56	59
For properties that were purchased or whose construction was completed in 2016	3	-	6	-
For properties that were purchased or whose construction was completed in 2017	-	-	-	-
Total	30	30	62	59

The same property NOI in the income-producing property in the USA segment was negatively affected mainly by a decrease in the average exchange rate of the U.S. dollar, which was approx. 5% lower in the Report Period than the exchange rate in the same period last year.

The investment property balance of the Group in the segment – amounted, on June 30, 2017, to the sum of approx. NIS 2.0 billion, compared with approx. NIS 2.2 billion on December 31, 2016. The change mainly derives from the decrease in the dollar exchange rate as of June 30, 2017 compared with December 31, 2016.

Change from fair value adjustment of investment property of the segment
The loss from fair value adjustment of investment property of the segment amounted, in the Report Period, to the sum of approx. NIS 4 million, compared with a loss of approx. NIS 5 million in the same period last year.

[16] Same property NOI – NOI from similar properties that were held by the Group throughout all of the reported periods.

1.10.4 Senior housing segment:

Summary of the segment's business results (NIS in millions):

	For the three-month period ended		For the six-month period ended		For the year ended
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	December 31, 2016
Revenues	31	17	63	34	95
% of change	82%		85%		
NOI	11	6	21	12	29
% of change	83%		75%		

The increase in revenues and in the NOI derives mainly from the purchase of Palace Ra'anana during 2016.

Following is the development of the segment's NOI (NIS in millions)

	For the three-month period ended		For the six-month period ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
For the segment's properties owned by the Company as of the beginning of the period[17]	7	6	13	12
For properties that were purchased or whose construction was completed in 2016	4	-	8	
For properties that were purchased or whose construction was completed in 2017	-	-		
Total	11	6	21	12

The balance of the Group's investment property in the senior housing segment – amounted, on June 30, 2017, to approx. NIS 1.4 billion, compared with approx. NIS 1.3 billion on December 31, 2016. The change mainly derives from investments in properties under construction and from an increase in the fair value.

Change from fair value adjustment of investment property and investment property under construction of the segment - The profit from the fair value adjustment of the segment's investment property and investment property under construction amounted in the Report Period to a sum of approx. NIS 58 million compared with approx. NIS 16 million in the same period last year. The properties are presented according to an update to the valuations that were carried out by an independent appraiser as of June 30, 2017.

[17] Same property NOI – NOI from similar properties that were held by the Group throughout all of the reported periods.

1.10.5 Granite segment

Following is a summary of data from Granite's consolidated statement (NIS in millions):

	For the three-month period ended		For the six-month period ended		For the year ended
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	December 31, 2016
Revenues	169	147	390	336	653
% of change	15%		16%		
Segment profit	23	17	64	55	83
% of change	35%		16%		

Summary of the business results of the Granite Segment:

The increase in revenues and in profit in the Report Period mainly derives from the results of Supergas.

1.10.6 Profit from discontinued operations – Sonol

In July 2016, Granite closed the sale of all of its holdings (100%) in Sonol. According to the provisions of IFRS 5, Sonol's results are restated in the comparison figures for the income statement as discontinued operations. For further details see Note 4 to the Financial Statements as of June 30, 2017.

1.11 Comment Regarding Forward-Looking Information

The Company's intentions mentioned in the introduction to the Board of Directors' Report, the main emphases for the report and Sections 1.1 to 1.10 of the Board of Directors' Report, inter alia, *in connection with taking advantage of business opportunities and expanding the business, liquidity, financing sources and net financing expenses, the pace of the progress of the projects under construction, the projected costs for their construction, the effects of the economic situation on the Company's operating segments and with respect to the possibility of converting the short-term debt into long-term debt and/or raising debt, are forward-looking information, as defined in the Securities Law, based on the Company's plans as of the Report Date, the Company's estimates with respect to developments in the markets, inflation levels, expected cash flows, and on the conditions and the possibilities for raising credit on the Report Date.*

These estimates may not materialize, in whole or in part, or may materialize in a materially different manner than the Company estimated. The main factors which may have an effect thereon are: changes in the capital market which affect the conditions and the possibilities for raising credit, changes in the Company's plans, including use of liquid balances that shall exist for the purpose of taking *advantage of business opportunities, changes in the advisability of the holding in various investment channels or the advisability of using various financing channels, delays in the granting of permits or approvals required for progress in the projects under construction, changes in the regulation relating to the Company's business, including in the field of zoning, raw materials used for construction becoming more expensive, changes in the CPI, worsening of the economic situation in Israel or in the U.S. and entering a harsh recession and the Company's or any of the Group's companies' facing financing or other difficulties, in a manner that affects the Company's cash flow.*

The data in the Board of Directors' Report are based on the consolidated financial statements as of June 30, 2017. The financial data and business results of the Company are affected by the financial data and business results of the companies held thereby. In certain cases, details are presented which review events that occurred after the date of the Financial Statements and in proximity to the date of release of the Report, with such fact being stated alongside them (the "**Report Release Date**") or additional details and data on the Company level only. The materiality of the information included herein was examined from the Company's viewpoint. In some cases, an additional detailed description was provided in order to give a comprehensive picture of the described topic, which is, in the Company's opinion, material for purposes of this Report.

2. Corporate Governance Aspects

2.1 The Financial Statement Approval Procedure at the Corporation

The members of the Financial Statements Review Committee (the "**Committee**") are Prof. Niv Ahituv (Chairman of the Committee and an outside director, with accounting and financial expertise), Mr. Menachem Einan, (regular director with professional qualifications), Mr. Efraim Halevy (an outside director with professional qualifications), Mr. Joseph Ciechanover (an independent director with accounting and financial expertise), Mr. Oran Dror (independent director with accounting and financial expertise), and Ms. Tzipa Carmon (an independent director with accounting and financial expertise). For further details regarding the Financial Statements Review Committee, see the Corporate Governance Report which is attached to the Company's Periodic Report for 2016.

Financial Statement Approval Procedure

The Committee convened on August 13, 2017 to review the Financial Statements for June 30, 2017 and all of its members (apart from Mr. Menachem Einan) participated in order to formulate its recommendations to the board of directors regarding approval of the statements. After an advanced draft of the quarterly report, including all parts thereof, and the Company's presentation regarding the main financial results and material issues for discussion were forwarded to the Committee members several days before the date scheduled for the Committee's meeting.

After a discussion was held at the Committee as aforesaid, the participants who are not members of the Committee left the meeting (with the exception of the Company’s CEO, CFO and general counsel), at which point the Committee's chairman put the Committee's recommendation to the Board of Directors to the vote and asked whether any of the Committee members still had any unanswered questions or issues. At the same meeting, the Committee decided to recommend to the Board of Directors to approve the Company's Financial Statements for June 30, 2017. The Committee's recommendations were forwarded to the Board members, at the end of the Committee’s meeting, in preparation for the Board meeting which was held on August 15, 2017.

On August 15, 2017, the Company's board of directors, the corporate organ in charge of governance, approved the Company's Financial Statements for June 30, 2017. For details regarding the members of the Board of Directors, see Section 26 of Chapter D of the Company's Periodic Report for 2016. Advanced drafts of the Financial Statements, the notes thereto, the Board of Directors' Report and the annexes thereto and any report and presentation accompanying the same were sent to the Board members several days before the date scheduled for the Board meeting.

Representatives of the Company's auditor gave their comments and responded, as required, to questions directed to them by the Board members pertaining to material issues deriving from the data presented in the Financial Statements contemplated in the discussion. In the framework of presentation of the statements to the Board of Directors, the material developments in the period and the financial results were reviewed, while comparing to previous periods, during which review questions were answered. In addition, the Company's Board held a discussion on the working capital deficit. The Board determined that the working capital deficit does not indicate a liquidity problem at the Company in view of its financial soundness and/or the scope of its non-pledged assets. At the end of the discussion at the Board of Directors, a vote was held during which the Company's Financial Statements for June 30, 2017 were approved and the persons authorized to sign them were empowered.

2.2 Amendment and Extension of the Validity of Letters of Indemnification Granted to Directors who are the Controlling Shareholders and the Granting of an Exemption from Liability to Directors who are the Controlling Shareholders

On April 27, 2017, the general meeting of the Company's shareholders approved an amendment to and extension of letters of indemnification that were granted to Ms. Danna Azrieli, Ms. Sharon Azrieli and Ms. Naomi Azrieli who are the indirect controlling shareholders of the Company ("**Directors who are the Controlling Shareholders**"), for an additional three-year period, and the granting of an exemption from liability to the Directors who are the Controlling Shareholders from April 27, 2017. For further details, see the notice of meeting report of March 23, 2017 (Ref.: 2017-01-028392), and the immediate report on the outcome of the meeting of April 30, 2017 (Ref.: 2017-01-043866), included herein by way of reference.

2.3 Granting of Updated Letters of Indemnification and Exemption to Directors of the Company, as shall Hold Office Therein from Time to Time, Apart from Directors who are Controlling Shareholders of the Company and/or their Relatives

On April 27, 2017, the general meeting of the Company's shareholders approved the granting of updated letters of indemnification and exemption to directors of the Company, as shall hold office therein from time to time, apart from directors who are controlling shareholders of the Company and/or their relatives. For further details, see the notice of meeting report of March 23, 2017 (Ref.: 2017-01-028392), and the immediate report on the outcome of the meeting of April 30, 2017 (Ref.: 2017-01-043866), included herein by way of reference.

2.4 Approval of Payment of Compensation to a Director

On March 21, 2017, the Company's Board, following the recommendation of the Compensation Committee of March 19, 2017, approved payment of annual compensation and participation compensation to Mr. Menachem Einan, from March 1, 2017, after a previous consulting agreement with Mr. Einan ended on February 28, 2017. The compensation that shall be paid to Mr. Einan is in accordance with the Companies Regulations (Rules on Compensation and Expenses for an Outside Director), 5760-2000 (the "**Compensation Regulations**"), and in accordance with the Company's compensation policy. The compensation for Mr. Einan was approved pursuant to the Companies

Regulations (Relaxations in Transactions with Interested Parties), 5760-2000. For further details, see the Company's immediate report of March 22, 2017 (Ref.: 2017-01-027009), included herein by way of reference.

2.5 Shareholders Agreement

On March 20, 2017, a shareholders agreement (the "**2017 Agreement**") was signed between Sharon Azrieli, Naomi Azrieli and Danna Azrieli (in person and through companies controlled by them), the indirect controlling shareholders of the Company and directors of the Company (the "**Controlling Shareholders**"). Additional parties to the 2017 Agreement are Azrieli Holdings Inc. ("**Azrieli Holdings**"), a private company incorporated under Canadian law, 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, Nadav Investments , and another Canadian corporation which is a shareholder of Azrieli Holdings and which was, in the past, directly controlled by Mr. David Azrieli OBM (the three of them: the "**Holdings Corporations**"). The 2017 Agreement supersedes a previous shareholders agreement which was made between the parties, of November 2012 (the "**2012 Agreement**"), and regulates the relationship between the Controlling Shareholders, in person and through the Holdings Corporations, in connection with their rights in the Company. Similarly to the 2012 Agreement, the terms and conditions of the 2017 Agreement include agreements in connection with the sale and transfer of shares in the Company and in the Holdings Corporations, including a lock-up period, right of first refusal, right of first offer, tag along right and an exclusion concerning certain sales of shares (drip) on the Stock Exchange. The 2017 Agreement also prescribes that the manner of exercise of the voting rights in the Company shall be determined by the Controlling Shareholders (by a majority decision), provided that with respect to resolutions for the appointment of directors at the Company, each one of the Controlling Shareholders will be entitled to have the voting rights exercised to appoint one director to be named by her, while the manner of exercise of the voting rights in the Company with respect to resolutions for the appointment of additional directors shall be determined by a majority decision. It is clarified that the 2017 Agreement does not change the identity of the controlling shareholders of the Company (including of Azrieli Holdings) nor their holding rate in the capital and in the voting rights of the Company, and that as of the Report Release Date, Sharon Azrieli, Naomi Azrieli and Danna Azrieli are the Company's Controlling Shareholders. For further details, see the immediate report of March 21, 2017 (Ref.: 2017-01-026388), included herein by way of reference.

2.6 Renewal of the D&O Insurance Policy (including Controlling Shareholders)

On June 1, 2017, the Compensation Committee approved engagement for renewal of the insurance policy for directors and officers of the Company (including from among the Company's controlling shareholders) and the Company's subsidiaries (except for Granite Hacarmel, which holds an independent D&O insurance policy), from June 3, 2017 until June 2, 2018. The engagement is consistent with the engagement framework specified in the Company's approved compensation policy.

3. Provisions on Disclosure in connection with the Company's Financial Report

3.1 Description of the Company's Business in the Report Period and Update of the Description of the Corporation's Business for the Report Period pursuant to Section 39A of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

For events and developments in the Report Period, see Chapter B of this Report – updates to the Description of the Corporation's Business Chapter as of December 31, 2016 and Note 3 to the Financial Statements as of June 30, 2017.

3.2 Report on the Group's Liabilities

A report on the Group's liabilities pursuant to Sections 38E and 9D of the regulations is attached on a separate reporting form concurrently with the release hereof.

3.3 Litigation

For details with respect to litigation, see Note 3F to the Consolidated Statement as of June 30, 2017.

3.4 Designated Disclosure to Holders of Series B, Series C, Series D Bonds

See **Annex C** to the Board of Directors' Report.

3.5 Disclosure pertaining to Very Material Valuations

As of the Report Date, no change has occurred in the parameters for the disclosure and attachment of valuations, as published in the Periodic Report for 2016. The Company updated the valuations of its properties in Israel as of June 30, 2017 (for details regarding the parameters for the update of the valuations in the quarterly statements, see Note 3C1 to the Financial Statements as of December 31, 2016).

As of the Report Date, and after the above determination was checked, it transpires that the very material valuation is in respect of 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) only. This valuation as of June 30, 2017 and details regarding this valuation according to the provisions of Regulation 8B of the Regulations, is attached hereto as **Annex D**.

As of June 30, 2017, the value of the Company's assets whose fair value was determined through a very material valuation (made as of June 30, 2017) was in the sum of approx. NIS 5 billion (which is attributed both to Azrieli Center’s towers and Azrieli mall), out of a fair value of investment properties in the sum of approx. NIS 25 billion (approx. 21% of the Company's total investment properties).

3.6 Subsequent events

See Note 7 to the Financial Statements of June 30, 2017.

3.7 Financial Figures attributed to the Company as a Parent Company

Pursuant to Regulation 9C of the Periodic Reports 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.

The Company's Board of Directors and management express their great appreciation for the Company's officers, the managements of the Group's various companies and their employees, for their blessed contribution to the Group's achievements in the Quarter ended June 30, 2017.

Danna Azrieli **Chairman of the Board**	**Yuval Bronstein** **CEO**

Date: August 15, 2017

Annex A

Sensitivity Tests - Update

as of June 30, 2017

Annex A – Sensitivity Tests

Sensitivity to changes in the interest rates of the cap rates of investment property as of June 30, 2017

Change Rate	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	
	Absolute 2% Increase	10% Increase	5% Increase		5% Decrease	10% Decrease	Absolute 2% Decrease	
Weighted Cap Rate:								
5.75% - 6.50%	(187,518)	(70,912)	(37,136)	789,677	41,083	86,710	361,484	DCF method
6.75% - 7.50%	(2,951,922)	(1,203,572)	(627,080)	13,236,940	687,585	1,484,507	5,324,874	DCF method
7.51% - 8.00%	(1,535,512)	(703,410)	(351,395)	6,923,497	387,227	817,564	2,618,408	DCF method
8.01% - 8.50%	(123,163)	(57,633)	(29,948)	551,245	34,155	71,544	202,262	DCF method
8.51% - 9.75%	(93,343)	(45,625)	(23,449)	1,343,155	27,216	56,173	144,464	DCF method
Investment property and investment property under construction	(4,891,458)	(2,081,152)	(1,069,008)	22,844,514	1,177,266	2,516,498	8,651,492	

<u>Annex B</u>

Financial Statements

(Extended Standalone)

As of June 30, 2017

(Unaudited and unreviewed)

Annex B

Extended Standalone Financial Statements

The Company's extended standalone financial statements are the condensed Company's reports presented according to the IFRS, except for the investment in Granite and in Azrieli eCommerce which are presented on the basis of the equity method *in lieu* of consolidation of their reports with the Company's reports (all other investments are presented with no change to the report presented pursuant to the IFRS). These statements do not constitute separate financial statements within the meaning thereof in the 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 obtain valuable information from the presentation of such figures.

The figures in this annex have not been audited nor reviewed by the Company's auditors.

Balance sheet:

	As of June 30		As of December 31
	2017	2016	2016
	NIS in thousands	NIS in thousands	NIS in thousands
Assets			
Current Assets			
Cash and cash equivalents	886,774	466,513	667,334
Short-term deposits and investments	404,437	4,270	614,261
Trade accounts receivable	67,266	84,093	69,692
Other receivables	76,420	75,562	103,491
Current tax assets	12,306	5,719	7,480
	1,447,203	636,157	1,462,258
Assets held for sale	40,000	-	-
Total Current Assets	1,487,203	636,157	1,462,258
Non-Current Assets			
Investment in investee companies	795,010	1,002,933	779,220
Loans and receivables	244,765	139,255	223,873
Financial assets	1,674,847	1,586,516	1,625,453
Investment property and investment property under construction	24,689,939	22,645,554	23,722,736
Fixed assets	156,920	110,913	127,556
Intangible assets	85,762	86,890	86,283
Deferred tax assets	622	835	615
Total Non-Current Assets	27,647,865	25,572,896	26,565,736
Total Assets	29,095,068	26,209,053	28,027,994

Annex B

Extended Standalone Financial Statements

Balance Sheet: (Cont.)

	As of June 30		As of December 31
	2017	2016	2016
	NIS in thousands	NIS in thousands	NIS in thousands
Liabilities and Capital			
Current Liabilities			
Current maturities and credit from banks and other credit providers	1,281,520	3,155,508	2,025,643
Trade payables	322,076	117,057	155,475
Payables and other current liabilities	345,864	432,196	303,139
Deposits from senior housing customers	691,927	622,462	659,024
Current tax liabilities	12,599	41,463	21,990
Total Current Liabilities	2,653,986	4,368,686	3,165,271
Non-Current Liabilities			
Loans from banks and other credit providers	2,261,562	2,509,876	2,451,115
Bonds	5,377,774	1,968,271	4,149,815
Other liabilities	45,439	44,678	45,250
Employee benefits	5,676	4,918	5,479
Deferred tax liabilities	3,086,070	2,975,017	2,897,567
Total Non-Current Liabilities	10,776,521	7,502,760	9,549,226
Capital			
Ordinary share capital	18,223	18,223	18,223
Share premium	2,518,015	2,518,015	2,518,015
Capital reserves	450,074	414,378	499,528
Retained earnings	12,638,948	11,343,769	12,237,592
Total equity attributable to shareholders of the Company	15,625,260	14,294,385	15,273,358
Not-controlling interests	39,301	43,222	40,139
Total Capital	15,664,561	14,337,607	15,313,497
Total Liabilities and Capital	29,095,068	26,209,053	28,027,994

Annex B

Extended Standalone Financial Statements

Income Statement:

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended Dec. 31
	2017	**2016**	**2017**	**2016**	**2016**
	NIS in thousands	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**	**NIS in Thousands**
Revenues:					
From rent, management and maintenance fees	913,827	842,554	460,439	422,782	1,754,982
Net gain from fair value adjustment of investment property and investment property under construction	516,227	390,466	531,181	33,455	710,578
Financing	8,059	8,979	97	2,744	39,188
Share in results of held companies, net of tax	23,929	30,617	3,291	5,467	21,781
Other	45,063	9,943	35,062	(46)	10,395
Total Revenues	1,507,105	1,282,559	1,030,070	464,402	2,536,924
Costs and Expenses:					
Cost of revenues from rent, management and maintenance fees	232,412	200,301	117,047	101,423	445,613
Sales and Marketing	18,106	13,042	9,976	7,033	39,921
General and Administrative	31,101	29,512	15,706	14,367	64,621
Financing	105,710	61,198	69,077	40,653	134,697
Total Costs and Expenses	387,329	304,053	211,806	163,476	684,852
Income before income taxes	1,119,776	978,506	818,264	300,926	1,852,072
Taxes on income	(237,896)	(56,784)	(176,888)	(56,842)	(35,400)
Income from continued operations for the period, including minority	881,880	921,722	641,376	244,084	1,816,672
Income (loss) from discontinued operations for the period, including the minority	-	(2,867)	-	390	(8,501)
Net Profit for the period, including the minority	881,880	918,855	641,376	244,474	1,808,171

Annex C

Designated Disclosure to the Bondholders

Annex C - 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	Value 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	1,207.7	1,207.7	1.9	1,191.6	1,196.5	Fixed	0.65	April 1 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 or Idan Knobel.
	June 23, 2015	600.3											
	March 30, 2017	228.8											
Series C	Sept. 6, 2015	1,005.1	1,184.1	1,184.1	9.6	1,177.5	1,216.7	Fixed	1.64	July 1 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*.	
	March 30, 2017	179.0											
Series D	July 7, 2016	2,194.1	3,177.7	3,203.2	20.7	3,153.0	3,168.7	Fixed	1.34	From July 5, 2018 twice a year on January 5 and July 5 of each of the years 2018 through 2030	From January 2017 twice a year on January 5 and July 5 of each of the years 2017 through 2030	Linkage (principal and interest) to the rise in the CPI for May 2016*.	
	March 30, 2017	983.6											
Total		5,814.2	5,569.5	5,595.0	32.2	5,522.1	5,581.9						

* The Series B, Series C and Series D 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 Bonds, the Series C Bonds and the Series D Bond 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, the Series C Bonds and the Series D 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), and Section 9.2 of the Terms and Conditions Overleaf of the indenture for the Series D Bonds (the "**Indenture for the Series D Bonds**"), which was attached to the shelf offering report released by the Company on July 5, 2016 (ref.: 2016-01-075079), which are included herein by way of reference.

3. At the end of the Reporting Period and 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, the Indenture for the Series C Bonds and the Indenture for the Series D Bonds, and no conditions establishing grounds for acceleration of the Series B, Series C Bonds and Series D Bonds have been fulfilled.

4. For details regarding an undertaking that the Company assumed in the framework of the Series B Bonds, the Series C Bonds and the Series D Bonds of the Company, see Sections 5.2-5.6 of the Indenture for the Series B Bonds, the Indenture for the Series C Bonds and the Indenture for the Series D 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	Maalot	AA+ stable	AA+ stable	March 28, 2017[1]	-	-
Series C	Maalot	AA+ stable	AA+ stable	March 28, 2017[1]		
Series D	Midroog	Aa1/stable outlook	Aa1/stable outlook	March 28, 2017[2]		

[1] For Ma'alot's rating report on the Company's Series B and C Bonds, see the Company's immediate report of March 28, 2017 (Ref.: 2017-01-030966), which is included herein by way of reference.

[2] For Ma'alot's rating report on the Company's Series D Bonds, see the Company's immediate report of March 28, 2017 (Ref.: 2017-01-030939), which is included herein by way of reference.

Annex D

Update of Azrieli Center Valuation

As of June 30, 2017

Annex D – Disclosure of Valuation in accordance with Regulation 8B of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

Identification of the object of valuation	Azrieli Tel Aviv Center
Timing of the valuation	June 30, 2017
Value of the object of valuation in the Company's books	NIS 5,145,700 thousands
Identification and characterization of valuator	Ronen Katz of Greenberg Olpiner & Co.
Valuation model used by the valuator	DCF method
Assumptions on which the valuator based the valuation	See Section 9.2.9 of the periodic report as of December 31, 2016

Updated Comprehensive Land Valuation – "Azrieli Center"

1 Azrieli Center, Tel Aviv

August 14, 2017
Our reference: 3415-17

To
Canit Hashalom Investments Ltd.
1 Azrieli Center, Tel Aviv

Updated Comprehensive Land Valuation - "Azrieli Center"

1 Azrieli Center, Tel Aviv

As per your request, further to our opinion no. 3415-16, which was prepared as of effective date December 31, 2016, we have examined the value of the property as of effective date June 30, 2017.

We agree to this update being published in the framework of the Company's financial statements

The undersigned visited the property on July 20, 2017.

The methodology of the valuation was not changed relative to the previous opinion.

Since the date of preparation of the opinion to date, several changes have occurred in the property:

1. **General**

- As of the effective date, occupancy of the premises is full, with the exception of an area of approx. 373 sqm of vacant storerooms and retail space, divided into approx. 305 sqm of a publicly used area on the public floor, regarding which principles of lease for a college have been agreed, and approx. 68 sqm for storerooms.
- In Q2/2017 the "Renoir" store was opened to the general public which was extended on account of the area of the "Forever 21" on the first retail floor.
- The Company is performing comprehensive renovations in the fast food area, renovating the central lobby on the ground floor of the mall, renovating the parking lot lobbies and more.

2. **Update of comparison figures for office cap rates**

- On June 1, 2017, Sella Capital Ltd. reported the purchase of an income-producing property in Ramat Gan, which includes 8 office floors in Moshe Aviv Tower in Ramat Gan (the Bank Mizrahi Tefahot wing), approx. 650 sqm retail space, storage space and 148 parking spaces, in consideration for NIS 278,000,000. Concurrently with the sale agreement, Bank Mizrahi Tefahot undertook to lease the property for a minimum period of 8 years with the option to extend the lease up to 24 years, in consideration for annual rent in the amount of NIS 17,000,000. Reflects an NOI at the rate of 6.1%.

- On May 25, 2017, the Chief Government Appraiser published a review for the yield rates for the second half of 2016. The average yield rate (the overall cap rate) for the second half of 2016 in office properties is 7.8% (remains unchanged versus the first half of 2016).

  According to the review findings, there is a clear link between the level of proximity of the property to the center of Israel or the city center, and the rate of the yield therefrom. In centrally located properties (the central business district in the Dan metropolitan area cities), a low yield rate was observed while in properties in the periphery, a high yield rate was observed. The link most probably derives from a higher risk factor in the periphery (with regard to components such as: financial soundness of the tenants, vacancy ratio, risks of changes to the environment faced by the owners, etc.).

- On May 17, 2017, it was published in the press that the Meshulam Levinstein Group purchased all of the rights in a building for employment uses at 5-9 Hanachtom St. in Beer Sheva, in consideration for NIS 46,000,000. The site is built on a lot with an area of approx. 10,000 sqm and includes two floors with a built-up area of approx. 12,000 sqm and a parking lot on the roof with 220 parking spaces. The property is fully leased-up, with an NOI of approx. NIS 3.25 million. As reported, the transaction reflects a yield rate of approx. 7.1%.

- On April 9, 2017, Menivim - The New Reit Ltd. reported the purchase of 50% of the rights in a retail and office center that is in advanced stages of construction in Rehovot, in consideration for NIS 128,500,000, plus a future payment of NIS 2,000,000 due to future use of approx. 2,000 sqm additional building rights. The center has a built-up area of approx. 28,000 sqm on a lot with an area of approx. 24,000 sqm. On the transaction date, approx. 60% of the marketable space is being leased. The Company estimates that the expected NOI with full occupancy is approx. NIS 19 million. In the first 18 months, Menivim shall be entitled to the first NIS 8 million of the rent each year and the sellers shall be entitled to the rent between NIS 8 million and up to NIS 16 million. Rent beyond the aforesaid amount shall be divided between the parties in equal shares. Reflects a yield rate of approx. 7.4%.

- On March 30, 2017, Reit 1 Ltd. reported the purchase of all of the rights in “Beit Reshatot” in the Rishon Lezion industrial area (parcels 7-8 in block 3924), in consideration for NIS 119,000,000. The building with an area of approx. 17,000 sqm, serves for storage, offices and retail. The property is leased to 30 tenants, the occupancy rate is approx. 93%. The expected annual NOI with full occupancy is NIS 9 million and reflects an annual yield at the rate of approx. 7.5%.

3. **Calculation**

Pursuant to the above-specified comparative transactions, we reduced the cap rate for the office space by 0.25% versus the previous opinion.

Item	Area for Marketing in sqm	Annual Income	Cap Rate	Value
Mall rent - large areas	18,156	NIS 33,560,000	6.75%	NIS 497,190,000
Mall rent – the other areas	17,832	NIS 88,640,000	7.0%	NIS 1,266,290,000
Market rent – vacant storerooms and retail space (1)	373	NIS 430,000	7.5%	NIS 5,733,000
Mall – Additional income from revenues and temporary stalls		NIS 6,840,000	8.0%	NIS 85,500,000
Rent from offices - longstanding contracts, including Bezeq	69,711	NIS 79,410,000	6.75%	NIS 1,176,400,000
Rent from offices – the other contracts	61,507	NIS 88,880,000	7.25%	NIS 1,225,900,000
Rent from the hotel	18,000	NIS 14,010,000	7.0%	NIS 200,100,000
Added revenues from the hotel		NIS 767,000	8.0%	NIS 9,500,000
Rent from leased storerooms		NIS 2,280,000	7.75%	NIS 29,400,000
Net income from the parking lot		NIS 36,840,000	7.25%	NIS 508,100,000
Total		**NIS 351,657,000**		**NIS 5,004,113,000**
Net income from electricity and management		NIS 20,200,000	9.0%	NIS 223,760,000
Investments in the property, including leasehold improvements				-NIS 75,200,000
Deduction of transportation task				-NIS 7,000,000
Total, rounded off				**NIS 5,145,700,000**

(1) Calculated according to NIS 105 per sqm for a space on the public floor and according to approx. NIS 60 per sqm for storage space.

The total value indicates an average value of approx. NIS 49,000 per sqm for retail areas, an average value of approx. NIS 18,000 per sqm for offices, and a value of approx. NIS 160,000 per parking space. These figures are consistent with market data.

Sensitivity analysis:

Examination of sensitivity to changes in the cap rate:

	6.50%	**7.00%**	**7.50%**
Value of the Property	NIS 5,499,300,000	NIS 5,145,700,000	NIS 4,839,200,000

Examination of sensitivity to changes in the rent of the other retail areas in the mall:

	+5%	**Current Rent**	-5%
	NIS 93,070,000	NIS 88,640,000	NIS 84,210,000
Value of the Property	NIS 5,209,000,000	NIS 5,145,700,000	NIS 5,082,400,000

4. **Valuation**

In view of the aforesaid, our estimate of the market value of the Company's rights in the property (excluding the area used by Azrieli Group itself), on the free market, under the criterion of a willing buyer from a willing seller, free and clear of any debt, charge, mortgage, including third party rights, is around **NIS 5,145,700,000**.

5. **General**

- The value is exclusive of V.A.T.
- We did not address taxes applicable, if any, upon a sale of the property.
- We have valued the property in the past for the purpose of inclusion thereof in the Company's financial statements[1]:

Effective Date	**Value of the Company's Rights**
December 31, 2014	NIS 4,841,200,000
December 31, 2015	NIS 4,971,400,000
December 31, 2016	NIS 5,058,000,000

Sincerely,

[1] In addition, semi-annual valuations were made.

Part B

Update of the Description of the Corporation's Business

AZRIELIGROUP

AZRIELI GROUP

Azrieli Group Ltd.

Update of the Description of the Corporation's Business Chapter in the Company's Periodic Report as of December 31, 2016 (the "Periodic Report")[1]

In accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports) 5730-1970, following is a description of material developments that have occurred in the Company's business during the six months ended June 30, 2017 and until the Report Release Date, with respect to which disclosure has not yet been made in the Periodic Report, according to the order of the sections in the Description of the Corporation's Business chapter in the Periodic Report. It shall be noted that the terms in this chapter shall have the meaning ascribed thereto in the Periodic Report, unless otherwise expressly provided.

In this chapter: the "**Report Release Date**" – August 16, 2017; the "**Date of the Statement of Financial Position**" and the "**Report Date**" - June 30, 2017; "**Board of Directors' Report**" – the Board of Directors' Report on the State of the Company's Affairs for the six months and three months ended June 30, 2017. The "**Company's Shelf Prospectus**" – a shelf prospectus which the Company published which bears the date May 11, 2016 (Ref.: 2016-01-063049).

1. Developments that occurred in the Group's structure and business until the Report Release Date

Update to Section 1.3 of the Description of the Corporation's Business chapter:

For details with respect to (1) debt raising; and (2) changes in the office of senior officers; (3) receipt of tax assessment; see Section 1.3 of Chapter A of this Report.

2. Investments in the Company's Capital and Transactions in its Shares

Update to Section 3 of the Description of the Corporation's Business chapter:

For details regarding the holdings of interested parties in the Company, see the immediate report dated July 6, 2017 (Ref.: 2017-01-070461), included herein by way of reference. For details with respect to changes that occurred in the holdings of Mr. Menachem Einan, a director of the Company, see the

[1] As was reported by the Company on March 22, 2017 (Ref. No. 2017-01-026958), included herein by way of reference.

Company's immediate report of January 1, 2017 (Ref.: 2017-01-000042), included herein by way of reference. For details regarding changes that occurred in the holdings of Mr. Joseph Ciechanover, a director of the Company, see the Company's immediate report of April 30, 2017 (Ref.: 2017-01-043860), which is included herein by way of reference. For details with respect to changes in the holdings of interested parties in the Company, such that Migdal Insurance and Financial Holdings Ltd. has ceased being an interested party in the Company, see the Company's immediate report of June 6, 2017 (Ref.: 2017-01-057501), which is included herein by way of reference.

3. Dividends

Update to Section 4 of the Description of the Corporation's Business chapter:

On May 10, 2017, the Company paid a dividend to its shareholders in the total amount of approx. NIS 480 million. For details, see Section 1.6(b) of Chapter A of this Report.

4. Properties under Development

Update to Section 7.7 of the Description of the Corporation's Business chapter:

During the Report Period, the Group continued to invest in the development and construction of new properties and in the expansion and renovation of existing properties.

In Azrieli Sarona, contracts were signed (some of which include options for the lease of additional space) and/or drafts at advanced stages were exchanged regarding approx. 95% of the leasable office space (while there are signed contracts including options with respect to approx. 90%).

A basement habitation certificate was received in May 2017, and a habitation certificate for the office tower was received in June 2017. In addition, in relation to approx. 85% of the leasable retail space, lease agreements have been signed and/or advanced-stage drafts have been exchanged.

During Q1/2017, the construction of the Azrieli Rishonim mall and the office tower was completed, and a habitation form was received for the project. The mall has been opened to the general public and on the Report Release Date lease-up of the office tower had begun. In relation to approx. 85% of the leasable office space in the project, lease agreements have been signed or advanced-stage drafts exchanged (In relation to approx. 75% of the leasable office space, contracts have been signed).

Azrieli Town – in April 2017, the local committee approved the application for an above-ground permit for the project and the Company is acting for fulfillment of the conditions determined in the approval for receipt of the permit.

Expansion of Azrieli Tel Aviv Center – In May 2017, the Company received a changes permit relating to the excavation and shoring permit that had been received thereby. Furthermore, the District Committee held a discussion with respect to objections to the expansion plan and the Company is awaiting receipt of the Committee's decision to validate the plan.

Lehavim – In July 2017, the Palace Lehavim senior housing project received a permit for the construction of 350 residential units, an LTC Unit, auxiliary areas, commerce and an underground basement.

5. Land Reserves (Additional Details)

Update to Section 7.8 of the Description of the Corporation's Business chapter:

A property in the industrial zone in Holon – Lodzia – in March 2017, the local committee approved the application for a demolition, excavation and shoring permit for the project, and the Company is acting for fulfillment of the conditions set forth in the approval for receipt of the permit. With respect to the HaManor land - a basement permit application was approved in July 2017 and the Company is acting to comply with the Committee's conditions for receipt thereof, and an excavation and shoring permit has also been received. The Company has also submitted an application for an aboveground permit to the Local Committee.

For further details regarding the above projects and in respect of the total investments during the Report Period, which the Group continued to invest in the development and construction of new properties and in the expansion of existing properties, see Section 1.3.1 of Chapter A of this Report.

6. Developments Pertaining to Azrieli Tel Aviv Center

Update to Section 9.2 of the Description of the Corporation's Business chapter:

Azrieli Towers in Tel Aviv

(Data according to 100%)	For the Quarter Ended June 30, 2017	For the Quarter Ended March 31, 2017	For the Year Ended December 31, 2016
Value of property (NIS in thousands)	2,976,158	2,882,428	2,877,555
NOI in the period (NIS in thousands)	51,872	52,245	208,841
Revaluation profits (losses) in the period (NIS in thousands)	87,027	(1,881)	53,485
Average occupancy rate in the period (%)	100%	100%	100%
Rate of return (%)	7.0%	7.3%	7.3%
Average rent per sqm per month (NIS) (*)	104	104	104

(*)The figure does not include the rent of the hotel which is located in the Square Tower in Azrieli Center in Tel Aviv. Were the hotel's rent included, the average rent per sqm per month would be approx. NIS 100 per sqm in Q2/2017, approx. NIS 99 per sqm in Q1/2017, and approx. NIS 99 per sqm in 2016.

An update of the valuation for this property as of June 30, 2017 is attached as Annex D to Chapter A of this Report.

7. <u>Additional Operations</u>

<u>Investments in financial assets available for sale in the banking and finance segment - Section 14.2 of the Description of the Corporation's Business Chapter</u>

Update to Section 14.2.1 of the Description of the Corporation's Business Chapter – Investment in Leumi Card:

<u>Control of Financial Services Law (Regulated Financial Services), 5776-2016 (the "Control Law")</u>

On July 24, 2017, the Knesset enacted an amendment to the Control Law, expanding its applicability also to platforms for credit brokerage between lenders and borrowers who are individual or corporations, limited to loans of NIS 1 million. Such licensing duty will take effect on February 1, 2018. The law provides nascent protection to the platforms and the banks and credit card companies held thereby are barred from entering this field for three years as of the date of commencement of the law.

<u>Non-Bank Loans Regulation Law (Amendment No. 5) (Institutional Lenders, Maximum Interest and Penalties), 5775-2015</u> – On July 26, 2017, Amendment 5 to the Non-Bank Loans Regulation Law, which will now be named the Fair Credit Law, passed the second and third readings. The Law prescribes provisions concerning the maximum interest rate collectible on credit as well as a line of provisions on fair disclosure when providing a loan, and various restrictions related to the acceleration of a loan. Furthermore, the law prescribes a series of sanctions for violation of its provisions, including criminal sanctions.

<u>Banking Law (Licensing), 5741-1981 (the "Banking Law")</u>

On March 28, 2017, the Supervisor of Banks extended the transitional period for receipt of a settlement license prescribed by the Banking Law until March 31, 2018 (or until an earlier date on which a response to Leumi Card's application is given).

<u>Privacy Protection Regulations (Information Security), 5777-2017</u>

On May 8, 2017, the Privacy Protection Regulations (Information Security), 5777-2017 were approved by the Constitution, Law and Justice Committee. The purpose of the Regulations is, *inter alia*, to prescribe information security principles related to the management and use of information in databases, based on internationally accepted information security standards, all with the purpose of protecting the rights of the subjects of the information in the databases against abuse of the information about them. The Regulations prescribe a series of provisions related to the definition of risks and their periodic update, the placement of information security procedures according to the sensitivity of the database, and also address the physical aspects of the maintenance of the database and the need to secure it.

EMV Standard

Further to previous updates on the matter, on July 26, 2017, the Supervisor of Banks published a circular update on "Acquirers and Settlement of Payment Card Transactions" concerning use of the EMV standard, whereby as of January 1, 2018, a new terminal will only be connected to the new debit card system that supports the standard subject to the exceptions prescribed by the circular. The effective date of the responsibility diversion mechanism was postponed to January 1, 2019.

Update of Section 14.2.2 of the Description of the Corporation's Business Chapter

For an update on the issue of the disposition of some of the Company's holdings in Bank Leumi, see Note 7 to the Financial Statements (Part C of the Report).

For an update with respect to the disagreement with Bank Leumi, see Note 3C to the Financial Statements (Part C of the Report).

8. Financing

Non-Bank Financing for the Company

Update of Section 19.5 of the Description of the Corporation's Business Chapter:

Commercial Paper
As of the Report Release Date, the Company has two CP series, a rated series in the sum of approx. NIS 448 million (after it repaid, during the quarter, approx. NIS 3 million) and an unrated series in the sum of NIS 190 million.

Series A bonds of the Company

On March 31, 2017, the Company's Series A bonds were repaid.

Series B bonds of the Company
On March 29, 2017, the Company published a shelf offering report for the offering and listing on TASE of up to NIS 263 million par value which were offered by way of expansion of the Series B bond series of the Company, by virtue of the Company's shelf prospectus. On March 30, 2017, the Company announced that according to the results of the offering, another approx. NIS 229 million par value of Series B bonds were allotted in consideration for approx. NIS 223 million (approx. NIS 221 million after attribution of offering expenses).

As of the Report Date, the par value balance of the Company's Series B bonds in circulation is NIS 1,208 million.

For details regarding the expansion of Series B bonds, see Note 3B to the Financial Statements (Part C of the report).

Series C bonds of the Company

On March 29, 2017, the Company published a shelf offering report for the offering and listing on TASE of up to NIS 220 million par value which were offered by way of expansion of the Series C bond series of the Company, by virtue of the Company's shelf prospectus. On March 30, 2017, the Company announced that according to the results of the offering, another approx. NIS 179 million par value of Series C bonds were allotted in consideration for approx. NIS 182 million (approx. NIS 180 million after attribution of offering expenses).

As of the Report Date, the par value balance of the Company's Series C bonds in circulation is NIS 1,184 million.

For details regarding the expansion of Series C bonds, see Note 3B to the Financial Statements (Part C of the report).

Series D Bonds of the Company

On March 29, 2017, the Company published a shelf offering report for the issue and listing on TASE of up to NIS 1,090 million par value which were offered by way of expansion of the Series D bond series of the Company, by virtue of the Company's shelf prospectus. On March 30, 2017, the Company announced that according to the results of the issue, another approx. NIS 984 million par value of Series D bonds were allotted in consideration for approx. NIS 960 million (approx. NIS 952 million after attribution of the issue expenses).

As of the Report Date, the par value balance of the Company's Series D bonds in circulation is NIS 3,178 million.

For details regarding the expansion of Series D bonds, see Note 3B to the Financial Statements (Part C of the Report).

9. Credit Rating

Update of Section 19.12 of the Description of the Corporation's Business Chapter:

On March 27, 2017, Midroog issued a stable Aa1 rating for the Series D Bonds, which are rated by Midroog in the context of the expansion of Series B, C and D Bonds in a total amount of up to NIS 800 million. For details see the Company's immediate report of March 27, 2017 (Ref. 2017-01-029991), which is included herein by way of reference. On March 28, 2017, Midroog updated the said rating, such that the total amount for the expansion of Series B, C and D Bonds is NIS 1,100 million. For details see the Company's immediate report of March 28, 2017 (Ref.: 2017-01-030939), included herein by way of reference.

On March 27, 2017, Ma'alot issued an AA+ rating for Series B and Series C Bonds, which are rated by Ma'alot, in the context of the expansion of Series B, C and D Bonds in a total amount of up to NIS 800 million. For details see the Company's immediate report of March 27, 2017 (Ref. 2017-01-030003), which is included herein by way of reference. On March 28, 2017, Ma'alot updated the said rating, such that the total amount for the expansion of Series B, C and D Bonds is NIS 1,580 million. For details see the Company's immediate report of March 28, 2017 (Ref.: 2017-01-030966), included herein by way of reference.

10. <u>Legal Proceedings</u>

For an updated with respect to the legal proceedings conducted against companies of the Group, see Note 3F to the Financial Statements as of June 30, 2017.

11. <u>Restrictions and Supervision over the Corporation</u>

<u>Update of Section 23.1.3 of the Description of the Corporation's Business Chapter – Senior Housing</u>:

On July 25, 2017, the Senior Housing Bill (Amendment) (Securing the Funds of the Deposit), 5777-2017 passed first reading at the Knesset.

In summary, the Bill prescribes that a holder of a senior home operation license may not receive from a tenant a sum exceeding seven percent of the deposit or NIS 70,000, whichever is lower, unless he registers a first-ranking mortgage in the name of the tenant.

Notwithstanding the aforesaid, it is prescribed that an operator may receive payment on account of the deposit, provided that he provides the tenant with a bank guarantee to secure the funds of the deposit.

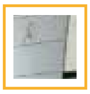
Furthermore, the Bill provides for an Exceptions Committee which, per the operator's request, may fully or partly exempt it from the provision of collateral as aforesaid, and stipulate conditions for such exemption or order the provision of alternative collateral.

The Bill further prescribes that the representatives of the tenants will appoint, with the operator's consent, an accountant to examine the financial stability of the senior home, with the operator and the tenants bearing the costs involved therein on an equal basis.

It is clarified that as of the Report Date, the Bill has only passed first reading, and that the final language of the law, if and insofar as approved in the second and third readings, may incorporate changes to the language described above, as well as the addition of appropriate transitional provisions. In the Company's estimation, the aforesaid Bill, if adopted in its current language, does not materially affect the Company or its profits.

Part C

Consolidated Financial Statements
Dated 30 June 2017



AZRIELIGROUP

Azrieli Group Ltd.

Condensed Consolidated Financial Statements
as of June 30, 2017

(Unaudited)

Azrieli Group Ltd.

C o n t e n t s

Deloitte.

Review report of the Auditors to the shareholders of
Azrieli Group Ltd.

Introduction

We reviewed the attached financial information of **Azrieli Group Ltd.**, the Company and subsidiaries (the "**Group**") which includes the Condensed Consolidated Statements of Financial Position as of June 30, 2017 and the Condensed Consolidated Statements of Profit or Loss and other Comprehensive Income, Changes in Capital and Cash Flows for the six- and three-month periods then ended. The Board of Directors and management are responsible for the preparation and presentation of the financial information for these interim periods in accordance with IAS 34 "Interim Financial Reporting", and they are responsible for the preparation of information for these interim periods under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express a conclusion on the financial information for these interim periods, based on our review.

We did not review the condensed interim financial information of consolidated companies whose consolidated assets constitute approx. 3% of all the consolidated assets as of June 30, 2017, and whose consolidated revenues constitute approx. 21% and approx. 14% of the total consolidated revenues for the six- and three-month periods then ended, respectively. The condensed interim financial information of such companies was reviewed by other auditors whose review reports were furnished to us and our conclusion, insofar as it relates to the financial information for such companies, is based on the review reports of the other auditors.

Scope of the review

We performed our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel "Review of Interim Financial Information Performed by the Auditor of the Entity". A review of interim financial information consists of clarifications, mainly with the persons responsible for financial and accounting matters, and applies analytical and other review procedures. A review is considerably more limited in scope than an audit which is performed in accordance with Generally Accepted Auditing Standards in Israel, and therefore does not enable us to obtain assurance that we will be aware of all the significant matters which could have been identified in an audit. Consequently, we are not issuing an audit opinion.

Conclusion

Based on our review, and on the review reports of the other auditors, nothing has come to our attention which would lead us to believe that the above financial information is not prepared, in all material respects, in accordance with IAS34.

In addition to the statements in the previous paragraph, based on our review and on the review reports of the other auditors, nothing has come to our attention which would lead us to believe that the above financial information does not meet, in all material respects, the disclosure provisions under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Brightman Almagor Zohar & Co.
Certified Public Accountants
Member of Deloitte Touche Tohmatsu Limited

Tel Aviv, August 15, 2017

Azrieli Group Ltd.

Condensed Consolidated Statements of Financial Position

	As of June 30		As of December 31
	2017	2016	2016
	NIS in thousands		NIS in thousands
	(Unaudited)		
ASSETS			
Current Assets			
Cash and cash equivalents	936,167	492,043	714,988
Short-term investments and deposits	449,247	54,866	658,286
Trade accounts receivable	308,853	290,366	288,376
Other receivables	113,394	111,508	137,092
Inventory	54,258	58,282	60,478
Current tax assets	23,691	11,435	17,201
	1,885,610	1,018,500	1,876,421
Assets held for sale and assets of disposal group held for sale	40,161	1,923,345	781
Total Current Assets	1,925,771	2,941,845	1,877,202
Non-current Assets			
Investments and loans of associates	84,964	75,511	79,473
Investments, loans and receivables	320,951	141,673	339,768
Financial assets	1,762,730	1,609,408	1,713,336
Long-term receivables in respect of franchise arrangement	52,852	49,388	52,483
Investment property and investment property under construction	24,649,939	22,645,554	23,722,736
Fixed assets	479,765	427,388	445,187
Intangible assets	320,178	336,683	333,097
Deferred tax assets	20,684	19,331	19,950
Total Non-current Assets	27,692,063	25,304,936	26,706,030
Total Assets	29,617,834	28,246,781	28,583,232

The notes to the condensed consolidated financial statements form an integral part thereof.

Azrieli Group Ltd.

Condensed Consolidated Statements of Financial Position

(Continued)

	As of June 30		As of December 31
	2017	2016	2016
	NIS in thousands		NIS in thousands
	(Unaudited)		
LIABILITIES AND CAPITAL			
Current liabilities			
Current maturities and credit from banks and other credit providers	1,362,531	3,233,304	2,082,564
Trade payables	389,597	170,559	218,633
Payables and other current liabilities	201,262	195,449	199,918
Deposits from customers	796,805	728,252	764,003
Provisions	12,835	12,158	12,498
Current tax liabilities	25,717	58,566	37,428
	2,788,747	4,398,288	3,315,044
Liabilities of disposal group held for sale	-	1,548,527	169
Total current liabilities	2,788,747	5,946,815	3,315,213
Non-current liabilities			
Loans from banks and other credit providers	2,297,784	2,580,020	2,487,888
Bonds	5,710,329	2,334,535	4,498,260
Employee benefits	8,284	7,241	8,139
Other liabilities	45,443	48,703	45,250
Deferred tax liabilities	3,100,568	2,989,479	2,912,691
Total non-current liabilities	11,162,408	7,959,978	9,952,228
Capital			
Ordinary share capital	18,223	18,223	18,223
Share premium	2,518,015	2,518,015	2,518,015
Capital reserves	450,074	414,378	499,528
Retained earnings	12,638,948	11,343,769	12,237,592
Total equity attributable to the shareholders of the Company	15,625,260	14,294,385	15,273,358
Non-controlling interests	41,419	45,603	42,433
Total Capital	15,666,679	14,339,988	15,315,791
Total Liabilities and Capital	29,617,834	28,246,781	28,583,232

August 15, 2017			
Date of approval of the financial statements	**Danna Azrieli Chairman of the Board**	**Yuval Bronstein CEO**	**Irit Sekler-Pilosof CFO**

The notes to the condensed consolidated financial statements form an integral part thereof.

Azrieli Group Ltd.

Condensed Consolidated Statements of Profit or Loss and of Other Comprehensive Income

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended Dec. 31
	2017	2016	2017	2016	2016
	NIS in thousands		NIS in thousands		NIS in thousands
	(Unaudited)		(Unaudited)		
Revenues					
From rent, management and maintenance fees	910,224	836,492	458,641	420,268	1,744,621
From sales, labor and services	396,416	336,947	171,740	147,526	660,795
Net profit from fair value adjustment of investment property and investment property under construction	516,227	390,466	531,181	33,455	710,578
Financing	16,612	13,804	3,629	4,286	49,061
Other	45,667	11,941	35,463	975	14,116
Total revenues	1,885,146	1,589,650	1,200,654	606,510	3,179,171
Costs and Expenses:					
Cost of revenues from rent, management and maintenance fees	232,317	200,235	116,974	101,388	445,486
Cost of revenues from sales, labor and services	259,206	203,001	110,414	90,066	419,153
Sales and marketing	88,057	74,188	45,195	37,401	171,773
G&A	52,705	47,227	28,033	23,890	104,310
Share in results of associates, net of tax	2,965	3,840	1,279	1,787	8,439
Financing	119,645	72,602	78,129	49,207	159,124
Other	141	41	49	41	5,191
Total Costs and Expenses	755,036	601,134	380,073	303,780	1,313,476
Income before income taxes	1,130,110	988,516	820,581	302,730	1,865,695
Taxes on income	(248,230)	(66,794)	(179,205)	(58,646)	(49,023)
Income from continuing operations	881,880	921,722	641,376	244,084	1,816,672
Income (loss) from discontinued operations (after tax)	-	(2,867)	-	390	(8,501)
Net profit for the period	881,880	918,855	641,376	244,474	1,808,171
Other comprehensive income:					
Amounts that will not be carried in the future to the income statement, net of tax:					
Actuarial loss due to defined benefit plan, net of tax	-	-	-	-	(17)
Amounts that were carried or 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	51,262	14,795	49,077	3,565	95,944
Translation differences from foreign operations	(103,953)	(15,408)	(42,034)	22,075	(11,392)
Total	(52,691)	(613)	7,043	25,640	84,552
Other comprehensive income (loss) for the period, net of tax	(52,691)	(613)	7,043	25,640	84,535
Total Comprehensive Income for the Period	829,189	918,242	648,419	270,114	1,892,706

The notes to the condensed consolidated financial statements form an integral part thereof.

Azrieli Group Ltd.

Condensed Consolidated Statements of Profit or Loss and of Other Comprehensive Income

(Continued)

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2017	2016	2017	2016	2016
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		(Unaudited)		
Net income for the year attributable to:					
Shareholders of the Company	881,356	916,178	641,264	244,134	1,810,018
Non-controlling interests	524	2,677	112	340	(1,847)
	881,880	918,855	641,376	244,474	1,808,171
Total comprehensive income for the year attributable to:					
Shareholders of the Company	831,902	916,040	649,615	269,081	1,895,013
Non-controlling interests	(2,713)	2,202	(1,196)	1,033	(2,307)
	829,189	918,242	648,419	270,114	1,892,706
	NIS	NIS	NIS	NIS	NIS
Basic and diluted earnings (in NIS) per one ordinary share of par value NIS 0.1 attributable to shareholders of the Company:					
Continuing operations	7.27	7.58	5.29	2.01	15.00
Discontinued operations	-	(0.02)	-	-	(0.07)
	7.27	7.56	5.29	2.01	14.93
Average weighted number of shares used for calculating the basic and diluted earnings per share	121,272,760	121,272,760	121,272,760	121,272,760	121,272,760

The notes to the condensed consolidated financial statements form an integral part thereof.

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital

For the six-month period ended June 30, 2017 (Unaudited)

	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 transactions with non-controlling interests in a consolidated company	Other capital reserves	Retained earnings	Total attributed to shareholders of the Company	Non-controlling interests	Total
	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	NIS in Thousands	NIS in Thousands
Balance as of January 1, 2017	18,223	2,518,015	487,215	19,622	(31,002)	25,789	(2,096)	12,237,592	15,273,358	42,433	15,315,791
Net profit for the period	-	-	-	-	-	-	-	881,356	881,356	524	881,880
Change in fair value of financial assets available for sale, net of tax	-	-	51,262	-	-	-	-	-	51,262	-	51,262
Translation differences from foreign operations	-	-	-	(100,716)	-	-	-	-	(100,716)	(3,237)	(103,953)
Total comprehensive income for the period	-	-	51,262	(100,716)	-	-	-	881,356	831,902	(2,713)	829,189
Dividend to the shareholders of the Company	-	-	-	-	-	-	-	(480,000)	(480,000)	-	(480,000)
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	-	-	(125)	(125)
Investment of non-controlling interests in a subsidiary	-	-	-	-	-	-	-	-	-	1,824	1,824
Total transactions with shareholders of the Company	-	-	-	-	-	-	-	(480,000)	(480,000)	1,699	(478,301)
Balance as of June 30, 2017	18,223	2,518,015	538,477	(81,094)	(31,002)	25,789	(2,096)	12,638,948	15,625,260	41,419	15,666,679

The notes to the condensed consolidated financial statements form an integral part thereof.

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital

(Continued)

For the six-month period ended June 30, 2016 (Unaudited)

	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 transactions with non-controlling interests in a consolidated company	Other capital reserves	Retained earnings	Total attributed to shareholders of the Company	Non-controlling interests	Total
	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	NIS in Thousands	NIS in Thousands
Balance as of January 1, 2016	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
Net profit for the period	-	-	-	-	-	-	-	916,178	916,178	2,677	918,855
Change in fair value of financial assets available for sale, net of tax	-	-	14,710	-	-	-	-	-	14,710	85	14,795
Translation differences from foreign operations	-	-	-	(14,848)	-	-	-	-	(14,848)	(560)	(15,408)
Total comprehensive income for the period	-	-	14,710	(14,848)	-	-	-	916,178	916,040	2,202	918,242
Dividend to the shareholders of the Company	-	-	-	-	-	-	-	(400,000)	(400,000)	-	(400,000)
Capital reserve for transactions with related parties	-	-	-	-	(28)	-	-	-	(28)	28	-
Investment of non-controlling interests in a subsidiary	-	-	-	-	-	-	-	-	-	2,918	2,918
Acquisition of non-controlling interests in a subsidiary	-	-	-	-	-	7,148	-	-	7,148	(58,148)	(51,000)
Total transactions with shareholders of the Company	-	-	-	-	(28)	7,148	-	(400,000)	(392,880)	(55,202)	(448,082)
Balance as of June 30, 2016	18,223	2,518,015	406,066	15,621	(31,002)	25,789	(2,096)	11,343,769	14,294,385	45,603	14,339,988

The notes to the condensed consolidated financial statements form an integral part thereof.

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital

For the three-month period ended June 30, 2017 (Unaudited)

	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 transactions with non-controlling interests in a consolidated company	Other capital reserves	Retained earnings	Total attributed to shareholders of the Company	Non-controlling interests	Total
	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	NIS in Thousands	NIS in Thousands
Balance as of April 1, 2017	18,223	2,518,015	489,400	(40,368)	(31,002)	25,789	(2,096)	11,997,684	14,975,645	40,916	15,016,561
Net profit for the period	-	-	-	-	-	-	-	641,264	641,264	112	641,376
Change in fair value of financial assets available for sale, net of tax	-	-	49,077	-	-	-	-	-	49,077	-	49,077
Translation differences from foreign operations	-	-	-	(40,726)	-	-	-	-	(40,726)	(1,308)	(42,034)
Total comprehensive income for the year	-	-	49,077	(40,726)	-	-	-	641,264	649,615	(1,196)	648,419
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	-	-	(125)	(125)
Investment of non-controlling interests in a subsidiary	-	-	-	-	-	-	-	-	-	1,824	1,824
Total transactions with shareholders of the Company	-	-	-	-	-	-	-	-	-	1,699	1,699
Balance as of June 30, 2017	18,223	2,518,015	538,477	(81,094)	(31,002)	25,789	(2,096)	12,638,948	15,625,260	41,419	15,666,679

The notes to the condensed consolidated financial statements form an integral part thereof.

Azrieli Group Ltd.
Condensed Consolidated Statements of Changes in Capital
(Continued)

For the three-month period ended June 30, 2016 (Unaudited)

	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 transactions with non-controlling interests in a consolidated company	Other capital reserves	Retained earnings	Total attributed to shareholders of the Company	Non-controlling interests	Total
	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	NIS in Thousands	NIS in Thousands
Balance as of April 1, 2016	18,223	2,518,015	402,501	(5,761)	(31,002)	25,789	(2,096)	11,099,635	14,025,304	44,570	14,069,874
Net profit for the period	-	-	-	-	-	-	-	244,134	244,134	340	244,474
Change in fair value of financial assets available for sale, net of tax	-	-	3,565	-	-	-	-	-	3,565	-	3,565
Translation differences from foreign operations	-	-	-	21,382	-	-	-	-	21,382	693	22,075
Total comprehensive income for the year	-	-	3,565	21,382	-	-	-	244,134	269,081	1,033	270,114
Balance as of June 30, 2016	18,223	2,518,015	406,066	15,621	(31,002)	25,789	(2,096)	11,343,769	14,294,385	45,603	14,339,988

The notes to the condensed consolidated financial statements form an integral part thereof.

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital
(Continued)

	For the Year ended December 31, 2016										
	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 transactions with non-controlling interests in a consolidated company	Other capital reserves	Retained earnings	Total attributed to shareholders of the Company	Non-controlling interests	Total
	NIS in Thousands										
Balance as of January 1, 2016	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
Net profit for the year	-	-	-	-	-	-	-	1,810,018	1,810,018	(1,847)	1,808,171
Change in fair value of financial assets available for sale, net of tax	-	-	95,859	-	-	-	-	-	95,859	85	95,944
Actuarial loss due to defined benefit plan, net of tax	-	-	-	-	-	-	-	(17)	(17)	-	(17)
Translation differences from foreign operations	-	-	-	(10,847)	-	-	-	-	(10,847)	(545)	(11,392)
Total comprehensive income for the year	-	-	95,859	(10,847)	-	-	-	1,810,001	1,895,013	(2,307)	1,892,706
Dividend to the shareholders of the Company	-	-	-	-	-	-	-	(400,000)	(400,000)	-	(400,000)
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	-	-	(175)	(175)
Capital reserve for transactions with related parties	-	-	-	-	(28)	-	-	-	(28)	28	-
Investment of non-controlling interests in a subsidiary	-	-	-	-	-	-	-	-	-	4,432	4,432
Acquisition of non-controlling interests in a subsidiary	-	-	-	-	-	7,148	-	-	7,148	(58,148)	(51,000)
Total transactions with shareholders of the Company	-	-	-	-	(28)	7,148	-	(400,000)	(392,880)	(53,863)	(446,743)
Balance as of December 31, 2016	18,223	2,518,015	487,215	19,622	(31,002)	25,789	(2,096)	12,237,592	15,273,358	42,433	15,315,791

The notes to the condensed consolidated financial statements form an integral part thereof.

Azrieli Group Ltd.
Condensed Consolidated Statements of Cash Flows

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2017	2016	2017	2016	2016
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		(Unaudited)		
Cash Flows - Current Operations					
Net profit for the period	881,880	918,855	641,376	244,474	1,808,171
Depreciation and amortization	32,579	52,881	16,181	26,399	87,530
Impairment of intangible assets	-	25,227	-	25,227	32,199
Forfeiture of senior housing tenants' deposits	(10,496)	(5,699)	(5,336)	(2,800)	(16,835)
Net profit from fair value adjustment of investment property and investment property under construction	(516,227)	(390,466)	(531,181)	(33,455)	(710,578)
Net financing and other expenses	82,859	59,296	70,161	39,345	113,617
Net profit from disposition of fixed assets, investment property and intangible assets	(493)	(137)	(333)	(91)	(529)
Share in losses of associates accounted for by the equity method	2,965	3,840	1,279	1,787	8,439
Tax expenses recognized in the income statement	248,230	75,698	179,205	67,159	57,927
Change in financial assets	(120)	(9)	69	(9)	(66)
Profit from disposition of investments in financial assets available for sale	(30,587)	-	(30,587)	-	-
Loss from disposition of investment in subsidiary (Annex A)	-	-	-	-	5,634
Income taxes paid, net	(94,937)	(136,191)	(52,334)	(43,178)	(241,560)
Erosion (revaluation) of financial assets designated at fair value through profit and loss	3,843	(3,564)	-	1,204	(3,927)
Change in inventory	6,220	432	5,495	(13,078)	(1,764)
Change in trade and other receivables	(21,718)	67,919	20,236	117,208	(3,586)
Change in receivables in respect of franchise arrangement	(70)	(6,523)	1,605	(2,544)	(11,035)
Change in trade and other payables	2,106	44,116	(6,388)	58,054	92,904
Receipt of deposits from senior housing tenants	73,478	12,778	36,285	4,993	101,112
Return of deposits from senior housing tenants	(27,090)	(5,584)	(11,451)	(5,191)	(27,839)
Change in employee provisions and benefits	239	(921)	95	(579)	163
Net cash - current operations	632,661	711,948	334,377	484,925	1,289,977

The notes to the condensed consolidated financial statements form an integral part thereof.

Azrieli Group Ltd.

Condensed Consolidated Statements of Cash Flows

(Continued)

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2017	2016	2017	2016	2016
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		(Unaudited)		
Cash flows - Investment Activity					
Proceeds from liquidation of fixed and intangible assets	898	1,503	429	841	2,796
Proceeds from liquidation of investment property	-	4,536	-	-	4,536
Down payments on account of investment property	-	(6,059)	-	(5,612)	-
Purchase of an investment in investment property and investment property under construction	(455,166)	(1,212,521)	(199,118)	(570,693)	(2,007,517)
Purchase of fixed and intangible assets	(42,758)	(87,011)	(24,077)	(60,557)	(118,437)
Investment in and granting of loans to associates	(10,342)	(8,523)	(8,302)	(2,410)	(16,789)
Change in short-term deposits	209,159	(14,800)	(403,175)	(2,265)	(618,163)
Change in restricted investments	2,665	(300)	2,363	(194)	(301)
Bonus received	204	-	204	-	-
Receipt (payment) for settlement of derivative financial instruments, net	-	725	-	(130)	725
Change in financial assets designated at fair value through profit and loss, net	2,068	741	2,068	146	5,389
Granting of long-term loans	(1,143)	(829)	-	(545)	(2,634)
Collection of long-term loans	5,809	14,591	2,332	4,035	16,350
Interest and dividend received	17,326	22,291	5,930	6,916	27,550
Proceeds from disposition of financial assets available for sale, net	46,607	-	29,921	-	79,714
Acquisition of companies consolidated for the first time (Annex B)	-	(60,864)	-	(60,864)	(61,294)
Net proceeds from disposition of investments in investee companies (Annex A)	16,550	-	15,691	-	116,339
Institutions for purchase of real estate	-	(6,600)	-	44,787	(6,600)
Net cash – investment activity	(208,123)	(1,353,120)	(575,734)	(646,545)	(2,578,336)

The notes to the condensed consolidated financial statements form an integral part thereof.

Azrieli Group Ltd.

Condensed Consolidated Statements of Cash Flows

(Continued)

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2017	2016	2017	2016	2016
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		(Unaudited)		
Cash flows - Financing Activity					
Acquisition of non-controlling interests	-	(51,000)	-	-	(51,000)
Dividend distribution to shareholders	(480,000)	(400,000)	(480,000)	(400,000)	(400,000)
Repayment of bonds	(626,106)	(393,088)	(130,720)	(340,503)	(409,867)
Bond offering net of issue expenses	1,353,526	-	-	-	2,176,535
Receipt of long-term loans from banks and others	244,355	1,056,631	-	806,631	1,139,994
Repayment of long-term loans from banks and others	(596,994)	(173,836)	(19,810)	(49,378)	(885,117)
Short-term credit from banks and others, net	3,058	310,908	(17,308)	125,031	(308,757)
Repayment of deposits from customers	(3,786)	(2,918)	(2,225)	(1,656)	(4,145)
Received deposits from customers	4,161	3,546	2,151	1,701	5,802
Dividend to holders of non-controlling interests	(125)	-	(125)	-	(175)
Investment of non-controlling interests in a subsidiary	1,824	2,918	1,824	-	4,432
Interest paid	(91,887)	(96,845)	(30,298)	(47,769)	(198,180)
Net cash - financing activity	(191,974)	256,316	(676,511)	94,057	1,069,522
Increase (decrease) in cash and cash equivalents	232,564	(384,856)	(917,868)	(67,563)	(218,837)
Cash and cash equivalents at beginning of period	714,988	934,724	1,861,734	613,926	934,724
Change in net cash classified under disposal group held for sale	(22)	(55,877)	(100)	(56,467)	833
Effect of exchange rate changes on cash balances held in foreign currency	(11,363)	(1,948)	(7,599)	2,147	(1,732)
Cash and cash equivalents at end of period	936,167	492,043	936,167	492,043	714,988

(*) Non-cash transactions include a change in payables in respect of on-credit purchases of non-current assets for the six- and three-month periods ended on June 30, 2017, in the sum of NIS 172,557 thousand and NIS 186,239 thousand, respectively. In 2016 non-cash operations included a change in charges due to the sale of an investment in an investee in the sum of NIS 125,088.

The notes to the condensed consolidated financial statements form an integral part thereof.

Azrieli Group Ltd.

Condensed Consolidated Statements of Cash Flows

(Continued)

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2017	2016	2017	2016	2016
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		(Unaudited)		
Annex A -					
Proceeds from sale of investment in Sonol Israel Ltd., a previously consolidated company (see Note 4):					
Working capital (excluding cash and cash equivalents)	-	-	-	-	(183,085)
Investments and loans	-	-	-	-	73,246
Fixed and intangible assets, net	-	-	-	-	684,366
Prepaid long-term rent	-	-	-	-	37,045
Investment property	-	-	-	-	12,420
Deferred tax assets	-	-	-	-	7,100
Employee provisions and benefits	-	-	-	-	(72,094)
Long-term liabilities including current maturities	-	-	-	-	(311,938)
Loan granted in respect of sale of the investment	-	-	-	-	(97,500)
Receivables in respect of sale of the investment	16,550	-	15,691	-	(27,587)
Loss from disposition of investment in a subsidiary	-	-	-	-	(5,634)
	16,550	-	15,691	-	116,339
Annex B -					
Acquisition of company consolidated for the first time – Ahuzat Bayit Ra'anana Retirement Home Ltd.:					
Working capital (excluding cash and cash equivalents and short-term deposits)	-	(31,361)	-	(31,361)	(31,361)
Liabilities in respect of deposits from customers	-	327,655	-	327,655	327,655
Fixed and intangible assets, net	-	(13,460)	-	(13,460)	(13,460)
Investment property	-	(530,627)	-	(530,627)	(530,627)
Long-term liabilities including current maturities	-	212,454	-	212,454	212,454
	-	(35,339)	-	(35,339)	(35,339)
Acquisition of company consolidated for the first time – Azrieli E-Commerce Ltd. (formerly: Netex New Media Ltd.):					
Working capital (excluding cash and cash equivalents)	-	5,025	-	5,025	5,025
Fixed and intangible assets, net	-	(77,360)	-	(77,360)	(79,510)
Long-term liabilities including current maturities	-	35,032	-	35,032	38,099
Payables in respect of purchase of investment	-	12,000	-	12,000	10,653
	-	(25,303)	-	(25,303)	(25,733)
Acquisition of company consolidated for the first time – Bio Clean Air Innovation Ltd.:					
Working capital (excluding cash and cash equivalents)	-	6,078	-	6,078	6,078
Fixed and intangible assets, net	-	(7,124)	-	(7,124)	(7,124)
Reserve for deferred taxes, net	-	824	-	824	824
	-	(222)	-	(222)	(222)
	-	(60,864)	-	(60,864)	(61,294)

The notes to the condensed consolidated financial statements form an integral part thereof.

Note 1 – General

A. Azrieli Group Ltd. (the "**Company**") is a company domiciled and incorporated in Israel and whose registered address is 1 Azrieli Center, Tel Aviv. The Company's shares are traded on the TASE and are included in the "Tel Aviv 35" Index. The Group has publicly offered bond series (Series B, Series C and Series D). The Group's consolidated financial statements as of June 30, 2017 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. ("**Nadav Investments**") (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 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 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. 8.55% of the capital and voting rights in the Company.

As the Company has been informed, on March 20, 2017, a shareholders' agreement (the "**2017 Agreement**") was signed between Sharon Azrieli, Naomi Azrieli and Danna Azrieli (in person and through companies controlled by them), the indirect controlling shareholders of the Company and directors thereof (the "**Controlling Shareholders**"). Additional parties to the 2017 Agreement are Azrieli Holdings, Nadav Investments and David's Holding Corporation (the three: the "**Holding Corporations**"). The 2017 Agreement replaces and substitutes the former shareholders' agreement made by the parties in November 2012 (the "**2012 Agreement**"), and regulates the relations between the Controlling Shareholders, in person and through the Holding Corporations, in connection with their rights in the Company.

Note 1 – General (Contd.)

A. (Contd.)

Similarly to the 2012 Agreement, the terms of the 2017 Agreement include agreements regarding the sale and transfer of shares in the Company and in the Holding Corporations, including a lock-up period, right of first refusal, right of first offer, tag along right and an exclusion concerning certain sales of shares (drip) on the Stock Exchange. The 2017 Agreement further prescribes that the manner of use of the voting rights in the Company will be determined by the Controlling Shareholders (by a majority vote), provided however, that in respect of resolutions to appoint directors of the Company, each one of the Controlling Shareholders shall have the right to use the voting rights to appoint one director who will be determined by her, whereas the manner of use of the voting rights in the Company regarding resolutions to appoint additional directors, will be adopted by a majority vote. It is clarified that the 2017 Agreement does not change the identity of the controlling shareholders of the Company (including of Azrieli Holdings) nor their holding rate in the capital and in the voting rights of the Company, and that as of the Report Date, Sharon Azrieli, Naomi Azrieli and Danna Azrieli are the Company's controlling shareholders.

B. These Condensed Consolidated Statements should be reviewed in the context of the Group's Annual Financial Statements as of December 31, 2016, and for the year then ended, and the notes attached thereto.

Note 2 – Significant Accounting Policies

A. The basis for the preparation of the financial statements:

The Group's condensed consolidated financial statements ("**Interim Consolidated Statements**") were prepared in accordance with IAS 34 – Interim Financial Reporting ("**IAS 34**").
In the preparation of these Interim Financial Statements the Group has applied the accounting policy, rules of presentation and methods of calculation identical to those used in the preparation of its financial statements as of December 31, 2016 and for the year then ended.
The condensed consolidated financial statements were prepared in accordance with the disclosure provisions in Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

B. Use of estimates and discretion:

(1) In the preparation of the condensed financial statements in accordance with IFRS, the Group's managements are required to use discretion, evaluations, estimates and assumptions which affect the application of the policy and the amounts of assets and liabilities, revenues and expenses. It is clarified that the actual results may differ from such estimates.

Note 2 – Significant Accounting Policies (Contd.)

B. Use of estimates and discretion (Contd.)

(1) (Contd.)

The evaluations and discretion used by management to apply the accounting policy and prepare the Consolidated Interim Financial Statements were identical to those used in the preparation of the financial statements as of December 31, 2016.

(2) Further to Note 3(C)1 to the Annual Financial Statements, as of June 30, 2017, the Group updated the valuations for some of its investment property in Israel (which are attributed to the retail centers and malls segment, to the office and other space for lease segment and to the senior housing segment).

The valuations were performed by an independent external appraiser, possessing the appropriate professional skills.

The valuations for the investment property for lease and under construction were mainly prepared using the method of discounting the expected cash flows from the properties.

The cap rates used by the appraiser are mainly between 6.75% and 8.75%. The cap rates were determined considering the type, designation and location of the property, the amount of the rent versus the market price and the nature of the tenants.

In addition, valuations of property under construction were updated by discounting the expected cash flows from the property, net of construction cost balance and developer profit. The cap rates used by the appraiser for the property under construction are between 8%-9.75%. The cap rate was determined in consideration of the type of the property, the level of risk and uncertainty with respect to receipt of the expected cash flow, the size of the property and the timing of the completion of the construction.

In regards to the remaining properties, the Company's estimation is that no significant changes occurred in the properties' value compared to the last date on which a valuation was performed.

C. Rates of exchange and linkage basis:

(1) Balances that are stated in foreign currency or linked thereto are recorded in the financial statements according to the representative exchange rates published by the Bank of Israel and which were in force on the end of the reporting period.

Note 2 – Significant Accounting Policies (Contd.)
C. Rates of exchange and linkage basis (Contd.)

(2) Balances that are linked to the CPI are presented according to the last known index at the end of the reporting period (the index for the month preceding the month of the date of the financial statements) or according to the index for the last month of the period of report (the index for the month of the date of the financial statements) according to the terms of the transaction.

(3) The following is data on the significant exchange rates and the Index:

	Representative exchange rate of the	Index in Israel	
	USD	"For"	"Known"
	(NIS to 1 Dollar)	1993 Basis	1993 Basis
Date of the financial statements:			
As of June 30, 2017	3.496	220.68	222.23
As of June 30, 2016	3.846	221.13	220.46
As of December 31, 2016	3.845	220.68	220.68
Change rates:	%	%	%
For the six-month period			
ended June 30, 2017	(9.08)	-	0.70
ended June 30, 2016	(1.44)	-	(0.40)
For the three-month period			
ended June 30, 2017	(3.74)	(0.10)	0.90
ended June 30, 2016	2.12	1.02	0.51
For the year ended			
December 31, 2016	(1.46)	(0.20)	(0.30)

Note 3 – Material Events during the Report Period

A. On March 21, 2017, the Company's Board of Directors decided upon the distribution of a dividend in the sum of NIS 480 million (reflecting NIS 3.96 per share), which was paid on May 10, 2017.

B. In March 2017, the Company issued to the public NIS 228.8 million par value of additional Series B bonds at a price of 97.45 *agorot* per NIS 1 par value (a discount of approx. 2.55% relative to their adjusted value), NIS 179.0 million of additional Series C bonds at a price of 101.4 *agorot* per NIS 1 par value (a premium of approx. 1% relative to their adjusted value), and NIS 983.6 million par value of additional Series D bonds at a price of 97.6 *agorot* per NIS 1 par value (a discount of approx. 2.7% relative to their adjusted value), by way of expansion of the bond series, based on a shelf prospectus of the Company. The gross issue proceeds totaled NIS 1,364.6 million, and after attribution of the issue expenses, net proceeds totaled approx. NIS 1,354 million.

For details with respect to the bond series, see Note 21B to the Annual Financial Statements.

C. Further to Note 12(2) to the Annual Financial Statements regarding disagreements between the Company and Bank Leumi Le-Israel Ltd. with respect to the consideration received by Bank Leumi from the sale of Visa Europe Ltd., the parties agreed, in April 2017, that Bank Leumi will transfer the Company a sum of NIS 32,134 thousand which were recognized as other revenues in the statements of Q2/2017. Most of the sum was transferred to the Company in April 2017.

D. On April 27, 2017, the general meeting of the Company's shareholders approved an amendment to an extension of the term of letters of indemnification granted to Ms. Danna Azrieli, Ms. Sharon Azrieli, and Ms. Naomi Azrieli, who are indirect controlling shareholders of the Company ("**Directors who are Controlling Shareholders**"), for an additional period of three years, and the grant of exemption from liability to Directors who are Controlling Shareholders, commencing on April 27, 2017.

E. On April 27, 2017, the general meeting of the Company's shareholders approved the grant of updated letters of indemnification and exemption to directors of the Company, as serving therein from time to time, with the exception of Directors who are Controlling Shareholders and/or their relatives.

Note 3 – Material Events during the Report Period (Contd.)

F. Following Note 33B8 to the Annual Financial Statements regarding an investigation against Supergas regarding a gas incident which occurred in January 2014 in an apartment in the Gilo neighborhood of Jerusalem, on May 4, 2017 Supergas and officers thereof received a notice from the State Attorney that the investigation file in their regard has been closed.

G. On June 1, 2017, the compensation committee approved an engagement for renewal of the insurance policy for directors and officers of the Company (including from among the Company's controlling shareholders) and the Company's subsidiaries (except for Granite Hacarmel, which holds an independent D&O insurance policy), from June 3, 2017 until June 2, 2018. The engagement is consistent with the engagement framework specified in the Company's approved compensation policy.

Note 4 – Discontinued Operations

On July 24, 2016, a transaction was closed between Granite Hacarmel and Israel Oil & Gas Fund L.P., a limited partnership incorporated in Israel, the general partner of which is controlled by Mr. David Weissman for the sale of all of Granite Hacarmel's holdings (100%) in Sonol Israel Ltd. For details with respect to the transaction, see Note 8 to the Annual Financial Statements.

For the six- and three-month periods ended on June 30, 2017, the cash flows from investment activities included consideration due to the transaction in the sum of NIS 16,550 thousand and NIS 15,691 thousand, respectively.

Note 5 – Fair Value

A. Fair value vs. Book value:

Other than as specified in the following table, the Group believes that the book value of the financial assets and liabilities that are presented in depreciated cost in the financial statements is almost identical to their fair value.

	As of June 30, 2017		As of June 30, 2016		As of December 31, 2016	
	Book value	Fair value	Book value	Book value	Fair value	Book value
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
Non-current assets:						
Receivables in respect of franchise arrangement (*)	57,792	73,458	52,537	65,703	57,426	70,812
Non-current liabilities:						
Loans from banks and other credit providers (*)	2,788,227	2,845,523	3,868,020	3,979,951	3,243,078	3,271,487
Bonds (*)	5,930,076	6,023,113	2,993,127	3,127,575	5,170,542	5,180,098
	8,718,303	8,868,636	6,861,147	7,107,526	8,413,620	8,451,585
Surplus of liabilities over assets	(8,660,511)	(8,795,178)	(6,808,610)	(7,041,823)	(8,356,194)	(8,380,773)

(*) The book value includes current maturities and accrued interest.

Note 5 – Fair Value (Contd.)

B. The interest rates used in the determination of the fair value:

The interest 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, plus an appropriate fixed credit margin, and were as follows:

	As of June 30		As of December 31
	2017	2016	2016
	%	%	%
Non-current assets:			
Receivables in respect of franchise arrangement	1.86-2.78	3.01-3.11	3.1
Non-current liabilities:			
Loans from banks and other credit providers	0.98-4.39	0.8-3.54	1.15-4.63
Bonds	0.91-1.6	0.82-1.21	1.13-1.83

C. Fair value Hierarchy:

The following table presents an analysis of the financial instruments measured at fair value using valuation techniques.

The various levels were defined as follows:

Level 1 – Quoted (unadjusted) prices in active markets for identical instruments.

Level 2 – Inputs other than the quoted market prices included within Level 1 which are directly or indirectly observable (for investments in financial assets designated at fair value through profit and loss, use is made of recent market transactions between a willing buyer and a willing seller).

Level 3 – Inputs that are not based on observable market data.

Note 5 – Fair Value (Contd.)

C. Fair Value Hierarchy (Contd.)

	As of June 30, 2017			
	Level 1	Level 2	Level 3	Total
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Financial assets held for trade:				
Securities	692	-	-	692
Financial assets available for sale:				
Marketable shares	1,095,397	-	-	1,095,397
Non-marketable shares	-	87,842	561,701	649,543
Financial assets designated at fair value through profit and loss:				
Non-marketable investments	-	17,790	-	17,790
Total fair value of financial assets	1,096,089	105,632	561,701	1,763,422

	As of June 30, 2016			
	Level 1	Level 2	Level 3	Total
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
Financial assets held for trade:				
Securities	515	-	-	515
Financial assets available for sale:				
Marketable shares	955,772	-	-	955,772
Non-marketable shares	-	-	625,652	625,652
Financial assets designated at fair value through profit and loss:				
Non-marketable investments	-	27,984	-	27,984
Total fair value of financial assets	956,287	27,984	625,652	1,609,923

Note 5 – Fair Value (Contd.)

C. Fair Value Hierarchy (Contd.)

	As of December 31, 2016			
	Level 1	Level 2	Level 3	Total
	NIS in Thousands	NIS in Thousands	NIS in Thousands	NIS in Thousands
Financial assets held for trade:				
Securities	572	-	-	572
Financial assets available for sale:				
Marketable shares	1,040,093	-	-	1,040,093
Non-marketable shares	-	87,842	561,701	649,543
Financial assets designated at fair value through profit and loss:				
Non-marketable investments	-	23,700	-	23,700
Total fair value of financial assets and liabilities	1,040,665	111,542	561,701	1,713,908

D. Financial instruments that are measured at fair value at Level 3:

The following table represents the reconciliation between the opening balance and the closing balance in respect of financial instruments that are measured at fair value at Level 3 in the hierarchy of the fair value:

	For the six-month period ended June 30		For the year ended December 31
	2017	2016	2016
	NIS in Thousands	NIS in Thousands	NIS in Thousands
	(Unaudited)		
Financial assets available for sale:			
Balance as of year start	561,701	681,113	681,113
Total profits (losses) recognized:			
In other comprehensive income	-	9,570	(31,529)
Carried to Level 2	-	(65,031)	(87,842)
Sales	-	-	(41)
	561,701	625,652	561,701

Note 6 – 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 reports in respect of the components of the Group, which are reviewed on a regular basis by the Group's Chief Operating 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 various real estate segments, 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 segment, and land designated for residential lease in Israel. In addition, the Company is engaged in the income-producing property in the USA segment (office space for lease). The Company is also engaged in the senior housing segment following the closing of the purchase of the "Palace" senior home in Tel Aviv, and purchased the "Palace" senior home in Ra'anana (formerly - "Ahuzat Bayit") in May 2016, and has also purchased rights in three sites on which it is planning and building additional senior homes which are at various stages of development and construction. As of the quarterly report of September 30, 2016, in view of the establishment and expansion of the operation and investment in development projects in this segment, the Company has been reporting its senior housing business as a separate operating segment, within the definition of such term in GAAP. In addition, the Company is engaged, through its holding (100%) in Granite, in the marketing of alternative energy sources (through Supergas Israeli Gas Distribution Company Ltd., held 100% by Granite), and in the field of treatment of water, wastewater and chemicals through its holding (through Granite) in GES Global Environmental Solutions Ltd. In view of the closing of the transaction for the sale of the Group's holdings in Sonol (as of the quarterly report of June 30, 2016, Sonol's business became discontinued operations according to GAAP (for further details, see Note 4)), as of the quarterly report of September 30, 2016, the Company began reporting its business in the Granite segment as a separate operating segment, within the definition of such term in GAAP. In view thereof, the comparison figures for the six- and three-month periods ended on June 30, 2016 have been adjusted to reflect the Company's method of segment presentation.

The Company has additional operations classified as other operating segments, including financial investments and an ecommerce business which was acquired in June 2016.

Note 6 – Segment Reporting (Contd.)

B. Operating segments:

	For the six-month period ended June 30, 2017 (Unaudited)						
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Senior housing	Granite	Other	Consolidated
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Revenues:							
Total external income	504,382	229,614	113,430	62,797	390,032	6,385	1,306,640
Total segment expenses	98,923	39,402	51,446	41,848	326,148	24,612	582,379
Segment profit (NOI)	405,459	190,212	61,984	20,949	63,884	(18,227)	724,261
Net profit (loss) from fair value adjustment of investment property and investment property under construction	7,875	454,759	(4,091)	57,684	-	-	516,227
Unallocated costs							(49,906)
Financing expenses, net							(103,033)
Other revenues, net							45,526
The Company's share in results of associates, net of tax							(2,965)
Income before income taxes							1,130,110
Segment assets	12,297,433	9,042,760	1,993,235	1,622,509	1,296,637		26,252,574
Unallocated assets (*)							3,365,260
							29,617,834

(*) Including financial assets available for sale in the sum of NIS 1.7 billion and cash and short-term deposits in the sum of NIS 1.3 billion.

Note 6 – Segment Reporting (Contd.)

B. Operating segments (Contd.)

	For the six-month period ended June 30, 2016 (Unaudited)						
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Senior housing	Granite	Other	Consolidated
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Revenues:							
Total external income	472,386	219,746	109,890	34,470	336,433	514	1,173,439
Total segment expenses	89,288	36,705	50,822	22,722	281,796	66	481,399
Segment profit (NOI)	383,098	183,041	59,068	11,748	54,637	448	692,040
Net profit (loss) from fair value adjustment of investment property and investment property under construction	40,505	338,975	(5,385)	16,371	-	-	390,466
Unallocated costs							(43,252)
Financing expenses, net							(58,798)
Other revenues, net							11,900
The Company's share in results of associates, net of tax							(3,840)
Income before income taxes							988,516
Segment assets	11,606,989	7,831,715	2,073,940	1,373,075	1,137,016		24,022,735
Unallocated assets (*)							4,224,046
							28,246,781

(*) Including discontinued operations segment assets in the sum of approx. NIS 1.9 billion, financial assets available for sale in the sum of approx. NIS 1.6 billion and cash and short-term deposits in the sum of approx. NIS 0.6 billion.

Note 6 – Segment Reporting (Contd.)
B. Operating segments (Contd.)

	For the three-month period ended June 30, 2017 (Unaudited)						
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Senior housing	Granite	Other	Consolidated
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Revenues:							
Total external income	257,243	114,526	55,788	31,083	168,501	3,240	630,381
Total segment expenses	50,342	19,851	25,827	20,606	145,113	12,846	274,585
Segment profit (NOI)	206,901	94,675	29,961	10,477	23,388	(9,606)	355,796
Net profit (loss) from fair value adjustment of investment property and investment property under construction	10,755	463,708	(966)	57,684	-	-	531,181
Unallocated costs							(26,031)
Financing expenses, net							(74,500)
Other expenses, net							35,414
The Company's share in results of associates, net of tax							(1,279)
Income before income taxes							820,581

Note 6 – Segment Reporting (Contd.)
B. Operating Segments (Contd.)

	For the three-month period ended June 30, 2016 (Unaudited)						
	Retail centers and malls in Israel	**Office and other space for lease in Israel**	**Income-producing property in the USA**	**Senior housing**	**Granite**	**Other**	**Consolidated**
	NIS in thousands	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**	**NIS in thousands**
Revenues:							
Total external income	238,108	110,184	55,129	16,847	147,270	256	567,794
Total segment expenses	45,521	18,664	25,570	11,286	129,922	35	230,998
Segment profit (NOI)	192,587	91,520	29,559	5,561	17,348	221	336,796
Net profit (loss) from fair value adjustment of investment property and investment property under construction	(33,778)	50,950	(88)	16,371	-	-	33,455
Unallocated costs							(21,747)
Financing expenses, net							(44,921)
Other expenses, net							934
The Company's share in results of associates, net of tax							(1,787)
Income before income taxes							302,730

Note 6 – Segment Reporting (Contd.)
B. Operating segments (Contd.)

	For the year ended December 31, 2016						
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Senior housing	Granite	Other	Consolidated
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
Revenues:							
Total external income	973,971	446,810	228,906	94,934	653,249	7,546	2,405,416
Total segment expenses	195,455	77,645	105,354	65,634	570,179	11,597	1,025,864
Segment profit (loss) (NOI)	778,516	369,165	123,552	29,300	83,070	(4,051)	1,379,552
Net profit (loss) from fair value adjustment of investment property and investment property under construction	220,001	517,076	(82,245)	55,746	-	-	710,578
Unallocated costs							(114,858)
Financing expenses, net							(110,063)
Other revenues, net							8,925
The Company's share in results of associates, net of tax							(8,439)
Income before income taxes							1,865,695
Additional information as of December 31, 2016:							
Segment assets	12,074,258	8,218,829	2,176,253	1,494,520	1,297,992		25,261,852
Unallocated assets (*)							3,321,380
Total consolidated assets							28,583,232
Capital investments	639,122	1,037,855	232,676	638,041	43,428		

(*) Mainly financial assets available for sale in the sum of approx. NIS 1.6 billion and cash and short-term deposits in the sum of approx. NIS 1.3 billion.

Note 7 – Material Subsequent Event

After the date of the Financial Statements, the Company sold approx. NIS 10.6 million par value of Bank Leumi shares in consideration for the sum of approx. NIS 187 million. After the sales, the Company holds approx. 3.5% of Bank Leumi's shares. As a result of the sale of the shares, the Company expects to record financing income in Q3/2017 in the sum of approx. NIS 75 million.

Annex to Consolidated Financial Statement

Separate Interim Financial Statement

As of June 30, 2017

(Unaudited)

Azrieli Group Ltd.

Separate Interim Financial Statement

As of June 30, 2017

(Unaudited)

Prepared pursuant to the provisions of Section 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

Azrieli Group Ltd.

Separate Interim Financial Statement

As of June 30, 2017

(Unaudited)

C o n t e n t s

Deloitte.

To
The Shareholders of
the Azrieli Group Ltd.
1 Azrieli Center
Tel Aviv

Dear Sir/Madam,

Re: Special report for review of the separate interim financial statement pursuant to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

We have reviewed the separate interim financial statement, which is presented according to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, of **Azrieli Group Ltd.** (the "**Company**") as of June 30, 2017 and for the six- and three-month periods then ended. The separate interim financial statement is the responsibility of the Company's Board of Directors and Management. Our responsibility is to express a conclusion on the separate interim financial statement for these interim periods, based on our review.

We did not review the separate interim financial statement from the financial statements of investee companies, the total investments in which amounted to approx. NIS 317 million as of June 30, 2017 and the profit from such investee companies amounted to approx. NIS 43 million and approx. NIS 14 million for the six- and three-month periods then ended, respectively. The financial statements of these companies were reviewed by other auditors whose reports were furnished to us, and our conclusion, in so far as it is related to the financial statements in respect of those companies, is based upon the review reports of the other auditors.

The Scope of the Review

We performed our review pursuant to Review Standard 1 of the Institute of Certified Public Accountants in Israel – "Review of financial statement for interim periods prepared by the auditor of the entity". Review of separate financial statement for interim periods is comprised of inquiries, mainly with people responsible for the financial and accounting matters, and of the implementation of analytical and other review procedures. A review is significantly narrower in scope than an audit performed pursuant to Generally Accepted Auditing Standards in Israel and therefore, does not allow us to obtain assurance that we shall become aware of all of the significant matters that could have been identified through an audit. Accordingly, we do not provide an audit opinion.

Conclusion

Based on our review and on the review reports of other auditors, nothing had been brought to our attention that causes us to believe that the aforesaid separate interim financial statement has not been prepared, in all material respects, according to the provisions of Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Brightman, Almagor, Zohar & Co.
Certified Public Accountants
Member of Deloitte Touche Tohmatsu Limited

Tel Aviv, August 15, 2017

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Azrieli Group Ltd.

Statement of Financial Position

	As of June 30		As of December 31
	2017	2016	2016
	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		
Assets			
Current assets			
Cash and cash equivalents	663,056	328,009	453,911
Short-term deposits and investments	401,004	515	611,540
Trade accounts receivable	11,500	6,058	9,658
Other receivables	98,982	101,256	100,594
	1,174,542	435,838	1,175,703
Assets held for sale	40,000	-	-
Total current assets	1,214,542	435,838	1,175,703
Non-current assets			
Financial assets	1,674,847	1,586,516	1,625,453
Investment property and investment property under construction	10,140,446	8,779,592	9,480,072
Investments in investee companies	8,269,903	7,456,614	7,931,264
Loans to investee companies	3,739,611	3,842,640	3,831,713
Fixed assets	7,766	8,032	8,290
Other receivables	5,643	5,826	8,214
Total non-current assets	23,838,216	21,679,220	22,885,006
Total assets	25,052,758	22,115,058	24,060,709
Liabilities and capital			
Current liabilities			
Current maturities and credit from banks and other credit providers	1,255,369	2,885,536	1,755,858
Trade payables	176,252	38,801	59,087
Payables and other current liabilities	73,066	53,457	73,341
Deposits from senior housing trade accounts receivables	2,300	-	2,100
Current tax liabilities	5,029	26,329	14,427
Total current liabilities	1,512,016	3,004,123	1,904,813
Non-current liabilities			
Loans from banks and other credit providers	1,196,888	1,643,588	1,513,587
Bonds	5,377,774	1,968,271	4,149,815
Other liabilities	16,855	15,988	16,430
Deferred tax liabilities	1,320,557	1,185,822	1,199,334
Employee benefits	3,408	2,881	3,372
Total non-current liabilities	7,915,482	4,816,550	6,882,538
Capital			
Share capital	18,223	18,223	18,223
Share premium	2,477,664	2,477,664	2,477,664
Capital reserves	490,425	454,729	539,879
Retained earnings	12,638,948	11,343,769	12,237,592
Total capital attributable to shareholders of the Company	15,625,260	14,294,385	15,273,358
Total liabilities and capital	25,052,758	22,115,058	24,060,709

August 15, 2017			
Date of approval of Separate Financial Statement	**Danna Azrieli** **Chairman of the Board of Directors**	**Yuval Bronstein** **CEO**	**Irit Sekler-Pilosof** **Chief Financial Officer**

Azrieli Group Ltd.

Statement of Profit and Loss and Other Comprehensive Income

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2017	2016	2017	2016	2016
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		(Unaudited)		
Revenues:					
From rent and management and maintenance fees	249,168	230,234	124,628	115,653	470,795
Net gain (loss), from fair value adjustment of investment property and investment property under construction	349,169	329,949	351,506	(34,966)	614,127
Financing	77,848	75,458	39,870	51,066	188,248
Other	45,069	9,974	35,068	-	10,005
Total revenues	721,254	645,615	551,072	131,753	1,283,175
Costs and expenses:					
Cost of revenues from rent and management and maintenance fees	7,076	6,445	3,414	3,173	13,541
Sales and marketing	10,778	7,370	6,227	3,982	23,275
G&A	27,757	25,848	14,072	12,344	51,486
Financing	70,750	37,406	48,428	28,894	90,868
Total costs and expenses	116,361	77,069	72,141	48,393	179,170
Income before the Company's share in the profits of investee companies	604,893	568,546	478,931	83,360	1,104,005
Share in profits of investee companies, net of tax	404,326	423,266	261,627	175,946	813,933
Income before income taxes	1,009,219	991,812	740,558	259,306	1,917,938
Income tax expenses	(127,863)	(72,767)	(99,294)	(15,562)	(99,419)
Income from continued operations	881,356	919,045	641,264	243,744	1,818,519
Income (loss) from discontinued operations (after tax)	-	(2,867)	-	390	(8,501)
Net income for the period	881,356	916,178	641,264	244,134	1,810,018
Other comprehensive income:					
Amounts that are or will be classified in the future to profit or loss, net of tax:					
Change in fair value of financial assets available for sale, net of tax	51,262	5,163	49,077	3,672	86,312
Translation differences from foreign operations	(73,861)	(10,095)	(29,530)	14,683	(8,950)
Share in the other comprehensive income (loss) of investee companies, net of tax	(26,855)	4,794	(11,196)	6,592	7,633
Other comprehensive income (loss) for the period, net of tax	(49,454)	(138)	8,351	24,947	84,995
Total comprehensive income for the period	831,902	916,040	649,615	269,081	1,895,013

Azrieli Group Ltd.

Statement of Cash Flows

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2017	2016	2017	2016	2016
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		(Unaudited)		
Cash flows - current operations					
Net profit for the period	881,356	916,178	641,264	244,134	1,810,018
Depreciation and amortization	620	473	327	233	1,327
Capital loss (gain) from liquidation of fixed assets	(1)	26	-	-	(5)
Net loss (gain), from fair value adjustment of investment property and investment property under construction	(349,169)	(329,949)	(351,506)	34,966	(614,127)
Financing and other expenses (revenues), net	(26,399)	(45,111)	4,730	(23,726)	(103,380)
Share in profits of investee companies, net of tax	(404,326)	(420,399)	(261,627)	(176,336)	(805,432)
Expenses for taxes recognized in the income statement	127,863	72,767	99,294	15,562	99,419
Income tax paid, net	(30,304)	(43,126)	(19,785)	(16,476)	(87,904)
Change in financial assets	(120)	(9)	69	(9)	(66)
Income from disposition of investments in financial assets available for sale	(30,587)	-	(30,587)	-	-
Change in trade and other receivables	24,242	46,062	(484)	73,588	51,069
Change in trade and other payables	(9,572)	6,322	(5,020)	198	13,549
Change in employee provisions and benefits	36	300	25	291	791
Erosion (revaluation) of financial assets designated at fair value through profit and loss	3,843	(3,564)	-	1,204	(3,927)
Receipt of deposits from senior housing tenants	200	-	50	-	2,100
Net cash – current operations	187,682	199,970	76,750	153,629	363,432
Cash flows - investment activities					
Proceeds from liquidation of fixed assets and intangible assets	77	35,047	-	34,808	35,595
Purchase of an investment in investment property and investment property under construction	(208,695)	(874,025)	(95,781)	(403,021)	(1,262,940)
Down payments on account of investment property	-	(6,059)	-	(5,612)	-
Purchase of fixed assets and intangible assets	(893)	(36,431)	(148)	(35,806)	(38,060)
Investments in investee companies	(16,972)	(77,636)	(16,416)	-	(110,202)
Change in financial assets designated at fair value through net profit and loss	2,068	741	2,068	146	5,389
Repayment (granting) of long-term loans for investee companies, net	115,623	(401,178)	86,736	(357,738)	(290,088)
Acquisition of investee companies	-	(25,323)	-	(25,323)	(99,110)
Interest and dividend received	17,976	26,349	4,854	13,328	34,494
Return of investment in investee companies	6,538	-	-	-	2,312
Proceeds from disposition of financial assets available for sale, net	46,607	-	29,921	-	79,674
Institutions for purchase of real estate	-	-	-	51,387	-
Change in short-term deposits	210,656	-	(400,312)	-	(610,968)
Net cash - investment activities	172,985	(1,358,515)	(389,078)	(727,831)	(2,253,904)

Azrieli Group Ltd.

Statement of Cash Flows
(Cont.)

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2017	2016	2017	2016	2016
	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands	NIS in thousands
	(Unaudited)		(Unaudited)		
Cash flows - financing activities					
Bond offering net of offering expenses	1,353,526	-	-	-	2,176,535
Dividend distribution to shareholders	(480,000)	(400,000)	(480,000)	(400,000)	(400,000)
Repayment of bonds	(609,367)	(166,541)	(122,357)	(122,358)	(166,541)
Receipt of long-term loans from banks and others	-	800,000	-	550,000	800,000
Repayment of long-term loans from banks and others	(341,891)	(126,975)	(13,662)	(22,919)	(769,842)
Short-term credit from banks and others, net	(17,489)	663,398	(2,577)	473,124	45,319
Deposits from customers, net	340	447	399	172	873
Interest paid	(52,403)	(44,687)	(11,049)	(22,283)	(102,905)
Net cash - financing activities	(147,284)	725,642	(629,246)	455,736	1,583,439
Increase (decrease) in cash and cash equivalents	213,383	(432,903)	(941,574)	(118,466)	(307,033)
Cash and cash equivalents at beginning of period	453,911	761,281	1,608,815	445,515	761,281
Effect of exchange rate changes on cash balances held in foreign currency	(4,238)	(369)	(4,185)	960	(337)
Cash and cash equivalents at end of the period	663,056	328,009	663,056	328,009	453,911

(*) Non-cash transactions include changes in other payables and acquisitions on credit of non-current assets for the six- and three-months periods ended June 30, 2017 in the amount of NIS 118,635 thousand and NIS 130,147 thousand, respectively. For the year ended December 31, 2016 - NIS 4,712 thousand.

Azrieli Group Ltd.

Notes to the Separate Financial Statement

A. General:

The Company's separate financial statement is prepared in accordance with the provisions of Regulation 38D of the Securities Regulations (Immediate and Periodic Reports), 5730-1970.

This separate financial statement is to be inspected with respect to the Company's separate financial statement as of December 31, 2016, and for the year then ended, and the additional figures that were attached thereto.

B. Definitions:

The Company	-	Azrieli Group Ltd.
Investee company	-	Consolidated company, consolidated company under proportionate consolidation and an associated company.

C. Accounting Policy:

The separate financial statement is prepared in accordance with the accounting policy specified in Note B to the Company's separate financial statement as of December 31, 2016 and the year then ended.

D. Material Events during the Reporting Period:

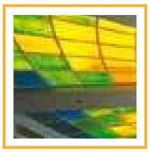
See Note 3 to the Condensed Consolidated Financial Statements which are published with this separate financial statement.

E. Material Subsequent Event:

See Note 7 to the Condensed Consolidated Financial Statements which are published with this separate financial statement.

Part D

Effectiveness of Internal Control over the Financial Reporting and Disclosure



AZRIELIGROUP

Quarterly report on the effectiveness of internal control over financial reporting and disclosure pursuant to Regulation 38C

Attached please find a quarterly report on the effectiveness of internal control over financial reporting and disclosure pursuant to Regulation 38C(a):

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. Ran Tal, General Counsel and 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, and 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 requirements.

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.

In the quarterly report regarding the effectiveness of internal control over financial reporting and disclosure, which was attached to the quarterly report for the period ended on June 30, 2017 (the "**Most Recent Quarterly Report on Internal Control**"), the internal control was found to be effective.
Until the Report Date, no occurrence or issue were brought to the knowledge of the Board of Directors and the management, which might change the evaluation of the internal control effectiveness as brought under the framework of the Most Recent Quarterly Report on Internal Control;
As of the Report Date, based on the Most Recent Quarterly Report on Internal Control, and based on information which was brought to the knowledge of the management and the Board of Directors as aforesaid: the internal control is effective;

Statement of Managers:

Statement of CEO pursuant to Regulation 38C(d)(1):

I, Yuval Bronstein, represent that:

1. I have reviewed the quarterly report of Azrieli Group Ltd. (the "**Corporation**") for Q/2 2017 (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. No occurrence or issue have been brought to my attention, that occurred during the period between the date of the most recent quarterly report and the Report Date herein, which can change the conclusion of the Board of Directors and management with regard to the effectiveness of internal control over the corporation's financial reporting and disclosure.

The aforesaid does not derogate from my responsibility or from the responsibility of any other person, pursuant to any law.

August 15, 2017

Yuval Bronstein, CEO

Statement of Managers:

Statement of the most senior financial officer pursuant to Regulation 38C(d)(2):

I, Irit Sekler-Pilosof, represent that:

1. I have reviewed the Interim Financial Statements and other interim financial information included in the reports of Azrieli Group Ltd. (the "**Corporation**") for Q/2 2017 (the "**Reports**" or the "**Interim Reports**");

2. To my knowledge, the Interim Financial Statements and the other financial information included in the Interim 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 Interim Financial Statements and other financial information included in the Interim 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 Interim Financial Statements and the other information included in the Interim 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 our 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. No occurrence or issue have been brought to my attention, that occurred during the period between the date of the most recent quarterly report and the Report Date herein, pertaining to the Interim Financial Statements and any other information included in the Interim Reports, which could, in my opinion, change the conclusion of the Board of Directors and management with regard to the effectiveness of internal control over the corporation's financial reporting and disclosure.

The aforesaid does not derogate from my responsibility or from the responsibility of any other person, pursuant to any law.

August 15, 2017

Irit Sekler-Pilosof, CFO