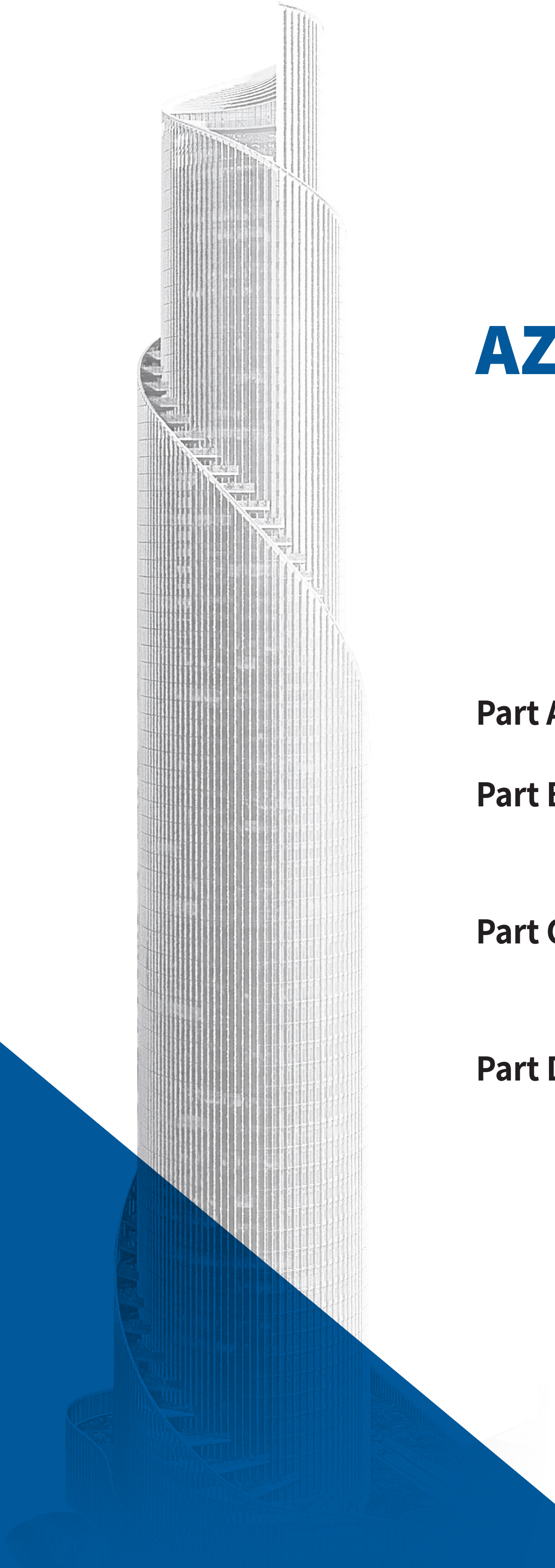
AZRIELIGROUP

AZRIELI GROUP LTD.

Quarterly Report Q1/2021

Dated 31 March 2021



AZRIELI GROUP LTD.

Quarterly Report Q1/2021
Dated 31 March 2021

Part A | Board Report

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

Part C | Consolidated Financial Statements Dated 31 March 2021

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

PART A

Board Report

Azrieli Group

BUSINESS CARD

Azrieli Group is focused on the income-producing real estate sector and is Israel's largest real estate company.
In the shopping mall sector, the Group holds several top malls, including Azrieli Jerusalem mall, Azrieli Ayalon mall and Azrieli Tel Aviv mall. The Company also holds and manages office properties, including some of the most prominent in Israel, such as the Azrieli Tel Aviv Center and Azrieli Sarona tower. In 2020, the Group commenced occupancy of its new projects Holon HaManor and the Azrieli Town office tower. The Company also operates in the senior housing sector, and with the opening of the Lehavim senior home in May 2020, it now manages four active senior homes. In the United States, the Company holds several office buildings, mainly in Houston and Austin, Texas. The Company also holds approx. 24% in a company operating mainly in the Data Centers industry in North America, and in February 2020 the Company closed its acquisition of the Mount Zion Hotel in Jerusalem. In February 2021, the Company purchased land located at the junction of Mikveh Israel, Levontin and HaRakevet streets in Tel Aviv, where it plans to build in the future a rental housing project. In May 2021, the Company entered into an agreement for the acquisition of a company which holds land located in the North Glilot complex, on part of which it will build a rental campus for SolarEdge Technologies Ltd.
Azrieli Group has an extraordinary pipeline of hundreds of thousands of square meters of office, retail and senior housing space in projects under development or in planning stages, which will contribute significantly to the Group's future growth. In addition, Azrieli Group constantly invests in the preservation of the quality and value of its current property portfolio.
In addition to its real estate operations, the Group is active in online retail through its Azrieli.com e-commerce platform. The Company also has a financial holding of Bank Leumi stock (approx. 3.1%).
Azrieli Group's financial strength puts it in a class of its own among real estate companies. The Company has low leverage, with a net debt to assets ratio of just 26%. Azrieli targets the best locations for its properties, to provide good transportation access over time, and form a significant part of their urban environment. The location and quality of the properties are planned to serve as the best platform for Azrieli malls' tenants and visitors. As Israel's leading and strongest real estate group, Azrieli Group intends to continue its work in the real estate sector, and lead the development and management of high-quality, modern and innovative income-producing properties in Israel and overseas.
The Group will continue to focus on its core business, while investing in new growth engines and applying advanced technologies.

Established in 1983

NIS 4.2 billion distributed in dividends since the IPO

~ 1.3 million sqm of leasable areas and ~0.7 million sqm under development

Israel's largest real estate company with total assets of NIS 35.2 billion

98% occupancy rate* on average in Israel

* Net of properties under lease-up for the first time

20 MALLS

351 thousand sqm | 98% Occupancy*

17 OFFICE BUILDINGS

640 thousand sqm | 99% Occupancy*

4 SENIOR HOMES

105 thousand sqm | 97% Occupancy*

8 OFFICE BUILDINGS OVERSEAS

248 thousand sqm | 76% Occupancy

DEVELOPMENT PIPELINE

12 properties | 668 thousand sqm

PERFORMANCE SUMMARY AND FINANCIAL HIGHLIGHTS FOR THE REPORT PERIOD

Decrease in NOI to NIS 301 million compared with NIS 410 million in the same period last year due to relief to tenants in the COVID-19 period

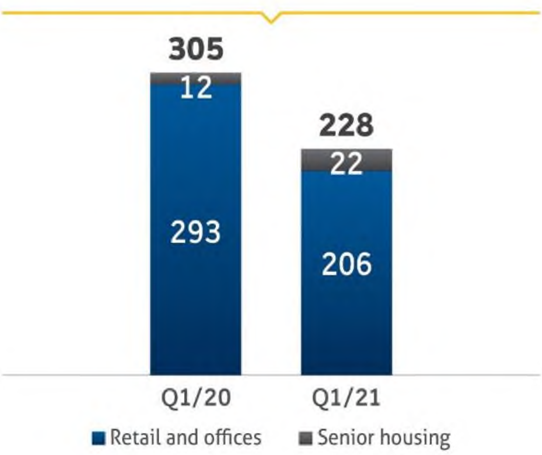
NOI

Increase of 20% in Net Profit to NIS 110 million compared with NIS 92 million in the same period last year

Net Profit

Approx. NIS 228 million – the total FFO attributed to the income-producing real estate business

FFO from income-producing real estate business



Average debt duration extended while reducing the interest rate

Average interest vs. average duration

In May 2021, the Company distributed a NIS 450 million dividend

In July 2021, the Company will distribute another dividend of NIS 150 million

This is a translation of Azrieli Group's Hebrew-language Quarterly Report and Financial Statements as of March 31, 2021. It is prepared solely for convenience purposes. Please note that the Hebrew version constitutes the binding version, and in any event of discrepancy, the Hebrew version shall prevail.

1 | THE BOARD OF DIRECTORS' EXPLANATIONS ON THE STATE OF THE CORPORATION'S BUSINESS

1.1. General

The board of directors of Azrieli Group Ltd. (the "**Company**"; the Company jointly with all corporations directly and/or indirectly held thereby shall be referred to as the "**Group**" or the "**Azrieli Group**") is proud to present this board of directors' report for the three months ended March 31, 2021 (the "**Report Period**" and the "**Quarter**", respectively), in accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "**Regulations**").

The review presented below is limited in scope and refers to events and changes in the state of the Company's affairs that occurred during the Report Period and have a material effect (for details on the ramifications of the spread of Covid-19, see Section 2.2 below). The review should be read in conjunction with the Description of the Corporation's Business chapter in the periodic report for December 31, 2020, 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[1] (the "**Periodic Report for 2020**"), the update to the Corporation's Business chapter and the financial statements as of March 31, 2021.

Unless otherwise stated herein, the terms defined in Chapter A of the Periodic Report for 2020 shall have the meanings set forth alongside them.

The information in the board of directors' report is based on the consolidated financial statements as of March 31, 2021.[2] The Company's financials and results of operations are affected by the financials and results of operations of the companies held thereby. In some cases, we present details of events that occurred subsequently to the date of the financial statements as of March 31, 2021 and until the date of release of the report (the "Report Release Date"), while indicating the same, or additional figures and details that are strictly at Company-level. The materiality of the information included in this report has been examined from the Company's perspective. In some cases, an additional and detailed description is provided in order to provide a comprehensive picture of the described issue, which the Company believes to be material for the purposes of this report.

[1] See the Company's report of March 25, 2021 (Ref.: 2021-01-044625), which is included herein by way of reference.

[2] The attached financial statements are prepared according to the International Financial Reporting Standards ("**IFRS**"). For further details, see Note 2 to the financial statements as of March 31, 2021.

1.2. Key Figures from the Description of the Corporation's Business

1.2.1. Summary of Operating Segments for the Three Months Ended March 31, 2021

During the Report Period and as of the Report Release Date, Azrieli Group continued to focus its business operations on various real estate sectors, primarily on the retail centers and malls in Israel segment, the leasable office (and other) space in Israel segment, as well as on the income-producing property overseas segment (mostly in the U.S.). The Company also operates in the senior housing segment. In addition, the Company (indirectly) holds approx. 24% in Compass, a company operating in the data centers industry in North America and EMEA. Furthermore, in February 2020 the Company closed the purchase of the Mount Zion Hotel in Jerusalem. The Company is also active in the e-commerce business and has holdings of minority interests in Bank Leumi LeIsrael Ltd. ("**Bank Leumi**").

The Group's primary growth engine is the development of income-producing real estate projects: malls, offices and senior housing. As of the report date, the Company has twelve projects in Israel in various development stages, the planned area of which is approx. 668 thousand sqm, as well as land for development. A brief description of the Group's four reported operating segments, as well as its additional activities ("**Others**") follows:

1. **Retail centers and malls in Israel** – The Group has 20 malls and retail centers in Israel;[3]

2. **Leasable office and other space in Israel** – The Group has 17 income-producing office properties in Israel;[3]

3. **Income-producing properties in the U.S.** – The Group has 8 office properties overseas, mainly in the U.S.;

4. **Senior housing** – The Group has 4 active senior homes in Israel.

Additional activities – As of the Report Release Date, the Group has an e-commerce business through Azrieli E-Commerce that holds and operates the Azrieli.com website, and holds approx. 3.1% of the shares of Bank Leumi.

In July 2019, the Group invested in Compass, the primary business of which is data centers. For details with respect to such investment, see Section 2.13.1 below. The Company owns the Mount Zion Hotel in Jerusalem. For further details, see Section 2.13.2 below.

Discontinued operations – the Granite segment - The Group held (through Granite Hacarmel) 100% of the shares of Supergas and 100% of the shares of GES, which have been sold. Further to the foregoing, Granite and GES are presented in the financial statements as discontinued operations, in accordance with GAAP.

[3] In the Report Period, the Group entered into agreements for the sale of the "Azrieli Kiryat Ata" mall and office building. For further details, see Section 1.2.3.2 below.

1.2.2. Breakdown of Asset Value by Operating Segment

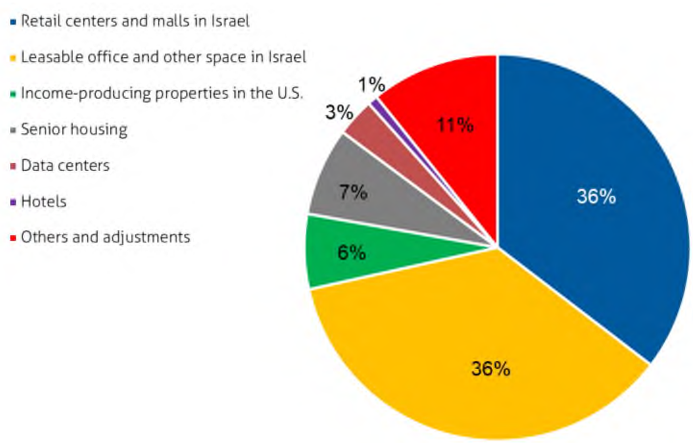
The following chart presents a breakdown of the total balance sheet assets by operating segment:[4]

Breakdown of Total Balance Sheet Assets by Operating Segment

As of	31.3.2021	31.12.2020
Retail centers and malls in Israel	**12,461**	12,431
Leasable office and other space in Israel	**12,705**	12,463
Income-producing properties in the U.S.	**2,210**	2,126
Senior housing	**2,600**	2,597
Data centers	**1,173**	1,101
Hospitality	**296**	292
Others and adjustments	**3,747**	4,114
Total	**35,192**	35,124

Percentage of Segment Assets out of Total Assets

31.3.2021



Figures are presented in millions of NIS.

The retail centers and malls segment constitutes approx. 36% of the total balance sheet assets. The other income-producing real estate segments, in the aggregate, constitute approx. 53% of the total balance sheet assets. In the Company's estimation, the relative share of retail centers and malls is expected to decrease over time, in view of the Group predominantly focusing its development efforts in the coming years on the office and senior housing segments.

1.2.3. Summary of the Main Developments during and after the Report Period

1.2.3.1. Assets under Development

During the Report Period, the Group continued to invest in the development and construction of new assets and in expansion and renovation of existing properties. For details on developments in the Group's development pipeline during the Report Period, see Section 4.1 below.

1.2.3.2. Entry into Agreements for Sale of the "Azrieli Kiryat Ata" Mall and Office Building

On February 23, 2021, an (indirectly) wholly-owned subsidiary of the Company (in this section: the "**Seller**") entered into two sale agreements with an unrelated third party (in this section: the "**Buyer**"), for sale to the Buyer of all of the Seller's rights and obligations in respect of the mall and office building known as "Azrieli

[4] The Company applied IFRS 8 – Operating Segments in its financial statements.

Kiryat Ata", for a total consideration of NIS 90 million, plus V.A.T. as required by law, which the Buyer shall pay the Seller by June 30, 2021, with part of the consideration being paid by means of a 36-month loan extended to the Buyer by the Seller, secured by a first-ranking mortgage on the mall.

For further details, see the Company's immediate report of February 23, 2021 (Ref.: 2021-01-021555), which is included herein by reference.

1.2.3.3. Entry into Agreements for the Acquisition of Land in Tel Aviv

On February 25, 2021, the Company entered into agreements with Bezeq the Israel Telecommunications Corporation Ltd., for acquisition of all of the rights in the land situated on the intersection of the streets Mikveh Israel, Levontin and HaRakevet in Tel Aviv, in consideration for a sum total of NIS 180 million, plus V.A.T. Furthermore, in April 2021, the Company paid purchase tax in the sum of approx. NIS 10.8 million. For further details, see the Company's immediate report section of February 28, 2021 (Ref.: 2021-01-023911), which is included herein by reference.

1.2.3.4. Changes in the Service of Officers of the Company

On February 1, 2021, Mr. Uri Kilstein took office as the Company's Head of Malls and Deputy CEO.

On April 4, 2021, Mr. Israel Keren took office as the Company's COO, instead of his former office in the Company.

1.2.3.5. Extension of a Shelf Prospectus

On May 2, 2021, the Israel Securities Authority extended the Company's shelf prospectus as of May 7, 2019, by additional 12 months until May 7, 2022.

1.2.3.6. Engagement in an agreement for the acquisition of land in the Glilot North site and an agreement for the construction and lease of a campus for SolarEdge Technologies Ltd.

On May 10, 2021, the Company engaged in an agreement for the acquisition of control (directly and indirectly) of a company not affiliated with the Company, which is entitled to receive leasehold rights from the Israel Land Authority ("**ILA**") in lands located at the Glilot North site. The Company has also engaged in a lease agreement for the construction and lease of a campus for SolarEdge Technologies Ltd. on part of the land.

For further details, see the Company's immediate report of May 11, 2021 (Ref.: 2021-01-082779), which is included herein by reference.

1.2.3.7. Covid-19 pandemic

For further details regarding Covid-19 and its impact on the Company's operations, see Section 2.2 below.

1.2.4. Dividends distributed by the Company

	Date of Approval	Date of Payment	Sum of Dividend
Azrieli Group	March 24, 2021	May 12,2021	NIS 450 million[5]

On March 24, 2021, the Company's board of directors examined the distribution of a dividend in the sum of NIS 600 million and reached a unanimous opinion that the said distribution meets all of the distribution tests. However, for reasons of conservatism, and *inter alia*, in view of the uncertainty regarding the continued impact of Covid-19, the Company's board of directors resolved to approve a dividend distribution of only NIS 450 million. On May 25, 2021, the Company's board of directors resolved to approve an additional distribution of NIS 150 million. For further details see the Company's immediate report which is released concurrently with this report.

1.2.5. Dividends distributed to the Company

No dividends were distributed to the Company during the Report Period.

[5] As of March 31, 2021, the Company has retained earnings in the sum of approx. NIS 15 billion.

2 | INCOME-PRODUCING REAL ESTATE

2.1. Business Environment

The business environment in which the Company operates is described in Section 6 of Chapter A of the Periodic Report for 2020 and included herein by way of reference. In this context, see Section 2.2 below for updates in connection with the ramifications of the spread of Covid-19.

*The Group's aforesaid estimations with regards to the changes in the income-producing real estate sector in Israel and their effect on the Group's results are merely subjective estimations and constitute forward-looking information as defined in the Securities Law, 5728-1968 (the "**Securities Law**"). Actual results and effects may materially differ from the aforesaid estimations and what they imply, for various reasons, including the further intensification of competition, a decline in demand, a deterioration of the Israeli economy and the ramifications of Covid-19.*

2.2. Covid-19 Pandemic and its Implications

The beginning of 2020 saw the outbreak of Covid-19 in China which spread across the world. On March 11, 2020, the WHO declared a global pandemic and steps were taken to mitigate the spread of Covid-19.

The pandemic is affecting various business sectors in many countries. In Israel, GDP decreased by 2.6% in 2020.

As of the Report Release Date, in view of the extensive vaccination campaign against the Covid-19 virus, it appears that business is getting back to normal in the Israeli economy (subject to the restrictions of the Green Pass) which is recovering from the pandemic at a rapid pace. According to estimations published by the Bank of Israel in April 2021 in connection with the impact of Covid-19 on the Israeli economy, GDP is expected to increase at rates of 6.3% and 5% in 2021 and 2022, respectively. In addition, according to Bank of Israel estimations, the average annual unemployment rate is expected to be 9.9% in 2021 and in Q4/2021 only 7.5%, while in 2022 the average annual unemployment rate is expected to be 6.6% and in Q4/2022 only 6%.

Further to the aforesaid, on May 23, 2021, the Ministry of Health announced that in view of the lasting low and stable morbidity, the Green Pass requirement and the Purple Badge restrictions will be revoked as of June 1, 2021.

2.2.1. For further details on the Company's Covid-19-related action, See Section 2.2.1 of Chapter B of the Periodic Report for 2020, which is included herein by reference.

2.2.2. Effect of the Covid-19 crisis on the segment of retail centers and malls in Israel

The retail centers and malls in Israel segment constitute approx. 36% of the total assets of the Company.

From March 15, 2020 to May 7, 2020, a directive by the Israeli Government on the closedown of cultural and recreational venues was in effect (in this section: the "**First Lockdown**"), which also applied to the Company's malls (other than essential businesses such as supermarkets, drugstores, clinics, banks, etc.). Similarly, in view of the rise in morbidity, various restrictions were re-imposed in order to limit the spread of the virus, and *inter alia*, from September 18, 2020, a directive on the closedown of cultural and recreational venues took effect, which also applied to the Company's malls (other than the aforesaid exceptions), and remained effective until December 8, 2020, save for three of the Company's malls which were opened during this time as part of the malls pilot (in this section: the "**Second Lockdown**"). Furthermore, at the end of December 2020, in view of a further increase in morbidity, similar restrictions were imposed, *inter alia* on the Company's malls, until their re-opening on February 21, 2021 (in this section: the "**Third Lockdown**").

<u>Establishment of a special financial aid fund for the Group's mall tenants</u>

In view of the impact of the First Shutdown on the tenants in the Group's malls, the Company set up special financial aid fund for tenants in the Group's malls, in the amount of a NIS 100 million. For further details, see Section 2.2.2 of Chapter B of the Periodic Report for 2020, which is included herein by reference.

Relief plan for tenants of the Company's malls

On March 17, 2020, the Company reported the grant of an exemption from payment of rent for the second half of March 2020 to tenants who were closed following the First Shutdown (in this section: the "**Tenants**"), as well as the suspension of rent and management fee payments by the Tenants for the period between April 1, 2020 and the date of resumption of normal operations.

Prior to the resumption of operations of the Group's malls after the First Shutdown, the Company formulated a relief plan for the Tenants of its malls regarding the period of the restrictions in which the majority of the businesses in the malls were closed, as well as the period after their reopening (in this section: the "**Relief Plan**" or the "**Plan**"). For highlights of the Plan, see Section 2.2.2 of Chapter B of the Periodic Report for 2020, which is included herein by reference.

During H2/2020 too and in the Report Period until the end of the Third Lockdown, the Company granted reliefs to the Tenants due to the Second and Third Lockdown, and also granted reliefs to Tenants whose activity was limited by law also during periods in which the malls were open, such as movie theaters, restaurants and cafés and to Tenants who experienced diminished store sales. The Company estimates that the total reliefs granted by the Company to the Tenants during the Report Period, where most of the Third Lockdown took place, are approx. NIS 115 million.

It is emphasized that the impact of the Covid-19 crisis, including the relief for the Third Lockdown, were reflected in the Company's NOI results and as specified in Section 2.5 below.

On August 9, 2020, the Israel Securities Authority (ISA) published an Accounting Staff Position regarding accounting alternatives with respect to recognition of waivers of rent attributed to the period of the Covid-19 crisis. According to the provisions of IFRS 9 "Financial Instruments" and IFRS 16 "Leases", the Company has decided to recognize the full impact of the relief provided to the Tenants in 2020 and in the Report Period, *in lieu* of "straight line" amortization of the rent relief over the remaining lease periods, as reported by the Company in the immediate report of May 5, 2020 (Ref.:2020-01-044070).

The strategy for the return to normalcy in the Israeli economy

As part of the strategy for the return to normalcy in the Israeli economy, after the First Lockdown, the Israeli Government released a directive whereby, from May 7, 2020, the malls resumed operations, subject to the definitions and rules determined (the Purple Badge), including the appointment of a Covid-19 officer in each mall who will be responsible for compliance with the rules, the requirement to wear face masks, the restriction on the number of people per sqm, the marking of places to stand in order to comply with the 2-meter distance requirement, the maintenance of a high standard of hygiene, and more.

Despite the reopening of the malls after the three lockdowns, until towards the end of the Report Period, the resumption of the activity of movie theaters (which towards the end of the Report Period have been permitted to be opened exclusively to "Green Pass" holders) was not permitted. In addition to these restrictions, every store on the malls' premises is required to operate in accordance with the guidelines relevant thereto, including restaurants, cafés and gyms and restrictions on dining in fast food courts, cafés and restaurants in malls. As aforesaid, these restrictions are expected to be revoked as of June 1, 2021.

Unlike the preliminary estimations, the reopening of the malls to the general public after the First Lockdown has been characterized by the quick return of consumers to the Group's malls. Accordingly, the reopening of the malls after the Second Lockdown and the Third Lockdown demonstrated a similar trend.

The store revenues reported by the tenants in the Group's malls in March 2021 were 30% higher than in March 2019[6], excluding store revenues of tenants that did not resume normal operations or operated on a partial basis in the period due to regulatory restrictions and government decisions pertaining to the spread of Covid-19, including store revenues of restaurants and coffee shops, movie theatres, food courts, gyms, conference centers, etc.

The debt collection rate as of the Report Period in the retail centers and malls in Israel segment, as of the Report Release Date, out of the amounts the tenants are required to pay considering the grant of relief in respect of Q1/2021, was approx. 98%.

2.2.3. Impact of the Covid-19 crisis on the leasable office and other space in Israel segment

During the three lockdowns, the Ministry of Health announced directives on "reducing people's need to get out of the house". These directives led to a switch to telecommuting by a large percentage of workers, in consequence of which the number of workers coming into the Company's office properties decreased. For further details, see Section 2.2.3 of Chapter B of the Periodic Report for 2020, which is included herein by reference.

As of the Report Release Date and in view of the return of economic activity to routine, there has been a significant upward trend in the traffic of workers and visitors to the office properties owned by the Company. The Company is continuing to take various measures to reduce the spread of the virus in its properties, *inter alia*, carrying out cleaning and disinfection of the public areas of its properties, requiring use of face masks, etc.

The Company's revenues from the segment of leasable office space in Israel have not been materially affected since the outbreak of the Covid-19 crisis, other than due to a response to specific requests of tenants in the Company's office properties for relief (mainly tenants the reopening of which has been banned or significantly restricted such as: gyms, colleges, etc.) as well as the spreading out of rent payments due to the Covid-19 crisis. Debt collection in Q1/2021 amounts to approx. 100% (except for unique businesses such as gyms and restaurants). Furthermore, in view of the reduced use, during the Report Period, of the Company's car parks which serve both the retail centers and malls segment and the office segment, the Company's revenues from operation of the car parks have decreased. Concurrently, the Company took cost-saving measures. The total adverse effect on the results of operations of the car parks in Q1/2021 amounted to approx. NIS 4 million.

2.2.4. Further impact of the Covid-19 crisis on other activities of the Company

The Company's income-producing properties in the U.S. – Similarly to the office properties in Israel, the Company's office properties in U.S. have also seen less employee and visitor traffic due to Covid-19. There has been a limited effect on the Company's revenues from the segment of income-producing properties in the U.S. since the outbreak of the Covid-19 crisis, due to the grant of specific requests by tenants to spread out rent payments. Rent collection in Q1/2021 was in line with the ordinary course.

The senior housing properties – The Company formulated strict procedures with respect to the entrance of visitors to the Group's senior homes, since the residents are an at-risk population. For further details on the Company's Covid-19-related action in its senior housing properties, see Section 2.2.4 of Chapter B of the Periodic Report for 2020.

[6] Compared to March 2019, for the comparison to be made versus a month with full store revenues (as aforesaid, the first lockdown commenced on March 15, 2020).

With respect to the e-commerce business (Azrieli E-Commerce) – the Covid-19 crisis accelerated the shift in Israeli consumers' shopping habits, which was reflected by a significant increase in the online shopping and expansion of the populations who buy online. Accordingly, since March 2020 there has been a significant increase in the sales volume on Azrieli.com. After the end of the Third Lockdown, with the physical opening of retail, there was a decrease in online purchases compared with the lockdown periods.

Mount Zion Hotel – See Section 2.13.2 below.

2.2.5. Impact on the value of the Company's properties

The Company used outside appraisers to examine the value of the Company's properties as of December 31, 2020. In the estimation of the valuators, the short-term uncertainty component has increased, as has the risk related to the receipt of the rent payments in the short term. In the event that these remain in the short term, their effect on the cap rate is usually minor. Until most of the population is vaccinated, the economic activity in the market in general and in retail areas in particular is shrouded in uncertainty and affected by the morbidity rate and the Government resolutions deriving therefrom. Apparently, it is only at such time that the uncertainty will be cleared and the business activity in the economy will be stabilized. Given the foregoing, for the purpose of update of the valuations in 2020, it was assumed that in the short term, a decrease is expected in revenues from the lease of retail space and from the car park operations, which derives, *inter alia*, from the discounts to be granted to some of the tenants, which discounts are affected, *inter alia*, by the morbidity rate. In view of the aforesaid, in 2020, the Company recorded an impairment of its properties in the retail centers and malls in Israel segment. In addition, the Company recorded an impairment of some of the income-producing properties in the U.S., mainly due to the continuation of the expected amount of time for lease-up of the vacant areas, an increase in the rate of vacant areas and a reduction of the expected inflation rate due to the economic crisis in the U.S., the health crisis and the crisis in the prices of energy on which a large portion of Houston's economy is based. As of the report date, the Company reviewed the above factors and came to the conclusion that in view of the short time that has passed from the opening of the market and until such date, the above uncertainty has not yet been cleared. Insofar as the uncertainty is cleared and the activity in the market stays stable in the long run, the assumptions will be re-examined and the value of Company's properties will be updated.

2.2.6. Effect of the Covid-19 crisis on property development

During the Third Lockdown (as well as the First and Second Lockdown), the construction industry was defined as essential, and excluded from the list of industries on which restrictions were imposed due to the spread of Covid-19. Therefore, this industry was allowed to work at full capacity. During the period, the Group continued investing in the development and construction of new properties, as well as expansion and renovation of existing properties.

2.2.7. Effect of the Covid-19 crisis on liquidity, financial position and sources of financing

The Company has exceptional financial strength, as demonstrated by the following parameters:

- As of the report date, the Company has low leverage with a net debt to assets ratio of approx. 26%. The leverage ratio is low relative to competitors in the market and provides flexibility also in times of crisis. For further details see Section 5.1 below.

- As of the report date, the Company has approx. NIS 25 billion in unencumbered assets, in addition to mortgaged assets with a low LTV. For further details see Section 5.8 below.

- The cash balance available to the Company, as of the Report Release Date, is approx. NIS 1.7 billion, in addition to which the Company holds marketable shares of Bank Leumi in a value exceeding NIS 1.1 billion. For details on the dates of payment of financial liabilities, see Section 5.7 below.

- In April 2020, at the height of the Covid-19 crisis, the Company raised debt through the issue of Series E and F bonds, by way of expansion of such series, in the sum of approx. NIS 1.7 billion, at an interest rate lower than the nominal interest rate of the bonds (premium). For further details, see Section 19.5 of Chapter A of the Periodic Report for 2020, which is included herein by reference.

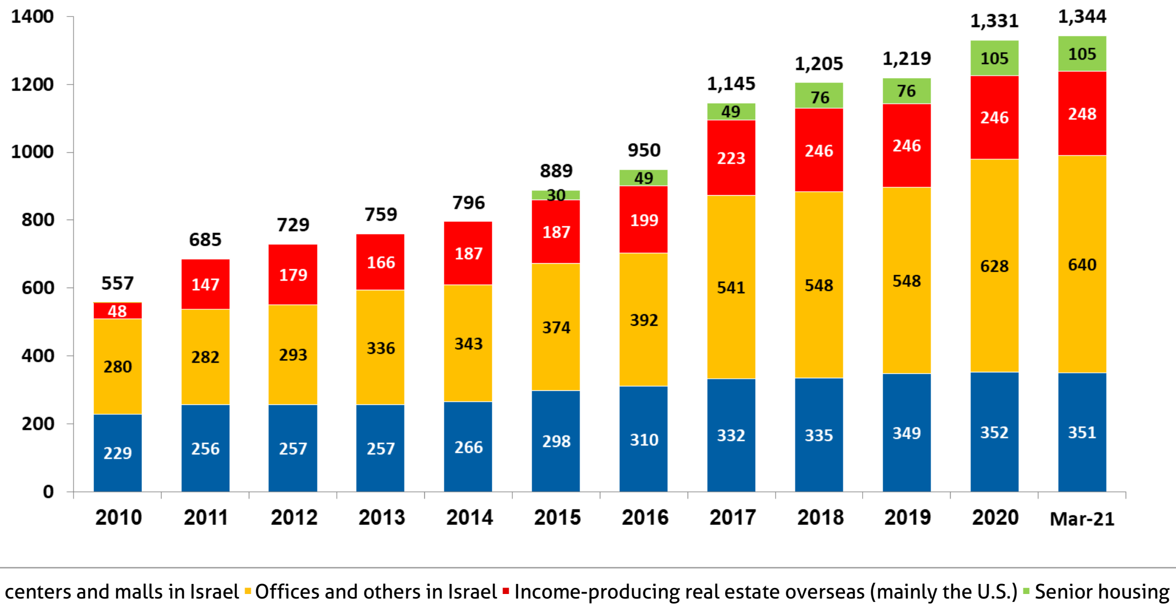
- The Company's credit rating is the highest given to real estate companies, AA+ by Maalot and Aa1 by Midroog. For further details, see Section 5.4 below.

As of the Report Release Date, and in view of the fact that this is a dynamic event that is characterized by considerable uncertainty, *inter alia* in connection with another outbreak of the Covid-19 pandemic and the measures to be taken by the various countries as well as the amount of time it will take before full normalcy is restored, the Company is unable to assess such effects on its future activity, since the extent of the impact depends on the degree and scope of materialization thereof. In the Company's estimation, despite the progress of the vaccination campaign in Israel, if there will be further outbreaks of the virus, there may continue to be additional material adverse effects on the global economy, including on some of the markets and sectors in which the Company operates, as well as on some of the tenants in the Group's properties. The Company's management estimates that in view of its financial strength, which is demonstrated by the total cash and cash equivalents held thereby, low leverage ratio and a significant amount of unencumbered assets, long loan durations and its ability to raise capital on convenient terms, and in view of the broad dispersion of the Company's portfolio of properties, the diversity of tenants and operating segments, the impact of the exposure of the Group's business to the crisis and/or significant instability due to the spread of Covid-19, decreases.

The Company's assessments in this Section 2.2 regarding the potential implications of the spread of Covid-19 constitute forward-looking information as defined in the Securities Law. This information is based, inter alia, on assessments and estimates of the Company as of the date of this Report, based on publications in Israel and worldwide on this matter and the directives of the relevant authorities, the materialization of which is uncertain and is beyond the Company's control. Non-materialization of the Company's assessments may result from developments or a different materialization of the factors mentioned above.

2.3. Consolidated GLA Data

As of March 31, 2021



Figures represent thousands of sqm.

2.4. Average Occupancy Rates in the Income-Producing Properties

Following are the average occupancy rates in the Group's income-producing properties by operating segments as of March 31, 2021:

- Retail centers and malls in Israel – approx. 98%;[7]
- Leasable office and other space in Israel – approx. 99%;[8]
- Income-producing properties in the U.S. – approx. 76%;
- Senior housing in Israel – approx. 97%.[9]

2.5. NOI of the Properties

Net Operating Income (NOI) is a measure that presents the net operating income of the properties: income after the deduction of the property's operating expenses and prior to the deduction of taxes and interest. It serves as one of the important parameters in the valuation of income-producing real estate companies, as its division by the appropriate cap rate for the properties provides an indication for the determination of the value of income-producing properties[10]. In addition, after deduction of the current maintenance expenses incurred to preserve the property's condition, NOI is used to measure the free and available cash flow for the service of financial debt undertaken for the purpose of funding the purchase of the property.

[7] Excluding areas in properties construction of which has been completed and which are in lease-up stages for the first time.
[8] Excluding areas in properties construction of which has been completed and which are in lease-up stages for the first time.
[9] Excluding areas in properties construction of which has been completed and which are in lease-up stages for the first time.
[10] Additional indications are, for example: The market value of similar properties in the same area and the sale prices of similar properties in recent transactions.

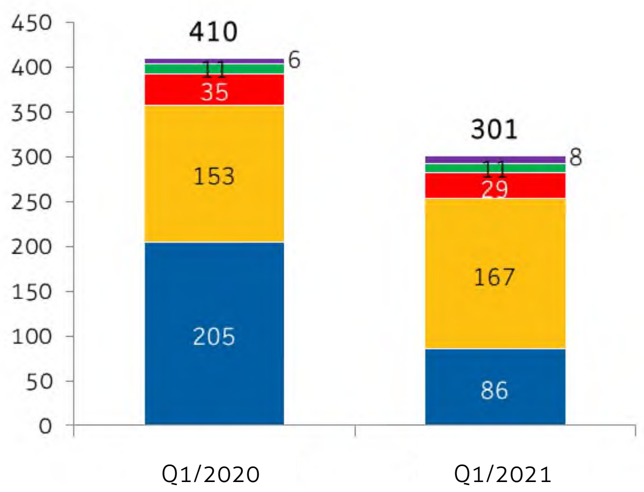
We wish to emphasize that these parameters do not present cash flows from current operations according to generally accepted accounting principles, nor do they reflect cash available for the funding of all of the Group's cash flows (including its ability to make distributions), and they are not meant to be deemed as a substitute for net profit in the evaluation of the results of the Group's operations.

2.5.1. NOI Data

For the purpose of calculating the NOI, on the revenues side – all proceeds from tenants are taken into account (including rent, management fees and other payments), and for the purpose of calculating the costs – all operating expenses in respect of the properties are taken into account (including management, maintenance and other costs).[11]

The NOI figures for the income-producing real estate portfolio are as follows:[12]

NOI



▪ Retail centers and malls in Israel ▪ Leasable office and other space in Israel
▪ Income-producing properties in the U.S. ▪ Senior housing ▪ Data centers

Figures are presented in millions of NIS.

For explanations with respect to the change in NOI, see Sections 2.9, 2.10, 2.11 and 2.12 below.

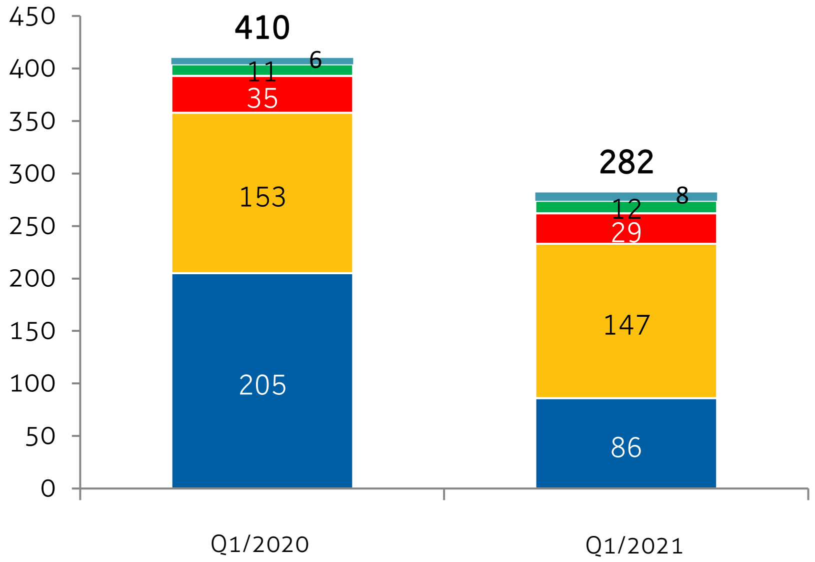
[11] The Group prepares its financial statements based on international standardization, and consequently, in the calculation of the cost of leasing and operating the properties classified as investment properties, depreciation was not taken into account. Furthermore, for the purpose of calculating the aforesaid parameters, profit from the revaluation of properties was not taken into account.

[12] Including properties from the segments: retail centers and malls in Israel; leasable office and other space in Israel; income-producing properties in the U.S.; senior housing and data centers.

2.5.2. Same-Property NOI Data

The NOI index is affected by changes in the property portfolio. That is to say, the sale of a property or the addition of a new property to the Company's portfolio is reflected in a change in the NOI. Contrarily, the Same-Property NOI index discounts such changes and allows for an examination of changes in the profitability of the same portfolio of the Group's properties over time. For the purpose of calculation thereof, only properties that were part of the Group's property portfolio throughout the analysis period are taken into account. In the Report Period and the same period last year, this measure was as follows:

Same-Property NOI



▪ Retail centers and malls in Israel ▪ Leasable office and other space in Israel ▪ Income-producing properties in the U.S. ▪ Senior housing ▪ Data centers

Figures are presented in millions of NIS.

The decrease in Same-Property NOI was mainly affected by the decrease in the segment of retail centers and malls in Israel due to the closure of malls to visitors according to the Government's decisions and in view of the relief to tenants of the Company's malls as specified in Section 2.2 above, by a decrease in the office segment resulting from the relocation by Bezeq from Azrieli towers to the company's offices in Holon and by a decrease in the income-producing properties in the U.S. sector resulting from a decrease in the occupancy rates in part of the properties and a decrease in the U.S. dollar exchange rate.

2.6. Weighted Cap Rate

The following table shows the calculation of the weighted cap rate derived from all of the Group's income-producing real estate, excluding senior housing[13], excluding the data centers[14] and excluding the Mount Zion Hotel[15] of the Group as of March 31, 2021:

Calculation of the Weighted Cap Rate for the Report Period	
Total investment properties in the statement	**29,665**
Net of value attributed to investment properties under construction	**(2,253)**
Net of value attributed to land reserves	**(581)**
Net of value attributed to income-producing senior housing	**(2,193)**
Total value of income-producing investment properties (including the fair value of vacant space)	**24,638**
Actual NOI in the quarter ended March 31, 2021 (excluding senior housing, data centers)	**282**
Additional future quarterly NOI (1)	**162**
Total standardized NOI	**444**
Proforma annual NOI based on the standardized NOI (excluding senior housing, data centers)	**1,776**
Weighted cap rate derived from income-producing investment properties (including vacant space) (2)	**7.2%**

Financials are presented in millions of NIS.

(1) The figure mainly includes estimates of additional NOI for vacant space not yet fully occupied and space occupied and to be occupied during 2021 under a whole-year lease in respect of which value was recorded in the update of the valuations as of December 31, 2020 (the main amounts in this item are due to the malls segment excluding Covid-19 relief and due to the Group's overseas properties).

(2) Standardized annual NOI rate out of total income-producing investment properties (including vacant space).
This figure does not constitute the Company's NOI forecast for 2021 and its entire purpose is to reflect the NOI assuming full occupancy for a whole year of all income-producing properties.

The Company's estimations referred to in this section include forward-looking information as defined in the Securities Law. This information is uncertain and is based, inter alia, on information pertaining to contractual engagement with tenants as of the report date, parameters in the calculation of fair value and the Company's estimations regarding space occupancy. The actual results may vary materially from the foregoing estimations and the implications thereof, for various reasons, including immediate cancelation of lease agreements or a business crisis of any one of the tenants, or a change in the fair value parameters or non-meeting of the development or occupancy targets or the ramifications of Covid-19.

[13] Since the value of senior housing properties is derived from the FFO indicator, rather than the NOI indicator, such properties were not included in this calculation. The weighted senior housing cap rate as of the Report Release Date is 8.25%.

[14] Included in investments in a company accounted for using the equity method and therefore excluded from income-producing real estate.

[15] Presented as fixed assets and is not measured at fair value since it is not included in the definition of income-producing real estate.

2.7. Real Estate Business FFO

Funds from Operations (FFO) is a measure that presents the cash flow from the real estate business. It is commonly used worldwide and provides a proper basis for the comparison of income-producing real estate companies. This indicator reflects income from net profit, discounting revenues and expenses of a capital nature and adding the Company's share in real estate depreciation and other amortizations.

This report presents the FFO indicator in respect of the Group's income-producing real estate business.

It should be stressed that the FFO indicator does not reflect cash flow from current operations according to generally accepted accounting principles, nor does it reflect cash held by the Company and its ability to distribute the same, and it is not a substitute for the reported net profit. It is further clarified that this indicator is not a figure audited by the Company's auditors.

FFO from the Income-Producing Real Estate Business

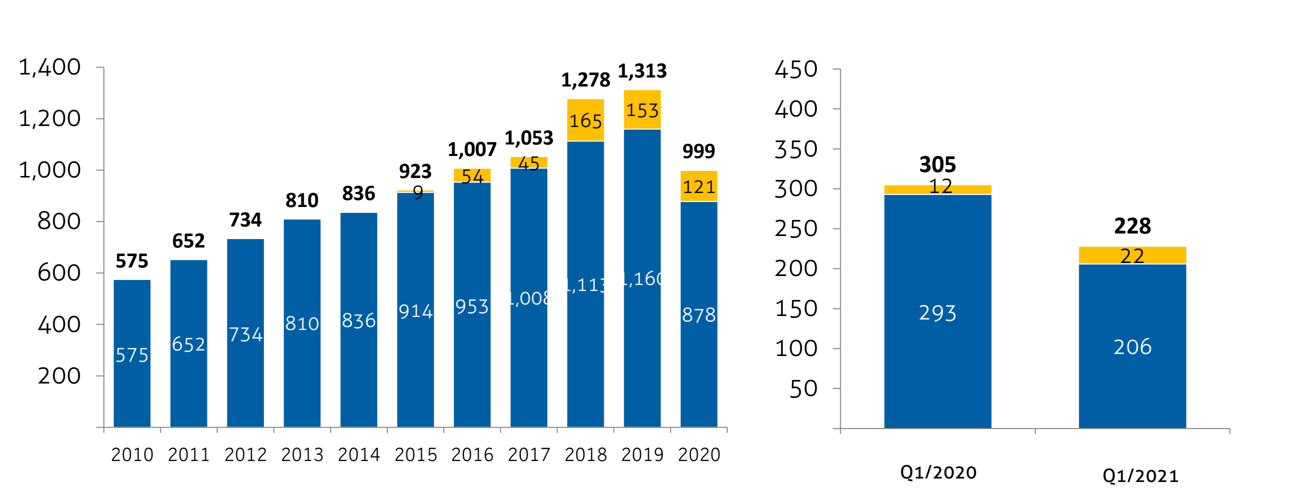
	For the Three Months Ended March 31, 2021	For the Three Months Ended March 31, 2020	For the Year Ended December 31, 2020
Net profit for the period attributable to shareholders	**110**	93	**189**
Discounting the net loss from Azrieli E-Commerce and from GES (until the sale thereof) attributable to shareholders (including a deduction of excess cost)	**12**	20	**64**
Profit adjustments:(1)			
Decrease in the value of investment properties and fixed assets, net	**37**	228	**765**
Depreciation and amortizations	**3**	3	**14**
Net non-cash flow financing and other expenses (revenues)	**9**	(53)	**(75)**
Tax expenses (revenues)	**26**	4	**(10)**
Net of a dividend received from financial assets available for sale	**-**	(9)	**(9)**
Effect of profits of an associate	**5**	-	**(98)**
Cash flow from the receipt of residents' deposits net of deposits returned to residents (2)	**26**	15	**144**
Net of revenues from the forfeiture of residents' deposits	**(9)**	(8)	**(32)**
Total profit adjustments	**97**	180	**699**
Plus interest paid for real investments (3)	**1**	1	**3**
Total FFO attributed to the income-producing real estate business (4) (5)	**220**	294	**955**
Total cash flow of financing of development pipeline (6)	**8**	11	**44**
Total FFO attributed to the income-producing real estate business, excluding the cash flow of financing of development pipeline	**228**	305	**999**

Financials are presented in millions of NIS.
(1) The below profit adjustments do not include adjustments in respect of GES and Azrieli E-Commerce, as their results have been fully discounted.
(2) Senior housing residents' deposits are deemed received or returned on the date on which the agreement is signed or terminated, as applicable.
(3) Calculated according to the Group's weighted interest for the real investments, mainly Azrieli E-Commerce, for 65% of the cost of the investments.
(4) Attributable to shareholders only.
(5) Including FFO from the senior housing segment in the sum of approx. NIS 22 million, in the three months ended March 31, 2021, (approx. NIS 12 million in the three months ended March 31, 2020) and approx. NIS 121 million in 2020.
(6) Calculated based on real credit costs due to development pipeline.

In the Report Period, the figure was adversely affected by the bringing forward of a debt raising that will also be used for ongoing repayments of loans and bonds in the coming year.

The following chart depicts the development of the FFO of the Group's income-producing real estate business in recent years:

Development of FFO from the Income-Producing Real Estate Business in Recent Years



Figures are presented in millions of NIS. Income-producing real estate, excluding senior housing. Senior Housing.

2.8. The EPRA (European Public Real Estate Association) Measures

The Azrieli Group is included in the EPRA Indices. EPRA is an organization that brings together the public income-producing real estate companies in Europe and worldwide. Being listed in the EPRA indices provides the Azrieli Group greater exposure to international investors, according to its weight in the index.

In view thereof, the Group has decided to adopt the position paper published by EPRA with the purpose of improving the transparency, uniformity and comparability of financial information reported by real estate companies listed in the index. A report regarding three financial measures calculated according to such position paper follows.

It is emphasized that the following measures exclude the component of expected profit from projects under construction not yet recorded in the financial statements.

These figures do not constitute a valuation of the Group, are not audited by the Group's auditors and are not a substitute for the figures contained in the financial statements.

2.8.1. EPRA NRV

The EPRA NRV index is a measure that reflects the net reinstatement value of the Company's net assets on a long-term basis, assuming continuation of future activity and non-disposal of real estate, therefore requiring certain adjustments, such as the exclusion of the deferred taxes resulting from the revaluation of income-producing real estate.

EPRA NRV		
	31.3.2021	**31.3.2020**
Equity attributable to the Company's shareholders in the financial statements	**17,939**	18,162
Goodwill created against a reserve for deferred taxes	(64)	(64)
Plus a tax reserve in respect of the revaluation of investment properties to fair value (net of minority interests)	3,590	3,594
EPRA NRV	**21,465**	**21,692**
EPRA NRV per share (NIS)	**177**	**179**

Figures are presented in millions of NIS.

2.8.2. EPRA NTA

The EPRA NTA index is a measure that reflects the Company's net tangible asset value. The assumption underlying the index is that entities buy and sell assets, leading to adjustment of only part of the deferred taxes resulting from the revaluation of income-producing real estate.

EPRA NTA		
	31.3.2021	**31.3.2020**
Equity attributable to the Company's shareholders in the financial statements	**17,939**	18,162
Goodwill created against a reserve for deferred taxes	(64)	(64)
The balance of goodwill which is not against a reserve for deferred taxes as stated in the Company's balance sheet	(38)	(39)
Other intangible assets	(14)	(21)
Plus 50% of the tax reserve in respect of the revaluation of investment properties to fair value (net of minority interests)	1,795	1,797
EPRA NTA	**19,618**	**19,835**
EPRA NTA per share (NIS)	**162**	**164**

Figures are presented in millions of NIS.

2.8.3. EPRA NDV

The EPRA NDV index reflects the net disposal value of the company's assets in case of sale of properties and repayment of liabilities. The index calculation takes into account all of the deferred taxes in respect of appreciation of the value of the properties that will apply upon sale of the properties, and an adjustment to fair value of the financial liabilities is made. It is noted that the index should not be deemed as the value of the company's assets in dissolution, since in many cases the fair value does not represent the value of the properties in dissolution.

EPRA NDV		
	31.3.2021	**31.3.2020**
Equity attributable to the Company's shareholders in the financial statements	**17,939**	18,162
Goodwill created against reserve for deferred tax	(64)	(64)
Balance of goodwill that is not against a reserve for deferred tax as appearing in the Company's balance sheet	(38)	(39)
Adjustment of the value of financial liabilities to fair value	(679)	141
EPRA NDV	**17,158**	**18,200**
EPRA NDV per share (NIS)	**141**	**150**

Figures are in NIS in millions.

AZRIELI GROUP'S INCOME PRODUCING REAL ESTATE*

MALLS & SHOPPING CENTERS

Ayalon Mall
Azrieli Hod Hasharon Mall
Azrieli Herzliya Outlet
Azrieli Givatayim Mall
Azrieli Jerusalem Mall
Azrieli Modi'in Mall
Azrieli Mall
Azrieli Holon Center
Azrieli Holon Mall
Azrieli Ramla Mall
Azrieli Ra'anana
Azrieli Haifa Mall
Azrieli Akko Mall
Azrieli Kiryat Ata Mall**
Azrieli Or Yehuda Outlet
Azrieli Hanegev Mall
Azrieli Rishonim Mall
Azrieli Sarona Mall
Palace Modi'in
Palace Lehavim

OFFICES & OTHERS in Israel

Azrieli Towers
Azrieli Sarona
Azrieli Holon Business Center
Azrieli Caesarea
Azrieli Herzliya Center
Azrieli Modi'in
Azrieli Modi'in Residential
Azrieli Petach Tikva
Azrieli Jerusalem
Azrieli Givatayim
Azrieli Kiryat Ata**
Azrieli Hanegev
Azrieli Rishonim Center
Azrieli TOWN Building E
Azrieli TOWN
Azrieli Holon Hamanor
Mikve-Israel Tel Aviv

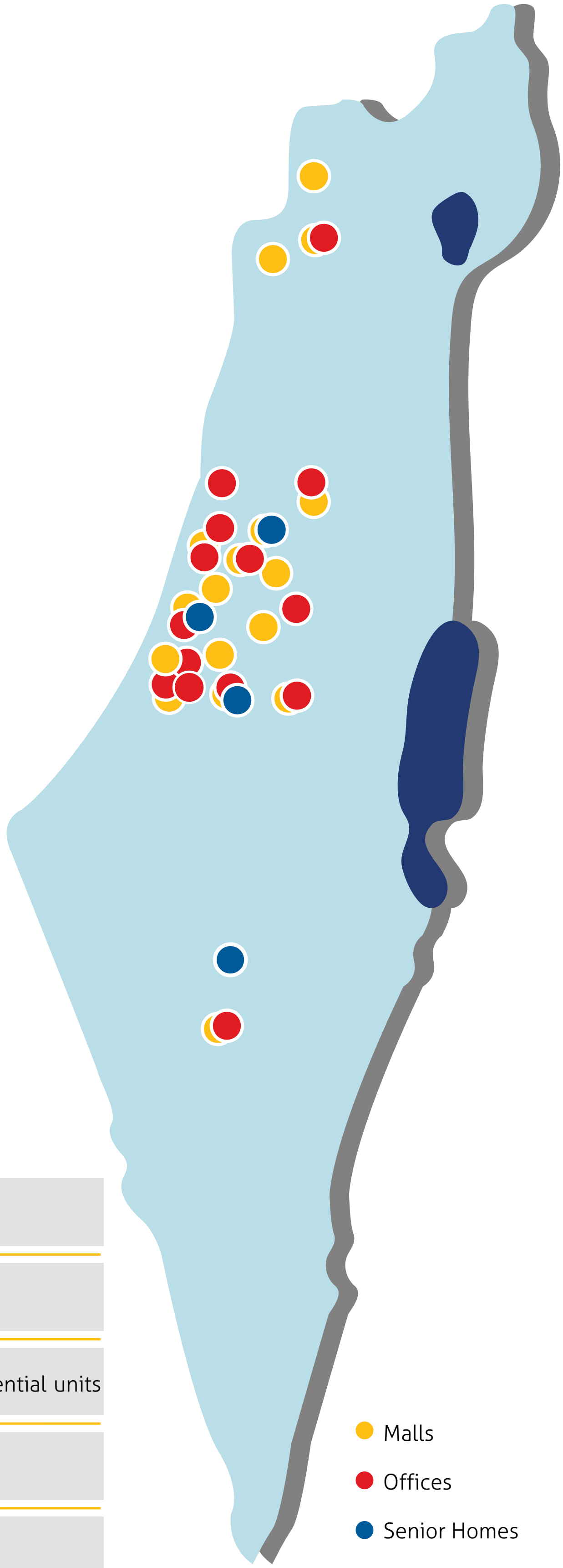
OVERSEAS

Galleria
1 Riverway
3 Riverway
Plaza
8 West
Aspen Lake II
San Clemente
Leeds

SENIOR HOMES

Palace Tel Aviv
Palace Ra'anana
Palace Modi'in
Palace Lehavim

20 malls	351 thousand sqm
17 office buildings	640 thousand sqm
4 senior homes	105 thousand sqm 1,034 residential units
8 office buildings overseas	248 thousand sqm
Total	**1,344 thousand sqm**



* As of March 31, 2021.

** In February 2021, an agreement was signed for the sale of the property.

2.9. Retail Centers and Malls in Israel Segment

The Azrieli Group owns and manages a portfolio of high-quality malls and retail centers throughout the country, which are located in city centers, with convenient access to transportation and often in proximity to train stations. The Company takes a long-term view with respect to its properties, from the stage of locating the land, through the stage of development and construction of properties, to the holding, management and betterment of the properties over years.

In the Report Period, in view of the Government directives, the Group's malls were closed (other than essential businesses) until February 21, 2021 due to the Covid-19 pandemic and hence, in view of the relief provided by the Company to tenants in its malls, in the Report Period there was a decrease in the business results in the segment, as will be specified below.

The opening of the malls after said lockdown, similarly to the previous lockdowns, was characterized by a speedy return of the consumer public to the Group's malls and hence, the Company estimates that while noting the return to normalcy and recovery of the Israeli economy, the Group's malls will continue to be a significant part of the Israeli retail market.

For details about the effects of the Covid-19 outbreak on the Company's operating segments, including the retail centers and malls in Israel segment, see Section 2.2 above.

The Company's aforesaid estimations with regard to the malls' future operations are subjective estimations only and constitute forward looking information as the term is defined in the Securities Law. Actual results may materially differ from the above-specified estimations and their implications, for various reasons inter alia further increase in competition, decrease in demand and deterioration of the economic situation in Israel.

The Group's malls are mostly characterized by the following:

- **Diverse and changing mix** – the malls segment has a dynamic retail mix that is renewed according to the market needs and public preferences. For example, malls **were** once characterized by significant presence of supermarkets or electronics stores, whereas today the tenant mix in malls has changed. In fashion it is evident that new brands periodically take the place of those which have become less relevant, with international fashion chains becoming more dominant in the market than local brands. The high-quality property portfolio, and the management thereof, grant the Company an advantage which enables it to get leading international fashion brands and to open their flag stores in the Group's malls.
- **A trend of increased store space** – increased retail space is recently demanded by international brands, followed by domestic ones, which seek to combine complementing brands in one store in order to expand the product mix and create an improved customer experience, while increasing the sales.
- **Malls as entertainment venues** – the Company acts to improve the entertainment and dining experience in the malls, through a selection of restaurants and cafés and renovation of the fast food courts, modern design and added crowd-attracting entertainment options such as the "Zappa" club and cinemas. The Group further acts to create family entertainment and service spaces in its malls, including play areas, diaper changing and nursing rooms.
- **Innovation** – in recent years the Company has been implementing technological improvements into the shopping experience and striving for leadership and innovation in the mall segment, including by way of creating a unique application which grant exclusive discounts to mall attendants and enables direct marketing based on customer preferences. The goal of technological innovation is to enhance customer experience in the mall while combining both digital and physical worlds.

The retail areas in Azrieli Group's malls and retail centers are leased to some 1,840 tenants.

E-Commerce activity – An additional layer of the Group's activity in the digital world is the Azrieli.com website. The website provides an e-commerce platform that integrates into and strengthens the activity of the malls and retail centers through online activity by way of an integrated sale, such as giving the option to order online and collect the product at the Group's malls ("Click & Collect").

Performance of the retail centers and malls in Israel segment and changes in value[16]

The Azrieli Group has 20 malls and retail centers in Israel with a total GLA of approx. 351 thousand sqm.

Balance of the properties of the retail centers and malls in Israel segment – The balance totaled approx. NIS 12.5 billion as of March 31, 2021, compared with approx. NIS 12.4 billion on December 31, 2020. The change mainly derives from investments in the segment's properties.

Change due to adjustment of the fair value of the segment's investment properties and investment properties under construction – The loss from such adjustment in the Report Period totaled approx. NIS 1 million, compared with a loss of approx. NIS 185 million in the same period last year. The decrease last year resulted from the relief plan with respect to rent and management fees that was declared by the Company at the time. The properties are presented according to valuations performed by an independent appraiser as of December 31, 2020.

The table below presents a summary of the business results of the retail centers and malls in Israel segment:

Summary of the Business Results of the Retail Centers and Malls in Israel Segment

	For the Three Months Ended			For the Year Ended
	Rate of Change	**31.3.2021**	**31.3.2020**	**31.12.2020**
Revenues	**(49%)**	**125**	**245**	607
NOI	**(58%)**	**86**	**205**	425

Figures are presented in millions of NIS.

As noted above, In the Report Period, in view of the Government directives, the Group's malls were closed (other than essential businesses) until February 21, 2021 due to the Covid-19 pandemic and hence, in view of the relief provided by the Company to tenants in its malls, in the Report Period there was a decrease in the business results in the segment. The Company has elected to recognize the rent concessions in the period in which they were given, rather than spread them out over the duration of the lease contracts, in accordance with the provisions of IFRS 9 Financial Instruments and IFRS 16 Leases, and in accordance with alternatives published in an ISA Staff Paper. For further details, see Section 2.2 above.

[16] The details in this section include the Azrieli Kiryat Ata mall, an agreement for the sale of which was signed after the report date. For additional details, see Section 1.2.3.2 above.

The table below presents the segment’s NOI development:

Development of the NOI of the Retail Centers and Malls in Israel Segment		
	For the Three Months Ended	
	31.3.2021	31.3.2020
NOI from segment properties owned by the Company as of the beginning of the period	**86**	205
NOI from properties purchased or construction of which was finished in 2021	-	-
Total NOI from all properties	**86**	205

Figures are presented in millions of NIS.

Same-Property NOI in the retail centers and malls in Israel segment was chiefly affected by the closing of malls to visitors according to the Government’s decisions and the effects of the relief provided to tenants in Q1/2021 as noted above.

2.10. Office Segment

The Company's portfolio of properties of leasable office space mostly consists of office towers classified as Class A properties, which are located mostly in CBDs, in proximity to major traffic arteries in the heart of the city. The location, quality and positioning of the office space enable the Company to maintain high occupancy rates, and over time increase the rent. The Company develops and builds office projects in significant scopes, which meet the international standards of employment centers in the world's largest cities, in all aspects pertaining to the management of the property and the quality thereof. Furthermore, the Company has leasable office areas which are part of malls, in which small tenants offer services to the public (e.g. medical institutes, health funds and independent service providers). The combination of offices and retail increases customer traffic in these properties.

For details regarding the impact of the spread of Covid-19 on the Company’s operating segments, including the office segment, see Section 2.2 above.

The Company's leasable office space properties are mostly characterized by the following:

- **Positioning** – among the Company's properties are projects which are considered to be leading and very significant in the field of leasable office spaces in Israel, and are an icon in Israeli landscape in general, and in Tel Aviv in particular, such as the Azrieli Tel Aviv Center and the Azrieli Sarona Tower.
- **Location** – the Company engages in the development of leasable office spaces and acts to locate and build its properties in this segment in areas which enjoy a high demand for offices. The Company's projects are mostly located in the heart of Israel's CBDs and in proximity to city centers and are characterized by convenient access by both private and public transportation. For example, the Company has several projects in Tel Aviv's northern CBD with both income-producing projects and projects under development and construction.
- **Large floors** – the Company's property portfolio includes a number of projects that can offer large floor spaces. These projects can meet the growing demand by large companies that are interested in creating one central site for employees, and their spread over a smaller number of floors. The planning of the Azrieli Sarona project and the Azrieli Holon center, for example, enables tenant to unite several sites which were previously spread across the country.
- **Building standard** – the Group persistently applies high building standards to all of its properties, as expressed in the architectural design, the properties' functionality and the meticulous attention to high building qualities as well as to details such as new and fast elevators, advanced lighting and more. This is rooted in the long-term vision of properties that will be owned and managed by the Group for many years to come.

- **Operational efficiency** - the size of the Company's properties leads to operational efficiency which is expressed, *inter alia*, in the ability to implement technological and infrastructural improvements including the installation of complex communication networks and Leed Certificate which enable large multinational which require compliance with strict standardization to lease spaces at the Company's properties.
- **Management** – all of the Group's leasable office spaces are managed by management companies which are subsidiaries of the Company and are committed to high service standard.

Azrieli's office areas in Israel are leased to some 670 different tenants. In each one of the Group's properties, there is a mix of tenants coming from various sectors. Some of the Company's office tenants are domestic or international mega-companies.

2.10.1.Performance of the Leasable Office and Other Space in Israel Segment and Changes in Value

The Azrieli Group has 17 income-producing properties in this segment in Israel, with a total GLA of approx. 640 thousand sqm.

Balance of the Group's investment properties in the leasable office and other space in Israel Segment – as of March 31, 2021 the balance totaled approx. NIS 12.7 billion, compared with approx. NIS 12.5 billion as of December 31, 2020. The change mainly derives from investments in the segment's properties.

Change due to adjustment of the fair value of the segment's investment properties and investment properties under construction – the loss from such adjustment in the Report Period totaled approx. NIS 36 million and mainly derived from changes in other receivables due to averaging of the revenues from rent and decreasing the purchase tax with respect to the purchase of the building in Tel Aviv in the Report Period as provided in Section 1.2.3.3 above, compared with a profit of approx. NIS 1 million in the same period last year.

The table below presents a summary of the business results of the leasable office and other space in Israel segment:

Summary of the Business Results of the Leasable Office and Other Space in Israel Segment

	For the Three Months Ended			For the Year Ended
	Rate of Change	**31.3.2021**	**31.3.2020**	**31.12.2020**
Revenues	**8%**	**195**	180	708
NOI	**9%**	**167**	153	601

Figures are presented in millions of NIS.

The NOI was mainly affected by the opening of the office buildings in Azrieli Town and HaManor street in Holon offset by an adverse effect due to interim periods of tenant turnover in Azrieli towers mainly due to the departure of Bezeq.

The following table presents the segment’s NOI development:

Development of the NOI of the Leasable Office and Other Space in Israel Segment		
	For the Three Months Ended	
	31.3.2021	**31.3.2020**
NOI from segment properties owned by the Company as of the beginning of the period	**147**	**153**
NOI from properties, the construction of which was completed in 2020	**20**	**-**
Total NOI from all properties	**167**	**153**

Figures are presented in millions of NIS.

During the Report Period, same-property NOI in the leasable office and other space in Israel segment was primarily affected by interim periods of tenant turnover in Azrieli towers mainly due to the departure of Bezeq.

2.11. Senior Housing Segment

The acquisition of land in Modi'in in 2014 marked the Group's entry into the senior housing segment, which was followed in 2015 by the purchase of an existing senior home – Palace Tel Aviv, one of the most luxurious homes in Israel. Since the purchase of Palace Tel Aviv, the Group has been operating under the brand “Palace” for the continued successful operation and betterment of the four active senior homes, Palace Tel Aviv, Palace Ra'anana, Palace Modi'in (construction of which was completed in Q3/2018) and Palace Lehavim, the construction of Phase A of which was completed in May 2020, a Form 4 (occupancy permit) was received and residents started moving in to the home. In addition, the Group began construction of another project in Rishon LeZion.

For details about the effects of the Covid-19 outbreak on the Company’s operating segments, including the senior housing segment, see Section 2.2 above.

2.11.1. Performance of the Senior Housing Segment and Changes in Value

As of the Report Release Date, Azrieli Group has four operating senior homes with aboveground built-up areas of approx. 105 thousand sqm (excluding areas which are attributed to the LTC unit and to retail areas), which consist of approx. 1,034 senior housing units, and is in advanced construction stages of Phase B in the senior home in Lehavim and another project in Rishon LeZion, in which approx. 275 residential units with a total area of approx. 31 thousand sqm, which is under construction (excluding areas which are attributed to the LTC unit and to retail areas) will be built. The Company is also promoting a zoning plan for additional rights, including for senior housing, in the Azrieli Jerusalem mall. For further details, see Section 4.1.2 of the board of directors’ report in the periodic report for 2020, which is included herein by way of reference.

Balance of the Group’s segment properties in the senior housing segment – This balance totaled approx. NIS 2.6 billion as of March 31, 2021, similarly to the balance as of December 31, 2020.

Change due to adjustment of the fair value of the segment’s investment properties and investment properties under construction – There has been no change in the fair value of investment properties and investment properties under construction of the segment in the Report Period and in the same period last year. The properties are presented according to an update to the valuations prepared by an independent appraiser as of December 31, 2020.

The table below presents a summary of the business results of the senior housing segment:

Summary of the Business Results of the Senior Housing Segment				
		For the Three Months Ended		For the Year Ended
	Rate of Change	31.3.2021	31.3.2020	31.12.2020
Revenues	**10%**	**45**	41	162
NOI	**-**	**11**	11	33

Figures are presented in millions of NIS.

The increase in revenues in the Report Period results from the continued marketing and resident move-ins at Palace Modi'in and Palace Lehavim during the Report Period.

The following table presents the senior housing segment's NOI Development:

Development of the NOI of the Senior Housing Segment		
	For the Three Months Ended	
	31.3.2021	31.3.2020
NOI from segment properties owned by the Company as of the beginning of the period	**12**	11
NOI from properties construction of which was finished in 2020	**(1)**	-
Total NOI from all properties	**11**	11

Figures are presented in millions of NIS.

The increase in the NOI in the Report Period derives from the continued marketing and resident move-ins at Modi'in senior home.

2.12. Income-Producing Properties in the U.S. Segment

2001 marked the beginning of the Azrieli Group's diversification of its investments in income-producing real estate overseas. In recent years the Group has expanded its activity significantly through the acquisition of office buildings in Houston and in Austin, Texas.

The trend of increase in the vacant space in the Houston office market continued in 2020 and in the Report Period, albeit to a lesser degree than in 2019, primarily due to the jolts in the energy industry which in recent years have led to a drop in oil prices[17] along with increasing activity of mergers and acquisitions of companies in this industry, as well as due to the impact of the Covid-19 pandemic that led to economic slowdown in the U.S. and in the entire world. In addition, the Covid-19 pandemic has brought on uncertainty with respect to the Houston office market, which, coupled with the transition to telecommuting, led to an increase in vacant space.

[17] Following the aforesaid, since the end of 2019 the price of an oil barrel has significantly declined, even to the point of negative figures. Since that low in the beginning of the Covid-19 crisis, there has been a recovery in oil prices, which have regained the pre-Covid-19 crisis price levels, which price levels are still not considered high, thus adversely affecting companies from the energy industry, which is one of the major drivers of the Houston economy, and whose effect on the office market in Houston was felt during the Report Period.

Despite the aforesaid, the Company's revenues from the segment of income-producing property in the U.S. were moderately affected since the eruption of the Covid-19 crisis, due to the granting of specific requests from tenants to spread out rent payments. In Q1/2021, rent was collected as usual.

For details about the effects of the Covid-19 outbreak on the Company's operating segments, including the tenants in its properties, see Section 2.2 above.

2.12.1.Performance of the Income-Producing Properties in the U.S. Segment and changes in Value

As of the report date, Azrieli Group has 8 income-producing properties in this segment, mostly in the U.S. with a total GLA of approx. 248 thousand sqm (on a consolidated basis) and approx. 238 thousand sqm (the Company's share) leased to some 200 tenants.[18]

Balance of the Group's investment properties in the segment – This balance totaled approx. NIS 2.2 billion as of March 31, 2021, compared with approx. NIS 2.1 billion on December 31, 2020. The change mainly derives from an increase in the dollar exchange rate as of March 31, 2021, compared with December 31, 2020.

Change due to adjustment of the fair value of the segment's investment properties – The loss from such adjustment in the Report Period totaled approx. NIS 1 million, compared with a loss of approx. NIS 40 million recorded in the same period last year. The loss in the same period last year mainly resulted from the effect of the decrease in oil prices on the office lease market in the U.S. The properties are presented according to valuations carried out by an independent appraiser as of December 31, 2020.

The table below presents a summary of the business results of the income-producing properties in the U.S. segment:

Summary of the Business Results of the Income-Producing Properties in the U.S. Segment				
		For the Three Months Ended		For the Year Ended
	Rate of Change	31.3.2021	31.3.2020	31.12.2020
Revenues	**(12%)**	**58**	66	73
NOI	**(17%)**	**29**	35	38

Figures are presented in millions of NIS.

The following table presents the segment's NOI Development:

Development of the NOI of the Income-Producing Properties in the U.S. Segment		
	For the Three Months Ended	
	31.3.2021	31.3.2020
NOI from segment properties owned by the Company as of the beginning of the period	**29**	35
NOI from properties purchased in 2021	**-**	-
Total NOI from all properties	**29**	35

Figures are presented in millions of NIS.

Same-property NOI in the income-producing properties in the U.S. segment was affected by changes in occupancy in some of the properties and by the decrease in the average exchange rate of the U.S. dollar.

[18] The "Company's share" – net of minority interests in certain companies.

2.13. Income-Producing Real Estate – Additional Operations

2.13.1. Data centers

Further to the Company's reports, whereby it periodically examines entry into operating segments tangent to its income-producing real estate operations, the Company examined the data centers market. After studying the market and the key players in the sector, the Company made the decision to invest in a company engaged in this sector, while noting the growth potential that exists in the sector and with the intention that it would serve as another growth engine for the Group's business.

The Company decided that its entry into the data centers market would be made through equity investment in a company operating in North America, with an option to increase the holding rate in this company, which has significant development and entrepreneurial potential in the sector. For further details, see Section 12.1 of Chapter A of the Periodic Report for 2020, which is included herein by reference.

The Company estimates that the data centers operating segment is expected to grow at a significant rate and could constitute a significant growth engine for the Group's business.

The Company's estimates in this section are forward-looking information, as this term is defined in the Securities Law, based on subjective estimates of the Company as of the Report Release Date and sources of information external to the Company, and there is no certainty as to their realization, in whole or in part, or they may be realized in a materially different way, inter alia, due to changes in project schedules, their actual scope and marketing and due to factors beyond its control, including changes in the global data centers market.

2.13.2. Hospitality

As aforesaid, as part of the Company's business strategy, the Company periodically examines entry into operating segments tangent to its income-producing real estate operations. The Company examined the expansion of its operations into the hospitality industry and, in this context, recruited for the Company's headquarters a person with extensive experience in the hospitality industry. After a long and in-depth examination process conducted by the Company, the Company concluded that entering the hospitality industry would be an opportunity to expand the Group's operations mix, using the existing entrepreneurial capabilities of the Company and its real estate properties and the operational experience accumulated in the Company in the senior housing segment. The expansion of such activities is to be carried out, *inter alia*, through the development, planning and purchase of hotels in Israel, as well as the operation of hotels in Israel.

On February 9, 2020, the Company completed the first major step in its entry into the hospitality industry through the acquisition of the Mount Zion Hotel in Jerusalem (in this section: the "**Hotel**"). For further details on the hotel acquisition transaction, see Section 12.2 of Chapter A of the Periodic Report for 2020, which is included herein by reference.

Starting from the date of closing the purchase and until March 17, 2020, the Company operated the Hotel through a wholly-owned management company. The Hotel's operation included ongoing management and operations, including the provision of accommodations, food and beverage, leisure services and other hospitality services.

On March 17, 2020 the Company closed down the Mount Zion Hotel, in view of the encumbering directives imposed on the operation of hotels due to the Covid-19 crisis. As of the Report Release Date, the hotel is closed and the Company is acting for planning the renovation of the Hotel and the exercising the building rights for the expansion thereof, such that it will include 350 rooms and an underground car park that will include approx. 250 parking spaces. The Hotel's renovation and expansion are subject to the receipt of a building permit. After the Hotel's renovation and expansion, the Hotel will be re-opened.

3 | NON-REAL ESTATE BUSINESS

3.1. Granite Segment – Discontinued Operations

On May 7, 2020, the transaction for the sale of the Group's holdings in GES, which engages in water, wastewater, air and waste treatment and industrial chemicals, was closed. For further details about the sale of GES, see Section 1.2.3.4 of Chapter B of the Periodic Report for 2020, which is included herein by reference.

In view of the aforesaid, and according to IFRS 5, the results of GES are presented in the income statement comparison figures as discontinued operations.

3.2. Additional Activities

3.2.1. Investments in Financial Corporations

The Group has holdings in the financial sector by means of an investment in Bank Leumi[19]. A summary of changes in the investments in the Report Period follows:

Changes in Investments in Financial Companies	
	Bank Leumi (1)
Investment value in the financial statements as of December 31, 2020	**862**
Sale proceeds	**-**
Investment	**-**
Total investment as of March 31, 2021 (2)	**862**
Fair value of the investment as presented in the financial statements as of March 31, 2021	**1,003**
Change in fair value during the Report Period	**141**
Dividend received in the Report Period	**-**

Figures are presented in millions of NIS.
(1) The fair value of the investment in Bank Leumi was determined according to the value of the share at the Tel Aviv Stock Exchange (TASE) as of March 31, 2021.
(2) Before adjustment to changes in fair value during the Report Period.

3.2.2. E-Commerce Platform Activity – Azrieli.com

Further to the Company's reports, whereby it is continuing to examine business opportunities related to the expansion of its operations to additional segments that coincide with its business strategy, while creating an additional growth engine, the Company owns and operates the Azrieli.com website. The website provides an e-commerce platform, aiming to integrate into and boost the malls and retail centers business through online activity and by way of combined sales and creation of consumption experience, alongside the development of the core business in traditional retail. In 2020, Azrieli E-Commerce signed an agreement for the establishment of a limited partnership under joint ownership with MGS Group for the purpose of launching a website specializing in fashion and sports designated for the Israeli market. This website, ONE PROJECT by Azrieli, offers for sale clothing, footwear and accessories of brands whose distribution rights are held by MGS Group as well as many other brands. For details about the Group's e-commerce operations, see Section 14 of Chapter A of the Periodic Report for 2020, which is included herein by reference.

For details about the effects of the Covid-19 outbreak on the Company's operations, including the e-commerce operations, see Section 2.2 above.

[19] The Company has also made negligible investments in investment funds, as specified in Section 14.2.3 of Chapter A of the Periodic Report for 2020, which is included herein by way of reference.

4 | BUSINESS DEVELOPMENT – GROWTH ENGINES

4.1. Review of the Business Development Operations

4.1.1. Development of Income-Producing Properties

The Group's primary growth engine is expertise in development and unique architectural design of income-producing property project: malls, offices and senior housing. As of the report date, the Group has 12 projects at various development stages in Israel.

Summary of Information about Development Pipeline

Name of Property	Use	Marketable Sqm[1]	Estimated Completion	Book Value of Project [2]	Cost Invested [3]	Estimated Construction Cost including Land[3]
Development Projects under Construction in the Short-Term						
Akko	Offices	8,000	Q4/2021	**40**	**63**	**70-75**
Azrieli Town Tel Aviv [4]	Retail and residence	Retail: 4,000 Residence: 21,000 (210 residential units)	2022	**456**	**454**	**550-580**
Palace Lehavim Senior Housing Phase B	Senior housing	10,000	2022	**107**	**102**	**110-115**
Modi'in land (Lot 21)	Retail, offices, residence and hospitality	31,000[6]	2023	**149**	**148**	**400-430**
Check Post Haifa	Retail	12,000	2023	**16**	**9**	**130-140**
Total		**86,000**		**768**	**776**	**1,260-1,340**
Development Projects in the Medium-Term						
Senior housing land Rishon LeZion	Senior housing and retail	37,300	2024	**79**	**66**	**450-470**
Expansion of Azrieli Tel Aviv Center (Spiral Tower)	Retail, offices, hospitality and residence	150,000[5]	2025	**902**	**605**	**2,300-2,500**
Total		**187,300**		**981**	**671**	**2,750-2,970**
Total		**273,300**		**1,749**	**1,447**	**4,010-4,310**
Development Projects in Planning Stages						
Azrieli Town Building E	Offices	21,000	TBD	**107** [7]	**116** [7]	**TBD**
Holon 3 – Holon Industrial Zone [8]	Retail and offices	250,000	TBD	**563**	**500**	**TBD**
Petach Tikva land	Offices and retail	53,000[9]	TBD	**96**	**100**	**TBD**
Modi'in land (Lot 10)	Offices and retail	37,000	TBD	**88**	**92**	**TBD**
Mount Zion Hotel	Hospitality	34,000[10]	TBD	**296**	**298**	**TBD**
Total		**395,000**		**1,150**	**1,106**	
Total		**668,300**				

Cost and value figures are presented in millions of NIS.

Holding rate is 100% for all properties (other than Azrieli Town Building E which does not include offices in an area of approx. 450 sqm and does not include a gas station and a convenience store next to it).

1. With respect to uses of the senior housing and/or leasable apartments, the figure represents building rights in sqm.
2. As of March 31, 2021.
3. Without capitalizations and tenant fit-outs, as of March 31, 2021.
4. The data presented relate to the existing zoning plan on the land.
5. In April 2018, a zoning plan was validated which increases the construction rights of the fourth tower and the expansion of the mall, in approx. 80,000 sqm, to a total building rights of approx. 150 thousand sqm.
6. The Group increased the building rights in the project to 31,000 sqm.
7. The building rights were purchased in the context of acquisition of the income-producing property in May 2018.
8. Includes additional land (approx. 27,000 sqm of marketable space) originally purchased in the framework of an ILA tender, which was part of the Holon HaManor land. In the context of a consolidation of plots, the building rights in the lot were increased by approx. 30,000 sqm (such that the building rights in the consolidated lot total approx. 250,000 sqm).
9. The data presented relate to the existing zoning plan on the land. The Group is in the process of increasing the building rights in the project to 280,000 sqm.
10. Includes both the existing area and the additional rights, as the Company intends to renovate the entire Hotel and expand it.

During the Report Period, the Group proceeded with the work of development of its aforesaid properties and with its efforts to obtain the approvals required for the purpose of their continued development on schedule and without significant delays. Furthermore, the Group is conducting negotiations and engages in agreements for the lease of areas under construction. For further details, see below.

Description of Properties under Construction and Land Reserves

Azrieli Akko Offices – In June 2019, a permit was received for the addition of two office floors above the mall and the addition of parking spaces and the work is nearing completion.

Azrieli Town, Tel Aviv – The land, the area of which is approx. 10,000 sqm, was purchased in October 2012 and construction commenced in September 2016. In December 2020, a Form 4 was received for the car parks, the office tower in the area of approx. 50,000 sqm and the retail space in the area of approx. 4,000 sqm that are expected to be populated upon completion of the residential tower that will consist of approx. 210 apartments for lease, which is under construction. As of the Report Release Date, the Company signed agreements for the lease-up of almost 100% of the leasable space of the offices in the project and the lease-up of the offices in the project has ended. The project is located in proximity to the train stations in central Tel Aviv and to the light rail station in the future, and the Emek Bracha Bridge, which is planned to be built in the area, will connect the eastern side of the city with the city center through the project.

The Group is promoting a change of the zoning plan to increase the building rights in the complex and in May 2019, a hearing was held in the Local Committee on objections to the zoning plan for the addition of office and hotel areas at a total scope of approx. 24,000 sqm (gross). The Committee discussed the objections and decided to approve the publication of the plan for validation. An administrative appeal against the plan was submitted in July 2019 and heard in in January 2020, and in August 2020, a decision denying the administrative appeal that was submitted against the plan was issued.

"Palace Lehavim" Senior Home – The land, the area of which is approx. 28,300 sqm, was purchased in December 2014 and construction commenced in August 2016. The project consists of a senior home for the elderly demographic with approx. 350 senior housing units and an LTC unit, as well as related facilities, such as a swimming pool, sports center and retail areas of up to approx. 1,500 sqm. In May 2020, a Form 4 was obtained in respect of the construction of Phase A of the project, which consists of 240 senior housing units and also in respect of the retail areas, and lease-up of the project commenced. In July 2020, a Form 4 was obtained in respect of the LTC unit (approx. 5 thousand sqm) and the Company is in advanced stages of construction of Phase B of the project.

Land in the Check Post Intersection – land in the area of approx. 17,800 sqm which is located in the Haifa industrial zone, in proximity to the Check Post Intersection. A project is expected to be built on the land, in two phases, which will include leasable retail and office space in the total area of approx. 37 thousand sqm and approx. 400 parking spaces.

In Phase A, a 2-floor building in the area of approx. 12 thousand sqm and approx. 400 parking spaces, whose ground floor will be used as a supermarket, is expected to be built on the land. In December 2020, the Company engaged in an agreement for the lease of the space which will be used as a supermarket.

The Company is acting for the approval of a building plan by the Local Committee, which is a condition to the issuance of a building permit.

Land in Modi'in (Lot 21) – On January 11, 2018, the Group won a tender held by the ILA, for the purchase of long-term lease rights in a lot located in the CBD of Modi'in-Maccabim-Re'ut (close to the Azrieli Modi'in Mall), in an area of approx. 5,300 sqm, designated for the construction of 80 residential units, 50 hotel rooms, offices and retail space, in consideration for approx. NIS 101.5 million. For further details see the Company's immediate report of January 11, 2018 (Ref.: 2018-01-004960), which is included herein by way of reference. An excavation and shoring permit was received in July 2019 and the Company commenced work at the site. An application for a basement permit was submitted in August 2019 and the Local Committee gave conditional approval therefor. In June 2020, the basement permit was obtained.

In September 2019 the Company submitted for deposit with the District Committee the documents of the plan for increase of the aboveground building rights in the lot to 28,000 sqm and connection thereof to the existing project. In March 2021, the plan was approved such that the building rights are approx. 31,000 sqm.

In June 2020, an application was filed requesting an aboveground building permit for two retail floors, two hotel floors (84 rooms) and service and operating space.

Palace Rishon LeZion Senior Home – The land, located at HaRakafot Neighborhood in East Rishon LeZion, in an area of approx. 3,400 sqm, was purchased in March 2016 in a tender held by the ILA for the purchase of the leasehold on the land. The Company intends to build on the land a senior home which is planned to consist of up to 275 residential units, an LTC unit and approx. 3,000 sqm of retail space. In April 2018, the recommendation of the Local Committee was received for the deposit of a zoning plan for additional rights and was referred for a discussion at the District Committee. In November 2018 the decision of the District Committee on the conditional deposit of the zoning plan was received. In April 2019, the zoning plan was published for objections, and in September 2019, a hearing was held at the District Committee on the objections that were submitted and it was decided to validate the plan. In February 2020, the plan was published for validation and was approved on the Official Gazette.

In March 2020 the Company submitted an application for an excavation and shoring permit for the project. In June 2020, the permit was obtained and in the beginning of 2021 the work began. In May 2021 the Company filed an application for a basement permit.

Expansion of Azrieli Tel Aviv Center (Spiral Tower) – The land, area of which is approx. 8,400 sqm, was purchased in May 2013 and construction commenced in September 2016. The land, which is adjacent to the Azrieli Tel Aviv Center will enable the construction of the fourth tower and the expansion of Azrieli Tel Aviv mall. In April 2018, a zoning plan was validated with an urban-mixed designation, which allows uses of retail, offices, hotels, residence and senior housing with aboveground building rights of approx. 147,260 sqm (gross), and, in addition, approx. 3,000 sqm of underground main retail space.

As part of the zoning plan, the Company was required to approve an architectural design and development plan for the project, as a condition for an above-ground building permit. The Company also undertook to allocate from the said rights in the project a public floor for the Tel Aviv-Jaffa Municipality, as well as undertook to pay and perform various tasks in the vicinity of the project, including in Azrieli Center. The Company intends to construct retail space that will serve to expand the existing mall and a multi-story tower, the Spiral Tower.

In January 2020 a basement permit was received for the project. In January 2021 the design plan was signed by the approving functions in the City of Tel Aviv. As of the Report Release Date, the Company is continuing to carry out excavation and shoring work and construction of the parking basements on the land.

Azrieli Town E Building – On May 14, 2018, the Company closed a transaction for acquisition of land rights located on Menachem Begin Road in Tel Aviv, on which a four-story building is built above a retail ground floor, on a total area of approx. 5,500 sqm and basement floors, which are leased entirely for office purposes. The property includes unutilized building rights according to the zoning plan that applies to the land at a total scope of approx. 21,000 sqm, above-ground, and additional rights.

Holon 3 - Holon Industrial Zone – The land, in an area of approx. 57,500 sqm, was purchased in April 2016. Construction in the project commenced in March 2018 and excavation and shoring work in the project commenced in June 2018. In October 2018, a building permit was received for the project's underground parking levels, and in July 2019 a permit for additional underground parking levels was received. In May 2019, works have commenced for the construction of the underground parking levels in the eastern part of the project and a Form 4 (occupancy permit) with respect thereto was received in November 2020. In April 2021 a certificate of completion was received for the car parks. The land is located in proximity to the Azrieli Holon Center, on which it is planned to build a very large employment and commerce project, which will consist of approx. 250,000 sqm of leasable office space and a family-friendly entertainment and shopping complex. The project is in proximity to central traffic arteries.

Land in Petach Tikva – The land, which was purchased in November 2017, of an area of 19,000 sqm, is situated in the eastern part of the Kiryat Aryeh Industrial Zone in Petach Tikva, near an existing office project owned by the Group. The land includes building rights for around 53,000 sqm as well as parking basements. For further details, see the Company's immediate reports of September 18, 2017 and November 9, 2017 (Ref.: 2017-01-093630 and 2017-01-098386, respectively) which are included herein by way of reference. In July 2019 an application was filed for shoring, excavation and basement permits. In January 2020 the Local Committee decided to grant conditional approval for the shoring, excavation and basement permit application.

In addition, in January 2020, a zoning plan for approval was submitted to the Local Committee under Local Committee jurisdiction, which plan seeks additional height and additional rights of 500 sqm. In August 2020, a Local Committee hearing was held and conditional deposit of the plan was approved. The Company filed an application to amend the committee's decision and in April 2021, the committee re-deliberated the zoning plan and updated its decision in accordance with the Company's request.

At the same time, In January 2020, a zoning plan was submitted to the District Committee for approval of the building rights to include 280 thousand sqm, which will mainly be used for offices and are planned to be built both on the vacant land and on the land on which the office project is located.

Land in Modi'in (Lot 10) – On October 6, 2019, the Company was informed that it had won a tender held by the ILA for the purchase of a leasehold in a lot situated in the Modi'in-Maccabim-Re'ut CBD, with an area of approx. 17,000 sqm, designated for the construction of a retail and office project, with rights for approx. 37,000 sqm above ground, in consideration for approx. NIS 51 million. According to the conditions of the tender, the Company paid, in addition to the cost of land, approx. NIS 37 million for development costs. For further details, see the Company's immediate report of October 7, 2019 (Ref.: 2019-01-086697), which is included herein by way of reference. The Company is acting to promote a plan for the project that will be built on the land and in October 2020, filed a zoning plan with the Local Committee for the addition of designations to the lot. In April 2021 the plan was deliberated and conditional deposit of the plan was approved.

Mount Zion Hotel – On February 9, 2020 the Company closed a deal for the purchase of Mount Zion Hotel in Jerusalem. The Company is working on a hotel renovation plan and acting for the exercise of building rights for expansion of the hotel, such that it will consist of 350 rooms and an underground car park with approx. 250 parking spaces. Renovation and expansion of the hotel are subject to receipt of a building permit. As of the Report Date, an application for an excavation and shoring permit was submitted.

The Company's estimations in this Section 4.1.1 above, with regard to, inter alia, the expected costs of and investments in properties under construction, manner of financing of the projects, construction completion dates, receipt of various regulatory approvals required for the promotion of projects under construction or the results of administrative and legal proceedings, are forward-looking information, within the definition of this term in the Securities Law, which is based on the Company's subjective estimations as of the date of the report, and their materialization, in whole or in part, is uncertain, or they may materialize in materially different ways, inter alia for reasons which are beyond the Company's control, including changes in market conditions, changes in the Company's plan, the time required for the approval of construction plans for execution, changes in construction input prices and the effects of the Covid-19 pandemic.

The Company's management is acting to continue leading the income-producing real estate market, *inter alia* through the purchase of land reserves, the expansion of existing properties and the purchase of additional similar properties as aforesaid, in order to bring to a further increase in the Company's future operating cash flow, insofar as the Company's board of directors shall so deem fit, and to further consider the development of related and/or synergistic segments.

DEVELOPMENT PIPELINE*

* For further details, including in connection with the scope of the building rights in the development pipeline, see the footnotes in the development pipeline table above.

EXPANSION OF AZRIELI TEL AVIV CENTER (SPIRAL TOWER)

Use	Retail, offices, hotel and residence	**Estimated completion**	2025
GLA	150,000 sqm	**Status**	Under Construction

AZRIELI HOLON 3

Use	Retail and offices
GLA	250,000 sqm
Estimated completion	TBD
Status	Under Construction

MOUNT ZION HOTEL JERUSALEM

Building rights	34,000 sqm
No. of Rooms	350
Estimated completion	TBD
Status	In planning

MODI'IN LAND (LOT 21)

Use	Retail, offices, hotel and residence
GLA	31,000 sqm
Estimated completion	2023
Status	Under construction

PALACE RISHON LEZION SENIOR HOME

Building rights	37,300 sqm
No. of residential units	275
Estimated completion	2024
Status	Under construction

DEVELOPMENT PIPELINE*

* For further details, including in connection with the scope of the building rights in the development pipeline, see the footnotes in the development pipeline table above.

AZRIELI TOWN

Use	Retail and residence	**Estimated completion**	2022
GLA	25,000 sqm	**Status**	Under Construction

MODI'IN LAND (LOT 10)

Use	Retail and offices
GLA	37,000 sqm
Estimated completion	TBD
Status	In planning

PETACH TIKVA LAND

Use	Offices and retail
GLA	53,000 sqm
Estimated completion	TBD
Status	In planning

AZRIELI TOWN BUILDING E

Use	Offices
GLA	21,000 sqm
Estimated completion	TBD
Status	In planning

4.1.2. Betterment of income-producing properties

Another growth engine of the Company is the betterment of its existing properties. The Company also examines, from time to time, options to promote zoning plans for additional building rights in its properties. For details with respect to the Company's activities for the betterment of its existing properties, see Section 4.1.2 of the board of directors' report for the Periodic Report for 2020, which is included herein by way of reference and Section 4 of Chapter B of this report – updates to the Description of the Corporation's Business chapter as of March 31, 2021.

4.1.3. Identification and Acquisition of Properties in the Company's Operating Segments

For details with respect to the Company's activities for the identification of properties in the Company's operating segments, see Section 4.1.3 of the board of directors' report for the Periodic Report for 2020, which is included herein by way of reference.

5 | FUNDING OF THE BUSINESS

5.1. Leverage Ratio of the Group

The following table presents a summary of balance sheet figures out of the consolidated financial statements:

Summary of Balance Sheet Figures out of the Consolidated Statements			
	31.3.2021	**31.3.2020**	**31.12.2020**
Current assets	**2,888**	**2,725**	**3,273**
Non-current assets	**32,304**	**31,771**	**31,851**
Current liabilities	**2,949**	**3,157**	**2,900**
Non-current liabilities	**14,270**	**13,137**	**14,091**
Equity attributable to the Company's shareholders	**17,939**	**18,162**	**18,101**
Equity attributable to the Company's shareholders out of total assets (in %)	**51%**	**53%**	**52%**
Net debt to assets (in %)	**26%**	**26%**	**26%**

Figures are presented in millions of NIS.

The Group funds its business operations primarily out of its equity, cash and cash equivalents and by means of non-bank credit (mainly bonds and loans from institutional bodies), bank credit (short-term and long-term) and commercial paper. In April 2020, the Company issued bonds (Series E and F) by way of expanding such bond series. For further details, see Section 19.5 of Chapter A of the Periodic Report for 2020, which is included herein by reference.

The Group's financial soundness, which is characterized by a low leverage ratio and considerable unencumbered assets, affords the Group available sources for the obtainment of financing on convenient terms[20]. The Group's leverage ratio is low, compared to many of its major competitors. The Group's low leverage ratio, coupled with the Company's extensive initiatives in the real estate sector, provides flexibility also at times of crisis, which is illustrated by the Company's aforesaid last issue in April 2020, in the midst of the Covid-19 crisis.

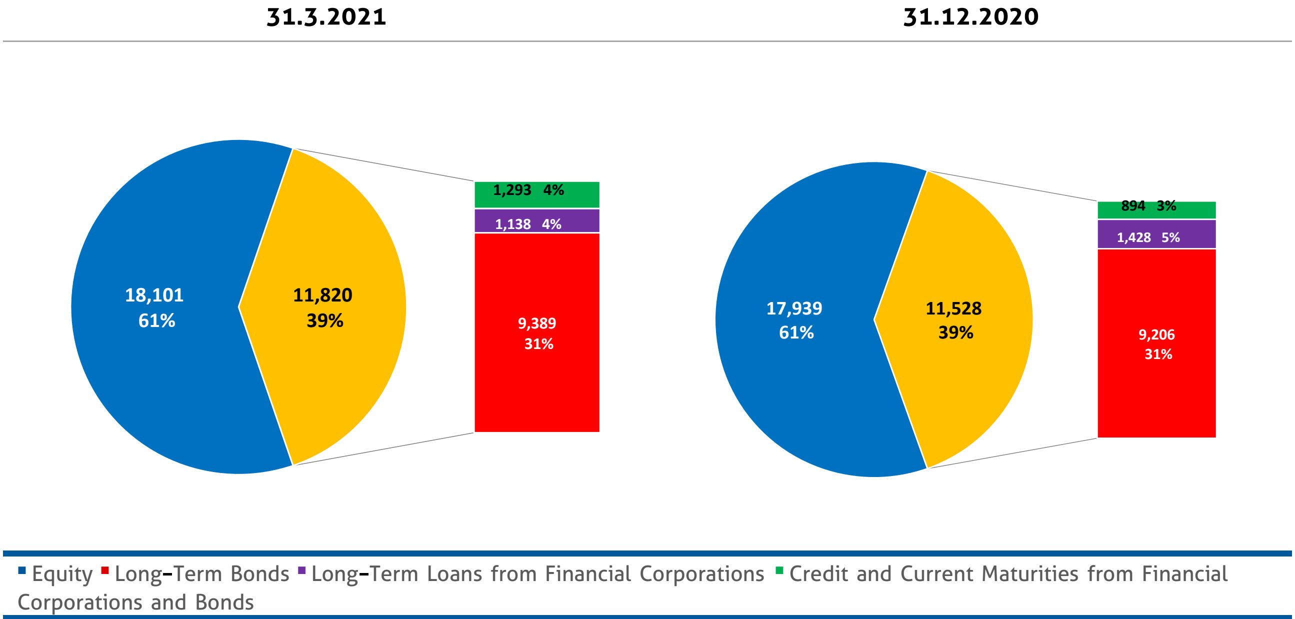
[20] For further details, see Section 19 of Chapter A of the Periodic Report for 2020, which is included herein by way of reference.

5.2. Composition of Financing Sources

The Group has three principal debt channels: bank debt, private loans from institutional bodies or public bonds. The Group currently enjoys very high accessibility to each of these financing channels.

The following chart presents a breakdown of the rate of borrowed capital in the Company's total capital, as well as a breakdown thereof by type:

Composition of Capital and Breakdown of Debt of the Group



Figures are presented in millions of NIS and as a percentage out of total assets/total debt.

The decrease of approx. NIS 292 million in total debt in the Report Period chiefly results from ongoing repayments of loans and bonds.

As of the Report Date, the Group, on a consolidated basis, has a deficit in the working capital of approx. NIS 61 million (in the separate statement there is no working capital deficit).

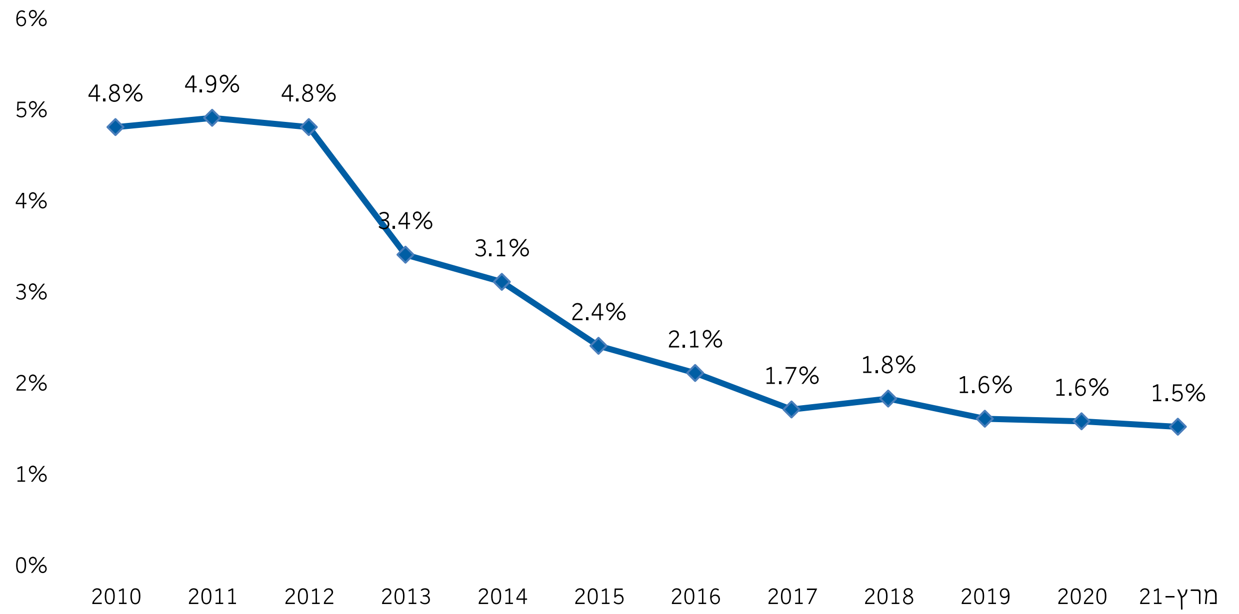
The Group estimates, in view of indications it recently received, that if it decides to raise debt at any time, it will be able to do so in view of its financial soundness and/or the scope of its unencumbered assets. Therefore, the Company's board of directors determined in its meeting of May 25, 2021, after it examined the Company's cash flow and financing sources, that nothing in the aforesaid working capital deficit affects its ability to repay its liabilities as they become due.

The Group's estimations mentioned in this Section 5.2 above in relation to its liquidity and the availability of its financing sources are forward-looking information as defined in the Securities Law, which is based on the Company's assessments as to market developments, inflation levels and projected cash flows and on the conditions and possibilities of obtaining credit on the date of the Report. 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 primary factors that may affect the above are: changes in the capital market affecting the conditions and possibilities of obtaining credit, changes in the Company's plans, including the use of future available liquid balances in order to seize business opportunities, changes in the advantageousness of the holding of various investment channels or the advantageousness of use of various financing channels, deterioration of the Israeli or U.S. economy and decline into severe recession, and the Company or any of the Group's companies encountering financing or other difficulties, in a manner affecting the Company's cash flow.

5.3. Financing Transactions

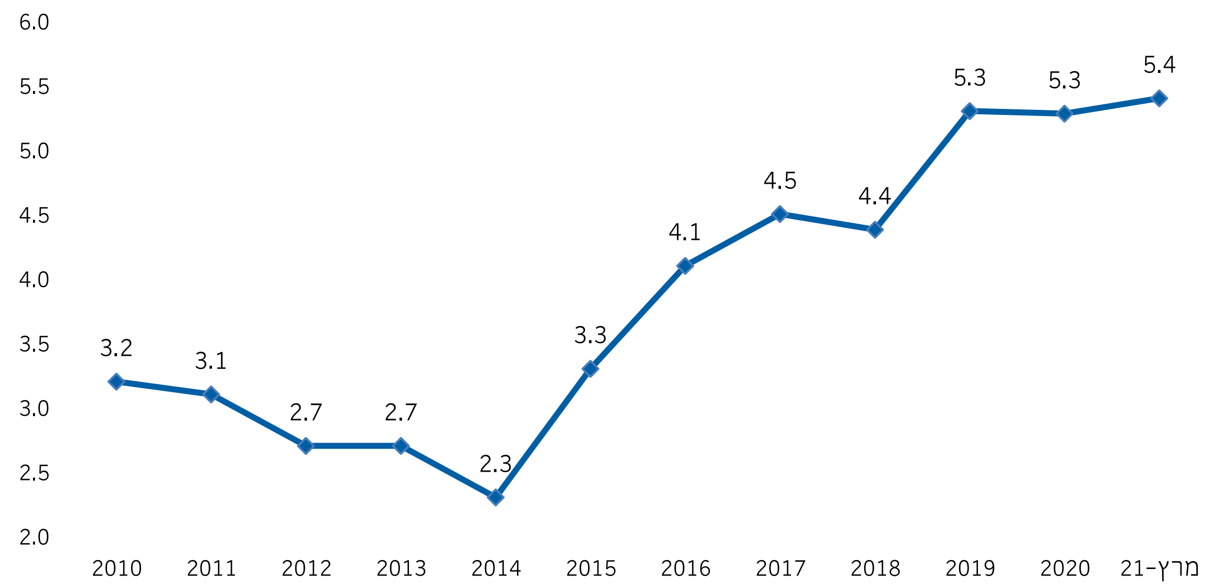
In recent years, the Company has been working to reduce the average interest rate on the debt and to extend the debt duration.

Reduction of Average Interest over the Years



1. Interest rate as of the end of the period

Extension of the Average Duration of Debt



2. Duration as of the end of the period

5.4. Rating

The Company has a high credit rating that reflects its financial strength, the quality of its assets and its low leverage ratio. As of the report date, the Company's credit rating is ilAA+/Stable/ilA-1+ by Ma'alot and Aa1 by Midroog. For details with respect to the rating of bonds, commercial paper and private loans of the Company, see Section 19.12 of Chapter A of the Periodic Report for 2020, which is included herein by way of reference.

5.5. Liabilities and Financing

Below is a summary of the Group's financial liabilities:

Breakdown of Financial Liabilities

	Fixed Interest			Variable Interest		Total		Total
	Index-linked	USD-linked	Unlinked	GBP-linked	Unlinked	Fixed Interest	Variable Interest	
Short-term loans	-	-	-	19	59	-	78	78
Long-term loans	10,280	1,159	-	-	11	11,439	11	11,450
Total	10,280	1,159	-	19	70	11,439	89	11,528

Figures are presented in millions of NIS, as of March 31, 2021.

As of March 31, 2021, short-term loans represented less than 1% of the Group's total financial liabilities. The Company's management estimates that this rate is low and conservative in view of the low leverage ratio and the total unencumbered assets as specified below.

The Company's policy regarding the financing of its business, besides the positive cash flow from current operations and current assets, is implemented primarily by taking long-term index-linked fixed-interest loans, in order to minimize market risks resulting from changes in the market interest rates and to counteract the market risk resulting from changes in the Consumer Price Index (CPI), while taking advantage of the fact that the Company's revenues are, for the most part, index-linked. However, in view of the low interest rates on short-term variable-interest loans, the Company has decided to finance its operations also by means of short-term loans as specified above.

5.6. Designated Disclosure to Bondholders (of Series B, D, E and F)

For details with respect to designated disclosure to the holders of the Company's Series B, D, E and F Bonds, see **Annex A** to this chapter.

5.7. Maturities of the Group's Financial Liabilities

The following table presents the maturity dates and amounts of financial liabilities:

Forecast of Maturities of Financial Liabilities			
Year	**Principal**	**Interest**	**Total**
1	**894**	**207**	**1,101**
2	**909**	**196**	**1,105**
3	**939**	**182**	**1,121**
4	**943**	**170**	**1,113**
5 forth	**7,843**	**661**	**8,504**
Total	**11,528**	**1,416**	**12,944**

Figures are presented in millions of NIS, as of March 31, 2021.

The sources for the funding of the Group's financial liabilities are chiefly the following:

- Positive cash flow from current operations, which totaled approx. NIS 209 million in the three months ended March 31, 2021.
- Liquid assets and unencumbered assets.
- The Group has mortgaged income-producing properties, the fair value of which significantly exceeds the loan undertaken therefor.
- Refinancing of debts in the capital market and/or institutional bodies and/or banking institutions.

5.8. Unencumbered Assets Available to Serve as Collateral against the Receipt of Credit

As of March 31, 2021, the aggregate amount of liquid assets (cash and cash equivalents) held by the Group amounted to NIS 2.4 billion. The Company deems its liquid assets, the considerable cash flow from its current operations and its unencumbered assets (in the total value of approx. NIS 25 billion, in addition to the aforesaid amount of approx. NIS 2.4 billion in liquid assets) essential to its financial soundness, its high financial flexibility due to its lack of dependence on the availability of external sources both in terms of debt repayment and in terms of the ability to seize investment opportunities at various times.[21] As pertains to additional possible liquid sources, the Group estimates that it has the ability to obtain financing on convenient terms in the prevailing economic conditions.

Unencumbered Assets Available to Serve as Collateral against the Receipt of Credit	
Assets	**Value of Assets as of March 31, 2021**
Real estate of the retail centers and malls in Israel segment	11,406
Real estate of the leasable office and other space in Israel segment	11,102
Other real estate (mainly hospitality)	428
The Company's holdings in Compass and Azrieli E-Commerce	871
The Company's holdings in Bank Leumi	1,003
Total	24,810

Figures are as presented in the financial statements and in millions of NIS.
In addition, the Group holds mortgaged income-producing properties, the fair value of which exceeds the amount of the loan undertaken therefor.

[21] For details with respect to additional matters related to the Group's financing activities, see Section 19 of Chapter A of the Periodic Report for 2020, which is included herein by way of reference.

The Group's estimations mentioned in this Section 5.8 above in connection with the Company's ability to obtain financing on convenient terms in the currently prevailing economic conditions, are forward-looking information as defined in the Securities Law, which is based on the Company's estimations as to the economic conditions and the liquidity level as of the Report Release 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 primary factors that may affect the above are: changes in the capital market affecting the conditions and possibilities of obtaining financing, changes in the Company's plans, including use of future available liquid balances in order to seize business opportunities, changes in the advantageousness of the holding of various investment channels or the advantageousness of use of various financing channels, deterioration of the Israeli or U.S. economy and decline into severe recession, as well as the effects the Covid-19 pandemic, in a manner which affects the Company's ability to obtain financing on convenient terms.

5.9. Financial Position

Financial Position, Liquidity and Financing Sources

Item	31.3.2021	31.12.2020
Total assets [1]	**35,192**	35,124
Current assets	**2,888**	3,273
Investment properties [2]	**29,517**	29,266
Short-term credit[3]	**894**	1,293
Loans from banking corporations and other credit providers [4]	**1,428**	1,138
Net bonds [5]	**9,206**	9,389
Equity [6]	**17,973**	18,133

Figures are presented in millions of NIS.

(1) The increase mainly results from an increase in the value of the holding of Bank Leumi stock.
(2) The increase mainly results from the purchase of the land in Tel Aviv in the Report Period and from the progress of investments in projects under construction and in the income-producing properties in the Report Period, offset by the classification of the mall and the office building in Kiryat Ata as properties held for sale.
(3) The decrease mainly results from current maturities of a loan that was repaid.
(4) The increase mainly results from refinancing of a long-term loan previously presented as current maturities.
(5) The decrease results from ongoing repayments in the Report Period.
(6) The decrease mainly results from a dividend distribution offset by an increase due to the comprehensive profit in the period.

6 | BUSINESS RESULTS AT A GLANCE

6.1. Summary of Business Results

The following table presents the consolidated net profit of Azrieli Group:

Analysis of the Consolidated Net Profit			
	For the Three Months Ended		For the Year Ended
	31.3.2021	**31.3.2020**	**31.12.2020**
Net profit for the period attributable to the shareholders	**110**	93	189
Net profit attributable to the shareholders and to non-controlling interests	**110**	92	184
Basic earnings per share (NIS)	**0.91**	0.77	1.56
Basic earnings per share from continued operations (NIS)	**0.91**	0.82	1.66
Comprehensive income (loss) to shareholders and to non-controlling interests	**289**	(74)	(147)

Figures are presented in millions of NIS.

Net profit in the Report Period totaled NIS 110 million, compared with NIS 92 million in the same period last year. The increase in profit in the Report Period was affected mostly by a decrease in the loss due to the adjustment of the fair value of the properties in the amount of NIS 186 million, offset by a decrease of NIS 109 million in NOI mainly as a result of the Covid-19 crisis, and an increase in net financing expenses in the amount of NIS 55 million, mainly due to the increase in the index this quarter compared to the decrease in the index in the same quarter last year.

6.2. Comprehensive Income

The Group's capital and comprehensive income are also affected by various capital reserves, chiefly by capital reserves in respect of changes in the fair value of investments in equity instruments designated at fair value through other comprehensive income and by reserves for translation differences from foreign operations. The difference between the comprehensive income and the net profit as presented in Section 6.1 above, for the three-month period ended March 31, 2021 mostly derives from an increase in the fair value of financial assets net of tax in the sum of NIS 109 million and from a profit from translation differences from foreign operations in the amount of NIS 68 million.

6.3. Results of Operations

The following table presents the marketing, general and administrative expenses, other revenues, financing expenses and income taxes in the Report Period, compared with the same period last year:

Results of Operations		
	For the Three Months Ended	
	31.3.2021	**31.3.2020**
Marketing, general and administrative expenses (1)	**42**	44
Net other revenues (expenses)	**(4)**	3
Net financing revenues (expenses) (2)	**(49)**	6
Income tax expenses (3)	**40**	40

Figures are presented in millions of NIS.

(1) The decrease in expenses in the Report Period compared with the same period last year mainly derives from a decrease in contributions.

(2) The increase in net financing expenses in the current quarter compared with the same quarter last year mainly derives from an increase in linkage expenses on loans, bonds and senior housing residents' deposits due to a 0.1% increase in the known CPI in the current quarter compared with a 0.5% decrease in the same quarter last year.

(3) Tax expenses in the Report Period remained unchanged compared with the same period last year primarily due to a decrease in revenues from deferred tax due to the decrease in the loss from fair value adjustments of investment properties in the present period compared with the same period last year, which were offset by a decrease in the current tax expenses due to the decrease in NOI and the increase in the financing expenses.

6.4. Cash Flows

The following table shows the cash flows generated by the Group for Q1/2021, compared with the same quarter in 2020:

Quarterly Cash Flows		
Quarter	**Q1/2021**	**Q1/2020**
Net cash flows generated by the Group from current operations (1)	**209**	309
Net cash flows used by the Group for investment activities (2)	**(69)**	(510)
Net cash flows used by the Group for financing activities (3)	**(385)**	(660)

Figures are presented in millions of NIS.

(1) The cash flow in the quarter and in the same quarter last year chiefly resulted from the operating profit of the income-producing real estate in the sum of approx. NIS 293 million (without Compass) (approx. NIS 404 million in the corresponding period), plus net senior housing deposits.

(2) Most of the cash flow in Q1/2021 was used for acquisition of and investment in investment properties and investment properties under construction in the sum of approx. NIS 356 million, offset by the proceeds received from the sale of Leumi Card and Sonol in the amount of NIS 258 million. Most of the cash flow in the same period last year was used for the acquisition of Mount Zion Hotel and for the acquisition of and investment in investment properties and investment properties under construction in the sum of approx. NIS 248 million.

(3) Most of the change relative to the same quarter last year resulted from repayment of short-term credit in the amount of NIS 350 million in the same quarter last year.

7 | CORPORATE GOVERNANCE ASPECTS

In the Report Period no material changes have occurred in the Company's corporate governance aspects, as specified in chapters D-E of the Periodic Report for 2020, which is included herein by way of reference.

7.1. Internal Enforcement Plan

On March 21, 2021 the Company's board committee on internal enforcement discussed the 2020 report and enforcement plan for 2021. For further details on the Company's internal enforcement plan, see Section 10 in Chapter E of the Periodic Report for 2020, which is included herein by way of reference.

7.2. Changes in the Service of Company Officers

See Section 1.2.3.4 above.

8 | PROVISIONS ON DISCLOSURE IN RELATION TO THE COMPANY'S FINANCIAL REPORTING

8.1. Description of the Company's Operations during the Report Period and Update of the Description of the Corporation's Business for the Report Period, in accordance with Section 39A of the Regulations

For events and developments during the Report Period, see Chapter B hereof – Updates to the Description of the Corporation's Business chapter as of March 31, 2021 and Note 3 to the financial statements as of March 31, 2021.

8.2. Report on the Group's Liabilities

A report on the Group's liabilities, in accordance with Sections 39E and 9D of the Regulations is attached in a separate report form concurrently with the release of this Report.

8.3. Disclosure of Highly Material Valuations

As of the date of the report, there has been no change in the parameters for disclosure and attachment of valuations, as published in the Periodic Report for 2020. The Company has updated the valuations of its properties as of December 31, 2020.

As specified in Section 9.3 of the board of directors' report included in the Periodic Report for 2020, which is included herein by way of reference, and after an examination of the relevant parameters according to ISA Staff Legal Position 105-23 on the parameters for examination of the materiality of valuations, it transpires that the Company has no highly material valuation that is required to be attached to the report.

8.4. Subsequent Events

See Note 7 to the financial statements as of March 31, 2021.

8.5. Financials attributable to the Company as a Parent Company

In accordance with Sections 9C and 38D of the Regulations, financials out of the consolidated financial statements attributable to the Company as a parent company are attached with the auditor's opinion, in Chapter C.

8.6. Note on Forward-Looking Information

The Company's intentions mentioned in the introduction to the board of directors' report and the highlights to the board of directors' report, inter alia, in relation to the use of business opportunities and expansion of the operations, liquidity, financing sources and net financing expenses, the pace of progress of projects under construction, the projected costs of their construction, the effects of the economic situation on the Company's operating segments and with respect to possible debt raising, are forward-looking information as defined in the Securities Law, which is based on the Company's plans as of the report date, the Company's estimations with respect to developments in the markets, inflation levels and projected cash flows and on the conditions and possibilities of obtaining credit on the date of the Report.

Such estimations may not materialize, in whole or in part, or materialize in a manner that materially differs from the Company's estimations. The principal factors that may affect the above are: changes in the capital market that will affect the conditions and possibilities of obtaining credit, changes in the Company's plans, including use of future available liquid balances for the purpose of seizing business opportunities, changes in the advantageousness *of holding various investment channels or the advantageousness of use of various financing channels, delays in the obtainment of permits or approvals required for the progress of projects under construction, changes in the regulation related to the Company's business, including planning and building regulation, an increase in the prices of construction materials, changes in the CPI, deterioration of the Israeli or U.S. economy and decline into severe recession, and the Company or any of the Group's companies encountering financing or other difficulties, in a manner affecting the Company's cash flow, and the effects of the Covid-19 pandemic.*

The Company's board of directors and management wish to express their high regard for the Company's officers, the managements of the various companies of the Group and their employees, for their welcome contribution to the Group's achievements in the quarter ended March 31, 2021.

Danna Azrieli, Chairman of the Board	**Eyal Henkin, CEO**

Date: May 25, 2021

Annex A

Designated Disclosure to the Bondholders

Annex A - 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	Annual Interest Rate	Principal Payment Dates	Interest Payment Dates	Linkage Terms	Details regarding the Trustee
		NIS in Millions											
Series B	Feb. 10, 2015	623.3	754.8	755.5	2.4	747.2	783.9	Fixed	0.65	April 1 in the years 2016 through 2025	From October 1, 2015 and subsequently April 1st and October 1st in the years 2016 through 2025	Linkage (principal and interest) to the rise in the CPI for December 2014*	Name of the trust company: Hermetic Trust (1975) Ltd.; Address: Champion Tower, 13th floor, 30 Sheshet Ha-Yamim Road, Bnei Brak. Tel: 03-5274867; Fax: 03-5271039; E-mail address: hermetic@hermetic.co.il Contact person at the trustee: Dan Avnon or Meirav Ofer
	June 23, 2015	600.3											
	Mar. 30, 2017	228.8											
Series D	July 7, 2016	2,194.1	3,454.0	3,502.5	10.9	3,484.8	3,789.0	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											
	Feb. 1, 2018	1,367											
Series E	Jan. 22, 2019	1,215.9	3,243.4	3,246.7	14.2	3,354.7	3,594.0	Fixed	1.77	On June 30 of each of the years 2022 through 2028	From June 30, 2019, twice a year on June 30 of each of the years 2019 through 2028 and December 31 of each of the years 2019 through 2027	Linkage (principal and interest) to the rise in the CPI for December 2018*	
	Dec. 19, 2019	1,216.7											
	April 20, 2020	810.7											

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	Annual Interest Rate	Principal Payment Dates	Interest Payment Dates	Linkage Terms	Details regarding the Trustee
Series F	Jan. 22, 2019	263.4	1,958.0	1,960.0	12.0	2,168.0	2,289.5	Fixed	2.48	On December 31 of each of the years 2025 through 2032	From June 30, 2019, twice a year on June 30 and December 31 of each of the years 2019 through 2032	Linkage (principal and interest) to the rise in the CPI for December 2018*	
	Dec. 19, 2019	932.6											
	April 20, 2020	761.9											
Total		**11,198.3**	**9,410.2**	**9,464.7**	**39.5**	**9,754.7**	**10,456.4**						

* The Series B, Series D, Series E, Series F Bonds (jointly, the "**Company's Bond Series**") 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 Company's Bond Series 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 Company's Bond Series. For details, see Section 9.2 of the terms and conditions overleaf in the indentures of each of the Company's Bond Series, and as follows:

   2.1. With respect to the Series B Bond indenture which was attached to the shelf offering report that was published by the Company, see the Company's report dated March 29, 2017 (Ref.: 2017-01-032703).

   2.2. With respect to the Series D Bond indenture which was attached to the shelf offering report that was published by the Company, see the Company's report dated January 31, 2018 (Ref.: 2018-01-010993).

   2.3. With respect to the Series E Bond indenture and the Series F Bond indenture, both of which were attached to the shelf offering report that was published by the Company, see the Company's report dated April 20, 2020 (Ref.: 2020-01-035128).

3. The reports mentioned in Sections 2.1-2.3 above (the "**Indentures**") are included herein by way of reference.

4. At the end of and during the report period, the Company has fulfilled all of the terms and conditions and undertakings according to the Indentures, and no conditions establishing grounds for acceleration of the Company's Bond Series have been fulfilled.

5. For details regarding an undertaking that the Company assumed in the framework of the Company's Bond Series, see Sections 5.2-5.6 of the Indentures.

<u>Rating of the bonds of the Company held by the public</u>:

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	Ma’alot	AA+ stable	AA+ stable	February 7, 2021(*)	AA+ stable	June 21, 2015 March 28, 2017 February 2, 2020 February 7, 2021
Series D	Midroog	Aa1/stable outlook	Aa1/stable outlook	December 27, 2020(**)	Aa1/stable outlook	July 20, 2016 March 27, 2017 March 28, 2017 December 31, 2017 January 28, 2018 January 31, 2018 December 31, 2019 April 19, 2020 December 27, 2020
Series E	Midroog	Aa1/stable outlook	Aa1/stable outlook	December 27, 2020(**)	Aa1/stable outlook	January 20, 2019 December 17, 2019 December 31, 2019 April 19, 2020 December 27, 2020
Series F	Midroog	Aa1/stable outlook	Aa1/stable outlook	December 27, 2020(**)	Aa1/stable outlook	January 20, 2019 December 17, 2019 December 31, 2019 April 19, 2020 December 27, 2020

* For Ma'alot’s rating report on the Series B Bonds, see the Company’s immediate report of February 7, 2021 (Ref.: 2021-01-015094), which is included herein by way of reference.

** For Midroog’s rating report on the Series D-F Bonds, see the Company’s immediate report of December 27, 2020 (Ref.: 2020-01-133192), which is included herein by way of reference.

PART B

Update of the Description of the Corporation's Business

AZRIELI GROUP LTD.

Update of the Description of the Corporation's Business Chapter in the Company's Periodic Report as of December 31, 2020 (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 three months ended March 31, 2021 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**" – May 26, 2021; the "**Date of the Statement of Financial Position**" and the "**Report Date**" – March 31, 2021; the "**Board of Directors' Report**" – the Board of Directors' Report on the State of the Company's Affairs for the three-months ended March 31, 2021.

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) the development pipeline; (2) the engagement in agreements for the sale of the Azrieli Kiryat Ata mall and office building; (3) the engagement in agreements for the purchase of land in Tel Aviv; (4) the changes in the office of senior officers; (5) the extension of the effect of a shelf prospectus; (6) the engagement in an agreement to purchase lands that are located in the North Glilot complex and an agreement for the construction of a campus and lease thereof to SolarEdge Technologies Ltd., and (7) the Covid-19 pandemic, see Section 1.2.3 of Chapter A hereof.

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2. Investments in the Company's equity and transactions in its shares

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

For details with respect to the status of holdings of the interested parties in the Company, see the Company's immediate report of April 7, 2021 (Ref.: 2021-01-057642), which is included herein by way of reference.

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[1] As reported by the Company on March 25, 2021 (Ref.: 2021-01-044625), which is incorporated herein by reference.

3. Dividends

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

On May 12, 2021, the Company paid a dividend to its shareholders in the total amount of NIS 450 million and on May 25, 2021, the Company's Board of Directors decided to approve an additional distribution of NIS 150 million. For details, see Section 1.2.4 of Chapter A hereof.

4. Development Pipeline

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. For further details, see Section 4 of Chapter A hereof. Set forth below are updates in connection with development pipeline and improvement of existing properties:

Land in the Check Post Intersection – land in the area of approx. 17,800 sqm which is located in the Haifa industrial zone, in proximity to the Check Post Intersection. A project is expected to be built on the land, in two phases, which will include leasable retail and office space in the total scope of approx. 37 thousand sqm and approx. 400 parking spaces.

In Phase A, a 2-floor building in the scope of approx. 12 thousand sqm and approx. 400 parking spaces, whose ground floor will be used as a supermarket, is expected to be built on the land. In December 2020, the Company engaged in an agreement for the lease of the space which will be used as a supermarket.

The Company is acting for the approval of a building plan by the local committee, which is a condition to the issuance of a building permit.

Holon 3 – Holon Industrial Zone - in April 2021, a certificate of completion was received for the car park on the eastern side of the project.

5. Land Reserves (Additional Details)

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

Updates in relation to land designated for construction as of the Report Date in the operating segments of investment properties and in the senior housing segment are provided below (for further details, see Section 4 of Chapter A hereof):

Petach Tikva land – in August 2020, a discussion was held at the local committee in connection with a zoning plan under local committee jurisdiction, at which a request was made for extra height and additional rights for 500 sqm, and a decision was made for conditional deposit of the plan. The Company filed an application to amend the committee's decision and in April 2021, the committee re-deliberated the zoning plan and updated its decision on the conditional validation thereof, in accordance with the Company's request.

Land in Modi'in (Lot 10) – in April 2021 a deliberation was held on the plan that was filed by the Company with the local committee for additional uses of the lot and a decision was made for conditional deposit thereof.

"Palace Rishon LeZion" senior home – in May 2021, the Company filed an application for a basement permit.

6. Financing

Non-Bank Financing for the Company

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

Series D Bonds of the Company

In the report period, principal and interest payments were made in accordance with the payment schedule thereof. As of the Report Date, the par value balance of the Company's Series D Bonds in circulation is approx. NIS 3,454 million.

7. Legal Proceedings

For an update in connection with the legal proceedings to which the Group's companies are party, see Note 3E to the financial statements as of March 31, 2021.

AZRIELI GROUP

PART C

Consolidated Financial Statements

Dated 31 March 2021

Azrieli Group Ltd.

Condensed Consolidated Financial Statements
as of March 31, 2021

(Unaudited)

Azrieli Group Ltd.

Condensed Consolidated Financial Statements

As of March 31, 2021

C o n t e n t s

Auditors' review report to the shareholders of

Azrieli Group Ltd.

Introduction

We have reviewed the accompanying financial information of **Azrieli Group Ltd.**, the company and consolidated companies (the "**Company**") which includes the Condensed Consolidated Statement of Financial Position as of March 31, 2021 and the Condensed Consolidated Statements of Profit or Loss and other Comprehensive Income, Changes in Capital and Cash Flows for the three-month period then ended. The board of directors and management are responsible for the preparation and presentation of the financial information for this interim period in accordance with IAS 34 "Interim Financial Reporting", and they are responsible for the preparation of information for this interim period under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express a conclusion on this interim financial information, based on our review.

Scope of Review

We conducted our review in accordance with Review Standard (Israel) 2410 of the Institute of Certified Public Accountants in Israel – "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Generally Accepted Auditing Standards in Israel, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial information has not been prepared, in all material respects, in accordance with IAS 34.

In addition to the statements in the previous paragraph, based on our review, nothing has come to our attention which causes us to believe that the accompanying 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
A Firm in the Deloitte Global Network

Tel Aviv, May 25, 2021

Azrieli Group Ltd.

Condensed Consolidated Statements of Financial Position

	As of March 31		As of Dec. 31
	2021	2020	2020
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
ASSETS			
Current Assets			
Cash and cash equivalents	2,416	1,981	2,646
Short-term investments and deposits	19	19	19
Trade accounts receivable	91	67	78
Other receivables	145	407	380
Inventory	12	10	10
Current tax assets	115	36	140
	2,798	2,520	3,273
Assets held for sale and assets of a disposal group held for sale	90	205	-
Total Current Assets	2,888	2,725	3,273
Non-current Assets			
Investment in company accounted for on the equity method	832	598	805
Loans and receivables	315	412	281
Financial assets	1,007	899	866
Investment property and investment property under construction	29,517	29,224	29,266
Fixed assets	516	513	514
Other non-current assets	117	125	119
Total Non-current Assets	32,304	31,771	31,851
Total Assets	35,192	34,496	35,124

The notes attached to the Condensed Consolidated Financial Statements form an integral part hereof.

Azrieli Group Ltd.

Condensed Consolidated Statements of Financial Position
(Continued)

	As of March 31		As of Dec. 31
	2021	2020	2020
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
LIABILITIES AND CAPITAL			
Current liabilities			
Credit and current maturities from financial corporations and bonds	894	1,239	1,293
Trade payables	376	342	406
Payables and other current liabilities	180	189	187
Deposits from customers	1,015	968	1,011
Current tax liabilities	2	3	3
Declared dividend	450	300	-
	2,917	3,041	2,900
Liabilities of assets held for sale and of a disposal group held for sale	32	116	-
Total Current liabilities	2,949	3,157	2,900
Non-current liabilities			
Loans from financial corporations	1,428	1,459	1,138
Bonds	9,206	8,096	9,389
Other liabilities	74	65	61
Deferred tax liabilities	3,562	3,517	3,503
Total Non-current liabilities	14,270	13,137	14,091
Capital			
Ordinary share capital	18	18	18
Share premium	2,518	2,518	2,518
Capital reserves	275	252	95
Retained earnings	15,128	15,374	15,470
Total equity attributable to the shareholders of the Company	17,939	18,162	18,101
Non-controlling interests	34	40	32
Total Capital	17,973	18,202	18,133
Total Liabilities and Capital	35,192	34,496	35,124

May 25, 2021			
Date of approval of the financial statements	**Danna Azrieli Chairman of the Board**	**Eyal Henkin CEO**	**Irit Sekler-Pilosof CFO and Deputy CEO**

The notes attached to the Condensed Consolidated Financial Statements form an integral part hereof.

Azrieli Group Ltd.

Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income

	For the three-month period ended March 31		For the year ended December 31
	2021	2020	2020
	NIS in millions	NIS in millions	NIS in millions
	Unaudited		
Revenues:			
From rent, management, maintenance and sales fees, net	437	550	1,798 (*)
Net profit (loss) from fair value adjustment of investment property and investment property under construction	(38)	(224)	(764)
Share in results of company accounted for on the equity method	(6)	(1)	98
Financing	6	26	18
Other	-	9	9
Total revenues	399	360	1,159
Costs and Expenses:			
Cost of revenues from rent, management, maintenance and sales fees	148	152	628
Sales and marketing	17	18	74
G&A	25	26	91
Financing	55	20	121
Other	4	6	9
Total Costs and Expenses	249	222	923
Income before income taxes	150	138	236
Taxes on income	(40)	(40)	(40)
Income from continuing operations for the period	110	98	196
Loss from discontinued operations (after tax)	-	(6)	(12)
Net profit for the period	110	92	184
Other comprehensive income (loss)			
Amounts that will not be carried in the future to the income statement, net of tax:			
Change in fair value of financial assets, net of tax	109	(195)	(220)
Amounts that were carried or will be carried in the future to the income statement, net of tax:			
Share in other comprehensive income (loss) of an investment accounted for using the equity method	2	(28)	18
Translation differences from foreign operations	68	57	(129)
Total	70	29	(111)
Total other comprehensive loss for the period, net of tax	179	(166)	(331)
Total Comprehensive Income (Loss) for the Period	289	(74)	(147)

(*) In 2020, the revenues from rent, management, maintenance and sales fees amounted to NIS 1,861 million. In the period from April 1, 2020 until May 4, 2020, the Company gave relief in rent to tenants in the retail centers and malls in Israel in the amount of NIS 63 million, treated as a write-off of operating lease receivables asset due to waivers attributed to the Covid-19 crisis. In view of the aforesaid, the revenues from rent, management, maintenance and sales fees, net, amounted to NIS 1,798 million. For additional details on the impact of Covid-19, see Note 3B.

The notes attached to the Condensed Consolidated Financial Statements form an integral part hereof.

Azrieli Group Ltd.

Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income

(Continued)

	For the three-month period ended		For the year ended December 31
	2021	2020	2020
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
Net income (loss) for the period attributable to:			
Shareholders of the Company	110	93	189
Non-controlling interests	-	(1)	(5)
	110	92	184
Comprehensive income (loss) for the period attributable to:			
Shareholders of the Company	287	(74)	(139)
Non-controlling interests	2	-	(8)
	289	(74)	(147)
	NIS	NIS	NIS
Basic and diluted earnings (loss) (in NIS) per ordinary share of par value NIS 0.1 attributable to shareholders of the Company:			
Continuing operations	0.91	0.82	1.66
Discontinued operations	-	(0.05)	(0.10)
	0.91	0.77	1.56
Average weighted number of shares used for calculating the basic and diluted earnings per share	121,272,760	121,272,760	121,272,760

The notes attached to the Condensed Consolidated Financial Statements form an integral part hereof.

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital

	For the three-month period ended March 31, 2021									
	Share capital	**Share premium**	**Capital reserve for changes in the fair value of investments in equity instruments designated at fair value through other comprehensive income**	**Capital reserve for translation differences from foreign operations**	**Other capital reserves**	**Retained earnings**	**Total attributed to shareholders of the Company**	**Non-controlling interests**	**Total**
	NIS in millions								
	Unaudited								
Balance as of January 1, 2021	18	2,518	304	(209)	-	15,470	18,101	32	18,133
Net profit for the period	-	-	-	-	-	110	110	-	110
Change in fair value of financial assets, net of tax	-	-	109	-	-	-	109	-	109
Share in comprehensive income of an investment accounted for on the equity method	-	-	-	2	-	-	2	-	2
Translation differences from foreign operations			-	66	-	-	66	2	68
Total comprehensive income for the period	-	-	109	68	-	110	287	2	289
--									
Declared dividend to shareholders of the Company	-	-	-	-	-	(450)	(450)	-	(450)
Funds from investee companies	-	-	-	-	1	-	1	-	1
Total transactions with shareholders of the Company			-	-	1	(450)	(449)	-	(449)
Carried to retained earnings as a result of disposition of financial assets	-	-	2	-	-	(2)	-	-	-
Balance as of March 31, 2021	18	2,518	415	(141)	1	15,128	17,939	34	17,973

The notes attached to the Condensed Consolidated Financial Statements form an integral part hereof.

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital

(Continued)

	Share capital	Share premium	Capital reserve for changes in the fair value of investments in equity instruments designated at fair value through other comprehensive income	Capital reserve for translation differences from foreign operations	Other capital reserves	Retained earnings	Total attributed to shareholders of the Company	Non-controlling interests	Total
	For the three-month period ended March 31, 2020								
	NIS in millions								
	Unaudited								
Balance as of January 1, 2020	18	2,518	531	(99)	(8)	15,574	18,534	40	18,574
Net profit (loss) for the period	-	-	-	-	-	93	93	(1)	92
Change in fair value of financial assets, net of tax	-	-	(195)	-	-	-	(195)	-	(195)
Share in comprehensive income of an investment accounted for on the equity method	-	-	-	(19)	(9)	-	(28)	-	(28)
Translation differences from foreign operations	-	-	-	56	-	-	56	1	57
Total comprehensive income for the period	-	-	(195)	37	(9)	93	(74)	-	(74)
Declared dividend to shareholders of the Company	-	-	-	-	-	(300)	(300)	-	(300)
Funds from investee companies	-	-	-	-	2	-	2	-	2
Total transactions with shareholders of the Company	-	-	-	-	2	(300)	(298)	-	(298)
Carried to retained earnings as a result of disposition of financial assets	-	-	(7)	-	-	7	-	-	-
Balance as of March 31, 2020	18	2,518	329	(62)	(15)	15,374	18,162	40	18,202

The notes attached to the Condensed Consolidated Financial Statements form an integral part hereof.

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital

(Continued)

	For the year ended December 31, 2020								
	Share capital	Share premium	Capital reserve for changes in the fair value of investments in equity instruments designated at fair value through other comprehensive income	Capital reserve for translation differences from foreign operations	Other capital reserves	Retained earnings	Total attributed to shareholders of the Company	Non-controlling interests	Total
	NIS in millions								
Balance as of January 1, 2020	18	2,518	531	(99)	(8)	15,574	18,534	40	18,574
Net profit (loss) for the year	-	-	-	-	-	189	189	(5)	184
Change in fair value of financial assets, net of tax	-	-	(220)	-	-	-	(220)	-	(220)
Share in other comprehensive loss of an investment accounted for on the equity method	-	-	-	16	2	-	18	-	18
Translation differences from foreign operations	-	-	-	(126)	-	-	(126)	(3)	(129)
Total comprehensive income (loss) for the year	-	-	(220)	(110)	2	189	(139)	(8)	(147)
Dividend to shareholders of the Company	-	-	-	-	-	(300)	(300)	-	(300)
Funds from investee companies	-	-	-	-	6	-	6	-	6
Total transactions with shareholders of the Company	-	-	-	-	6	(300)	(294)	-	(294)
Carried to retained earnings as a result of disposition of financial assets	-	-	(7)	-	-	7	-	-	-
Balance as of December 31, 2020	18	2,518	304	(209)	-	15,470	18,101	32	18,133

The notes attached to the Condensed Consolidated Financial Statements form an integral part hereof.

Azrieli Group Ltd.

Condensed Consolidated Statements of Cash Flows

	For the three-month period ended March 31		For the year ended December 31
	2 0 2 1	2 0 2 0	2 0 2 0
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
Cash Flows - Current Operations			
Net profit for the period	110	92	184
Depreciation and amortization	6	9	28
Impairment of fixed assets	-	6	6
Forfeiture of senior housing residents' deposits	(9)	(8)	(31)
Net loss from fair value adjustment of investment property and investment property under construction	38	224	764
Net financing and other expenses (income)	48	(19)	102
Share in losses (profits) of associates accounted for on the equity method	6	-	(99)
Tax recognized in the income statement	40	41	37
Income taxes received (paid), net	9	(18)	(121)
Erosion of financial assets designated at fair value through profit and loss	-	-	1
Change in trade and other receivables	(20)	(28)	(36)
Change in inventory	(2)	-	-
Change in trade and other payables	(31)	(17)	5
Receipt of deposits from senior housing residents	28	38	158
Return of deposits from senior housing residents	(15)	(11)	(57)
Change in employee provisions and benefits	1	-	-
Net cash - current operations	209	309	941
Cash flows - Investment Activity			
Proceeds from liquidation of fixed assets	-	-	1
Down-payment on account of sale of investment property	32	-	-
Purchase of and investment in investment property and investment property under construction	(325)	(219)	(942)
Purchase of and investment in fixed and intangible assets	(7)	(271)	(292)
Investment in and granting of loans to companies accounted for on the equity method	-	(100)	(231)
Indemnification from insurance	-	13	13
Provision of long-term loans	-	-	(10)
Interest and dividend received	4	12	20
Net proceeds from disposition of financial assets	222	84	84
Proceeds from disposition of investments in investee companies, net (Annex A)	36	-	178
Taxes paid for financial assets	-	-	(2)
Proceeds (payments) to institutions for purchase of real estate, net	(31)	(29)	9
Net cash – investment activity	(69)	(510)	(1,172)

The notes attached to the Condensed Consolidated Financial Statements form an integral part hereof.

Azrieli Group Ltd.

Condensed Consolidated Statements of Cash Flows

(Continued)

	For the three-month period ended March 31		For the year ended December 31
	2021	2020	2020
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
Cash flows – Financing activity			
Dividend distribution to shareholders	-	-	(300)
Repayment of bonds	(184)	(185)	(520)
Issuance of bonds net of issue expenses	-	-	1,672
Receipt of long-term loans from financial corporations	290	-	-
Repayment of long-term loans from financial corporations	(452)	(79)	(220)
Short-term credit from financial corporations, net	1	(350)	(350)
Repayment of other long-term liabilities	(1)	(2)	(5)
Repayment of deposits from customers	(1)	(1)	(7)
Received deposits from customers	1	2	5
Paid interest	(39)	(45)	(227)
Net cash – financing activity	(385)	(660)	48
Decrease in cash and cash equivalents	(245)	(861)	(183)
Cash and cash equivalents at beginning of period	2,646	2,842	2,842
Change in net cash classified for a disposal group held for sale	-	(2)	(2)
Effect of exchange rate changes on cash balances held in foreign currency	15	2	(11)
Cash and cash equivalents at end of period	2,416	1,981	2,646

(*) For the three-month periods ended March 31, 2021 and March 31, 2020, non-cash transactions include a change in dividend payables in the sum of NIS 450 million and NIS 300 million, respectively.

For the three-month period ended March 31, 2020, non-cash transactions included a change in other payables in respect of acquisitions on credit of non-current assets in the sum of NIS 17 million.

In addition, non-cash transactions included in 2020 a change in other payables in respect of acquisitions on credit of non-current assets in the sum of NIS 60 million.

(**) With respect to cash flows from discontinued operations, see Note 4.

The notes attached to the Condensed Consolidated Financial Statements form an integral part hereof.

Azrieli Group Ltd.
Condensed Consolidated Statements of Cash Flows
(Continued)

	For the three-month period ended March 31		For the year ended December 31
	2021	2020	2020
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
Annex A –			
Proceeds from disposition of an investment in investee company:			
Working capital (excluding cash and cash equivalents)	-	-	103
Receivables due to sale of the investment	36	-	75
	36	-	178

The notes attached to the Condensed Consolidated Financial Statements form an integral part hereof.

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 is listed on TASE and is included, *inter alia*, in the "Tel Aviv 35" Index and in the "Tel Aviv Real Estate" Index. The Company has series of bonds (Series B and D-F) that have been issued to the public. The Group's Consolidated Financial Statements as of March 31, 2021 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 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 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 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 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, 2020, 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 Financial 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, 2020 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:

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.

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, 2020.

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 effective as of the end of the report period.

(2) Balances that are linked to the Consumer Price Index (CPI) are presented according to the last known CPI at the end of the report period (the CPI for the month preceding the month of the date of the financial statement) or according to the CPI for the last month of the report period (the CPI of the month of the financial statement), according to the terms and conditions of the transaction.

Note 2 – Significant Accounting Policies (Cont.)

C. Rates of exchange and linkage basis: (Cont.)

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

	Representative Exchange Rate of the $ (NIS to $1)	CPI in Israel "For" Base 1993	CPI in Israel "Known" Base 1993
Date of the Financial Statements:			
March 31, 2021	3.334	224.90	223.56
March 31, 2020	3.565	224.45	223.56
December 31, 2020	3.215	223.11	223.34
	%	%	%
Rates of change:			
For the three-month period ended:			
March 31, 2021	3.70	0.80	0.10
March 31, 2020	3.70	0.80	0.10
For the year ended:			
December 31, 2020	(6.97)	(0.70)	(0.60)

Note 3 – Material Events during the Report Period

A. On March 24, 2021, the Company's board of directors decided upon the distribution of a dividend to the shareholders of the Company in the sum of NIS 450 million (reflecting an amount of NIS 3.71 per share), which was paid on May 12, 2021.

B. The beginning of 2020 saw the outbreak of the coronavirus (Covid-19) in China, which spread throughout the world. On March 11, 2020, the WHO declared a global pandemic and measures were taken to slow the spread of the virus. The pandemic has affected various business sectors in many countries.

For details about the effects of the Covid-19 crisis, see Note 1B to the annual financial statements.

As of the report release date, in view of the extensive campaign for vaccination against Covid-19, resumption of normal operations (subject to the Green Pass restrictions) is demonstrated by Israeli economy, which is recovering from the pandemic at a quick pace.

As of the report date, the Company has examined the effects of the Israeli economy's recovery on the value of the Company's assets and came to the conclusion that in view of the short time that has passed from the opening of the market and such date, the uncertainty due to the Covid-19 crisis has not yet been cleared and therefore there is no change in the fair value of the Company's assets.

On May 23, 2021, the Ministry of Health announced that in view of the lasting low and stable morbidity, the Green Pass requirement and the Purple Badge restrictions will be revoked as of June 1, 2021.

C. On February 23, 2021, an indirectly wholly-owned subsidiary of the Company (in this section: the "**Seller**") entered into two sale agreements with an unaffiliated third party (in this section: the "**Buyer**") for the sale of all of the Seller's rights and undertakings in the mall and office building known as "Azrieli Kiryat Ata" to the Buyer, for total consideration of NIS 90 million, plus lawful VAT, to be paid by the Buyer to the Seller by June 30, 2021.

The sum of NIS 31.5 million was deposited in escrow on the date of signing of the agreements until registration of caveats in favor of the Buyer (the "**First Installment**"), the sum of NIS 27 million out of the balance of the consideration will be paid within 90 days from the date of the signing of the agreements (the "**Second Installment**"), the balance of the consideration, in the sum of NIS 31.5 million, will be paid on the date of handover of possession to the Buyer, by and no later than June 30, 2021, through the provision of a loan from the Seller to the Buyer for 36 months, according to a loan agreement secured by a first-ranking mortgage on the mall.

After registration of caveat notes, which was performed in proximity to the date of the signing of the agreements, the First Installment was transferred to the Seller's account. The Second Installment was transferred to the Seller on May 24, 2021.

The closing of the transaction is not expected to have a material effect on the Company's results.

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

D. On February 25, 2021, the Company entered into agreements with Bezeq The Israel Telecommunication Corp., Ltd. (in this section: the “**Seller**”) for the purchase of all of the rights in land located at the intersection of Mikveh Israel St., Levontin St. and HaRakevet St. in Tel Aviv (in this section: the “**Transaction**”).

In the Transaction, the Company is purchasing all of the Seller’s rights in the land, with a total area of around 2,400 sqm, on which a 5-story building is built, with a total built-up area of approx. 9,500 sqm. The building is mostly leased to a hotel which, according to the current lease conditions, upon the fulfillment of certain conditions, may be terminated in about nine years. Part of the building is currently used and will continue to be leased to other companies for terms ending before the said date.

In consideration for the property, the Company has paid the Seller the sum total of NIS 180 million, plus VAT (in this section: the “**Consideration**”). On the date of signing of the Agreements, the Company paid the Consideration from its own resources. In addition, the Company has paid purchase tax in the sum of approx. NIS 10.8 million.

E. Further to Note 29A3 to the annual financial statements in connection with a claim in tort in the sum of approx. NIS 256 million filed against Canit Hashalom, Ms. Danna Azrieli and former employees, on April 7, 2021 the claim was closed without costs.

Note 4 – Discontinued Operations

Set forth below are the results attributed to the disposition of discontinued operations of Granite and discontinued operations of GES:

	For the three-month period ended March 31		For the year ended Dec. 31
	2021	2020	2020
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
Results of discontinued operations:			
Revenues	-	38	38
Expenses	-	43	43
Loss before income taxes	-	(5)	(5)
Income taxes	-	-	-
Loss after income taxes	-	(5)	(5)
Other costs	-	(1)	(2)
Loss from the sale of discontinued operations, net of tax	-	-	(5)
Loss for the period	-	(6)	(12)
Cash flows from discontinued operations:			
Net cash derived from operating activities	-	4	4
Net cash derived from investment activity	36	-	178
Net cash used for financing activity	-	(2)	(2)
Net cash derived from discontinued operations	36	2	180

(*) Including results of discontinued operations and profit from the disposition of the business of Granite, completed in 2020 (for further details, see Note 7 to the annual financial statements).

Note 5 – Fair Value of financial instruments

A. Fair value of financial instruments 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 March 31, 2021		As of March 31, 2020		As of Dec. 31, 2020	
	Book Value	Fair Value	Book Value	Fair Value	Book Value	Fair Value
	NIS in millions		NIS in millions		NIS in millions	
	(unaudited)		(unaudited)			
Non-current liabilities:						
Loans from financial corporations (1)	1,701	1,718	2,088	2,078	1,812	1,912
Bonds (1)(2)	9,794	10,456	8,669	8,538	9,962	10,540
	11,495	12,174	10,757	10,616	11,774	12,452

(1) Book value includes current maturities and accrued interest.
(2) The calculation of the fair value of the bonds is according to fair value level 1.

B. 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 March 31		As of December 31
	2021	2020	2020
	%	%	%
Non-current liabilities:			
Loans from financial corporations	(1.46)-4.78	1.99-4.53	0.44-2.91

Note 5 – Fair Value of financial instruments (Cont.)

C. Hierarchy of fair value:

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).

	As of March 31, 2021		
	Level 1	**Level 2**	**Total**
	NIS in millions		
	(unaudited)		
Financial assets at fair value through profit and loss:			
Non-marketable investments	-	4	4
Financial assets at fair value through other comprehensive income:			
Marketable shares	1,003	-	1,003
Total fair value of financial assets	1,003	4	1,007

	As of March 31, 2020		
	Level 1	**Level 2**	**Total**
	NIS in millions		
	(Unaudited)		
Financial assets at fair value through profit and loss:			
Non-marketable investments	-	5	5
Financial assets at fair value through other comprehensive income:			
Marketable shares	894	-	894
Total fair value of financial assets	894	5	899

Note 5 – Fair Value (Cont.)

C. Hierarchy of fair value (Cont.)

	As of December 31, 2020		
	Level 1	Level 2	Total
	NIS in millions		
Financial assets at fair value through profit and loss:			
Non-marketable investments	-	4	4
Financial assets at fair value through other comprehensive income:			
Marketable shares	862	-	862
Total fair value of financial assets	862	4	866

Note 6 – Segment Reporting

A. General:

For a description of the Company's operating segments, see Note 34 to the annual financial statements.

B. Operating segments:

	For the three-month period ended March 31, 2021						
	Retail centers and malls in Israel	**Leasable office and other space in Israel**	**Income-producing property in the U.S.**	**Senior housing**	**Other**	**Adjustments**	**Consolidated**
	NIS in millions						
	(Unaudited)						
Revenues:							
Total external income	125	195	58	45	25	(11)	437
Total segment expenses	39	28	29	34	28	(3)	155
Segment profit (loss) (NOI)	86	167	29	11	(3)	(8)	282
Net profit (loss) from fair value adjustment of investment property and investment property under construction	(1)	(36)	(1)	-	1	(1)	(38)
Unallocated costs							(35)
Financing expenses, net							(49)
Other expenses, net							(4)
The Company's share in the results of a company accounted for in the equity method, net of tax							(6)
Income before income taxes							150
Additional information:							
Segment assets	12,461	12,705	2,210	2,600	1,469	(342)	31,103
Unallocated assets (*)							4,089
Total consolidated assets							,35 192

(*) Mainly financial assets in the sum of approx. NIS 1.0 billion and cash and short-term deposits in the sum of approx. NIS 2.4 billion.

Note 6 – Segment Reporting (Cont.)
B. Operating segments: (Cont.)

	For the three-month period ended March 31, 2020						
	Retail centers and malls in Israel	Leasable office and other space in Israel	Income-producing property in the U.S.	Senior housing	Other	Adjust-ments	Consol-idated
	NIS in millions						
	(Unaudited)						
Revenues:							
Total external income	245	180	66	41	25	(7)	550
Total segment expenses	40	27	31	30	32	(1)	159
Segment profit (loss) (NOI)	205	153	35	11	(7)	(6)	391
Net profit (loss) from fair value adjustment of investment property and investment property under construction	(185)	1	(40)	-	-	-	(224)
Unallocated costs							(37)
Financing income, net							6
Other income, net							3
The Company's share in the results of a company accounted for on the equity method, net of tax							(1)
Income before income taxes							138
Additional information:							
Segment assets	12,917	11,784	2,468	2,437	959	(70)	30,495
Unallocated assets (*)							4,001
Total consolidated assets							34,496

(*) Mainly financial assets in the sum of approx. NIS 0.9 billion, and cash and short-term deposits in the sum of approx. NIS 2.0 billion.

Note 6 – Segment Reporting (Cont.)
B. Operating segments: (Cont.)

	For the year ended December 31, 2020						
	Retail centers and malls in Israel	**Leasable office and other space in Israel**	**Income-producing property in the U.S.**	**Senior housing**	**Other**	**Adjustments**	**Consolidated**
				NIS in millions			
Revenues:							
Total external income	607	708	251	162	104	(34)	1,798
Total segment expenses	182	107	122	129	129	(8)	661
Segment profit (loss) (NOI)	425	601	129	33	(25)	(26)	1,137
Net profit (loss) from fair value adjustment of investment property and investment property under construction	(789)	71	(176)	130	131	(131)	(764)
Unallocated costs							(132)
Financing expenses, net							(103)
The Company's share in the results of a company accounted for on the equity method, net of tax							98
Income before income taxes							236
Additional information as of December 31, 2020:							
Segment assets	12,431	12,463	2,126	2,597	1,393	(296)	30,714
Unallocated assets (*)							4,410
Total consolidated assets							35,124
Capital investments	178	744	42	77			

(*) Mainly financial assets in the sum of approx. NIS 0.9 billion and cash and short-term deposits in the sum of NIS 2.7 billion.

Note 7 – Material Subsequent Events

A. On May 25, 2021, the Company’s board of directors decided to approve an additional dividend distribution to the one that was approved as provided in Note 3A above, in the sum of NIS 150 million.

B. After the date of the Statement of Financial Position, on May 10, 2021, the Company engaged in an agreement for the acquisition of control (directly and indirectly) of a company which is not affiliated with the Company (the “**Acquired Company**” and the “**Acquisition Agreement**”), which is entitled to receive from the Israel Land Authority (“**ILA**”) leasehold rights in two lots, the total area of which is approx. 26,000 sqm, which are situated in the North Glilot complex, including all building rights related to the lots (the “**Lands**”). The Company further engaged in a lease agreement for the construction and lease of a campus for SolarEdge Technologies Ltd. on part of the Lands (the “**Lease Agreement**”, the “**Lessee**” and the “**Transactions**”, respectively).

The Acquisition Agreement is contingent on the allocation of the Lands to the Acquired Company by the ILA and the receipt of further approvals.

As of the report date, the Company intends to pay for the acquisition using its own sources and/or banking or institutional financing.

The Acquisition Agreement includes representations and indemnities the responsibility and liability in respect of which is limited to the amount of the consideration, which shall be paid to each one of the sellers of the holdings in the Acquired Company.

Subject to the allocation of the rights in the Lands to the Acquired Company within the period of time set forth in the Lease Agreement, the Company shall design and build, in cooperation with the Lessee, a campus for the Lessee, to be built on one of the Lots on an area of approx. 16.5 dunam (16,500 sqm), which will include 38,000 sqm above ground and 950 parking spaces.

Insofar as the allocation of rights as aforesaid does not take place within the period set forth in the agreement, each party shall have the right to give notice of termination of the Lease Agreement.

An area of approx. 9 dunam (9,000 sqm) will remain in the Lands, which in the Company's assessment may be used to build additional retail and commercial space of similar sizes, subject to promotion and approval of a zoning plan for the addition of rights in part of the said area.

Note 7 – Material Subsequent Events (Cont.)

C. After the date of the Statement of Financial Position, on April 7, 2021, a subsidiary received a Transaction-VAT assessment of approx. NIS 37 million, for capital notes granted by the Company to the subsidiary between the years 2016 and 2020. The VAT authorities are claiming that the capital notes constitute income and are therefore liable for Transaction-VAT by the subsidiary. The subsidiary contests the assessment and is in the process of an administrative objection vis-à-vis VAT for the cancellation thereof.

As of the report date, no provision has been recorded on the books of the subsidiary for the said assessment.

Annex to Consolidated Financial Statement

Separate Interim Financial Statement

as of March 31, 2021

(Unaudited)

Azrieli Group Ltd.

Separate Interim Financial Statement

as of March 31, 2021

(Unaudited)

Prepared according to the provisions of Regulation 38D

of the Securities Regulations

(Periodic and Immediate Reports), 5730-1970

Azrieli Group Ltd.

Separate Interim Financial Statement
as of March 31, 2021

(Unaudited)

C o n t e n t s

To
The Shareholders of
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 March 31, 2021 and for the three-month period then ended. The board of directors and management are responsible for the preparation and presentation of this separate interim financial information in accordance with Section 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 . Our responsibility is to express a conclusion on the separate interim financial statement for this interim period, based on our review.

Scope of Review

We conducted our review in accordance with Review Standard (Israel) 2410 of the Institute of Certified Public Accountants in Israel – "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of separate interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Generally Accepted Auditing Standards in Israel, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Brightman, Almagor, Zohar & Co.
Certified Public Accountants
A firm in the Deloitte Global Network

Tel Aviv, May 25, 2021

Azrieli Group Ltd.
Statement of Financial Position

	As of March 31		As of Dec. 31
	2021	2020	2020
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
Assets			
Current assets			
Cash and cash equivalents	2,244	1,733	2,472
Trade accounts receivable	22	11	19
Other receivables	200	406	395
Current tax assets	64	26	91
Total current assets	2,530	2,176	2,977
Non-current assets			
Financial assets	1,007	899	866
Investment property and investment property under construction	13,084	12,409	12,856
Investments in Investee Companies	11,517	11,217	11,297
Loans to Investee Companies	2,164	2,568	2,257
Fixed assets	307	302	304
Other receivables	50	47	35
Total non-current assets	28,129	27,442	27,615
Total assets	30,659	29,618	30,592

Azrieli Group Ltd.
Statement of Financial Position
(Cont.)

	As of March 31		As of Dec. 31
	2021	2020	2020
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
Liabilities and capital			
Current liabilities			
Credit and current maturities from financial corporations and bonds	760	800	803
Trade payables	221	97	239
Payables and other current liabilities	107	99	101
Declared dividend	450	300	-
Total current liabilities	1,538	1,296	1,143
Non-current liabilities			
Loans from financial corporations	392	525	413
Bonds	9,206	8,096	9,389
Other liabilities	26	28	26
Deferred tax liabilities	1,558	1,511	1,520
Total non-current liabilities	11,182	10,160	11,348
Capital			
Ordinary share capital	18	18	18
Premium on shares	2,478	2,478	2,478
Capital reserves	315	292	135
Retained earnings	15,128	15,374	15,470
Total capital attributable to shareholders of the Company	17,939	18,162	18,101
Total liabilities and capital	30,659	29,618	30,592

May 25, 2021			
Date of Approval of Separate Financial Statement	**Danna Azrieli Chairman of the Board**	**Eyal Henkin CEO**	**Irit Sekler-Pilosof Chief Financial Officer and Deputy CEO**

The additional figures hereby attached which supplement the financial information constitute an integral part of the separate condensed financial statements.

Azrieli Group Ltd.
Statement of Profit or Loss and Other Comprehensive Income

	For the three-month period ended March 31		For the year ended Dec. 31
	2021	2020	2020
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
Revenues			
From rent and management and maintenance fees, net	133	172	(*) 485
Net loss from adjustment to fair value of investment property and investment property under construction	(25)	(103)	(277)
Financing	28	40	100
Other	-	9	9
Total Revenues	136	118	317
Costs and Expenses			
Cost of revenues from rent and management and maintenance fees	12	5	42
Sales and marketing	7	7	31
G&A	22	20	71
Financing	42	4	60
Other	-	-	3
Total Costs and Expenses	83	36	207
Income before the Company's share in the profits of Investee Companies	53	82	110
Share in profits of Investee Companies, net of tax	64	35	111
Income before income taxes	117	117	221
Taxes on income	(7)	(18)	(20)
Income for the period from continued operations	110	99	201
Loss from discontinued operations (after tax)	-	(6)	(12)
Net income for the period	110	93	189
Other comprehensive income (loss):			
Amounts that will not be carried in the future to the income statement, net of tax:			
Change in the fair value of financial assets, net of tax	109	(195)	(220)
Amounts that were carried or will be carried in the future to the income statement, net of tax:			
Translation differences from foreign operations	60	49	(110)
Share in the other comprehensive profit (loss) of Investee Companies, net of tax	8	(21)	2
Total	68	28	(108)
Other comprehensive income (loss) for the period, net of tax	177	(167)	(328)
Total comprehensive income (loss) for the period	287	(74)	(139)

(*) In 2020, revenues from rent and management and maintenance fees amounted to NIS 520 million. For the period from April 1, 2020 to May 4, 2020, the Company granted rent relief to tenants in the retail centers and malls in Israel in the sum of NIS 35 million, which were treated as write-off of an operating lease receivables asset due to Covid-19-related concessions. In view of the aforesaid, revenues from rent and management and maintenance fees, net, amounted to NIS 485 million. For further details on the impact of Covid-19, see Note 3B to the condensed consolidated financial statements.

The additional figures hereby attached which supplement the financial information constitute an integral part of the separate condensed financial statements.

Azrieli Group Ltd.
Statement of Cash Flows

	For the three-month period ended March 31		For the year ended Dec. 31
	2021	2020	2020
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
Cash flows – current operations			
Net profit for the period	110	93	189
Depreciation and amortization	1	1	2
Net loss from adjustment to fair value of investment property and investment property under construction	25	103	277
Financing and other expenses (income), net	13	(48)	(50)
Share in profits of Investee Companies, net of tax	(64)	(29)	(103)
Tax expenses recognized in the income statement	7	18	19
Income tax received (paid), net	25	(10)	(52)
Change in trade and other receivables	(7)	(72)	(134)
Change in trade and other payables	(9)	(13)	9
Erosion of financial assets designated at fair value through profit and loss	-	-	1
Change in employee benefits and provisions	1	-	-
Net cash – current operations	102	43	158
Cash flows – investment activities			
Purchase and investment in investment property and investment property under construction	(268)	(132)	(603)
Purchase of fixed assets	(4)	(264)	(269)
Investments in Investee Companies	(95)	(100)	(231)
Return of long-term loans from Investee Companies, net	117	174	550
Interest and dividend received	4	10	31
Recovery of investment in Investee Company	-	-	14
Proceeds from the disposition of financial assets, net	222	84	84
Taxes paid for financial assets	-	-	(2)
Revenues (payments) from institutions for the acquisition of real estate, net	(31)	(29)	9
Net cash – investment activities	(55)	(257)	(417)

The additional figures hereby attached which supplement the financial information constitute an integral part of the separate condensed financial statements.

Azrieli Group Ltd.
Statement of Cash Flows
(Cont.)

	For the three-month period ended March 31		For the year ended Dec. 31
	2021	2020	2020
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
Cash flows – financing activities			
Bond offering net of offering expenses	-	-	1,672
Dividend distribution to shareholders	-	-	(300)
Repayment of bonds	(184)	(185)	(520)
Repayment of long-term loans from financial corporations	(67)	(69)	(185)
Short-term credit from financial corporations, net	1	(350)	(351)
Interest paid	(28)	(31)	(164)
Net cash – financing activities	(278)	(635)	152
Decrease in cash and cash equivalents	(231)	(849)	(107)
Cash and cash equivalents at beginning of period	2,472	2,582	2,582
Effect of exchange rate changes on cash balances held in foreign currency	3	-	(3)
Cash and cash equivalents at end of period	2,244	1,733	2,472

(*) Non-cash transactions, for the three-month period ended March 31, 2021, include a change in other payables due to a dividend in the amount of NIS 450 million (for the three-month period ended March 31, 2020 – NIS 300 million).

For the three-month period ended March 31, 2020, non-cash transactions included a change in other payables due to acquisitions on credit of non-current assets in the amount of NIS 6 million, and for Y2020 an amount of NIS 136 million.

The additional figures hereby attached which supplement the financial information constitute an integral part of the separate condensed financial statements.

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, 2020, 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 associate.

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, 2020 and the year then ended.

D. Material Events during the Reporting Period:

See Note 3 to the condensed consolidated financial statements published with this separate financial statement.

E. Subsequent Events:

See Note 7 to the condensed consolidated financial statements published with this separate financial statement.

Deloitte.

Date: May 25, 2021

To:

The Board of Directors of Azrieli Group Ltd.

Azrieli 1,

Tel Aviv

Dear Sir/Madam,

Re: Consent given in connection with the shelf prospectus of Azrieli Group Ltd. of May 2019

We hereby notify you that we agree to the inclusion (including by way of reference) of our reports which are specified below in connection with the shelf prospectus of May 2019:

(1) Review report of May 25, 2021 on condensed consolidated financial information of the Company as of March 31, 2021 and for the three-month period then ended.

(2) Special auditors' report of May 25, 2021 on condensed separate financial information of the Company as of March 31, 2021 and for the three-month period then ended according to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Sincerely,

Brightman, Almagor, Zohar & Co.
Certified Public Accountants
A firm in the Deloitte Global Network

AZRIELI GROUP

PART D

Effectiveness of Internal Control over the Financial Reporting and Disclosure

ATTACHED HERETO IS 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 | **Eyal Henkin**, CEO

2 | **Irit Sekler-Pilosof**, Deputy CEO of Azrieli Group and CFO

3 | **Nirit Zeevi**, VP, General Counsel and Corporate 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 annual report regarding the effectiveness of internal control over financial reporting and disclosure, which was attached to the periodic report for the period ended December 31, 2020 (the "**Most Recent Annual Report on Internal Control**"), the Board of Directors and the management assessed the internal control within the Corporation; based on such assessment, the Board of Directors and the management of the Corporation arrived at the conclusion that such internal control was effective as of December 31, 2020.

Until the report date, no occurrence or issue were brought to the knowledge of the Board of Directors and the management, which may change the evaluation of the effectiveness of the internal control as found in the Most Recent Annual Report on Internal Control.

As of the report date, based on the assessment of the effectiveness of internal control in the Most Recent Annual 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, Eyal Henkin, represent that:

1. I have reviewed the quarterly report of Azrieli Group Ltd. (the "**Corporation**") for Q1/2021 (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, under my supervision, the setting and maintaining of controls and procedures 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 brought to my knowledge 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, under my supervision, the setting and maintaining of controls and procedures 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 periodic report and the date of this report date, which may 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.

Date: May 25, 2021

____

Eyal Henkin | 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 financial information included in the interim reports of Azrieli Group Ltd. (the "**Corporation**") for Q1/2021 (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 confirmed, under my supervision, the setting and maintaining of controls and procedures 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 brought to my knowledge 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, under my supervision, the setting and maintaining of controls and procedures 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 periodic report and the date of this report date, 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.

Date: May 25, 2021

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Irit Sekler-Pilosof | Deputy CEO and CFO