AZRIELIGROUP

AZRIELI GROUP LTD.

Periodic Report

As of December 31, 2019

AZRIELI GROUP LTD.

Periodic Report
As of December 31, 2019

PART A

Description of the Corporation's Business

CHAPTER A | DESCRIPTION OF THE COMPANY'S BUSINESS

FOREWORD AND GENERAL DEFINITIONS

Azrieli Group Ltd. hereby respectfully files the Description of the Corporation's Business Report as of December 31, 2019 (the "Report Date"), reviewing the Group and describing the development of business thereof in 2019 (the "Report Period") until the Report Release Date. The Report is prepared pursuant to the provisions of Regulation 8a of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Figures appearing in the Report are true as of the Report Date. However, in certain cases details appear in the Report reviewing events which occurred subsequently to the Report Date until shortly before the date of release thereof, on March 25, 2020 (the "Report Release Date") and in such cases the Company notes that these are provided as of the relevant date.

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

Materiality

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

Forward Looking Information

The description of the corporation's business in this Chapter A partly includes forward looking information as defined in the Securities Law. Such information which is presented below and indicated as forward looking information, includes forecasts, assessments, estimates or other information that is deemed as uncertain information which refers to a future event and which relies, inter alia, on publications of the Central Bureau of Statistics, Bank of Israel, other relevant professional entities and in addition, on internal estimates of the Company that are based on statistics, experience and information accumulated by the Company over the years. Actual results may materially differ from those forecasted in the context of the forward-looking information as aforesaid, as a result of a large number of factors, including as a result of the risk factors, in whole or in part, as described in Section 28 of this Chapter A, all as will be specified in the specific references to forward looking information later in the chapter. Sentences which include expressions such as "expected", "intends", "estimates", "foresees", "expects" and similar expressions indicate that this is forward looking information. Such information reflects the Company's current point of view regarding future events that are based on estimates and therefore are subject to risk and uncertainty.

DEFINITIONS

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

"TASE"	Tel Aviv Stock Exchange Ltd.
"Granite" or "Granite Hacarmel"	Granite Hacarmel Investments Ltd.
"Board of Directors' Report"	The Company's Board of Directors' Report on the State of the Company's Affairs as of December 31, 2019, which is included as Chapter B of the Periodic Report
"Periodic Report" or "Report"	The Company's periodic report for 2019
"Financial Statements"	The consolidated financial statements of the Company as of December 31, 2019, which are included in Chapter C of the Periodic Report
"Company"	Azrieli Group Ltd.
"Companies Law"	The Companies Law, 5759-1999
"Securities Law"	The Securities Law, 5728-1968
"Leumi Card"	Leumi Card Ltd.
"Midroog"	Midroog Ltd.
"Ma'alot"	Standard & Poor's Maalot Ltd.
"Nadav Investments"	Nadav Investments Inc., a private company incorporated under Canadian Law, fully owned and controlled by Azrieli Holdings
"Sonol"	Sonol Israel Ltd.
"Supergas"	Supergas Israeli Gas Distribution Company Ltd., a wholly-owned subsidiary of Granite
"Azrieli E-Commerce"	Azrieli E-Commerce Ltd., a wholly-owned subsidiary of the Company
"Azrieli Holdings"	Azrieli Holdings Inc., a private company incorporated under Canadian Law, which is owned and controlled by Mmes. Sharon Azrieli, Naomi Azrieli and Danna Azrieli
"Granite Group" or "Granite Hacarmel Group"	Granite Hacarmel and/or subsidiaries thereof and/or affiliates thereof
"Azrieli Group" or "Group"	The Company and/or subsidiaries thereof and/or affiliates thereof including consolidated corporations
"Compass"	Compass Holdco, LLC, a Delaware corporation with which Azrieli Data Centers LLC, an (indirectly) wholly-owned subsidiary of the Company, engaged in an investment agreement as well as in an operating agreement with the holders of units in Compass.
"Canit Hashalom"	Canit Hashalom Investments Ltd., a wholly-owned subsidiary of the Company
"Azrieli Foundation (Israel)"	The Azrieli Foundation (Israel), R.A. 580503118, a not-for-profit association registered in Israel, acting, *inter alia*, to promote education and culture through projects in the fields of culture, welfare and science

"Azrieli Foundation (Canada)"	The Azrieli Foundation, a registered Canadian charitable foundation, incorporated and seated in Canada, whose assets are designated for donations and for the funding of philanthropic activities in Israel and in Canada, which is a stakeholder in the Company
"2018 Periodic Report"	The Company's annual periodic report for the year 2018, released by the Company on March 20, 2019 (Ref. 2019-01-024283), which is included herein by way of reference
"2016 Shelf Prospectus"	A shelf prospectus released by the Company on May 10, 2016 bearing the date May 11, 2016. For details see the Company's immediate report of May 10, 2016 (Ref.: 2016-01-063049) which is included herein by way of reference
"2019 Shelf Prospectus"	A shelf prospectus released by the Company on May 7, 2019 bearing the date May 8, 2019. For details, see the Company's immediate report of May 7, 2019 (Ref. 2019-01-044203), which is included herein by way of reference
"GES"	G.E.S.- Global Environmental Solutions Ltd., a private company incorporated in Israel and a wholly-owned subsidiary of Canit Hashalom

CHAPTER A | DESCRIPTION OF THE COMPANY’S BUSINESS

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

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

1.1 General

The Company was incorporated on January 6, 1983, as a private company according to the laws of the State of Israel. On June 3, 2010, the Company’s shares were issued to the public for the first time and began to be traded on TASE on June 7, 2010, and the Company became a public company, within the meaning thereof in the Companies Law. Commencing on July 1, 2010, the shares of the Company are included in the Tel Aviv 35 Index (formerly: the Tel Aviv 25 Index). The Company’s Series B and Series E bonds are included, *inter alia*, in the Tel Bond 40 Index, and the Company's Series D bonds are included, *inter alia*, in the Tel Bond 20 Index, and the Company’s Series F Bonds are included, *inter alia*, in the Tel Bond Linked Index. December 30, 2019 saw the full prepayment of the Company’s Series C Bonds, at the Company’s initiative.[1]

As of the Report Date, Mmes. Sharon Azrieli, Naomi Azrieli and Danna Azrieli are the controlling parties of the Company.[2]

As of the Report Date, the Group is engaged primarily in the various real estate segments, with most of the Group’s business operations being in the retail centers and malls segment in Israel and in the leasable office and other space segment in Israel. In addition, the Group has an overseas income-producing real estate segment (mainly in the U.S.) and a senior housing segment. In July 2019 the Company (indirectly) invested in Compass, a company primarily engaged in the data centers business in North America. In December 2019 the Company announced its entry into the hospitality sector and in February 2020 it closed the acquisition of the Mount Zion Hotel in Jerusalem. The Company also has additional e-commerce operations and minority holdings in a financial corporation.

Until November 2019, the Company had another operating segment under Granite Hacarmel, which engaged, via Supergas, in the marketing of alternative energy resources. In view of the closing of the transaction for the sale of the holdings in Granite, which held Supergas, Granite is presented in the Financial Statements as discontinued operations.

Furthermore, on January 23, 2020, Canit Hashalom entered into an agreement for the sale of its holdings in GES[3], which is engaged in industrial chemicals, waste, air, wastewater and water treatment, and which is presented in the Financial Statements as discontinued operations. Until February 2019 the Company held 20% of Leumi Card. For details see Section 1.3.3 of this Chapter A below. Until July 2016 the Company held Sonol through Granite.

The Company owns income-producing properties with a total GLA of approx. 1,219 thousand sqm in addition to approx. 723 thousand sqm of projects under development. The average occupancy rate in Israel is approx. 99%,[4] with 92% of the value of income-producing investment properties and income-producing properties under construction (on a consolidated basis) attributed to real estate in Israel.

---

1 For further details, see the Company’s immediate reports of the dates December 12, 2019, December 17, 2019 and December 23, 2019 (Ref.: 2019-01-120919, 2019-01-110541 and 2019-01-112536, respectively), which are included herein by way of reference.

2 For further details, see immediate report on the status of holdings of interested parties and officers of July 7, 2019 (Ref.: 2019-01-069121), which is included herein by way of reference.

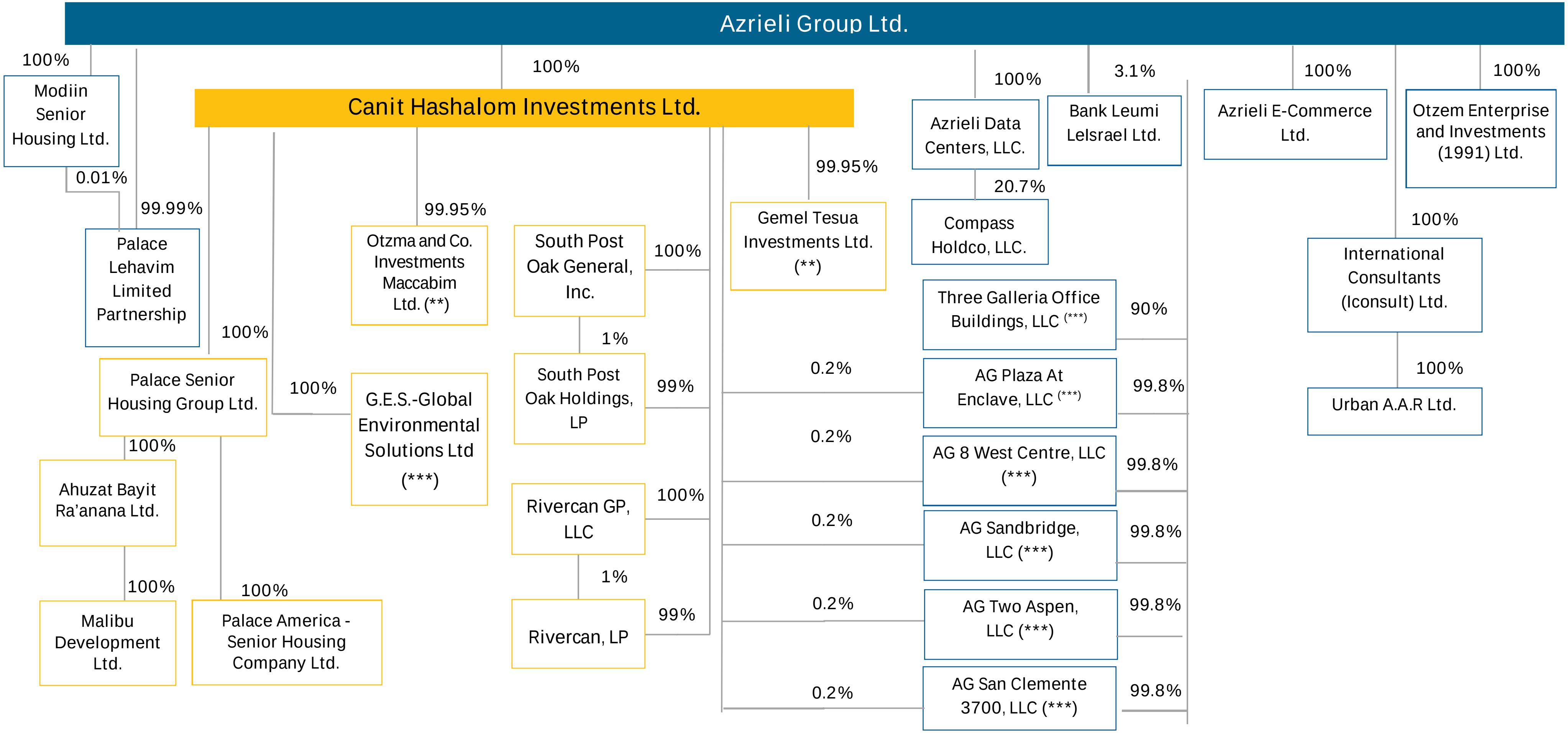
3 For further details, see the Company’s immediate report of January 26, 2020 (Ref.: 2020-01-009789), which is included herein by reference.

4 Excluding areas in properties whose construction has been completed and are being leased-up for the first time.

Azrieli Group, which was founded by Mr. David Azrieli OBM, is the leading real estate group in Israel. In July 2014, Ms. Danna Azrieli, was appointed as Active Chairman of the Company's Board of Directors, after many years in which she served in key positions in the Group. The operations of the Group are carried out by means of a managerial headquarter that is comprised of professionals having a great deal of seniority and managerial experience, most of whom have been associated with the Company and the Group's companies for many years. The Company estimates that the Chairman of the Board, Ms. Danna Azrieli, as well as the experienced officers and managers in the Company who are considered professional and industry leaders, are principal and significant factors of the success of the Company's business results.

1.2 The Group's main holdings chart as of the Report Release Date*

1.2.1 Following is a chart updated as of the Report Release Date:



(*) Main holdings only. The chart does not include companies that are inactive as of the Report Release Date nor property management companies.
(**) 0.05% of these companies is held by International Consultants (iConsult) Ltd.
(***) Indirectly, through companies and/or partnerships.
(****) On January 23, 2020 an agreement was signed for the sale of GES.

1.2.2 As of the Report Release Date, the Group's asset holdings chart, in the final holdings structure, by operating segment, is as follows:

The retail centers and malls

- 100% Azrieli Tel Aviv Mall including expansion thereof (under construciton)
- 100% Azrieli Holon Mall
- 100% Azrieli Ayalon Mall
- 100% Azrieli Haifa Mall
- 100% Azrieli Jerusalem Mall
- 100% Azrieli Kiryat Atta Mall
- 100% Azrieli Hanegev Mall
- 100% Azrieli Akko Mall
- 100% Azrieli Modiin Mall
- **83% Azrieli Center Holon
- 100% Azrieli Givataim Mall
- 100% Azrieli Rishonim Mall
- 100% Azrieli Sarona Mall (under construction)
- 100% Azrieli Ramla Mall
- 100% Azrieli Herzliya OUTLET
- 100% Azrieli Town (under construction)
- *89% Azrieli Or Yehuda Outlet
- 100% Holon 3 (under construction)
- 100% Azrieli Hod Hasharon Mall
- 100% Azrieli Raanana
- 100% Modiin 10 Lot (under construciton)
- 100% Modiin 21 Lot (in planning)

Offices and other space for rent

- 100% Hakrayot Junction (Check Post) (Land Reserve)
- 100% Azrieli Towers
- 100% Azrieli Rishonim
- 100% Jerusalem Offices
- **83% Azrieli Center Holon
- 100% Hanegev Offices
- 100% Azrieli Kiryat Atta
- 100% Holon 3 (under construction)
- 100% Azrieli Sarona
- 100% Modi'in offices and residences
- 100% Azrieli Town (under construction)
- 100% Givatayim Offices
- 100% Spiral Tower (under construction)
- 100% Ceasaria Industrial Park
- 100% Holon Manor (under construction)
- 100% K.M.T. Petach Tikva
- 100% Modiin 21 Lot (in planning)
- 100% Herzliya offices
- ***100% Azrieli Town Building E (in planning)
- 100% Azrieli Petach Tikva (in planning)
- 100% Modiin 21 Lot (in planning)

Income-producing property in the US Offices

- 70% Three Riverway (Houston, Texas)
- 67% One Riverway (Houston, Texas)
- 100% Southern house 529 York Road (Leeds, England)
- 45% Six Riverway Land (Houston, Texas) (land reserve)
- 90% Three Galleria Office Building (Houston, Texas)
- 100% Plaza At Enclave (Houston, Texas)
- 100% 8 West Centre (Houston, Texas)
- 100% Aspen Lake II (Austin, Texas)
- 100% Sandbridge land (Houston, Texas) (land reserve)
- 100% 3700 San Clemente (Austin, Texas)

Senior Housing

- 100% Palace Ra'anana
- 100% Palace Lehavim (under construction)
- 100% Palace Tel Aviv
- 100% Palace Rishon LeZion (in planning)
- 100% Palace Modi'in

Others

- Investment in investment funds and others
- e- Azrieli.com e Commerce
- Data Centers
- Investment in Bank Leumi LeIsrael Ltd.
- GES (****)
- Mount Zion Hotel

(*) Holding rate determined after deduction of stores not owned by the Company .

(**) The Holon Municipality holds the remaining 17% of the property

(***) The property does not include offices, the total area of which is approx. 450 sqm, nor a gas station and the convenience store adjacent thereto.

(****) On January 23, 2020 an agreement was signed for the sale of GES.

1.3 Summary of the main developments occurring in the Group's structure and business in 2019 and until the Report Release Date

1.3.1 Development pipeline

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 details regarding the developments in the Group's development pipeline during the Report Period, see Section 7.7 of this Chapter A and Section 4.1 of the Board of Directors' Report.

1.3.2 Winning a tender for the construction of a waste sorting and recycling and energy production facility in the area of Rishon LeZion

In April 2018, notice was received by Zero Waste Ltd. ("Zero Waste"), a corporation held by GES in equal shares with Shikun & Binui Ltd. ("Shikun & Binui"), whereby Zero Waste was elected as the winner of a BOT tender for the planning, financing, construction and operation of a municipal waste sorting and recycling and energy production facility (in this section: the "Project"), published by the Ministry of Finance (the Accountant General) and the Ministry of Environment Protection. The Project will be built in the area of the Dan Region Wastewater Treatment Plant (the "*Shafdan*") in Rishon LeZion, and its cost during the construction period is estimated at approx. NIS 750 million. The performance of the Project is subject to completion of a financial closing of the Project. Zero Waste has reported a delay in the Project's timetables, which chiefly stems from limitations discovered at the site allocated to the Project by the State. Further thereto, in February 2020, Zero Waste and the State signed an agreement that sets down the timetables for putting together an arrangement with the State in connection with the Project. For further details, see the Company's immediate report of April 11, 2018 (Ref.: 2018-01-036841) and Note 7B(2) to the Financial Statements. The aforesaid reports are included herein by way of reference.

In July 2018, the Company updated that Zero Waste had received a petition by another group that contended in the same tender, in which the Jerusalem District Court was moved, *inter alia*, to order the cancellation of the decision of the tender committee to elect Zero Waste as the winner of the tender and rule that the other group was the winner thereof, or alternatively order that the discussion be remanded to the tender committee for review of Zero Waste's compliance with the requirements of the tender. On February 14, 2019, the Court issued its decision, which denied the petition with no order for costs. For further details, see the Company's immediate reports of the dates July 2, 2018 and February 14, 2019 (Ref.: 2018-01-058617, 2019-01-013639, respectively), which are included herein by way of reference. For details regarding an agreement signed for the sale of the holdings in GES, see Section 1.3.6 below.

1.3.3 Sale of the Company's holdings in Leumi Card

The Company and Bank Leumi LeIsrael Ltd. jointly engaged in an agreement for the sale of all of their holdings in Leumi Card to a corporation controlled by the Warburg Pincus investment fund in consideration for NIS 2,500 million (in this section: the "Agreement"). The Company's share in the consideration is NIS 500 million (subject to adjustments). On February 25, 2019 the transaction was closed and the consideration for this stage was received, in accordance with the provisions of the Agreement. For further details, see the Company's immediate reports of the dates July 28, 2018, October 29, 2018, December 3, 2018, February 4, 2019, February 14, 2019 and February 25, 2019 (Ref.: 2018-01-069771, 2018-01-101721, 2018-01-117489, 2019-01-012261, 2019-01-013513 and 2019-01-016348, respectively), which are included herein by way of reference.

1.3.4 Investment in Compass

In July 2019, Azrieli Data Centers LLC, an (indirectly) wholly-owned subsidiary of the Company (in this section: the "Buyer"), entered into an investment agreement (in this section: the "Agreement") with Compass, and in an operating agreement with the unit holders in Compass. The main business of Compass is data centers in North America. Compass owns active sites and additional sites under construction and development. Said transaction, in which the Buyer invested in the unit capital of Compass, was closed and the consideration therefor was paid by the Buyer to Compass. The Buyer invested in Compass's equity and holds approx. 20% of the unit capital of Compass (the "Initial Investment"). The Buyer has an option to make additional investments and increase its holdings in Compass up to approx. 33% according to the price per unit in the Initial Investment. At the closing of the transaction, the Buyer paid Compass approx. USD$ 135 million in respect of the Initial Investment. For further details see the Company's immediate report of July 18, 2019 (Ref.: 2019-01-073885), and the presentation released by the Company regarding the data centers market and regarding Compass and its operations from the same date (Ref.: 2019-01-073897). The said reports are included herein by way of reference. In February 2020 an additional investment round was held in Compass, such that as of the Report Release Date, the Company (indirectly) holds approx. 20.7% of the unit capital of Compass.

1.3.5 Sale of Granite Hacarmel

Further to the Company's reports, whereby it intends to focus on the core areas of the real estate business, on July 25, 2019, Canit Hashalom (in this section: the "Seller"), together with Granite, which holds the entire issued and paid-up share capital of Supergas, entered into an agreement (in this section: the "Agreement") with Elco Ltd. (in this section: "the Buyer"), for the sale of the Seller's entire holdings (100%) in Granite, to the Buyer (in this Section: the "Transaction").

On November 5, 2019, the Transaction was closed, such that the consideration for the Seller's entire holdings in Granite amounted to a total of NIS 1,017 million with the deduction of the net financial debt of Granite, Supergas and its subsidiaries, which on October 31, 2019 amounted to approx. NIS 199.5 million, such that the consideration in the Transaction amounted to approx. NIS 817.5 million (in this section: the "Consideration"). On the closing date, the Buyer paid the Seller a sum of approx. NIS 567.5 million out of the Consideration.[5]

According to the provisions of the Agreement, the balance of the Consideration, in the sum NIS 250 million, will be paid by the Buyer in 7 unequal annual payments, starting 12 months after the closing date (the "Balance of the Periodic Payments"). To secure the payment of the Consideration balance as aforesaid, 80% of the share capital of Supergas was pledged in favor of the Seller by way of a first-ranking fixed pledge, whose rate will be gradually reduced according to the mechanism set forth in the Agreement.

On December 2, 2019, the Buyer made a partial early payment of around NIS 109.4 million out of the Balance of the Periodic Payments. According to the parties' agreement, as of December 2, 2019, the Balance of the Periodic Payments amounted to NIS 125 million (together with linkage to the CPI) and shall be paid by the Buyer in 7 unequal annual payments every 12 months, starting 12 months after the closing date.

The profit net of tax recorded by the Company in connection with the sale of Granite totaled approx. NIS 373 million.

It is noted that the Transaction did not include the entire holdings and assets of Granite other than Supergas, its subsidiaries and assets related to any of them, nor did it include liabilities that are not attributed to Supergas and its subsidiaries. Such assets and liabilities were transferred to the Seller, immediately prior to the closing date.

[5] Including a sum of NIS 10 million which was paid by the Buyer to the Seller in proximity to the signing date, as an advance payment on account of the Consideration, and a sum of NIS 10 million which was paid by the Buyer to the Seller on October 31, 2019 as determined in an addendum to the Agreement which was agreed between the parties and also included a change of the date of examination of the financial debt as of October 31, 2019.

For further details regarding the Transaction and the Agreement, see the Company's immediate reports of July 28, 2019, August 6, 2019, October 29, 2019, November 5, 2019 and December 2, 2019 (Ref.: 2019-01-077500, 2019-01-081517, 2019-01-091635, 2019-01-094782 and 2019-01-105633, respectively), which are included herein by way of reference.

1.3.6 Engagement in an agreement for the sale of GES

Further to the Company's reports, whereby it intends to focus on the core areas of the real estate business, on September 12, 2019, a non-binding memorandum of understandings was signed with Generation Capital Ltd. (in this section: the "Buyer"), for the sale of the entire holdings (100%) in GES.

On January 23, 2020, Canit Hashalom (in this section: the "Seller"), together with GES, entered into an agreement (in this section: the "Agreement") with the Buyer, for the sale of the Seller's entire holdings (100%) in GES to the Buyer in consideration for a sum of NIS 110 million, subject to adjustments, *inter alia*, for changes in the working capital and net financial debt of GES, insofar as applicable, until the closing date (in this section: the "Transaction"). On January 30, 2020, the approval of the Competition Commissioner for the Transaction was received.

It is clarified, that the closing of the Transaction, insofar as closed, is subject to the fulfillment of several additional conditions precedent as set forth in the Agreement.

For further details see the Company's immediate reports of September 12, 2019 and January 26, 2020 (Ref.: 2019-01-095770, and 2020-01-009789, respectively), which are included herein by way of reference.

1.3.7 Winning a tender for the acquisition of land in Modi'in (Lot 10)

On October 6, 2019, the Company was informed that it won a tender held by the Israel Land Authority, for the purchase of a leasehold in a lot located in the CBD of Modi'in-Maccabim-Re'ut, the area of which is 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 that were paid by the Company. Further, according to the terms of the tender, the Company paid, in addition to the cost of the 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.

1.3.8 Financing transactions

In January 2019 the Company issued two new bond series (Series E and Series F) of the Company[6] such that Series E Bonds with a par value of approx. NIS 1,216 million were allotted in consideration for approx. NIS 1,216 million (approx. NIS 1,207 million net of issue expenses), and Series F Bonds with a par value of approx. NIS 263 million were allotted in consideration for approx. NIS 263 million (approx. NIS 260 million net of issue expenses).

In December 2019 the Company issued bonds of the Company (Series E and F)[7], by way of an expansion of such bond series, such that Series E Bonds of approx. NIS 1,217 million par value were allotted in consideration for approx. NIS 1,355 million (approx. NIS 1,336 million net of the issue expenses and net of accrued interest), and

[6] Under a shelf offering report released on January 20, 2019 (Ref.: 2019-01-006388), which was published under the 2016 Shelf Prospectus. Such reports are included herein by way of reference.
[7] Under a shelf offering report released on December 17, 2019 (Ref.: 2019-01-110526), which was published under the 2019 Shelf Prospectus. Such reports are included herein by way of reference.

Series F Bonds of approx. NIS 933 million par value were allotted in consideration for approx. NIS 1,122 million (approx. NIS 1,101 million, net of the issue expenses and net of accrued interest).

On December 30, 2019, the Company initiated a full early redemption of the balance of the Company's Series C Bonds that were in circulation.

For further details regarding the Company's bonds, see Section 19.5 of this Chapter A.

1.3.9 Changes in the service of officers of the Company

In February 2019 Mr. Assaf Aviv was appointed as the Group's VP Innovation and Business Development, beginning March 2019.

On May 5, 2019, after 9 years in office, Joseph Ciechanover's office as an independent director of the Company came to an end.

On August 23, 2019, after the approval of the shareholders' general meeting of August 11, 2019, *Messrs.* Ehud Rassabi and Yossef Shachak began their office as outside directors of the Company, for a first term of office of three years, and in addition, Mr. Dan Gillerman began his office as an independent director of the Company, for a term of office until the end of the next annual meeting of the shareholders of the Company. For further details see the Company's immediate reports on the appointment of directors of August 12, 2019 (Ref.: 2019-01-083269, 2019-01-083272 and 2019-01-083278), which are included herein by way of reference.

On August 23, 2019, the term of office of the Company's two outside directors, *Messrs.* Efraim Halevy and Niv Ahituv, came to an end after 9 years in office. For further details, see the Company's immediate reports on the end of office of an officer of August 25, 2019 (Ref.: 2019-01-087913, 2019-01-087898), which are included herein by way of reference.

On October 2, 2019, Adv. Ran Tal's office as VP, General Counsel and Corporate Secretary came to an end, and Adv. Nirit Zeevi, was appointed in his stead.

1.3.10 Release of the 2019 Shelf Prospectus

On May 7, 2019 the Company released the 2019 Shelf Prospectus, after receiving a permit from ISA.

1.3.11 Acquisition of the Mount Zion Hotel in Jerusalem

Further to the Company's immediate reports whereby it explores, from time to time, entry into operating segments related to its business in the income-producing property segment, on December 8, 2019, the Company entered into an agreement with a third party who is not related to the Company and/or its controlling shareholders, for the purchase of Mount Zion Hotel in Jerusalem (in this section: the "Transaction"), in consideration for a total of NIS 275 million plus V.A.T. The Transaction was closed on February 9, 2020.

For further details, see the Company's immediate reports of December 9, 2019 (Ref.: 2019-01-107367 and 2020-01-107397), December 18, 2019 (Ref.: 2019-01-111237) and February 9, 2020 (Ref.: 2020-01-014439), which are included herein by way of reference.

1.3.12 Outbreak of the Coronavirus

The beginning of 2020 saw the outbreak of the Coronavirus in China and the virus continues to spread across the world. On March 14, 2020 the Government of Israel issued a directive instructing the closedown of places of culture and leisure, which applies, *inter alia*, to the Company's malls (except as pertains to essential businesses, such as supermarkets, drug stores, clinics, food businesses, which are limited to deliveries only, and banks). For further details, see the Company's immediate report of March 15, 2020 (Ref.: 2020-01-024375).

Moreover, the Company has reported that in view of the decision of the Government of Israel to shut down the malls, and in view of the impact of this decision on the tenants in the Group's malls, the Board of Directors of the Company has approved the establishment of a special financial aid fund for the tenants in the Group's malls, in the amount of NIS 100 million. The Company's Board of Directors further approved the grant of additional relaxations to tenants by means of granting a rent payment exemption for the second half of March 2020 to businesses closed down following the said Government decision, and suspending the payments of rent and management fees for such tenants in the period between April 1, 2020 and the date of their return to normal routine. For further details, see the Company's immediate report of March 17, 2020 (Ref.: 2020-01-025770).

For further details in connection with the impact of the spread of Coronavirus on the Company's business, see Section 2.2 of the Board Report.

2. Main operating segments of the Group

As of the Report Date, the Company reports to the public about four operating segments[8]:

1. Retail centers and malls in Israel segment: In this operating segment, the Group is primarily focused on the development, acquisition, lease-out, management and maintenance of malls and retail centers in Israel. As of the Report Date, the Group owns 18 malls and retail centers in Israel, in a total leasable area of approx. 349 thousand sqm, which are leased (on a consolidated basis and the Company's share) to some 1,900 tenants, with most of the malls and retail centers spread throughout the large cities in Israel. In the context of this operating segment, the Company provides management services to the retail centers and malls maintained thereby, with the management being performed by the Company and/or designated management companies for each mall or retail center that is owned by the Group, and enters into management agreements with the tenants. All of the malls and retail centers include (aboveground or underground) car parks that serve the visitors and the tenants. See Section 8 of this Chapter A for additional details regarding the retail centers and malls segment.

2. Leasable office and other space in Israel segment: In this operating segment, the Company primarily engages in the development, acquisition, lease-out, management and maintenance of office buildings and parks for offices and high-tech industry, logistic areas and storage in Israel. As of the Report Date, the Group owns 14 income-producing properties in the leasable office and other space in Israel segment, with a total leasable area of approx. 548 thousand sqm (on a consolidated basis and the Company's share), which are leased to about 670 tenants. Most of the Group's income-producing areas in this operating segment are in projects that integrate retail areas. See Section 9 of this Chapter A for additional details regarding the leasable office and other space in Israel segment.

3. Income-producing properties in the U.S. segment: As of the Report Date, the Group owns 8 leasable office properties outside of Israel, with a total leasable area of approx. 246 thousand sqm (the Company's share is approx. 237 thousand sqm), which are leased to some 220 tenants. See Section 10 of this Chapter A for additional details with respect to the income-producing properties in the U.S. segment.

4. Senior housing segment: The Company has three active senior homes with an above-ground built-up area of approx. 76 thousand sqm (excluding areas attributed to the LTC unit and to retail space), which comprise approx. 800 senior housing units, and two projects under development and construction for approx. 625 residential units with a total area of approx. 70 thousand sqm (excluding areas attributed to the LTC unit and to retail space). See Section 11 of this Chapter A for additional details about the senior housing segment.

Other assets and operations:

For details with respect to the Company's (indirect) investment in Compass, a company engaged in the data centers business, see Section 12.1 of this Chapter A. For details with respect to other assets and operations which are not included in the operating segments described above, including e-commerce operations, operations in the hospitality sector, investments in banking and financial corporations and investments in investment funds, see Sections 12 and 14 of this Chapter A.

[8] In view of the closing of the transaction for the sale of Granite and in view of an engagement for the sale of the holdings in GES, Granite's operations have become discontinued operations, in accordance with GAAP, and it is presented in the Company's income statements separately from the continuing operations (see Note 8 to the Financial Statements).

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

To the best of the Company's knowledge, no investments were made in the Company's capital in the past two years and no other material transaction in the Company's shares was executed off-TASE by an interested party during the two years preceding December 31, 2019, as well as until the date of release of this Report.

For details with respect to the status of interested-party holdings in the Company see the immediate report of July 7, 2019 (Ref.: 2019-01-069121), which is included herein by way of reference.

4. Dividend Distribution

4.1 Following are details about dividend distributions in 2018, 2019 and 2020 (until the Report Release Date):

Resolution Date	Distribution Date	Amount of Dividend per Share (NIS)	Amount of Dividend (NIS in millions)
March 20, 2018	May 2, 2018	4.28	520
March 19, 2019	May 6, 2019	4.62	560
March 24, 2020	May 15, 2020	2.47	300

(a) The aforesaid distributions did not require approval by the court.

(b) The balance of the Company's distributable profits as of December 31, 2019 is approx. NIS15.6 billion (such balance also includes real estate revaluation profits).

(c) For further details about dividend distributions by the Company and the restriction on dividend distributions, see Notes 19B-19C to the Financial Statements.

(d) Considering previous distributions made by the Company, and the Company's financial results, on March 24, 2020 the Company's Board examined the distribution of a NIS 600 million dividend, and reached the conclusion that such distribution meets all of the distribution tests. However, for the sake of caution and, *inter alia*, in view of the uncertainty surrounding the impact of the spread of Coronavirus affecting the world, the Company's Board decided to approve, at this time, a dividend distribution of NIS 300 million only, and to re-discuss another distribution of up to NIS 300 million more, during the course of 2020.

PART TWO: OTHER INFORMATION

5. Financial information regarding the Company's operating segments

The following table presents financial data of the Company, as specified in the Company's financial statements (NIS in millions) for the years 2017 to 2019:

Y2019:

	Retail centers and Malls in Israel	Leasable Office and Other Space in Israel	Income-Producing Properties in the U.S.	Senior Housing	Adjustments*	Consolidated
Revenues						
Total revenues from outsiders	1,050	716	268	156	45	2,235
Total revenues from other operating segments of the Group	-	-	-	-	-	-
Total	1,050	716	268	156	45	2,235
Attributed costs						
Costs not representing revenues from other operating segments of the Group	219	122	129	119	95	684
Costs representing revenues of other operating segments of the Group	-	-	-	-	-	-
Total	219	122	129	119	95	684
Income from operations attributed to operating segment (NOI in the income-producing real estate segments)	831	594	139	37	(50)	1,551
Variable costs attributed to the operating segment	204	113	65	111	44	537
Fixed costs attributed to the operating segment	15	9	64	8	51	147
Increase (decrease) in the fair value of investment property	123	690	(12)	100	-	901
Income from operations attributable to the shareholders of the parent company	831	594	135	37	(50)	1,547
Income from operations attributable to non-controlling interests	-	-	4	-	-	4
Total assets attributed to the operating segment	13,018	11,655	2,421	2,410	505	30,009

* Adjustments to the consolidated basis mainly derive from operations in the e-commerce segment. For details, see Section 14 of this Chapter A.

Y2018:

	Retail centers and Malls in Israel	Leasable Office and Other Space in Israel	Income-Producing Properties in the U.S.	Senior Housing	Adjustments*	Consolidated
Revenues						
Total revenues from outsiders	1,034	633	267	130	37	2,101
Total revenues from other operating segments of the Group	-	-	-	-	-	-
Total	1,034	632	267	130	37	2,101
Attributed costs						
Costs not representing revenues from other operating segments of the Group	214	116	118	93	90	631
Costs representing revenues of other operating segments of the Group	-	-	-	-	-	-
Total	214	116	118	93	90	631
Income from operations attributed to operating segment (NOI in the income-producing real estate segments)	820	517	149	37	(53)	1,470
Variable costs attributed to the operating segment	199	108	69	86	39	501
Fixed costs attributed to the operating segment	15	8	49	7	51	130
Increase (decrease) in the fair value of investment property	(4)	167	(48)	103	-	218
Income from operations attributable to the shareholders of the parent company	820	517	144	37	(53)	1,465
Income from operations attributable to non-controlling interests	-	-	5	-	-	5
Total assets attributed to the operating segment	12,682	10,443	2,593	2,081	-	27,799

* Adjustments to the consolidated basis mainly derive from operations in the e-commerce segment. For details, see Section 14 of this Chapter A.

Y2017:

	Retail centers and Malls in Israel	Leasable Office and Other Space in Israel	Income-Producing Properties in the U.S.	Senior Housing	Adjustments*	Consolidated
Revenues						
Total revenues from outsiders	1,032	489	221	126	19	1,887
Total revenues from other operating segments of the Group	-	-	-	-	-	-
Total	1,032	489	221	126	19	1,887
Attributed costs						
Costs not representing revenues from other operating segments of the Group	204	92	100	87	65	548
Costs representing revenues of other operating segments of the Group	-	-	-	-	-	-
Total	204	92	100	87	65	548
Income from operations attributed to operating segment (NOI in the income-producing real estate segments)	828	397	121	39	(46)	1,339
Variable costs attributed to the operating segment	204	92	100	-	19	415
Fixed costs attributed to the operating segment	-	-	-	87	46	133
Increase (decrease) in the fair value of investment property	(25)	630	(186)	81	-	500
Income from operations attributable to the shareholders of the parent company	828	397	117	39	(46)	1,335
Income from operations attributable to non-controlling interests	-	-	4	-	-	4
Total assets attributed to the operating segment	12,368	9,462	1,983	1,725	-	25,538

* Adjustments to the consolidated basis mainly derive from operations in the e-commerce segment. For details, see Section 14 of this Chapter A.

For the board of directors' explanations with respect to the Company's financials as appearing in the consolidated financial statements thereof, see the Board of Directors' Report.

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

Following are the assessments of the Company as to the major trends, events and developments in the macroeconomic environment of the Company, which to the best of its knowledge and estimates, have or are anticipated to have material effect on the business results or the developments in the Group's operating segments. For details with respect to regulatory restrictions on the Company, see Section 23 of this Chapter A.

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

6.1 Operations in Israel

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

Israel	For the Year Ended on		
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
Macroeconomic parameters			
Gross Domestic Product (PPP)*	$354.2 billion	$336.1 billion	$317.1 billion
Product per Capita (PPP)*	$39,121	$37,856	$36,405
Domestic Product growth rate (PPP)*	4.97%	6%	5.25%
Product per Capita growth rate (PPP)*	2.97%	3.98%	3.24%
Inflation Rate **	0.6%	0.8%	0.4%
Return on long-term domestic governmental debt *** (NIS)	0.96%	2.3%	1.7%
Rating of long-term government debt (international rating) ****	AA-/STABLE	AA-/STABLE	A+/POSITIVE
Domestic currency to dollar exchange rate as of the last day of the year**	3.456	3.748	3.467

* Source: The International Monetary Fund website – www.imf.org - World Economic Outlook Database The figures are based on a publication of October 2019 and include a forecast in respect of the entire year of 2019 and are stated in current prices.

** Source: The Central Bureau of Statistics: www.cbs.gov.il

*** Source: Yield on government debt, the Bank of Israel website: www.boi.org.il, yield-to-maturity on unlinked fixed-interest 10-year bonds (gross). The figures for 2019 are based on a publication of January 2020.

**** Source: S&P rating report of January 2020 at www.standardandpoors.com.

6.1.1 General

1. Political-security situation – The Company's business is affected by the political-security situation in Israel. The Company's management estimates that significant and long-term deterioration in the political security situation may cause a decline in the business in malls and retail centers, decline in demands and a decrease in prices in the income-producing property segment.

2. Availability and cost of credit – Changes in financing cost and availability and the scope of available credit in the banking and non-banking system affect the real estate industry and the profitability thereof. As a result of the implementation of structural reforms implemented in recent years in the capital market (such as the Bachar Reform, the pension reform and the tax reform), the share of bank credit out of the total credit to the business sector is declining and a non-banking credit market has developed, constituting an alternative for financing assets and projects. The local capital market too, constitutes a source for the raising of funds to finance the Company's business activity, by way of issuing bonds, and presently serves as the Company's primary source of financing.

   Thanks to the financial strength of the Company, its accessibility to sources of bank financing, and the relatively low scope of pledges on properties, taking into consideration the extent of business thereof, the Company estimates that no difficulties are anticipated in raising the financing required thereby.

3. Fluctuations in the inflation rate, the Consumer Price Index and interest rates – The real estate industry is exposed to risks deriving from changes in the interest rates, inflation rate and in the Consumer Price Index (CPI). The Company finances most of its business operations by means of loans linked to the CPI. In addition, most of the Company's revenues from rent are also linked to the CPI. The (known) CPI increased by 0.3% in 2019, compared with an increase of 1.2% in the course of 2018. At the end of 2019, expectations for 2020 were that the rate of inflation deriving from the capital market would be 0.8% and the rate of inflation deriving from the banks' internal interest rates would be 0.7%[9]. At the end of 2019 the Prime interest rate was 1.75%, a rate similar to its rate at the end of 2018. At the end of 2019 the Bank of Israel interest rate was 0.25%, a rate similar to its rate in 2018.[10]

4. Fluctuations in the U.S. dollar exchange rate – The Company has real properties in the U.S., the rate of which is approx. 8% of the Group's total real properties. These properties were financed by loans linked to the U.S. Dollar. The change in the exchange rate of the U.S. Dollar has an effect on the difference between the real properties' value and the loans in respect thereof. In 2019 the Dollar weakened against the Shekel, from an exchange rate of NIS 3.748 per Dollar at the end of 2018 to an exchange rate of NIS 3.456 per Dollar at the end of 2019.

6.1.2 Effects on the income-producing real estate segments in Israel

1. The income-producing real estate sector in Israel – For a description of the trends related to the income-producing real estate sector in Israel, in relation to each of the Company's operating segments, see Sections 8.1, 9.1 and 11.1 of this Chapter A. For details with respect to the potential effects of the Coronavirus outbreak on the Company's operating segments see Section 2.2 of the Board of Directors' Report.

2. Rate of growth and consumption per capita in Israel - In real terms, the growth of the Israeli economy continues in 2019, and the real activity indicates that growth will continue in the upcoming years. The gross domestic product (GDP) increased by approx. 3.5% in 2019, compared with 3.3% in 2018. In addition, a high level of employment was maintained, and the unemployment rate continued to decrease

[9] Bank of Israel – press release of January 20, 2020, the expected inflation from the various sources. The Bank of Israel website: NewsAndPublications/PressReleases/Pages/20-01-20.aspx

[10] Bank of Israel – press release of January 9, 2020, the Monetary Committee decided to leave the interest rate unchanged at 0.25% for February 2020, the Bank of Israel website: NewsAndPublications/PressReleases/Pages/09-01-2020.aspx.

down to an annual average of approx. 3.8% in 2019 (3.6% in Q4/2019)[11]. This year, private consumption expenditure increased by 3.9%, following an increase of 3.7% in 2018. Private consumption expenditure per capita in 2019 increased by 1.9%. According to Bank of Israel publications, the macroeconomic forecast was updated in January 2020, and according thereto product is expected to grow by approx. 2.9% in 2020 and by approx. 3.2% in 2021. Forecasts by the International Monetary Fund also predict that in the next two years Israel's product will demonstrate a real increase of approx. 3.1% per year (in domestic currency terms). The forecast of growth in Israel derives both from domestic factors including strong domestic consumption, increase in investments and performance, and from global economy factors including the rapidly growing global trade, low interest rate environment, changes in the U.S. taxation policy and the bull market. However, given the effects of the Coronavirus outbreak on the Israeli economy, adverse effects may apply to such forecasts may. For further details, see Section 2.2 of the Board of Directors' Report.

6.2 Operations in the U.S.

U.S.	For the Year Ended on		
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
Macroeconomic parameters			
Gross Domestic Product (PPP) (1) (U.S. $ in billions)	21,439	20,513	19,485
Product per Capita (PPP) (1) (U.S. $)	65,111	62,518	59,792
Domestic Product growth rate (PPP) (1)	4.17	5.27%	4.16%
Product per Capita growth rate (PPP) (1)	3.57	4.56%	3.42%
Inflation Rate (2)	2.3%	1.9%	2.1%
Return on long-term domestic government debt (3)	1.92%	2.69%	2.4%
Rating of long-term government debt (4)	AA+/Stable	AA+/Stable	AA+/Stable
NIS to U.S.$ exchange rate (5)	3.456	3.748	3.467

(1) Product data are based on a publication by the International Monetary Fund in October 2019 (www.imf.org).
(2) According to publications by the U.S. Department of Labor.
(3) According to the U.S. Department of Treasury with respect to bonds for a 10-year period commencing on December 31, 2019.
(4) According to the rating by S&P (www.standardandpoors.com).
(5) According to Bank of Israel data.

The Company's business in the U.S. is primarily affected by the economic situation in the U.S. economy in general, and in the income-producing commercial real estate sector in particular, the demand and supply in the area in which the Company's properties are located and the amount of rent therefor. In the course of 2019, the Federal Reserve reduced the interest rate, after several interest increases in 2018. To the best of the Company's knowledge, similarly to recent years, the U.S. economy continued to generate favorable positive economic figures in 2019 as well. In Q4/2019 the U.S. economy grew at an annual rate of 2.1%. The growth rate in the entire year of 2019 was 2.3%, which is lower than the 2.9% growth rate of 2018. For details with respect to the Houston Texas area, where, as of the Report Date, most of the Company's operations in the income-producing properties in the U.S. segment is situated, see Section 10 of this Chapter A. For details with respect to the potential effects of the Coronavirus outbreak on the Company's operating segments, see Section 2.2 of the Board of Directors' Report. The above information in Sections 6.1 and 6.2 concerning the general environment and the external factors that affect the Company's business includes information based on subjective assessments and estimates by the Company, which constitute forward-looking information, as defined in the Securities Law. The Company's assessments are in consideration of past experience, as well as publications and surveys written by professionals in connection with the state of the Israeli economy, the real estate sector and the senior housing segment, and the state of the economy in countries wherein the Company operates, as

[11] CBS – Figures from manpower survey, January 30, 2020.

specified in the aforementioned sections. The above data are merely estimates and may be incomplete, yet, in the Company's estimation, they are capable of providing a general picture, even if not an accurate one, of the markets in which it operates in the various operating segments. In view of the foregoing, and due to the fact that the factors concerned are not within the Company's control, actual results may differ from the aforesaid assessments if a change occurs in any of the factors taken into account in such assessments, the political and/or economic and/or security situation is adversely changed or due to the materialization of any of the risk factors specified in Section 28 of this Chapter A, and mainly a global financial crisis, the condition of the economy in Israel and in the U.S. and the security situation in Israel, changes in relevant indices and interest rates, a decline in the demand for leasable space and in rent prices, a downturn in the soundness of key tenants and an increase in the costs of debt raising and the impact of the Coronavirus outbreak on economies in Israel and the world.

PART THREE: DESCRIPTION OF THE GROUP'S BUSINESS IN THE INVESTMENT REAL ESTATE OPERATIONS – AGGREGATE

7. Aggregate disclosure with respect to the investment real estate operations[12]

The disclosure with respect to the Company's investment property operations is made in accordance with the draft amendment to the Securities Regulations (Details of the Prospectus and the Draft Prospectus – Structure and Form) (Amendment), 5764-2013, as released by the ISA in December 2013 (the "Prospectus Details Regulations" and the "Disclosure Provision", as applicable), which has been adopted by the Company although the said amendment has yet to take effect.

7.1 General

The Group began its activity in the investment property segment in 1983. Since then and as of the Report Release Date, the Company is engaged in the development, acquisition, lease-out, management and maintenance of malls and retail centers in Israel as well as office and high-tech parks, office and industry, light industry and storage buildings in Israel. Since 2001 the Group has also been operating overseas (in particular in the U.S.), mostly in the leasable office space segment, and since 2014 the Group has also been developing its senior housing segment.

As a development company, the Company examines, from time to time, growth and increase goals for the expansion of its scope of operations, and checks opportunities to purchase income-producing properties and lands for real estate development in Israel and overseas in the core segments thereof (retail and office spaces) and also in tangential segments such as senior housing, data centers, hospitality and more. Underlying the Company's policy is the basic assumption whereby the property's location is the most important factor for its success. Accordingly, upon examination of the location of a potential property, the Company ascribes significant weight to the population growth potential in the examined area and the urban development anticipated therein, based, *inter alia*, on urban research, segmentation of the population, competition in the area and the unique or typical commercial needs of such area.

The Group's strategy and business in the investment real estate segments is implemented both by the development of new properties and by the acquisition, upgrade and potential maximization of existing income-producing properties. In the Report Period, the margins between the rates of capitalization on the properties and the financing costs remained high relative to previous periods, a trend which the Company estimates allows it to develop and purchase income-producing properties also at development yields or cap rates for purchase that are lower compared to rates in previous periods.

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

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

The Company's properties in the office and other space for lease in Israel segment, including the properties under construction, are located primarily in the central region (where there is an active demand for office buildings of various types) in proximity to central transport arteries and are characterized by a high standard of finishing and management, relatively large floor and office areas, and include designated parking.

According to its policy for the maximization of its profits and in order to improve the experience of the users of the Group's properties, the Company acts, as necessary, to upgrade its existing properties, while using the existing and potential commercial, office and other areas, improving the tenant mix and adjusting the same to

---

[12] Disclosure is made on a consolidated basis for the Group's retail centers and malls in Israel segment, the leasable office and other space in Israel segment and the income-producing properties in the U.S. segment and senior housing segment.

the target audience, renovating the properties, renewing the systems therein and implementing technological and/or digital improvements.

As previously reported by the Company, the Company examines, from time to time, the expansion of its operations, including entry into close real estate segments. Thus, in 2014, the Company began developing the senior housing business, upon the purchase of senior housing land in the city of Modi'in. As of the Report Release Date, the Company has three active senior homes: Palace Tel Aviv, which was acquired in 2015, Palace Ra'anana (formerly Ahuzat Bayit Ra'anana), the acquisition of which was closed in Q2/2016 and a senior home in Modi'in, the construction of which was completed in 2018 and occupation of which began in October the same year. The Company also has an additional project under construction in Lehavim, the construction of Phase A of which is scheduled to be completed in Q1/2020 and a Form 4 in respect of which is expected to be received this coming April. Another project of the Company, in the city of Rishon LeZion, is being planned. Furthermore, in July 2019, the Company (indirectly) invested in Compass, a company primarily engaged in the data centers business in North America, and in February 2020, the Company acquired the Mount Zion Hotel in Jerusalem[13].

Set forth below are aggregate figures regarding investment property owned by the Group. The figures will be presented jointly with regard to properties from the four operating segments of investment property owned by the Company, namely: the retail centers and malls in Israel segment, the office and other space for lease segment in Israel, the overseas income-producing property segment and the senior housing segment in Israel. For further details regarding the operating segments and regarding material properties, see Sections 8, 9, 10 and 11 of this Chapter A.

For details with respect to land reserves, see Section 7.8 of this Chapter A.

7.2 Summary of results in the investment real estate segments*

7.2.1 Summary of the aggregate results of the Group's four investment real estate segments

	For the year ended on		
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
	NIS in millions		
Total business revenues (consolidated)***	2,203	2,064	1,868
Profit from revaluations (consolidated)***	921	218	500
Business profits (consolidated)** ***	,2532	1,741	1,885
Same property NOI (consolidated)	1,572	1,511	-
Same property NOI (corporation's share)	1,568	1,506	-
Total NOI (consolidated)** ***	1,611	1,523	1,385
Total NOI (corporation's share)** ***	1,607	1,518	1,381

* For details with respect to additional financial indicators which were examined by the Company, see Sections 2.7 to 2.8 of the Board of Directors' Report.

** The figures include the NOI of Palace Modi'in and Palace Tel Aviv Medical and Palace Ra'anana LTC Units according to the management's position, which deems them part of the NOI of the senior homes although they are not investment properties (and therefore, the tables of the property chapter below shall not include information in respect thereof) and due to non-materiality in their separate presentation.

*** In addition, the figures include the revenues, profit and NOI from an investment in an associate engaged in the data centers business (and consequently figures with respect thereto will not be included in the tables of the real estate chapter below).

[13] In accordance with GAAP, the Mount Zion Hotel will be classified in the Company's Financial Statements as a fixed asset, rather than as an investment property.

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

	For the year ended on		
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
	NIS in millions		
Total business revenues (consolidated)	1,050	1,034	1,032
Profit (loss) from revaluations (consolidated)	123	(4)	(25)
Business profits (consolidated)	954	816	803
Same property NOI (consolidated)	831	820	-
Same property NOI (corporation's share)	831	820	-
Total NOI (consolidated)	831	820	828
Total NOI (corporation's share)	831	820	828

Summary of the results of the leasable office and other space in Israel segment

	For the year ended on		
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
	NIS in millions		
Total business revenues (consolidated)	716	633	489
Profit from revaluations (consolidated)	690	167	630
Business profits (consolidated)	,1284	684	1,027
Same property NOI (consolidated)	588	514	-
Same property NOI (corporation's share)	588	514	-
Total NOI (consolidated)	594	517	397
Total NOI (corporation's share)	594	517	397

Summary of the results of the income-producing properties in the U.S. segment

	For the year ended on		
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
	NIS in millions		
Total business revenues (consolidated)	268	267	221
Losses from revaluations (consolidated)	(12)	(48)	(186)
Business profits (consolidated)	127	101	(65)
Same property NOI (consolidated)	115	138	-
Same property NOI (corporation's share)	111	133	-
Total NOI (consolidated)	139	149	121
Total NOI (corporation's share)	135	144	117

7.2.2 Summary of the results of the senior housing segment

	For the year ended on		
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
	NIS in millions		
Total business revenues (consolidated)	156	130	126
Profit from revaluations (consolidated)	100	103	81
Business profits (consolidated)	137	140	120
Same property NOI (consolidated)	38	39	-
Same property NOI (corporation's share)	38	39	-
Total NOI (consolidated)	37	37	39
Total NOI (corporation's share)	37	37	39

7.3 The geographic territories in which the Company operates in the investment property segments

As of the Report Date, the Company operates in two main geographic territories, Israel and the U.S Most of the Company's business is in Israel, where the Company operates throughout the country, including North, Center, South and other urban areas, without preference to specific areas and without investing special managerial inputs in specific areas. The Company estimates that the State of Israel constitutes one geographical territory in terms of the risks and yields of the income-producing property business. In the U.S. the Company operates, as of the Report Date, mainly in the cities of Houston and Austin in Texas.

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

7.4 Breakdown of the investment property business

Set forth below are details of the Company's investment property business, in four segments: Retail centers and malls in Israel, leasable office and other space in Israel, senior homes and the land designated for these segments, and income-producing properties in the U.S., on a consolidated basis, broken-down by the various uses of the space of each segment. Commercial use in Israel in the tables below is attributed to the retail centers and malls in Israel operating segment, whereas the office, industrial and residential uses are attributed in Israel to the office and other space for lease operating segment (and do not constitute operating segments in and of themselves). Furthermore, as of Q3/2016, the Company's operations in the senior housing segment is being described in the Company's Financial Statements as a separate operating segment, in view of the establishment and expansion of the operations and investment in projects under development in the segment, and therefore the segment is included as a separate column in the following tables. It is noted in this context that the senior homes in Modi'in, Ra'anana and Lehavim have retail centers that are attributed to the retail centers and malls in Israel segment. The figures of the income-producing property segment in the U.S. all appear under the U.S. territory, while the amounts with respect to this territory are translated into NIS according to the conversion rate of U.S. $1= NIS 3.456.

The following breakdown of uses is in the format in which the information is presented to the Group's management. As a rule, in properties whose main use is commerce, the car park was attached to such use, whereas in properties whose main use is offices, the car park was attached to such use. As for the Tel Aviv Azrieli Center, for the purpose of the Report, the car park space is divided equally between the commercial and office uses, due to its similar contribution to both uses. As for the Herzliya Business Park, as of 2016 for the purpose of the Report, the areas of the car park are divided into 25% for retail and 75% for offices, in view of the increased use of the car park by the visitors of the retail areas. With respect to Rishonim, the areas of the parking lot are divided into 33% for retail and 67% for offices according to the Company's estimation, in connection with the use made thereof.

The following terms shall hereinafter have the meaning set forth beside them:

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

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

1. Breakdown of income-producing real estate (aggregate) by territories and uses, as of December 31, 2019 (in sqm)

Territories	Uses	Offices	Industry	Retail	Residence	Senior Housing*	Car Parks	Total	% of total area of properties
Israel	Consolidated	516,318	22,521	349,090	8,698	75,879	668,454	,1,640960	79%
	Corporation's share	516,318	22,521	349,090	8,698	75,879	668,454	,1,640960	79%
U.S.	Consolidated	246,425	-	-	-	-	195,010	441,435	21%
	Corporation's share	236,506	-	-	-	-	192,232	,428738	21%
Total	Consolidated	762,743	22,521	349,090	8,698	75,879	863,464	2,082,395	100%
	Corporation's share	752,824	22,521	349,090	8,698	75,879	860,686	,2,069698	100%
% of total area of properties	Consolidated	37%	1%	17%	-	4%	41%	100%	
	Corporation's share	36%	1%	17%	-	4%	42%	100%	

* 794 residential units – adjoining residential units are treated as one unit.

2. Breakdown of income-producing real estate (aggregate) by territories and uses, as of December 31, 2018 (in sqm)

Territories	Uses	Offices	Industry	Retail	Residence	Senior Housing*	Car Parks	Total	% of total area of properties
Israel	Consolidated	517,159	22,521	335,034	8,698	75,879	668,454	1,627,745	79%
	Corporation's share	517,159	22,521	335,034	8,698	75,879	668,454	1,627,745	79%
U.S.	Consolidated	246,393	-	-	-	-	195,010	441,403	21%
	Corporation's share	236,478	-	-	-	-	192,232	428,710	21%
Total	Consolidated	763,552	22,521	335,034	8,698	75,879	863,464	2,069,148	100%
	Corporation's share	753,637	22,521	335,034	8,698	75,879	860,686	2,056,455	100%
% of total area of properties	Consolidated	37%	1%	16%	-	4%	42%	100%	
	Corporation's share	37%	1%	16%	-	4%	42%	100%	

* 786 residential units – adjoining residential units are treated as one unit.

3. Breakdown of fair value of income-producing real estate (aggregate) by territories and uses, as of December 31, 2019[14]

Territories	Uses	Offices	Industry	Retail	Residence	Senior Housing*	Total	% of total area of properties
Israel (NIS in millions)	Consolidated	**9,171**	104	12,453	172	1,804	23,704	91%
	Corporation's share	**9,171**	104	12,453	172	1,804	23,704	91%
U.S. (USD in millions)	Consolidated	**696**	-	-	-	-	696	9%
	Corporation's share	**674**	-	-	-	-	674	9%
Total (NIS in millions)	Consolidated	**11,575**	104	,12453	172	1,804	26,108	100%
	Corporation's share	**11,500**	104	,12453	172	1,804	26,033	100%
% of total value of properties	Consolidated	44%	-	48%	1%	7%	100%	
	Corporation's share	44%	-	48%	1%	7%	100%	

* Gross value, without set-off of the balance of deposits from residents. The value after set-off of the balance of resident deposits is approx. NIS 848 million.

4. Breakdown of fair value of income-producing real estate (aggregate) by territories and uses, as of December 31, 2018 [15]

Territories	Uses	Offices	Industry	Retail	Residence	Senior Housing*	Total	% of total area of properties
Israel (NIS in millions)	Consolidated	**8,447**	100	11,833	172	1,687	22,239	90%
	Corporation's share	**8,447**	100	11,833	172	1,687	22,239	90%
U.S. (USD in millions)	Consolidated	**687**	-	-	-	-	687	10%
	Corporation's share	**665**	-	-	-	-	665	10%
Total (NIS in millions)	Consolidated	**11,022**	100	11,833	172	1,687	24,814	100%
	Corporation's share	**10,939**	100	11,833	172	1,687	24,731	100%
% of total value of properties	Consolidated	**44%**	-	48%	1%	7%	100%	
	Corporation's share	**44%**	-	48%	1%	7%	100%	

* Gross value, without set-off of the balance of deposits from residents. The value after set-off of the balance of resident deposits is approx. NIS 809 million.

[14] The fair value of the Group's income-producing properties in Israel is according to valuations received by the Group, which were prepared by a certified land appraiser independent of the Company or of the Group companies as of December 31, 2019. As pertains to the overseas properties, the valuations were prepared by certified land appraisers, who, in accordance with the ISA's directive, are defined as dependent in view of the indemnification given to them (excluding a non-material property in the amount of approx. NIS 38 million whose value was updated by the Company).

[15] The fair value of the Group's income-producing properties in Israel is according to valuations received by the Group, which were prepared by a certified land appraiser independent of the Company or of the Group companies as of December 31, 2018. As pertains to the overseas properties, the valuations were prepared by certified land appraisers, who, in accordance with the ISA's directive, are defined as dependent in view of the indemnification given to them (excluding a non-material property in the amount of approx. NIS 40 million whose value was updated by the Company).

5. Breakdown of NOI of income-producing real estate (aggregate) by territories and uses, for the year ended December 31, 2019

Territories	Uses	Offices	Industry	Retail	Residence	Senior Housing*	Total	% of total property NOI
Israel (NIS in millions)	Consolidated	583	7	831	4	37	1,462	91%
	Corporation's share	583	7	831	4	37	1,462	92%
U.S. (USD in millions)	Consolidated	40	-	-	-	-	40	9%
	Corporation's share	39	-	-	-	-	39	8%
Total (NIS in millions)	Consolidated	722	7	831	4	37	1,601	100%
	Corporation's share	718	7	831	4	37	1,597	100%
% of total NOI of properties	Consolidated	45%	1%	52%	-	2%	100%	
	Corporation's Share	45%	1%	52%	-	2%	100%	

* The figure includes the NOI of the Medical Wing of Palace Tel Aviv and Palace Modi'in and the LTC Units of Palace Ra'anana as noted above.

6. Breakdown of NOI of income-producing real estate (aggregate) by territories and uses, for the year ended December 31, 2018

Territories	Uses	Offices	Industry	Retail	Residence	Senior Housing*	Total	% of total property NOI
Israel (NIS in millions)	Consolidated	506	7	820	4	37	1,374	90%
	Corporation's share	506	7	820	4	37	1,374	91%
U.S. (USD in millions)	Consolidated	40	-	-	-	-	40	10%
	Corporation's share	38	-	-	-	-	38	9%
Total (NIS in millions)	Consolidated	655	7	820	4	37	1,523	100%
	Corporation's share	650	7	820	4	37	1,518	100%
% of total NOI of properties	Consolidated	43%	1%	54%	-	2%	100%	
	Corporation's Share	43%	1%	54%	-	2%	100%	

* The figure includes the NOI of the Medical Wing of Palace Tel Aviv and the LTC Units of Palace Ra'anana as noted above.

7. Breakdown of NOI of income-producing real estate (aggregate) by territories and uses, for the year ended December 31, 2017

Territories	Uses	Offices	Industry	Retail	Residence	Senior Housing*	Total	% of total property NOI
Israel (NIS in millions)	Consolidated	387	7	828	3	39	1,264	91%
	Corporation's share	387	7	828	3	39	1,264	92%
U.S. (USD in millions)	Consolidated	35	-	-	-	-	35	9%
	Corporation's share	34	-	-	-	-	34	8%
Total (NIS in millions)	Consolidated	508	7	828	3	39	1,385	100%
	Corporation's share	504	7	828	3	39	1,381	100%
% of total NOI of properties	Consolidated	37%	-	60%	-	3%	100%	
	Corporation's Share	36%	1%	60%	-	3%	100%	

* The figure includes the NOI of the Medical Wing of Palace Tel Aviv and the LTC Units of Palace Ra'anana as noted above.

8. Breakdown of real estate revaluation profits (losses) (aggregate) by territories and uses, for the year ended December 31, 2019

Territories	Uses	Offices	Industry	Retail	Residence	Senior Housing	Total	% of Total Revaluation Profit
Israel (NIS in millions)	Consolidated	686	4	123	-	100	913	101%
	Corporation's share	686	4	123	-	100	913	101%
U.S. (USD in millions)	Consolidated	(4)	-	-	-	-	(4)	(1%)
	Corporation's share	(3)	-	-	-	-	(3)	(1%)
Total (NIS in millions)	Consolidated	674	4	123	-	100	901	100%
	Corporation's share	677	4	123	-	100	904	100%
% of total revaluation profits	Consolidated	75%	1%	13%	-	11%	100%	
	Corporation's Share	75%	1%	13%	-	11%	100%	

9. Breakdown of real estate revaluation profits (losses) (aggregate) by territories and uses, for the year ended December 31, 2018

Territories	Uses	Offices	Industry	Retail	Residence	Senior Housing	Total	% of Total Revaluation Profit
Israel (NIS in millions)	Consolidated	155	5	(4)	7	103	266	122%
	Corporation's share	155	5	(4)	7	103	266	121%
U.S. (USD in millions)	Consolidated	(13)	-	-	-	-	(13)	(22%)
	Corporation's share	(12)	-	-	-	-	(12)	(21%)
Total (NIS in millions)	Consolidated	107	5	(4)	7	103	218	100%
	Corporation's share	109	5	(4)	7	103	220	100%
% of total revaluation profits	Consolidated	50%	2%	(2%)	3%	47%	100%	
	Corporation's Share	50%	2%	(2%)	3%	47%	100%	

10. Breakdown of real estate revaluation profits (losses) (aggregate) by territories and uses, for the year ended December 31, 2017

Territories	Uses	Offices	Industry	Retail	Residence	Senior Housing	Total	% of Total Revaluation Profit
Israel (NIS in millions)	Consolidated	604	4	(25)	22	81	686	138%
	Corporation's share	604	4	(25)	22	81	686	136%
U.S. (USD in millions)	Consolidated	(53)	-	-	-	-	(53)	(38%)
	Corporation's share	(51)	-	-	-	-	(51)	(36%)
Total (NIS in millions)	Consolidated	418	4	(25)	22	81	500	100%
	Corporation's share	428	4	(25)	22	81	510	100%
% of total revaluation profits	Consolidated	84%	1%	(5%)	4%	16%	100%	
	Corporation's Share	84%	1%	(5%)	4%	16%	100%	

11. Specification of actual average monthly rent per sqm by territories and uses

Uses	Offices		Industry		Retail		Residence	
For the year ended on								
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Israel (in NIS)	86	85	28	28	196	199	43	42
Maximum (*)	111	110	-	-	319	321	-	-
Minimum (*)	45	45**	-	-	46	55	-	-
U.S. (in USD)	18	18	-	-	-	-	-	-

The maximum represents the average rent per sqm in the property for which the rent average is highest, whereas the minimum represents the average rent per sqm in the property for which the rent average is lowest. The average was calculated according to the areas suitable for use only. The table does not include figures with respect to senior housing, in respect of which the average payment by tenants for a residential unit was NIS 11,556 per month in 2019 (NIS 11,339 per month in 2018) (including revenues from the forfeiture of deposits and the payment of monthly maintenance fees).

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

** Restated.

12. Specification of average occupancy rates by territories and uses*

Uses	Offices			Industry			Retail			Senior Housing			Residence		
Percentage (%)															
	As of Dec. 31, 2019	For Y2019	For Y2018	As of Dec. 31, 2019	For Y2019	For Y2018	As of Dec. 31, 2019	For Y2019	For Y2018	As of Dec. 31, 2019	For Y2019	For Y2018	As of Dec. 31, 2019	For Y2019	For Y2018
Israel	99%	99%	99% (1)	100%	100%	100%	98% (2)	98%	98%	99% (3)	98%	98% (4)	100%	100%	100%
U.S.	78%	81%	84%	--	--	--	--	--	--	--	--	--	--	--	--

* The average occupancy rate was calculated based on the lease agreements' data for the beginning of the period and for the end of each period.

(1) For 2018 – excluding the two Phase B buildings of the Azrieli Holon Center, which were opened at the end of 2015 and at the end of Q1/2016 and into which tenants are moving in. The occupancy rate in the office and other space for lease segment including the above is approx. 98% as of December 31, 2018 and approx. 97% for Y2018.

(2) For 2019 – excluding the retail space at the Sarona Complex, into which tenants are moving in. The occupancy rate in the leasable retail space segment including the same is approx. 96% as of December 31, 2019 and approx. 97% for the year 2019.

(3) For 2019 – excluding Palace Modi'in which was opened at the end of 2018 and into which residents are moving in. The occupancy rate for the senior housing segment including Palace Modi'in is approx. 94% as of December 31, 2019 and approx. 89% for the year 2019.

(4) For 2018 – excluding Palace Modi'in which was opened at the end of that year and into which residents are moving in. The occupancy rate for the senior housing segment including Palace Modi'in was approx. 81% as of December 31, 2018.

13. Number of income-producing buildings, by territories and uses*

Uses	Offices		Industry		Retail		Senior Housing		Residence	
For the year ended										
	Dec.31, 2019	Dec. 31, 2018	Dec.31, 2019	Dec. 31, 2018	Dec.31, 2019	Dec. 31, 2018	Dec.31, 2019	Dec. 31, 2018	Dec.31, 2019	Dec. 31, 2018
Israel	12	12	1	1	18	17	3	3	1	1
U.S.	8	8	-	-	-	-	-	-	-	-
Total income-producing properties	20	20	1	1	18	17	3	3	1	1

* A number of properties have several different uses, and in such cases the properties were classified in the table under each of such uses.

14. Breakdown of actual average yield rates (according to year-end value), by territories and uses*

Uses	Offices		Industry		Retail		Senior Housing**		Residence	
For the year ended on (percentages)										
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Israel	6.35%	5.98%	6.92%	7.14%	6.67%	6.93%	.417%	3.6%	2.32%	2.12%
U.S.	5.79%	5.78%	-	--	-	--	-	--	--	--

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

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

** For the senior housing segment – calculated according to net value (after deduction of the balance of resident deposits) as of the end of the period.

7.5 Projected revenues from signed lease contracts (NIS in millions)

Period of Revenue Recognition		Revenues from Fixed Components*	Number of Ending Contracts	Area to which the Ending Agreements pertain (sqm in thousands)
Y2020	Q/1	507	157	15
	Q/2	499	202	30
	Q/3	487	192	26
	Q/4	472	249	77
Y2021		1,668	915	142
Y2022		1,326	838	218
Y2023		955	580	127
Y2024 forth		2,019	1,238	517
Total		7,933	4,371	1,152

The revenues figures in the above table, which include revenues from rent, management fees and parking, were calculated based on the basic amounts determined in the lease agreements, linked to the CPI known on December 31, 2019, and based on the following assumptions: (1) The exercise of the tenants' options to extend the lease periods included in the lease contracts, was not taken into account, since the CODM does not review, on a regular basis, the expected revenue figures under the assumption of the exercise of options granted to the tenants to extend the lease period; (2) Lease contracts, the lease period under which has ended, and new lease contracts have not yet been signed with the tenants, were not taken into account; (3) The possibility of sale of the properties or the purchase of new income-producing property, was not taken into account; (4) Fines due to early termination, if any, were not taken into account; (5) The increments to the rent due to percentages of the sales were not taken into account for calculation of the rent, and (6) No change has occurred in the management fees advance payments per tenant in respect of 2019.

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

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

The above figures are based on the Company's assessment considering signed agreements as of the Report Date, and constitute forward-looking information, within the definition of such term in the Securities Law. Actual results may significantly differ from the above specified estimates and the implications thereof, for various reasons, including early termination of lease contracts or a business crisis undergone by any of the tenants, inter alia, due to the effects of the outbreak of the Coronavirus.

* The figures are in accordance with signed contracts as of December 31, 2019. In view of the outbreak of Coronavirus and the impact thereof, after the date of the financial statements, changes may occur in the expected revenues.

7.6 Key tenants

In 2019, the Company had no tenant the revenue from whom accounted for 10% or more of its total revenues.

In 2019, the revenues from the fashion industry accounted for approx. 18% of the Group’s revenues and approx. 39% of the revenues of the Company's retail centers and malls segment. If and when material changes in costs occur in this segment and insofar as the effect of the changes endures over time, the Company’s profitability may also be affected thereby.

However, most of the lease agreements include a fixed rent, such that the Company's exposure in this respect is limited in the short term.

For details with respect to the potential effects of the Coronavirus outbreak on the Company’s operating segments, including the tenants of its properties, see Section 2.2 of the Board of Directors’ Report.

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

Uses	Parameters	For the Year Ended		
		December 31, 2019	December 31, 2018	December 31, 2017
Retail[(4)]	Number of properties under construction at the end of the period	4	4	3
	Total space under construction (planned) at the end of the period (sqm in thousands) [(1)]	93	88	39
	Total costs invested in the current period (consolidated) (NIS in millions)	39	77	37
	The amount at which the properties are presented in the statements at the end of the period (consolidated) (NIS in millions)	516	795	504
	Construction budget in the consecutive period (estimate) (consolidated) (NIS in millions)	111-121	45-55	30-40
	Total estimated balance of construction budget for completion of the construction work (consolidated) (estimate as of the end of the period) (NIS in millions) [(2)]	422-475(6)	390-432(6)	360-400
	Rate of built-up area in respect of which lease contracts have been signed (%)	-	1%	3%
	Projected annual income from projects to be completed in the consecutive period and in which contracts have been signed for 50% of the area or more (consolidated) (estimate) (NIS in millions)	-	-	-
Offices and Others[(4)]	Number of properties under construction at the end of the period	6	4	3
	Total space under construction (planned) at the end of the period (sqm in thousands) [(1)]	377	341	176
	Total costs invested in the current period (consolidated) (NIS in millions)	287	214	50
	The amount at which the properties are presented in the statements at the end of the period (consolidated) (NIS in millions)	1,393	901	507
	Construction budget in the consecutive period (estimate) (consolidated) (NIS in millions)	543-553	352-362	145-185
	Total estimated balance of construction budget for completion of the construction work (consolidated) (estimate as of the end of the period) (NIS in millions) [(2)]	1,025-1,176(6)	1,462-1,641(6)	1,580-1,720
	Rate of built-up area in respect of which lease contracts have been signed (%)	21%	18%	15%
	Projected annual income from projects to be completed in the following period and in which contracts have been signed for 50% of the area or more (consolidated) (estimate) (NIS in millions) [(4)]	-	-	-
Residence (4)	Number of properties under construction at the end of the period	3	2	2
	Total space under construction (planned) at the end of the period (sqm in thousands) [(1)]	61	55	49
	Total costs invested in the current period (consolidated) (NIS in millions)	98	70	29
	The amount at which the properties are presented in the statements at the end of the period (consolidated) (NIS in millions)	639	613	545
	Construction budget in the consecutive period (estimate) (consolidated) (NIS in millions)	200-210	100-110	50-100
	Total estimated balance of construction budget for completion of the construction work (consolidated) (estimate as of the end of the period) (NIS in millions) [(2)]	441-505	485-543	560-620
	Rate of built-up area in respect of which lease contracts have been signed (%)	-	-	-
	Projected annual income from projects to be completed in the following period and in which contracts have been signed for 50% of the area or more (consolidated) (estimate) (NIS in millions)	-	-	-

Senior Housing	Number of properties under construction at the end of the period	1	1	2
	Total space under construction (planned) at the end of the period (sqm in thousands) (5)	44	44	79
	Total costs invested in the current period (consolidated) (NIS in millions)	204	78	120
	The amount at which the properties are presented in the statements at the end of the period (consolidated) (NIS in millions)	315	139	331
	Construction budget in the consecutive period (estimate) (consolidated) (NIS in millions)	82-92	232-237	245-255
	Total estimated balance of construction budget for completion of the construction work (consolidated) (estimate as of the end of the period) (NIS in millions) (2)	-	37-42	190-200
	Rate of built-up area in respect of which contracts have been signed (%)	29%	19%	20%
	Projected annual income from projects to be completed in the following period and in which contracts have been signed for 50% of the area or more (consolidated) (estimate) (NIS in millions) (3)	-	-	-

* The Company has no properties under construction outside of Israel.
(1) Marketable space.
(2) Balance of construction budget after the expiration of the consecutive period.
(3) There are no projects expected to be completed in the consecutive period for which contracts in respect of 50% or more of the space have been signed.
(4) Projects which combine several uses were split among the various uses.
(5) Scope of building rights.
(6) In one of the projects under construction, refers to the budget for excavation, shoring and car park of Phase A only.

PROPERTIES UNDER DEVELOPMENT – FURTHER DETAILS:

Following are details regarding the properties under development as of the Report Date in the investment real estate operating segments. For further details see Section 4.1 of the Board of Directors' Report:

Azrieli Town

On October 22, 2012, the Company won a tender for the purchase of the rights of Clalit Health Fund in a lot in the area of approx. 10thousand sqm on 146 Menachem Begin Road in the Northern Tel Aviv Central Business District, adjacently to the Azrieli Towers. Construction commenced in September 2016. The project is expected to include approx. 4,000 sqm of retail space and two towers – an office tower with approx. 50,000 sqm of leasable space and a residential tower with some 210 rental apartments. As of the Report Release Date, the Company has signed agreements for the lease of nearly 100% of the leasable office space in the project. In May 2018, an above-ground permit was received for the project. The Group is acting for a change of the zoning plan in order to increase the building rights in the complex. In November 2018 a zoning plan for additional office and hotel areas spanning approx. 24 thousand sqm (gross) in total was published for deposit. In May 2019 a hearing was held by the Local Committee on objections to the zoning plan. The Committee discussed the objections and decided to approve publication of the plan for validation. In July 2019 an administrative appeal was submitted against the plan. In January 2020 a hearing was held on the appeal, and as of the Report Release Date no decision has yet been made.

For further details see the Company's immediate report of September 1, 2016 (Ref.: 2016-01-115657), which is included herein by way of reference and Section 4.1.1 of the Board of Directors' Report.

Palace Lehavim Senior Housing

In December 2014, the Company won a tender issued by the Israel Land Authority, for the long-term leasehold of land in the southern town of Lehavim, in the area of approx. 28 thousand sqm with built area (main and service) of approx. 44,000 sqm. The Company is in the final stages of construction of a senior home on the land, which will comprise 350 residential units, an LTC unit with full medical observation, related services such as a swimming pool, sport center and retail space of up to approx. 1,500 sqm. In May 2018, an application for a modification permit for the project was granted, regarding an addition of an LTC unit, and the permit was received in October 2018. The estimated construction completion date for Phase A of the project is Q1/2020 and, in the Company's estimation, a Form 4 is expected to be received in April 2020. For further details see Section 4.1.1 of the Board of Directors' Report.

Holon HaManor

In February 2015, the Company won a tender held by the Israel Land Authority for the purchase of 4 employment-designated lots in the employment zone of the city of Holon, in a total area of 12.4 thousand sqm, in consideration for approx. NIS 64 million. Two of the aforesaid lots (approx. 6.2 thousand sqm) serve the Company to construct a project designated for offices, with marketable spaces of approx. 28 thousand sqm. In September 2018 above-ground permit was received for the project. The project is expected to be completed in 2020. As of the Report Release Date, the project has been fully marketed, with a contract having been signed with Bezeq the Israel Telecommunication Corp. Ltd. in respect of approx. 70% of the project's leasable areas. For further details, see Section 4.1.1 of the Board of Directors' Report.

Expansion of the Azrieli Tel Aviv Center (the Spiral Tower)

In May 2013, the Company engaged in an agreement for the purchase of full title to the land of approx. 8,400 sqm in the intersection of the streets Menachem Begin Road and Noah Moses in Tel Aviv, adjacently to the Azrieli Tel Aviv Center, which held the building known as the "Yediot Aharonot House". On March 31, 2016, the transaction has been closed and possession of the lot has been handed over to the Company. In February 2018 the Company completed the demolition of the said building and began excavation and shoring work. In April 2018 the zoning plan with an urban-mixed designation was validated, which allows uses of retail, offices, hotels, residence and senior housing with above-ground building rights of 147,260 sqm (gross), and, in addition, approx. 3,000 sqm of underground main retail space. The Company intends to construct retail space that will serve to expand the existing mall and a multi-story tower (the Spiral Tower), subject to receipt of the required statutory approvals.

In the context of the zoning plan, the Company was required to approve an architectural design and development plan for the project, as a condition for the aboveground construction permit. In addition, the Company undertook to allocate, out of said rights in the project, a public floor for the Tel Aviv Municipality, and in addition, undertook to pay for and perform various tasks in the vicinity of the project, including at Azrieli Center. The design plan for the project was discussed by the local committee in November 2019. In January 2020, an additional discussion was held by the local committee and it was decided to approve the design plan on conditions, and the Company is acting to receive a final approval for the design plan. In January 2020, a basement construction permit was received for the project. As of the Report Release Date, the Company continues the excavation and shoring works at the site.

For further details see the Company's immediate report of April 3, 2016 (Ref.: 2016-01-023433), which is included herein by way of reference, and Section 4.1.1 of the Board of Directors' Report.

Property in the Holon Industrial Zone – Holon 3 (formerly Lodzia)

A property consisting of land with a registered area of approx. 57.5 thousand sqm, located in the Holon Industrial Zone, acquisition of which was closed in April 2016 and two additional lots originally purchased in the framework of an ILA tender and constituting part of the Holon Manor land. Over the course of 2018, the Company evicted the tenants from the buildings on the land and completed the demolition of these buildings. In June 2018, excavation and shoring works began and in October 2018 a permit was received for the construction of basements and the Company commenced the work for the construction thereof. In the framework of consolidation of parcels, approx. 30 thousand sqm of building rights have been added to the lot (such that the total building rights in the consolidated lot amount to approx. 250 thousand sqm).

In July 2019 a permit was received for the addition of parking basements and May 2019 saw the beginning of the construction works of the parking basements in the eastern part of the project.

For further details, see the Company's immediate reports of March 2, 2016, March 23, 2016 and April 14, 2016 (Ref.: 2016-01-039331, 2016-01-012798 and 2016-01-048550, respectively) which are included herein by way of reference, Note 11B(17) to the Financial Statements, and Section 4.1.1 of the Board of Directors' Report.

Land in Modi'in (Lot 21)

On January 11, 2018, the Group won a tender held by the Israel Land Authority for the acquisition of long-term lease rights in a lot located in the Modi'in-Maccabim-Re'ut CBD (close to the Azrieli Modi'in Mall), with an area of approx. 5,300 sqm, which is designated for the construction of 80 residential units, 50 hotel rooms, office space and retail space, in consideration for approx. NIS 101.5 million. The Company is acting for an increase of the building rights in the lot to approx. 28 thousand sqm and for connection thereof to the preexisting project. 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. In February 2019 the Local Committee held a discussion on the increase of rights and a decision was made whereby the Committee views the promotion of the plan favorably.

In July 2019, an excavation and shoring permit was received, and the Company commenced work at the site. In August 2019, a basement permit application was filed which was approved by the local committee on conditions. The Company is currently fulfilling the permit's conditions.

In September 2019, the Company submitted to the District Committee for deposit the documents of the plan for increasing the building rights in respect of the lot to 28,000 sqm and for connection thereof to the preexisting project. In November 2019 the district committee discussed the plan and decided to deposit the plan on conditions. The Company is currently acting to fulfill the conditions for deposit.

BETTERMENT OF EXISTING PROPERTIES:

During the Report Period, the Company continued to promote the betterment of existing properties, *inter alia*, as follows:

Azrieli Akko Mall – in June 2019 a permit was received for the addition of two office floors above the mall and for the addition of parking spaces, and work is in progress.

Azrieli Jerusalem Mall – the zoning plan for the expansion of the mall, senior housing and office spaces was discussed by the Local Planning & Building Committee, which recommended the deposit of the plan with the District Committee. In July 2018, the District Planning & Building Committee in Jerusalem approved the Company's application to deposit a plan for expansion of the areas of the Azrieli Jerusalem Mall by approx. 100 thousand sqm above ground, which include retail, office and senior housing areas, as well as a structure to be built for the Municipality of Jerusalem, and the Company is acting to publish the plan for deposit. As of Report Release Date, such zoning plan was submitted for objections. On January 22, 2020, a hearing was held at the local committee on the objections. The local committee recommended to the district committee to approve the plan as submitted subject to minor amendments while dismissing all third-party objections. A hearing on the objections by the district committee has not yet been scheduled.

Azrieli Tel Aviv – as of the Report Release Date, the Company has completed the work for renovation of the lobbies in the Round and Square Towers and is proceeding with the renovation of the public areas of the project.

Herzliya Business Park – in June 2018 the Local Committee recommended the deposit of a plan for the addition of two office floors and additional retail areas in the project. The deposit is subject to approval by the District Committee.

Azrieli Rishonim – in May 2019 a discussion was held by the District Committee with respect to the addition of office areas to the office building. In January 2020 the plan was deposited for objections with the District Committee.

Azrieli Holon Mall – in May 2019 the Company began renovations of the mall's public areas.

Azrieli Ra'anana – in August 2019 a permit application was filed with the Local Committee, in connection with the conversion of an upper retail floor in the project into an LTC unit of Palace Ra'anana. The application has been withdrawn by the Company.

The Company reviews, from time to time, options to promote zoning plans for additional building rights in its projects.

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

7.8 Land (aggregate)

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

Territory		For the year ended on:	
		December 31, 2019	December 31, 2018
Israel	The amount at which the lands are presented in the financial statements at the end of the period (NIS in millions)	285	306
	Total area of the lands at the end of the period (sqm in thousands)	66.4	49.4
U.S.	The amount at which the lands are presented in the financial statements at the end of the period (USD in millions)	5	5
	Total area of the lands at the end of the period (sqm in thousands)	13.7	13.7

As of the Report Date, construction in some of the Company's land reserves is impossible due to planning and other restrictions.

LAND RESERVES – FURTHER DETAILS:

Following are details regarding the lands intended for construction as of the Report Date in the investment real estate operating segments. For further details see Section 4.1.1 of the Board of Directors' Report:

Land in Petach Tikva

On September 17, 2017, the Group has engaged in an agreement for the purchase of land in Petach Tikva of an area of around 19,000 sqm for NIS 91 million plus VAT as required by law (the "Vacant Land"). On November 9, 2017, the transaction was closed, and possession of the Vacant Land was handed-over to the Group. The Vacant Land is situated in the eastern part of the Kiryat Aryeh Industrial Zone in Petach Tikva, near an office project that is owned by the Group. The Vacant Land includes building rights for around 53,000 sqm as well as parking basements.

In July 2019 an application for a shoring, excavation and basement permit was submitted. In January 2020, the Local Committee decided to approve the application for a shoring, excavation and basement permit on conditions.

Furthermore, in January 2020 a zoning plan which is subject to the Local Committee's authority was submitted to the Local Committee for approval thereby, within which additional height and additional rights of 500 sqm were requested.

Concurrently therewith, in January 2020 a zoning plan was submitted to the District Committee for the approval of building rights such that it include 280 thousand sqm, the main use of which will be offices and which are planned to be built both on the Vacant Land and on the land where the office project is situated.

For further details, see the Company's immediate reports of the dates September 18, 2017 and November 9, 2017 (Ref.: 2017-01-093630 and 2017-01-098386, respectively), which are included herein by way of reference.

Palace Rishon LeZion Senior Housing

On March 13, 2016, an (indirect) subsidiary of the Company won a tender issued by the Israel Land Authority for the acquisition of long-term lease rights in a lot of 3.4 thousand sqm designated for senior housing in HaRakafot Neighborhood in East Rishon LeZion, designated for the construction of up to 275 senior housing units and approx. 3,000 sqm of retail space, in consideration for approx. NIS 26 million. According to the terms of the tender, the consolidated company paid development costs in the amount of approx. NIS 22 million. In April

2018, the recommendation of the Local Committee was received for the deposit of a zoning plan for additional above-ground building rights and an increase of the number of senior housing units to a number of up to 275 units, which was forwarded for discussion by the District Committee. In November 2018, the District Committee's decision with respect to the deposit of the zoning plan on conditions was received, and the Company is promoting the publication of the plan for deposit.

In April 2019, the zoning plan was published for objections and in September 2019 a hearing was held by the District Committee on objections that had been filed and it was decided to validate the plan.

In February 2020 the plan was published for validation, and, as of the Report Release Date, it is valid.

Azrieli Town Building E

On May 14, 2018 the Company closed a transaction for the acquisition of rights in land situated on Menachem Begin Road in Tel Aviv, which hold a building with 4 floors on top of a retail ground floor, with a total area of approx. 5,500 sqm and basement floors, which is mostly leased for the purpose of offices. The property includes unused building rights in accordance with the zoning plan applicable to the land which total approx. 21,000 sqm of above-ground space and additional rights.

Land in Modi'in (Lot 10)

For details with respect to the win of the Israel Land Authority tender, see Section 1.3.7 of this Chapter A. The Company is acting to promote the plan for the project to be built on the land.

7.9 Acquisition and Sale of Properties (aggregate)

Territory		Parameters (figures of area in thousands and amounts in millions)	Period (Year ended on)		
			December 31, 2019	December 31, 2018	December 31, 2017
Israel (NIS)	Properties Sold	Number of properties sold in the period	-	1[(1)]	--
		Consideration from realization of properties sold in the period (consolidated)	-	40	--
		Area of properties sold in the period (consolidated)	-	6	--
		NOI of properties sold (consolidated)	-	--[(1)]	--
		Profit / loss due to realization of the properties (consolidated)	-	--	--
	Properties Purchased	Number of properties purchased in the period	1[(2)]	2[(3)]	1[(4)]
		Cost of properties purchased in the period (consolidated) [(5)]	88	362	91
		NOI of properties purchased (consolidated)	[(7)]	6[(6)]	[(7)]
		Area of properties purchased in the period (consolidated)	17	11[(8)]	19
U.S. (USD)	Properties Sold	Number of properties sold in the period	-	--	--
		Consideration from sale of properties in the period	-	--	--
		Area of properties sold in the period (consolidated)	-	--	--
		NOI of properties sold	-	--	--
		Profit / loss in respect of realization of the properties (consolidated)	-	--	--
	Properties Purchased	Number of properties purchased in the period	-	1[(3)]	[(9)]
		Cost of properties purchased in the period (consolidated)	-	100	[(9)]
		NOI of properties purchased (consolidated)	-	7	--
		Area of properties purchased in the period (consolidated)	-	23	--

(1) The sold property is land.
(2) In 2019 the Group acquired the following properties: Land in Modi'in (Lot 10) – for details see Section 1.3.7 of this Chapter A.
(3) In 2018 the Group acquired the following properties: (a) Land in Modi'in (Lot 21) – for details see Section 7.7 of this Chapter A; (b) Land rights at Menachem Begin Road in Tel Aviv – for details see Section 7.8 of this Chapter A ; (c) An office building in Austin, Texas, U.S. – for details see Section 10 of this Chapter A.
(4) In 2017 the Group acquired the following properties: Land in Petach Tikva. For details see Section 7.8 of this Chapter A.
(5) The costs include the entire purchase amount even if not yet paid and exclude purchase taxes and transaction closing costs.
(6) The NOI only includes the land rights at Menachem Begin Road in Tel Aviv. The additional property is land.
(7) The acquired property is land.
(8) Excluding unused rights of approx. 21,000 sqm in the land at Menachem Begin Road in Tel Aviv.
(9) At the end of 2017 the Group increased its holdings in its two properties in Houston, Texas: 1 Riverway and 2 Riverway.

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

		As of (Consolidated) (NIS in millions)	
		December 31, 2019	December 31, 2018
Presentation in the Description of the Corporation's Business Report	Total Income-Producing Property (as presented in the total column in the income-producing properties fair value by territory and use tables as of December 31, 2019 and December 31, 2018 Number 3+4)	26,109	24,814
	Total Income-Producing Property under Construction (as presented in the "Total" column in Table 7.7) in Israel	,2863	2,448
	Total Land for Investment in Israel (as presented in the "Total" column in Table 7.8)	285	306
	Total Land for Investment in the U.S. (as presented in the "Total" column in Table 7.8)	17	18
	Consolidated Total	,29274	27,586
Adjustments	Adjustments to value deriving from receivables items	(134)	(144)
	Land presented within a property held for sale	-	-
	Other adjustments[(1)]	5	10
	Total adjustments	(129)	(134)
	Total, After Adjustments	29,145	27,452
Presentation in the Statement of Financial Position	Investment Property Item in the Statement of Financial Position (Consolidated)	,26282	25,004
	Investment Property under Construction Item in the Statement of Financial Position (Consolidated)	2,863	2,448
	Total	29,145	27,452

For an explanation with respect to the changes in the investment real estate items between 2018 and 2019, see Sections 2.10.2, 2.11.2, 2.12.2 and 2.13.2 of the Board of Directors' Report.

(1) In 2019 and 2018 the adjustments are in respect of non-material costs on projects in initial planning stages.

7.11 Adjustments to FFO profits

In view of the sale of the Company's holdings in Supergas, investment real estate is the only material business of the corporation. Therefore, the Company is required to disclose the FFO in accordance with the Disclosure Provision.

	FFO for the Year Ended
	December 31, 2019
	NIS in millions Unaudited
Net profit for the year attributed to the shareholders	2,099
Adjustments according to the provisions of the Fourth Schedule to the Prospectus Details Regulations	
Changes in the value of investment properties and investment properties under construction	(901)
Net profit from Granite Hacarmel (including profit from the sale of Supergas's operations) and from Azrieli E-Commerce attributed to the shareholders	(339)
Depreciation and amortization	20
Deferred taxes	348
Net of dividend received from financial assets available for sale	(123)
Cash flow from deposits received from residents net of deposits returned to residents**	169
Net of revenues from the forfeiture of resident deposits	(29)
Profits of an associate	(19)
Changes in the fair value of financial assets measured at fair value through profit and loss	1

One-time expenses in respect of the prepayment of bonds	59
Other expenses	17
Non-cash financing revenues	(9)
Financing revenues in connection with the sale of companies	(14)
Attribution of interest paid in respect of real investments***	5
Adjustments deriving from the share of non-controlling interests	(3)
Nominal FFO according to the provisions of the Fourth Schedule to the Prospectus Details Regulations*	1,281
Additional adjustments	
FFO of an associate	1
Linkage differentials and exchange rate differentials on financial assets and liabilities (net of the effect of tax)	31
FFO according to Management's position	1,313

* FFO is not a GAAP-based financial indicator. This indicator is calculated according to the Disclosure Provision. The indicator is the accounting net profit for the period, discounting one-time expenses and revenues (including profit or loss from the revaluation of properties), sale of properties, depreciation and amortization. This indicator is commonly used to examine the performance of income-producing real estate companies. The required adjustments to the accounting profit are specified in this table.

** The deposits of senior housing residents are deemed as received or as returned on the date on which the agreement is signed or terminated, as applicable.

*** See the explanation in Section 2.8 of Chapter B of this report.

PART FOUR: DESCRIPTION OF THE GROUP'S BUSINESS BY OPERATING SEGMENTS AND MATERIAL PROPERTIES

8. The retail centers and malls in Israel segment

8.1 General information on the operating segment

8.1.1 General

Most of the Group's malls and retail centers are spread out throughout the central cities of Israel and are located close to the main traffic thoroughfares which enable easy access and outdoor or indoor parking. The retail centers and malls are optimally planned according to the needs of the population in the area in which the mall is located, and they offer a wide and varied mix of shops in the fields of fashion, footwear, jewelry, gifts, housewares, communications, electronics and computers, optical devices, entertainment and food complexes for the wellbeing of the visitors, easy access and a large number of parking spaces. The Company puts an emphasis on tenants' mix in each one of the malls and retail centers owned thereby, which it believes shall constitute a center of public attraction to each one of them, in accordance with the characteristics of the local public, and performs suitable marketing work, upgrades and renovates the systems and appearance of the malls and performs technological adjustments. The Company expands the marketing methods of the malls through use of the digital space where most of the end consumers of the retail centers and malls spend time for other purposes, through personal marketing and attractive promotion campaigns, in a manner capable of providing the end-consumer, *inter alia*, a unique shopping experience, which will commence in the digital domain and end in shopping at the Group's malls. Thus, for example, during 2016, the Company launched the Azrieli Malls app, which compiles unique shopping offers and sales at the Group's malls, the ability to pay for parking at the mall and useful information for visitors. The Group also has the Azrieli Gift Card, which is issued either digitally or as a physical card and is redeemable in a broad range of chain stores at the Group's malls.

The Company routinely focuses on the betterment of the Group's existing properties and acts for optimization in the use of its commercial spaces and creates a suitable and modern mix of tenants while differentiating between the projects in order to maintain the relative advantage versus the Group's existing and future competitors.

Most of the Group's lease contracts in Israel are for periods of three to five years and in most cases include an option for additional lease periods (usually three to five additional years), other than agreements in respect of relatively large leasable space, which are mostly signed for longer lease periods ranging between 8 to 25 years (including extensions and exercised options). Most lease agreements include rent that is composed of fixed rent or of rent derived as a percentage of the tenant's turnover in the leased premises, whichever is higher; however, in most cases, the rent actually paid to the Company is the fixed rent, and the Company's revenues from turnover-dependent rent are in an immaterial amount. The occupancy rate of the Group's properties in this operating segment, as of the Report Date, is approx. 98%[16].

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

Most of the management agreements determine that the management fees will be paid based on the cost of the management services, plus overhead expenses. The management services include, *inter alia*, marketing services of the mall and/or the retail center, both to visitors and to potential tenants, security services, cleaning of public areas, gardening, maintenance of elevators and public systems. The management companies collect from the

[16] Discounting properties that are being leased-up for the first time.

tenants the management fees or the maintenance fees, which are used, *inter alia*, for financing the maintenance of public areas. The management company leases from the Group companies, as the case may be, in each of the malls and retail centers, an area in a small scope located in a non-central area of the mall or retail center, to serve as the offices and storage rooms of the management company, in consideration for fixed rent. In most of the management agreements between the management companies and the tenants, the management companies undertake to maintain and operate the public areas in the malls and retail centers, including cleaning, security, renewal, advertising, insurance, on the conditions and in the scopes as determined by the management companies from time to time.

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

In some of the malls and retail centers there are areas above or in proximity to the retail areas which are designated for lease as offices and other uses, such as clinics and gyms. See Section 9 of this Chapter A for additional details on the office and other space for lease segment.

8.1.2 The structure of the operating segment and changes occurring therein

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

Based, *inter alia*, on publicly-available information, at the outset, most of the malls relied on large anchor tenants, which were considered to be crowd attracting. However, in recent years, the concept has changed for the malls in Israel and an opposite trend has begun, of reduction of the space of the anchors (such as supermarkets and department stores), due to the low rent per sqm paid by such tenants and the large space occupied thereby. However, there are presently “new” anchors in the form of large and leading fashion stores.

At the same time, the Company is acting to integrate innovative entertainment centers in its malls and retail centers, such as the “Zappa” Club, restaurants and cafés and is acting to bring cinemas back to the malls (thus, agreements have been signed with respect to the construction of movie theatres at Azrieli HaNegev Mall and at Azrieli Tel Aviv Mall, and the construction of movie theatres at Azrieli Haifa Mall was completed during the Report Year), in a way that creates an innovative shopping experience for recreation, leisure and shopping. The Company is also acting to improve its properties by renovating and refreshing the fast- food courts and the public areas.

It is noted that in recent years, there has been an increase in the retail space intended for the fashion industry in the malls in Israel segment and in the Company's properties in this operating segment. For further details, see Section 7.6 of this Chapter A.

In recent years, there has been a noticeable trend of brand fashion retail chains growing strong at the expense of single local stores, including international fashion retail chains, and the construction of low-priced power centers outside of cities, which compete with the malls. In addition, an increasingly strengthening trend can be observed in the context of which, several retail groups hold a growing number of leading brands and consequently expand the spaces leased thereby in each mall and necessarily improve their bargaining power vis-à-vis the malls. Furthermore, we are witnessing the development of new formats of large branded family-oriented stores. At the same time, it is noted that from time to time, various chains, including fashion chains, encounter financial difficulties, however, the wide range of businesses and the mix in the Group's malls and retail centers contribute to the reduction of the scope of exposure to events of this kind.

In addition, in recent years, changes have occurred in the Israeli consumer's shopping habits, *inter alia*, in view of the "open skies" reform, which led to a reduction in the prices of flights to various destinations overseas, thereby enabling the execution of more purchases outside Israel as well as online retailing, which brings to the consumer's doorstep a larger variety of products, a quicker and more convenient service and mainly personal tailoring of products according to the consumer’s preferences and habits. The Group is acting to develop ways to combine the new digital retailing and the popular mall experience in a manner which creates a novel consumption experience, *inter alia*, through Azrieli.com and a designated application.

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

This operating segment is subject mainly to the land laws and the land use and zoning laws. In addition, the business in this segment is affected by legislative updates in the field of business licensing, land taxation and municipal taxation. See Section 23 of this Chapter A for details on the matter of the restrictions, legislation, standards and additional constraints applying to the Group.

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

In the course of recent years, the volume of operations of the Group in the retail centers and malls segment grew, mainly due to the development of new income-producing properties like Azrieli Rishonim Mall that was opened to the public in March 2017 (for a specification of the properties under construction see Section 7.7 of this Chapter A) or expansion and renovation of existing properties (construction of the second floor at Azrieli Ayalon Mall, renovation of Azrieli HaNegev Mall, renovation of Azrieli Jerusalem Mall and renovation of the Holon Mall), as well as the acquisition of existing income-producing properties.

Activity indicators in 2019 demonstrate that the Israeli market continues to grow. The gross domestic product at fixed prices and the gross domestic product *per capita* increased in 2019 by approx. 3.5% and approx. 1.6% respectively. An increase was also recorded in private consumption and private consumption *per capita* by approx. 3.9% and approx. 2% respectively. Unemployment rate is low at approx. 3.6% as of January 2020, and the average salary in the economy has increased. Stability was maintained in the income-producing real estate sector in Israel, both in terms of demand and in terms of rent levels and occupancy rates. The (known) CPI recorded a decrease of 0.2% in Q4/2019 and an increase of 0.3% in the entire year of 2019. The Bank of Israel interest rate was 0.25% in 2019. The Prime interest rate is 1.75%.

However, a challenging environment is occasionally felt in negotiations with tenants toward the signing of new lease agreements or the renewal of existing contracts.

For details with respect to the potential effects of the Coronavirus outbreak on the Company's operating segments, including the tenants of its properties, see Section 2.2 of the Board of Directors' report.

During the Report Period an increase was recorded in the average turnover[17] in the Group's malls. In the Company's estimation, coming years may see changes in the competitive balance between the players in the income-producing real estate sector, among other things, in view of the forecast for a decrease in the number of significant new projects which offer retail space, which might strengthen the existing leading malls.

For the board of directors' explanations on changes to the fair value of the Group's investment properties in this segment as of the Report Date, see Section 2.10.2 of the Board of Directors' Report.

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

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

The Company's *aforesaid estimations regarding the changes in the income-producing real estate sector in Israel and the effects of such changes on the Company's results are merely subjective assessments and constitute forward-looking information, within the definition of such term in the Securities Law. Actual results and effects may materially differ from the aforesaid estimations and what they imply for various reasons, including an additional intensification of competition, a decrease in demands and a deterioration in the economic situation in Israel, inter alia, in view of the impact of the Coronavirus outbreak.*

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

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

8.1.6 Changes to the set-up of suppliers and raw materials for the operating segment

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

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

Entry barriers - In the Company's estimation, entities operating in the retail centers and malls sector require, equity and financial strength. The primary barrier for entry into the development and construction of a retail center, after finding suitable land in an area of demand, is the need for financial strength that enables the obtainment of financing for construction, *inter alia*, due to a growing trend, whereby developers are increasing investment budgets for lessees of income-producing properties upon the initial lease-up of areas under development. In addition, particularly required are professional knowledge, experience in the development sector, a positive reputation in the sector, availability of sources of financing on good conditions and available and planned land reserves in areas with high demand for leasable retail space. In addition, entities operating in the retail centers and malls sector in Israel are required to meet high regulatory requirements, *inter alia*, regulation concerning zoning, business licensing, safety, accessibility, antitrust and environmental protection. It is noted, that despite the high entry barriers, recent years have shown a significant increase in the development and construction of many retail centers all over Israel. However, the future may bring a decrease in the development and construction of significant projects of malls and large retail centers and a shift towards the development of small, neighborhood centers.

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

Exit barriers - Exiting this operating segment is mainly contingent on the ability to dispose of properties, which is a direct result of the location of the properties, their physical condition and the condition of the market, as well as various costs, including in connection with land taxation.

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

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

8.1.9 Manner of execution of purchases or construction of properties

The Company's management does not have a fixed policy on the acquisition of properties, and each case is examined on its merits, in view of the business opportunity it presents. The Company examines from time to time business opportunities in Israel and abroad, related to the expansion of its activity, mostly in the real-estate segment, including by way of purchasing land reserves, purchase of additional properties and the improvement of existing properties, as well as the acquisition of activities.

In general, the Company may at times purchase its rights in properties by way of direct purchase of the rights in the property, by way of purchase of shares in the companies that own the rights in the properties and by way of allotment of shares in such companies. As of the Report Date, the Company purchased most of its rights in properties by way of purchasing rights in the properties. The considerations for the purchase or development of new income-producing properties are based, *inter alia*, on the following parameters: yield from the property; properties which generate steady cash-flows and revenues while prioritizing financially sound tenants; the betterment potential of the purchased property.

The Group's malls and retail centers are either under ownership or under long-term lease from the ILA or long-term lease from the local municipalities in whose territory the property is located.

In transactions in which the registration of rights to the purchased property and its transfer to the name of the Company and or the Group's companies is not finalized by the closing date of the transaction, the Company includes mechanisms in its contracts to secure the fulfilment of the seller' undertakings, including those related to the registration of rights to the property and their transfer to the name of the Company, through the deposit of a part of the consideration in trust and through the lodging of a caveat and/or pledges in favor of the Company, as possible under the circumstances.

Upon the purchase of new properties, in respect of which there is an undertaking towards third parties regarding the management and operation thereof, the Company's policy is to release the properties purchased thereby from the management and operation rights, and provide management services itself or through the Group's companies. As of the Report Date, there are no obligations towards third parties in respect of the management and operation of the Group's properties.

The professional managerial team employed by the Group is involved in the construction of all the Group's projects, from the identification of the property, through the preparation of a cost estimate and a timetable for each project, the architectural planning of the project, the carrying-out of contractor bids and up to the ongoing support of the project's construction, with an emphasis on the finishing and completion stages thereof and the occupation of each project by the various tenants.

The Company does not consider the disposition of its properties to be a part of its business strategy, however it may act towards the disposition of existing income-producing properties if they are not strategic for the Company and are not in its core business. The Company's management did not set a fixed criterion of required yields in the case of dispositions or purchases and each case is examined on its merits, in view of its circumstances, designation, location and features.

8.2 Material properties

The following table presents a summary of figures pertaining to material properties of the Group in the retail centers and malls segment as of December 31, 2019, which were appraised by the valuator Mr. Ronen Katz, a partner at Greenberg Olpiner & co (*) by applying the income capitalization method:

Name and Features of Property			Year	Information Item											According to Regulation 8b(i) (as applicable)
				Fair Value/Book Value at End of period (NIS in millions)	Revenues from Rent during the Period (NIS in millions)	Actual NOI during the Period (NIS in millions)	Yield Rate (%)	Adjusted Yield Rate (%)	Yield on Cost Rate (%)	Property Value to Debt Ratio (LTV)	Revaluation Profits (Losses) (consolidated) (NIS in millions)	Occupancy Rate as of End of Period (%)	Average Monthly Rent per sqm from Main Use – Retail (in NIS)	Ratio of Average Revenue per sqm to Average Rent per sqm**	Other Assumptions on which the Valuation is Based
Azrieli Tel Aviv Mall **(1)**	Territory	Israel	2019	2,296	119	149	6.50%	6.84%	29%	0%	93	100%	319	15%[18]	Main rent cap rate–6.75[19]. Weighted cap rate–6.79%.
	Functional currency	NIS													
	Main use	Retail	2018	2,187	115	144	6.56%	7.09%	28%	0%	6	99.5%	321	14%[20]	Main rent cap rate–7.00%[21]. Weighted cap rate–7.06%.
	Construction cost (NIS in millions)	512													
	Corporation's share (%)	100%	2017	2,162	118	148	6.85%	7.13%	29%	0%	(36)	100%	325	15%[22]	Main rent cap rate–7.00%[23]. Weighted cap rate–7.07%.
	Area [sqm]	37,018													

[18] Ratio of average revenue per sqm to average rent and management fees per sqm – 18%.
[19] Approx. 26% of the rent (for large areas) were capitalized according to a cap rate of 6.5%.
[20] Ratio of average revenue per sqm to average rent and management fees per sqm – 18%.
[21] Approx. 30% of the rent (for large areas) were capitalized according to a cap rate of 6.75%.
[22] Ratio of average revenue per sqm to average rent and management fees per sqm – 18%.
[23] Approx. 29% of the rent (for large areas) were capitalized according to a cap rate of 6.75%.

Name and Features of Property			Year	Information Item											According to Regulation 8b(i) (as applicable)
				Fair value/Book Value at End of Period (NIS in thousands)	Revenues from Rent during the Period (NIS in thousands)	Actual NOI during the Period (NIS in thousands)	Yield Rate (%)	Adjusted Yield Rate (%)	Yield on Cost Rate (%)	Property Value to Debt Ratio (LTV)	Revaluation Profits (Losses) (consolidated) (NIS in thousands)	Occupancy Rate as of End of Period (%)	Average Monthly Rent per sqm from Main Use – Retail (in NIS)	Ratio of Average Revenue per sqm to Average Rent per sqm**	Additional Assumptions on which the Valuation is Based
Azrieli Ayalon Mall (2)	Territory	Israel	2019	1,699	105	116	6.84%	6.98%	25%	0%	57	100%	260	12%[24]	Rent cap rate-6.75%.[25] Weighted cap rate-7.03%.
	Functional currency	NIS													
	Main Use	Retail	2018	1,638	104	115	7.05%	7.23%	25%	0%	-	100%	259	12%[26]	Rent cap rate-7.00%.[27] Weighted cap rate-6.78%.
	Construction cost (NIS in millions)	461													
	Corporation's share (%)	100%	2017	1,628	104	115	7.08%	7.25%	25%	0%	3	100%	258[28]	13[29]%	Rent cap rate-7.00%[30] Weighted cap rate-7.04%.

[24] Ratio of average revenue per sqm to average rent and management fees per sqm – 15%.
[25] Approx. 42% of the rent (for large areas) were capitalized according to a cap rate of 6.5%.
[26] Ratio of average revenue per sqm to average rent and management fees per sqm – 15%.
[27] Approx. 41% of the rent (for large areas) were capitalized according to a cap rate of 6.75%.
[28] Comparative figures were amended due to a *Lapsus calami*.
[29] Ratio of average revenue per sqm to average rent and management fees per sqm – 15%.
[30] Approx. 41% of the rent (for large areas) were capitalized according to a cap rate of 6.75%.

Name and Features of Property			Year	Information Item											According to Regulation 8b(i) (as applicable)
				Fair value/Book Value at End of Period (NIS in thousands)	Revenues from Rent during the Period (NIS in thousands)	Actual NOI during the Period (NIS in thousands)	Yield Rate (%)	Adjusted Yield Rate (%)	Yield on Cost Rate (%)	Property Value to Debt Ratio (LTV)	Revaluation Profits (Losses) (consolidated) (NIS in thousands)	Occupancy Rate as of End of Period (%)	Average Monthly Rent per sqm from Main Use – Retail (in NIS)	Ratio of Average Revenue per sqm to Average Rent per sqm**	Additional Assumptions on which the Valuation is Based
Azrieli Jerusalem Mall (excluding the office component)	Territory	Israel	2019	2,174	131	145	6.66%	6.71%	32%	0	62	100%	285	13%[31]	Rent cap rate-6.5%. Weighted cap rate-6.6% .
	Functional Currency	NIS													
	Main Use	Retail	2018	2,094	131	144	6.87%	6.99%	32%	0%	18	100%	284	12%[32]	Rent cap rate-6.75%. Weighted cap rate-6.86% .
	Construction Cost (NIS in millions)	447													
	Corporation's share (%)	100%	2017	2,058	129	144	7.01%	7.02%	32%	0%	29	100%	283	13%[33]	Main rent cap rate-6.75% Weighted cap rate-6.87%.
	Area [sqm]	40,229													
The other properties (excepting material and highly material properties)***			2019	13,963	832	807	--	--	--	--	212	--	--	--	--
The other properties (excepting material properties)***			2018	13,441	819	794	--	--	--	--	64	--	--	--	--
The other properties (excepting material properties)***			2017	11,984	706	752	--	--	--	--	121	--	--	--	--

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

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

*** In all real estate segments.

(1) The figures include 50% of the profits of the Azrieli Center car park (another 50% were included in the details of the Azrieli Center offices, as specified in Section 9.2 of this Chapter A).

(2) The Company is registered with the Land Registry as a long-term lessee of Azrieli Ayalon Mall for a 49-year period ending on August 1, 2031, with an option for an additional 49-year period. The Municipality of Ramat Gan owns the adjacent car park, which includes approx. 2,300 parking spaces. The Municipality of Ramat Gan has undertaken (and an easement therefor has been registered) to enable a right of passage for vehicles and pedestrians, as well as an open parking right for the public, including the Mall's visitors, in the parking spaces that were arranged (excluding 250 parking spaces, use of which will discontinue insofar as the Municipality realizes building rights thereon) and so long as the Company continues leasing and operating the Azrieli Ayalon Mall. Due to shortage of parking space and use by the neighboring office buildings of the parking areas around the mall, during 2015 an agreement was executed with the Municipality of Ramat Gan for the regulation of parking by marking it in blue and white while reserving the Company's rights in the car park and granting free parking to the mall's visitors at certain times.

[31] Ratio of average revenue per sqm to average rent and management fees per sqm – 15%.

[32] Ratio of average revenue per sqm to average rent and management fees per sqm – 14%.

[33] Ratio of average revenue per sqm to average rent and management fees per sqm – 15.5%.

8.3 The following table presents a summary of figures about a material income-producing building under construction of the Group, as of December 31, 2019. It is emphasized that uses of this property will be allocated between the retail centers and malls in Israel operating segment and the leasable office and other space in Israel operating segment, according to the various uses of the designation of the building rights in the property:

Name of the Property	Location of the Property	Date of Land Purchase	Actual Share of the Corporation (%)	Method of Presentation in Consolidated Report	Estimated Construction Completion Date	Designated Areas of the Property (by usage) (sqm)	Total Projected Investment, including Land, Construction and Development (NIS in millions)
Expansion of Azrieli Center Tel Aviv	Tel Aviv	May 2013	100%	Fair value	2025	150,000 sqm for offices, retail and residential	2,300-2,500

Name and Features of the Property	Reporting Period	Financial Data			Rate of Completion at Year-End [Engineering] (%)	Rate of Areas of the Property for which Binding Lease Contracts have been Signed as of Year-End (%)	Data on Valuation and the Assumptions on which it is Based		
		Aggregate Cost at Year-End, including Land, Construction Development and Financing (consolidated) (NIS in millions)	Data on Fair Value and Revaluations				Name and Experience of Valuator	Valuation Model	Additional Assumptions on which the Valuation is Based
			Fair Value/Book Value at End of Period (consolidated) (NIS in millions)	Revaluation Profits (Losses) in the Period (consolidated) (NIS in millions)					
Expansion of Azrieli Tel Aviv Center	Y2019	561	837	-	6%	-	Mr. Ronen Katz is a certified real estate appraiser, with a B.A. in Agricultural Economy and Administration from the Faculty of Agriculture at the Hebrew University of Jerusalem. Has gained experience as a real estate appraiser since 1997.	Presented according to fair value under the comparative method	N/A
	Y2018	482	756	19	3%	-	Mr. Ronen Katz is a certified real estate appraiser, with a B.A. in Agricultural Economy and Administration from the Faculty of Agriculture at the Hebrew University in Jerusalem. Has gained experience as a real estate appraiser since 1997	Presented according to fair value under the comparative method	N/A
Other properties under construction 2019		2,095	1,893	(105)	--	--	--	--	--
Other properties under construction 2018		1,532	1,179	44	-	-	-	-	-

8.4 Competition

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

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

Due to the intensification of the competition in the sector, the addition of retail space in many regions and a trend of increase in on-line commerce, the Company acted in 2019 and will continue to act for the development of the end consumer marketing segment. *Inter alia*, the Company continues activity for branding of the Group's malls through a uniform language of communication in the properties themselves, marketing activities and campaigns on the different types of media, and planning of further marketing, branding and differentiation activities and sales campaigns for all of the Group's malls (hard sale).

The Group also operates a shopping website under the Azrieli.com brand, which offers, *inter alia*, the businesses operating in Group-owned malls and retail centers an online selling platform with the related logistic services, such as storage services and delivery services to the customers' homes or to collection points located at the Group's properties. For details with respect to the Company's e-commerce operations, see Section 13 of this Chapter A.

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

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

Competition for the private consumer is also mainly characterized by the geographic location and against other centers of the power center-type as well as shops on city streets. Most of the retail centers and malls serve the population residing or employed in the geographic area in which the retail center is situated. Nonetheless, the Azrieli Tel Aviv Mall, due to its location, accessibility and proximity to the train station and to major intersections, serves consumers from all across Israel.

In the Company's estimation, the competition vis-à-vis the private consumer is influenced, *inter alia*, by the tenant mix, the types of the shops and their branding, the atmosphere and shopping experience, benefits to consumers, events initiated in the framework of the retail center, access to the retail center and available parking (free or paid). The malls and retail centers are therefore required to renovate, upgrade and adjust the tenant mix therein from time to time.

In the Company's estimation, the volume of its operations in the retail centers and malls in Israel segment is large, and it is one of the leading companies in the field in Israel. As of the Report Date, approx. 1,900 tenants operate stores and retail in the Group’s retail centers and malls. In the Company’s estimation, the factors and methods that help the Group cope with the competition in the segment are as follows:

- Most of the retail centers and malls of the Group are characterized by quality planning and a high-quality tenant mix, which the Company carefully maintains over the years and that contribute to its competitive advantage and offer to the visitors to the retail centers and malls a quality shopping experience;
- The volume of the Company’s business in the segment allows the Company to engage with chains and service providers at beneficial terms, thus allowing it to specialize in the management of retail centers and malls in an efficient manner in order to lead to savings in costs and in manpower;
- Most of the Company's tenants are large chains and/or companies with superior financial strength and the lease agreements therewith are for a relatively long period;
- The Company's retail centers and malls are located in high-demand areas, enabling the Company to lease the properties to numerous and diverse types of tenants;
- The expertise of the Group in the planning and development of retail centers and malls according to the needs of the tenants and visitors in the retail center and/or mall;
- The scale of the business and the Company's experience in the segment, allows it to carry out marketing activities also to the end consumers, the mall visitors and to adopt innovation in the retail segment, improving the experience of shopping at the Company's shopping centers, including use of digital media. For details with respect to the Company's e-commerce operations, see Section 13 of this Chapter A.

8.5 Goals and business strategy for the segment

See Section 26 of this Chapter A for the Company's goals and the Group’s strategy.

9. The leasable office and other space in Israel segment

9.1 General information on the operating segment

9.1.1 General

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

Most of the Group's lease agreements are for periods of about five years on average, with the tenant given an option for additional lease periods of about five years and the rent is at a fixed amount per each square meter of the leased space. A recent trend is the engagement in lease agreements for large spaces, for longer periods of around 10 years.

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

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

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

The Group's leasable office and other space in Israel segment is managed in relation to each building or group of buildings through the Company or designated management companies owned by the Group, which engage with the tenants in management agreements. Most of the management agreements determine that the management fees will be paid based on the cost of the management services plus overhead expenses. The management companies collect from the tenants the management fees or the maintenance fees, which are used, *inter alia*, for financing the maintenance of public areas, whereas in most of the management agreements between the Company or the management companies and the tenants, the management companies undertake to maintain and operate the public areas, including cleaning, security, renewals and insurance, on the conditions and in the scopes as determined by the management companies from time to time.

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

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

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

This operating segment is subject mainly to the land laws and the land use and zoning laws. In addition, the business in this segment is affected by legislative updates in the field of business licensing, land taxation and municipal taxation. See Section 23 of this Chapter A for details on the matter of the restrictions, legislation, standards and additional constraints applying to the Group.

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

To the best of the Company's knowledge, 2019 saw the office segment continue to demonstrate stability, which was reflected in the stability of demand for office space and in the stability of the amount of rent in many projects. Due to a shortage in supply of available high-quality office space in Tel Aviv, the Report Period was characterized by a moderate rise in rent in leading projects in Tel Aviv. In addition, the soundness demonstrated by the high-tech industry, creates, and in the Company's estimate, will continue to create, in the upcoming years, a demand for office space due to the projected continued increase in the number of employees in the information technology, information security and cyber sectors. In view of the aforesaid, there is a noticeable increase in the Company's exposure to the high-tech sector, due to the increase in the lease of offices to companies of this sector.

As of the Report Date, the Group has preserved very high occupancy rates in its income-producing properties in the segment and even increased its total revenues from rent. The Company estimates that its financial strength, the strength of the Company's tenants, some of which constitute the leading firms in the economy (AAA tenants), its high liquidity and standing in the financial market are advantages and strengthen its status in the segment. See Section 2.11.2 of the Board of Directors' Report for details concerning the development of the revenues from this operating segment.

For details with respect to the potential effects of the Coronavirus outbreak on the Company's operating segments, including the tenants of its properties, see Section 2.2 of the Board of Directors' report.

In addition, in recent years, the Company has acted to expand its business in this operating segment, *inter alia*, by developing new projects (in recent years the Company has built Azrieli Sarona in Tel Aviv, the Azrieli Holon Center and the office tower in Azrieli Rishonim Center). Furthermore, as part of the business strategy the Company is examining attractive investment opportunities and the creation of new growth engines also in tangential segments, and possibilities to create a synergy with the other operating segments thereof.

In the Company's estimation, in view of the aforesaid and due to the expected increase in the supply of new office buildings in the central region, a moderate decrease in the prices of rent may occur in areas of lower-demand (Bnei Brak, Ramat Gan and the suburbs of Tel Aviv). The Company estimates that such decrease is not expected to have a very material effect in the long term on the rent prices of the Company's properties, which are essentially characterized by a high quality level of construction, location and management, the level of demand for which in recent years has continuously increased. In addition, a large part of the increase in the supply of offices in the central region is made up of buildings that are being constructed in the context of purchase groups, or buildings that are intended to be sold to a large number of buyers, that are not expected to materially affect the rent prices in the central region. In the Company's estimation, these may increase the supply of leasable office space as concerns leasable areas of 200-500 sqm. In addition, in the Company's estimation, the coming years may see changes in the competitive balance between the players in the income-producing real estate sector, *inter alia*, due to the lease-up of office space projects, primarily in the Dan Metropolitan Area, which pose challenges for the sector.

The Company's aforesaid estimations with respect to the changes in the segment and the effect thereof on the Company's results are merely subjective estimations and constitute forward-looking information within the definition of such term in the Securities Law. Actual results and effects may materially differ from the aforesaid estimations and the implications thereof, for various reasons, inter alia, a further intensification of the competition, *a decrease in the demand for office space and an adverse change in the economic situation in Israel, inter alia, in view of the effects of the Coronavirus outbreak.*

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

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

9.1.6 Changes to the set-up of suppliers and raw materials for the operating segment

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

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

Entry barriers – In the Company's estimation, entities operating in this operating segment require mainly equity and financial strength. Also important are professional know-how, experience in the development sector, a positive reputation in the industry and available and planned land reserves in areas with high demand for leasable space in office buildings . Development in the segment requires financial soundness which enables operating in the development segment at relatively low financing costs

Exit barriers – Exiting this operating segment is primarily contingent on the ability to liquidate properties, which is a direct result of the location of the properties, their physical condition and the condition of the economy, as well as various costs, including in connection with land taxation.

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

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

9.1.9 Manner of executing acquisitions of the Company

See Section 8.1.9 of this Chapter A for a description of the manner of acquisition and disposal of the Group's rights in properties.

9.2 Details of the Group’s highly material properties in the leasable office and other space segment

9.2.1 Azrieli Tel Aviv Towers

The following tables present a summary of data with respect to the office towers in Azrieli Tel Aviv Center, the revenues from which, as of the Report Date, constitute approx. 10% of the Company’s total revenues and consequently it meets the definition of a highly material property.

The Group, through Canit Hashalom, holds all leasehold rights in the center named “Azrieli Center”. Azrieli Center extends over a land block the total area of which is approx. 33 thousand sqm, located in the center of Tel Aviv, on an intersection that serves as a principal traffic artery and close to Tel Aviv’s principal arterial roads (Ayalon Highway, HaShalom Road, Menachem Begin Road) and to HaShalom Railway Station which is located on Hashalom Interchange.

To the best of the Company’s knowledge, as of the Report Date, Azrieli Center is the largest business center in Israel, with a total gross built-up area of approx. 328,393 sqm, comprised of an underground car park and storage facilities (122,258 sqm), a mall consisting of 3 retail floors and a public floor (61,110 sqm), public passage bridges over Menachem Begin Road and Hashalom Railway Station (1,365 sqm) and three towers: The Round Tower (59,675 sqm), which consists of 38 office floors and an additional roof floor that holds an observatory and a restaurant; the Triangular Tower (48,279 sqm), which consists of 35 office floors and 2 additional service floors; and the Square Tower (43,186 sqm), a mixed-use tower which consists of 18 office floors over 13 hotel floors. For details with respect to the Company’s plans to expand the Azrieli Tel Aviv Center, see Section 7.7 of Chapter A of the Report.

9.2.2 Presentation of the property

	Details as of December 31, 2019
Name of property:	Azrieli Towers
Location of property:	Tel Aviv
Property areas – broken down by usage:	Offices – 130,690 sqm; hotel – 18,000 sqm; offices used by the Group – 2,450 sqm.
Company’s share in the property:	100%
Property holding structure:	Held by Canit Hashalom which is wholly-held (100%) by Azrieli Group
Actual share of the corporation in the property:	100%
Names of partners in the property:	-
Property acquisition date:	The land was acquired in August 1992.
Specification of legal rights in the property (ownership, leasehold etc.):	Capitalized leasehold.
Significant unutilized building rights:	-
Status of registration of legal rights:	Registration of Canit Hashalom’s leasehold rights with the Land Registry was completed in July 2014.
Special issues (material building code violations, soil contamination, etc.):	There are no special material issues. For further details see the valuation attached hereto.
Method of presentation in the Financial Statements:	Consolidation

It is noted that all Azrieli Center areas are designated for lease on the free market, with the exception of an area for self-use by Canit Hashalom and the Group’s companies (on the top office floor of the Round Tower and part of Floor 33 and additional negligible areas, such as archives, a gallery, a storeroom, etc.), and with the exception of an area of approx. 5,500 sqm in the project’s basements which serves as a sub-station of the Israel Electric Corp. Ltd. (IEC) and was sub-leased thereto in 2006 in consideration for approx. NIS 14 million for the entire term of Canit Hashalom’s leasehold.

Yarden Hotels M.H.Y. Ltd. which operates the hotel in the Square Tower of Azrieli Towers, has a business license for operation of the hotel, which, as of the Report Date, is valid until December 31, 2030.

9.2.3 Main figures

Figures for 100%. The Company's share in the property – 100%	Y2019		On Property Acquisition Date
Fair value at the end of the period (NIS in millions)	3,227	Construction cost (NIS in millions)	1,292
Revaluation profit (NIS in millions)	180	Land acquisition date	August 1992
Average occupancy rate (%)	~100%		—
Leased space (sqm)	148,630		—
Total income per year (NIS in millions) (*)	250		—
Average rent per sqm per month (NIS) (**)	106		—
Average rent per sqm per month in contracts signed during the period (NIS) (***)	126		—
NOI (NIS in millions)	213		—
Adjusted NOI (NIS in millions)	220		—
Actual yield rate (%)	6.6%		—
Adjusted yield rate (%)	6.8%		—
Number of tenants at end of report year	135		—

(*) The revenues and the NOI include 50% of the revenues and the NOI of the car park.

(**) Excluding the hotel's rent. If the average included the hotel's rent, the average for 2019 would be approx. NIS 101 per sqm.

(***) With new tenants only (excluding the extensions of contracts with preexisting tenants).

9.2.4 Breakdown of revenues and costs structure

Figures for 100%. The Company's share in the property – 100%	Y2019
Revenues:	(NIS in millions)
From rent – fixed	178
From rent – variable	2
From management fees	38
From the operation of car parks	26
Others	6
Total Revenues	250
Costs:	
Management, maintenance and operation	37
Depreciation	-
Other expenses	-
Total Costs:	37
Profit:	213
NOI:	213

9.2.5 Principal tenants in the property

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

9.2.6 Projected revenues in respect of signed lease contracts

	For the year ending December 31, 2020	For the year ending December 31, 2021	For the year ending December 31, 2022	For the year ending December 31, 2023	For the year ending December 31, 2024 forth
	NIS in millions (figures for 100%. The corporation's share in the property is 100%)				
Fixed components	230	167	139	103	140
Variable components (estimate)*	—	—	—	—	—
Total	230	167	139	103	140

* In the rent calculation, additions to the rent on account of a percentage from the turnover were not taken into consideration, as the Company's management has no estimate of such sums.

The amounts of revenues in the above table, were calculated based on the basic amounts specified in the lease agreements, being linked to the known CPI on December 31, 2019, and based on the following: (1) Exclusion of the exercise of options for extension of the terms of lease under the lease contracts (although many of the Company's tenants usually extend the lease contracts upon expiration thereof); (2) Exclusion of lease contracts under which the term of the lease has expired and new lease contracts have not yet been signed with the tenants; (3) Exclusion of the possibility of sale of the properties or acquisition of new income-producing properties; (4) Exclusion of early exit fees, if any; and (5) No change in the advance payments of management fees of every tenant for Y2019.

The amounts of revenues specified in the above table are based on the assumption that options for extension of the terms of lease under the lease contracts will not be exercised, despite the fact that many of the Company's tenants usually extend the lease agreements upon expiration thereof.

The above figures are based on the Company' assessment considering the signed agreements as of the Report Date and constitute forward-looking information within the definition of such term in the Securities Law. Actual results may significantly differ from the aforesaid estimates and the implications thereof, for various reasons, including the early termination of lease contracts or a business crisis experienced by any of the tenants, inter alia, in view of the effects of the Coronavirus outbreak.

9.2.7 Specific financing for the property

Specific Financing			Loans
Balances in the Statement of Financial Position	December 31, 2019 (NIS in millions)	Presented as current maturities:	89
		Presented as long-term loans:	89
Fair value as of December 31, 2019 (NIS in millions)			181
Original loan taking date			August 2013
Original loan amount (NIS in millions)			710,000
Effective interest rate as of December 31, 2019 (%)			1.16%
Principal and interest repayment dates			The principal is repaid in equal semiannual payments until August 2021. Interest is paid on the outstanding balance every 6 months.
Key financial covenants			The lender has the right to accelerate the loan upon the occurrence of standard causes specified in the agreement, including, *inter alia*, a material adverse change in the number of tenants in the Round Tower or where the ratio between the balance of the loan as of the calculation date and the value of the Round Tower (as determined by an appraiser that will appraise the Round Tower once a year) (LTV) is, as of the expiration of two years from the date of provision of the loan, no more than 70% (the rate thereof decreasing over the term of the loan down to 25% one year prior to full repayment of the loan). As of December 31, 2019, such ratio is approx. 14%.
Other key covenants			-
Is the corporation compliant with key covenants and with the financial covenants as of the end of the report year			Yes
Is it non-recourse?			No

9.2.8 Security interests and material legal restrictions on the property

Type		Details	Amount Secured by the Security Interest December 31, 2019 (NIS in millions)
Pledges	First-ranking	Part of the lobby floor, the roof floor and Floors 11-49 of the Round Tower are subject to a fixed charge in favor of an institutional body group (also see Section 19.3 below).	178

(1) Canit Hashalom has provided the Tel Aviv Municipality a guarantee of NIS 8 million, linked to the Residential Construction Input Price Index (amounting, as of December 31, 2019, to approx. NIS 25 million), which is intended to secure the completion of Canit Hashalom's performance of its obligations in connection with the performance of the project's development and construction work. Such guarantee is expected to be returned to Canit Hashalom upon the issuance of a certificate of completion for the project. As of the Report Date, Canit Hashalom is acting to obtain such certificate of completion and does not expect any amounts to be forfeited out of this guarantee.

The provisions of this section constitute forward-looking information, within the definition of the term in the Securities Law, which is based on the Company's assessments based on past experience, and actual results may be different, primarily due to authorities' requirements which are unknown as of the Report Date.

(2) On February 28, 2008, Canit Hashalom signed a letter of undertaking to the Tel Aviv Municipality and provided an additional bank guarantee of approx. NIS 8 million, linked to the CPI (amounting, as of December 31, 2019, to approx. NIS 9 million), in connection with the issuance of a Form 4 for the project's Square Tower in accordance with a condition for occupancy under the zoning plan, in the context of which the Company undertook to build a tunnel to arrange for additional access to the project's underground car park. Construction of the tunnel requires the relocation of a water line by NTA as part of the work for construction of the Light Rail's red line. The relocation work is expected to be completed by June 2021.

In order for the tunnel work to be carried out, it is required to extend the term of the performance permit, which is presently effective until October 2020. According to Canit Hashalom's estimation, the cost of construction of the tunnel is approx. NIS 10 million.

The provisions of this section constitute forward-looking information, within the definition of the term in the Securities Law, which is based on the Company's assessments based on NTA's plan for completion of the relocation work. Actual results may be different as a result of numerous factors, primarily due to possible delays in the relocation work.

9.2.9 Details regarding the valuation

		Y2019
Determined value (NIS in millions)		3,227
Identity of the appraiser[34]		Ronen Katz of Greenberg Olpiner & Co.
Is the appraiser independent?		Yes
Is there an indemnification agreement?		Yes
Effective date of the valuation (the date to which the valuation pertains)		December 31, 2019
Valuation model		Income approach
		Main parameters used for the purpose of the valuation
Valuation according to the income approach	Gross leasable area used in the calculation (sqm)[35]	148,690
	Representative occupancy rate out of the leasable area for the purpose of valuation (%)[36]	~100%
	Average representative monthly rent per leased sqm for the purpose of valuation	104
	Representative NOI for the purpose of valuation (NIS in millions)[37]	220
	Average periodic expenses per year for preservation	See under "Other main parameters" below
	Weighted cap rate used in the valuation	6.65%
	Other main parameters	Expected investments in the property, as well as investments due to a contractual obligation to the Tel Aviv Municipality, were deducted. Overall depreciation of the property due to the aforesaid totaled approx. NIS 76 million
Value Sensitivity Analyses		Change in value (NIS in millions)
Cap rates	0.25% increase	(120)
	0.25% decrease	129
Average rent per sqm	0.5% increase	143
	0.5% decrease	(143)

9.3 Competition

The income-producing real estate sector in general, and the leasable office and other space segment in particular, are characterized by intense competition. Competition in the leasable office and other space segment in Israel is characterized by intense competition that revolves around several parameters, chief of which are the: (1) geographic location of the properties and the level of demand for leasable space in the area; (2) rent level and management and maintenance costs; (3) quality of construction of the leased buildings; (4) standard of auxiliary services, and (5) the lessor's reputation. The competition in this sector exists both at the stage of identifying properties for enterprise, development and property construction purposes and at the stage of lease-up of the properties. In Israel the Group is exposed to competition by numerous companies engaged in the lease of business real estate, in areas of demands similar to those in which the Group's properties are situated, while in most cases, the competition is local. Thus, for example, prestigious office buildings in Tel Aviv

34 Mr. Ronen Katz is a certified real estate appraiser, holding a B.A. in Agricultural Economy and Administration from the Agriculture Faculty of the Hebrew University in Jerusalem, and has gained experience as a real estate appraiser since 1997.

35 Excluding an area of approx. 2,450 sqm on the top office floor and part of Floor 33 of the Round Tower, which is used by the Company itself.

36 Represents the ratio of marketed area to total area, but the value of vacant space is also taken in appraisals.

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

compete against the Azrieli Tel Aviv Center and other alternatives for office buildings in the area compete against the Herzliya Business Park.

To the best of the Company's knowledge, several entities are operating in Israel and holding significant portions of leasable office and other areas , including REIT 1 Ltd., Gav Yam Land Ltd., Nitzba Holdings 1995 Ltd., Industrial Buildings Ltd., Levinstein Properties Ltd. and Amot Investments Ltd. In the Company's estimation, the scope of its operations in the leasable office and other space in Israel segment is of the most significant from among the leading companies in the sector, especially once the projects that are under various stages of construction as of the Report Date are completed.

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

- § The Company's volume of operation in the segment enables the Company to communicate with companies and service providers at beneficial terms, and it further enables it to specialize in the management of commercial parks and office buildings in an efficient manner which leads to savings in costs and in manpower.
- § Most of the Company's tenants are companies with high financial strength and the lease agreements therewith are for a relatively long period of time.
- § The Company's office and other space for lease is located in areas of high demand, enabling the Company to lease the properties to numerous diverse types of tenants.
- § The unique characteristics of the Group's properties, such as: a retail center in proximity to the office space for rental, access to public transportation, including the railroad and underground car parks for the convenience of the tenants and their customers.
- § Most of the Company’s office space is characterized by its high quality and prestigious nature, which distinguishes the Company's property from those of the competing companies and strengthen its competitive edge.

9.4 Goals and business strategy in the segment

See Section 26 of this Chapter A for details on the Company’s goals and the Group’s strategy.

9.5 Material Properties

The following table presents a summary of figures pertaining to material properties of the Group in the leasable office space segment as of December 31, 2019, which were appraised by the valuator Mr. Ronen Katz, a partner at Greenberg Olpiner & co (*) by applying the income capitalization method:

<table>
<tr><th colspan="3" rowspan="2">Name and Features of Property</th><th rowspan="2">Year</th><th colspan="11">Information Item</th><th>According to Regulation 8b(i) (as applicable)</th></tr>
<tr><th>Fair Value/Book Value at End of period (NIS in millions)</th><th>Revenues from Rent in the Period (NIS in millions)</th><th>Actual NOI in the Period (NIS in millions)</th><th>Yield Rate (%)</th><th>Adjusted Yield Rate (%)</th><th>Yield on Cost Rate(%)</th><th>Property Value to Debt Ratio (LTV)</th><th>Revaluation Profits (Losses) (consolidated) (NIS in millions)</th><th>Occupancy Rate as of End of Period (%)</th><th>Average Monthly Rent per sqm from Main Use – Retail (in NIS)</th><th>Ratio of Average Revenue per sqm to Average Rent per sqm**</th><th>Additional Assumptions on which the Valuation is based</th></tr>
<tr><td rowspan="6">Azrieli Sarona Tel Aviv</td><td rowspan="2">Territory</td><td rowspan="2">Israel</td><td>2019</td><td>2,750</td><td>145</td><td>170</td><td>6.17%</td><td>6.7%</td><td>11%</td><td>0%</td><td>294</td><td>100%</td><td>111</td><td>N/A</td><td>Main rent cap rate–6.5%[38]. Weighted cap rate–6.47%.</td></tr>
<tr><td>2018</td><td>2,429</td><td>99</td><td>117</td><td>4.8%</td><td>7.4%</td><td>8%</td><td>0%</td><td>138</td><td>99%</td><td>110</td><td>N/A</td><td>Main rent cap rate–7.0%. Weighted cap rate–7.13%.</td></tr>
<tr><td>Functional currency</td><td>NIS</td><td rowspan="4">2017 (classified as a property under construction until June 2017)</td><td rowspan="4">2,165</td><td rowspan="4">16</td><td rowspan="4">15</td><td rowspan="4">0.7%</td><td rowspan="4">7.8%</td><td rowspan="4">1%</td><td rowspan="4">0%</td><td rowspan="4">388</td><td rowspan="4">92%</td><td rowspan="4">106</td><td rowspan="4">N/A</td><td rowspan="4">Main rent cap rate–7.25%. Weighted cap rate–7.34%.</td></tr>
<tr><td>Main use</td><td>Offices</td></tr>
<tr><td>Construction cost (NIS in millions)</td><td>1,514</td></tr>
<tr><td>Corporation's share (%)</td><td>100%</td></tr>
<tr><td rowspan="5">Azrieli Tel Aviv Center (**) (****)</td><td>Territory</td><td>Israel</td><td>2018</td><td>3,025</td><td>177</td><td>207</td><td>6.9%</td><td>7.2%</td><td>16%</td><td>9%</td><td>(8)</td><td>~100%</td><td>106***</td><td>N/A</td><td>Main rent cap rate–6.75%. Weighted cap rate–6.95%.</td></tr>
<tr><td>Functional currency</td><td>Offices</td><td rowspan="4">2017</td><td rowspan="4">3,008</td><td rowspan="4">179</td><td rowspan="4">210</td><td rowspan="4">7.0%</td><td rowspan="4">7.2%</td><td rowspan="4">16%</td><td rowspan="4">12%</td><td rowspan="4">111</td><td rowspan="4">99%</td><td rowspan="4">106***</td><td rowspan="4">N/A</td><td rowspan="4">Main rent cap rate–6.75%. Weighted cap rate–7.06%.</td></tr>
<tr><td>Main use</td><td>Israel</td></tr>
<tr><td>Construction cost (NIS in millions)</td><td>1,292</td></tr>
<tr><td>Corporation's share (%)</td><td>100%</td></tr>
</table>

[38] Approx. 31% of the rent (for areas leased at bare-shell level) were capitalized according to a cap rate of 6.0%.

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

** Azrieli Towers became a highly material property in 2019. See Section 9.2 above.

*** Excluding the hotel rent. If the average included the hotel rent, the average would be approx. NIS 101 per sqm for 2018 and approx. NIS 101 per sqm for 2017.

**** The figures include 50% of the profits from the Azrieli Center car park.

For a summary of figures regarding a material property under construction – the expansion of Azrieli Center (the Spiral Tower), see Section 8.3 of this Chapter A.

10. The income-producing properties in the U.S. segment

10.1 General

As of the Report Release Date, the Group owns eight (8) office rental properties outside of Israel (seven in the U.S.), of a total leasable area of approx. 246 thousand sqm (the Company's share is approx. 236 thousand sqm), leased to approx. 250 tenants. The Company's properties in this operating segment do not amount to material properties or very material properties. For aggregate details regarding all of the Company's income-producing properties in this operating segment (including land reserves in Section 7.8 of this Chapter A), see Section 7 of this Chapter A, under the geographic territory of the U.S.

About 50% of the Group's office properties in this operating segment are multi-tenant properties and the other 50% are properties with a small number of tenants. All are Class A properties that also include car parks (above-ground or underground) which are used by the tenants. The properties are located in high demand areas with more office building clusters. Unlike the Company's properties in Israel, in some of the Company's properties in the U.S., the Company holds the property together with one or more local partners. As of the Report Date, the Company is routinely examining the expansion of its activity in additional markets, mainly in North America (in addition to Houston and Austin in Texas), with an emphasis on markets where the population of the metropolitan area exceeds two million residents.

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

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

10.2 The structure of the operating segment and changes occurring therein

Between 2011-2019, the Company expanded its business in the U.S. and made several purchase transactions - the first of three office towers in the "Galleria" area of the city of Houston, Texas, and two additional transactions for the purchase of two office buildings in the "Energy Corridor" and “West Belt” area of Houston, Texas. In the course of 2016, the Company purchased an office building in Austin, Texas and a land block in Houston, which is adjacent to a Company-owned property. At the end of 2017, the Company purchased 33.33% and 25% of Riverway 1 and 3, respectively, in which properties the Company had already held 33.33% and 45%. In the course of 2018, the Company purchased an additional office building in Austin, Texas. Most of the Group’s properties in the U.S. are situated in the Houston metropolitan area, which has more than 6 million inhabitants[39] and where population growth in the last 30 years exceeded the U.S. average. Such growth stemmed, *inter alia*, from a high quality of life, a low unemployment rate, the absence of state income tax and low cost of living.

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

[39] The figures are taken from publications by the real estate consulting firm Cushman and Wakefield.

The recovery process in Houston after the economic crisis which began in 2008, was among the quickest throughout the U.S. and good figures continued to be recorded in the local economy, mainly thanks to the strong connection that the local economy has with the energy market which experienced a significant price increase until mid-2014. The summer of 2014 saw the beginning of a global downtrend in energy prices, which affected the local economy in 2015-2016. This downtrend was halted in the course of 2017, and a moderate rise in prices began. In early 2018, energy prices continued the slow recovery trend, which was halted in Q4/2018, when energy prices declined again. Energy prices in 2019 were characterized by significant volatility, with a moderate increase over the course of the 12 months of the calendar year. The employment situation in the Houston metropolis continues to be stable, with a low unemployment rate. In August 2019 the unemployment rate in the Houston metropolitan area was 3.9%, compared with .44% the previous year.[40]

The effect of the decreases of energy prices on the office real estate market in Houston, was reflected in 2016-2019 in various ways such as: A high rate of vacant office spaces, high competitiveness for engagements with new tenants, which increased the costs of the engagement process with these tenants. Furthermore, energy companies offered large spaces in the sublease market, which resulted in a decline in the number of new lease transactions (compared with 2014-2015), and a decrease in the number of projects planned towards commencement of construction. At the same time, the increased willingness of property owners to grant incentives to new tenants such as a high budget for "improvements to the leased property" and a long "grace period".

In addition to the effect of the petrochemicals, gas and energy sector on Houston's economy, to the best of the Company's knowledge, the local economy is also affected by its large medical center (Houston Texas Medical Center), which is the world's largest medical center, as well as the growth in the activity of Houston's port, in which extensive investments were made in recent years, to adjust it to the cargo ships and tankers that recently began to operate in the area.

In August 2017 Houston was struck by the "Harvey" tropical storm, which caused extensive flooding, mostly in residential buildings. Two of the Company’s properties in Houston suffered water damage during the storm. During the Report Period, the Company completed the repair of the damage in properties thereof that suffered water damage due to flooding caused by the “Harvey” tropical storm. It is noted that these properties are covered by an insurance policy.

In 2016-2018, the Company purchased two office properties in Austin, Texas. Both properties are buildings whose construction had been completed not long before their purchase. The first purchased property is wholly occupied by a high-tech company. The second property, which was purchased in July 2018, is occupied by approx. 14 tenants, most of whom are related to the high-tech and finance industries. One of the growth engines of the demand for office space in Austin is the numerous high-tech companies whose research and development activities are concentrated in this city.

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

This operating segment is subject mainly to the local planning and building laws and land laws. In addition, the business in this segment is affected by legislation and regulation of authorities in the fields of environmental protection, safety, business licensing, land taxation and municipal taxation. For details in the matter of the tax reform in the U.S. see Note 26(a)(3) to the Financial Statements. See Section 23 of this Chapter A for details on the matter of the restrictions, legislation, standards and additional constraints applying to the entire Group.

[40] The figures are taken from publications by the real estate company Cushman and Wakefield.

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

Like 2018, 2019 saw a continued trend of increase in vacant space in the Houston office market, albeit to a lesser degree relative to 2018. The Increase in vacant space derives mainly from a decrease in demand on the part of energy companies as a result of the low level and instability of energy prices, as well as from a large amount of office space placed on the sublease market. The total rate of vacant space in the Houston metropolitan area grew from 18.6% to 19.3% in the course of 2019, with the rate of vacant space in Class A office buildings amounting to 17.7% at the end of 2019 (the total rate of vacant space for lease, including the sublease market, was 22.4% at the end of 2019).[41] In addition, to the best of the Company's knowledge, in 2019, rent prices and tenant incentive packages remained at a level similar to that of 2018. Although the cost of incentives to tenants in new transactions is similar to that of 2018, it is relatively high over time.

After the date of the report, and as part of the global impact surrounding the outbreak of Coronavirus, the commodities and raw materials market has experienced significant volatility. Accordingly, since the end of 2019 the price of an oil barrel has significantly declined. At this time, it is difficult to assess the impact of such decline on the office market in Texas, but if the oil prices remain at the current level over time, the Texas office market may be adversely affected thereby.

For details with respect to the potential effects of the Coronavirus outbreak on the Company's operating segments, including the tenants of its properties, see Section 2.2 of the Board of Directors' report.

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

The Company estimates that the main success factors in this operating segment are its know-how, expertise and experience in the location and acquisition of attractive properties that will yield a high return, and the location of local management companies specializing in the local market, for the purpose of management of the properties and marketing of the space therein. The Company estimates that the success factors in the acquisition of such properties in the operating segment are, *inter alia*, location of worthwhile transactions and identification of opportunities in the market with a fast response capability, acquisition of properties in attractive, high demand locations with improvement potential, acquisition of properties of a high building and finishing standard, acquisition of properties with a range of related services that are not available in nearby properties which are competing for new contracts, performance of meticulous due diligence investigations, *inter alia* with respect to the expected expense structure in the property and the profit increase potential, the strength of the tenants in the property and the nature of the collateral, as well as knowledge of the financial markets and the various players therein for the purpose of achieving attractive financing terms.

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

Entry barriers – In the Company's estimation, entities operating in this operating segment require mainly equity and financial strength which allow the acquisition of existing properties at relatively low financing costs. In addition, professional know-how, experience in the segment of acquisitions and management of income-producing properties, as well as know-how and experience in the credit and financing sector are important. A positive reputation from another important element, both during tenders for the acquisition of income-producing properties and in order to draw attractive tenants to the properties.

Exit barriers – Exiting this operating segment is conditional, mostly, on the ability to realize properties, which is a direct result of the location of the properties, their physical condition and the condition of the economy, as well as various costs.

[41] According to figures included in MarketView, Houston, Office Q4 2019, published by CBRE in Q4 2019.

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

The income-producing real estate sector in the U.S., including in Houston and Austin, is characterized by intense competition. Competition in this segment revolves around a number of parameters, of which the principal ones are; (1) the geographic location of the properties and the level of demand for the leasable in that area; (2) the amount of the rent and the management and maintenance costs; (3) the grant of incentives to new tenants or upon renewal of the lease agreement, such as improvements in the leased premises or a certain lease period in which the tenant is charged no rent; (4) the quality of construction of the leased buildings; (5) the level of related services; and (6) the reputation of the lessor. The competition in this sector exists both at the stage of acquisition of the properties and at the stage of lease-out of the properties. See Section 10.10 of this Chapter A for a description of the structure of competition in this operating segment.

10.8 Manner of execution of the Company's acquisitions

For the purpose of the Group's development in this operating segment, the Group focuses, as of the Report Date, on the acquisition of existing and populated income-producing properties and is not building new properties itself. In addition, the Company usually enters into financing agreements with different financing bodies for the purpose of the acquisition of the properties in this operating segment, usually under non-recourse terms (with exceptions standard in the U.S. with respect to which a guarantee of the Company is provided). See Section 8.1.9 of Chapter A of the Report for a general description of the manner of acquisition and exercise of the entire Group's rights in properties.

10.9 Acquisitions in the Report Period

No acquisitions were made during and after the Report Period.

10.10 Competition

The income-producing real estate sector in the U.S. is generally characterized by a high level of competition in all aspects pertaining to the rent, the quality of the finishing of the building and other unique characteristics of the property. The Group is exposed in the U.S. to competition by numerous companies engaging in business property lease, in areas of demands similar to those in which the Group's properties are located. The market of leasable offices in Houston, Texas, constitutes approx. 213 million sq. ft. of leasable office space (of which approx. 116.4 million sq. ft. is defined as Class A), and includes a large number of properties. To the best of the Company's knowledge, several bodies are active in Houston, holding significant shares of the office lease areas segment[42], and the Group's share in the income-producing property segment in the U.S. is negligible.

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

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

---

[42] According to figures appearing in MarketView insert, Houston, Office, Q4, 2016 published by CBRE in Q4/2017.

10.11 Goals and business strategy in the segment

See Section 26 of this Chapter A for details on the Company's goals and the Group's strategy.-

11. The Senior Housing Segment

11.1. General information about the senior housing segment

The Group's operations in the senior housing segment are presently performed through corporations which are held thereby directly and indirectly, under the "Palace" brand ("Palace" or the "Palace Chain") and it engages in the operation and development of senior homes for the elderly population that feature a high finishing standard and the provision of high-standard related services, which are generally designated for residents who are capable of leading an independent life. As of the Report Release Date, the Palace Chain employs, directly and indirectly, approx. 630 employees in total. As specified below, all senior homes of the Palace Chain operate long-term care (LTC) units (either inside or adjacently to the senior homes). The construction of LTC units is also planned for senior homes that are under development.

As of the date of this Report, Palace holds and operates three upscale senior homes as specified below:

§ Palace Tel Aviv – a senior home in the center of Tel Aviv, including an advanced medical center for recuperation and LTC, also known as "Palace Tel Aviv", which consists of 231 senior home residential units, and "Palace Medical", which contains 136 beds in 4 different units (jointly: "Palace Tel Aviv");

§ Palace Ra'anana – a senior home in Ra'anana, including an LTC unit, also known as "Palace Ra'anana" (formerly Ahuzat Bayit), which consists of 324 residential units and 67 LTC beds in two units ("Palace Ra'anana"), as well as an active retail center located adjacently to the senior home and known as Azrieli Ra'anana (formerly: "Park Mall").

§ Palace Modi'in – a senior home in Modi'in, which is known as "Palace Modi'in", whose construction ended during 2018, with resident move-ins having commenced in October 2018. Palace Modi'in comprises 239 residential units and approx. 136 LTC beds in 4 different units, 34 of which are recuperation units ("Palace Modi'in").

Palace has also acquired the rights in two sites, on which it is planning and constructing additional senior homes which are in various stages of development and construction, as specified below:

(1) Palace Lehavim – land situated within the Lehavim Local Council, which is in final construction stages toward the building of a retirement village, which is expected to include approx. 350 residential units and approx. 72 LTC beds ("Palace Lehavim"); On July 24, 2017, Palace received a permit for the construction of Palace Lehavim. In May 2018, an application for a permit for changes to the project was approved, for the addition of another unit to the LTC wing, and the permit was received in October 2018. The construction of Phase 1 of Palace Lehavim is expected to end in Q1 2020 and a Form 4 with respect thereto is expected to be received this April. For further details, see Section 7.7 of this Chapter A.

(2) Palace Rishon LeZion - in March 2016, the Company won a tender issued by the Israel Land Authority for the purchase of long-term leasehold rights in a lot of approx. 3.4 thousand sqm designated for senior housing and situated in the HaRakafot neighborhood in East Rishon LeZion, which is designated for the construction of up to 275 residential units, an LTC wing and approx. 3 thousand sqm of retail space ("Palace Rishon LeZion"). The project is at the stages of planning and receipt of approvals. For further details, see Section 7.8 of this Chapter A.

In addition, the Group is promoting a zoning plan for additional rights, *inter alia*, for senior housing, in the Azrieli Jerusalem mall.

11.2. Structure of the senior housing operating segment and the changes occurring therein[43]

To the best of Palace's knowledge, recent years have seen an increase in the life expectancy of the elderly population in Israel[44], alongside a rise in the standard of living of such population. According to data from the Central Bureau of Statistics (CBS)[45], at the end of 2018, there were approx. 1.056 million residents aged 65 or older living in Israel, representing a rate of approx. 11.8% of the population of Israel's residents. Nearly one half of them (approx. 42%) are older than 75. According to population forecasts, by 2040 persons who are 65 years of age or older will be around 1,900,000 in number, representing approx. 14.3% of the population. According to CBS data and publications by Ma'alot[46], alongside the increase in life expectancy, there is considerable improvement in the standard of living of the elderly, which is reflected in their increased participation in the Israeli employment market, an improvement in their physical, financial and social wellbeing, and an increase in their general satisfaction with their lives. In the elderly housing sector, a distinction may be made between two main solutions: retirement homes and senior homes. Most retirement homes are characterized by elderly residents of middle-to-low socioeconomic status, who are not independent and require constant nursing and medical services. Residents of the traditional retirement homes mostly share one room and their schedule is dictated by the retirement home's operator.

Unlike retirement homes, the senior housing market is aimed at an aged population which is financially established and mostly independent. Senior homes feature modern and luxurious services and facilities, including deluxe complexes that include expansive public areas containing facilities, such as: a swimming pool, spa and fitness club, class rooms, restaurant, cafeteria, clinic, and the like. Senior homes provide a respectable and high-quality solution for the elderly, and allow the residents to lead an independent life in the residential units, along with a social life in the public complexes and the provision of initial medical attention and LTC when necessary. According to estimates of Geocartography, as of the Report Date, the senior housing market consists of approx. 13,500-14,000 senior housing units. As a result of the increase and improvement in the life expectancy of the elderly, as described above, and due to the desire of such residents to conduct an active and social lifestyle, there has been an increase in the demand for senior residential units.

The Senior Housing Law, 5772-2012, which took effect in 2012, and the regulations promulgated thereunder (hereinbelow in this Section, jointly: the "Senior Housing Law"), regulates operations in the Israeli senior housing sector for the first time. The Senior Housing Law prescribes various rules in relation to the permits and requirements for the operation of senior homes, including the duty to receive a senior home operation license, and also prescribes sanctions for the violation of such rules. For additional details with respect to the regulation of the senior housing sector, see Section 23.1.3 of this Chapter A.

Resident agreements

Palace's engagements with the residents of the senior homes are made by means of resident agreements, that grant the residents the right to use the residential unit and the public areas and also grant them entitlement to the service basket offered and provided by every senior home to its residents, *inter alia*, in view of the provisions of the Senior Housing Law and by virtue of the relevant engagement agreement. The language of the

---

43 This information was taken from the following sources:
Mashav (national database for planning for the elderly) – the elderly in Israel statistical yearbook 2016: https://goo.gl/ouxS3D, The Central Bureau of Statistics – A press release in honor of World Senior Citizens Day of September 27, 2017 - https://goo.gl/cxEkj4, Amidar – senior housing - https://goo.gl/JAkoGT.

44 The Central Bureau of Statistics – Press Release of December 11, 2017: "Life expectancy in Israel 2016": https://www.cbs.gov.il/he/mediarelease/DocLib/2017/362/05_17_362b.pdf as well as a release from March 12, 2018 "life expectancy" https://www.cbs.gov.il/he/publications/DocLib/2018/indicators16_1697/prt03_2_h.docx.

45 The Central Bureau of Statistics – Press Release for World Senior Citizens Day of September 25, 2019: https://old.cbs.gov.il/reader/newhodaot/hodaa_template.html?hodaa=201911301.

46 Ma'alot – The Senior Housing Market in Israel, June 2015 - https://goo.gl/F3oj4I and the Central Bureau of Statistics – Press Release for the International Senior Citizen Day of October 3, 2018: https://www.cbs.gov.il/he/mediarelease/DocLib/2018/284/11_18_284b.pdf.

agreements with the residents varies among the various senior homes operated by Palace (*inter alia*, considering the fact that some were purchased from previous owners), and according to the time of their signing and the provisions of the law at such time.

As a rule, the engagement is made by means of the standard track, i.e., the deposit forfeiture track, which includes the resident depositing a deposit for the duration of the term of the agreement. In most cases, the amount of the deposit is determined according to the location of the home and the services provided thereby, the size of the apartment and the finishing level, the levels of demand, and more (the "Deposit"). The resident agreement determines the period over which the deposit will be forfeited (mostly over the course of 12-14 years) (the "Forfeiture Period") and the rate at which it will be forfeited every year (mostly at a rate ranging between 3% and 4%, plus V.A.T. as required by law). At the elapse of the Forfeiture Period, the forfeiture of the Deposit comes to an end and the balance of the principal plus linkage differentials is repaid to the resident or his heirs upon the expiration of the resident agreement and the discontinuance of use of the residential unit.

The resident agreement also specifies the collateral to be provided to secure the Deposit, all subject to the relevant legal provisions at such time.

In view of the Group's financial soundness, Palace also enables residents to engage in alternative tracks to the deposit forfeiture track described above, including a lease track in which the resident pays rent on a monthly basis etc.; however, the scope of such tracks is smaller than that of the track described above.

In addition to the forfeiture of the Deposit and/or the payment of rent as described above, the resident agreement provides the amount of the monthly maintenance fees to be collected from the resident. Subject to the provisions of the Senior Housing Law, Palace may increase the maintenance fees at a real rate and subject to an actual increase in the operating expenses of the home, and, in any event, by no more than the maximum increase rate specified in the resident agreement.

11.3. Restrictions, legislation, standardization and special constraints applicable to the senior housing operating segment

For details with respect to restrictions, legislation, standardization and special constraints applicable to the operating segment, see Section 23.1.3 of this Chapter A.

11.4. Changes in the scope and profitability of the senior housing operations

According to the various publications, as specified in Section 11.2 of this Chapter A, the increase in life expectancy combined with the increase in population and the improvement in the standard of living among the elderly population targeted by Palace lead to an increase in the scope of demand for high-quality and luxurious senior housing solutions in Israel and to the expansion of Palace's operations in the segment.

Furthermore, the increased awareness of the target group to the advantages of senior housing and the recognition that senior homes for the aged population are a respectable and high-quality solution for this population, while differentiating this operating segment from the image associated with traditional retirement homes, contributes to the development of this segment. As of the Report Date, Palace holds rights in two sites on which it is planning and constructing additional senior homes (Palace Lehavim and Palace Rishon LeZion), and Palace's management expects that their completion and occupancy will increase the scope of its operations in the senior housing segment and turn Palace into a significant and leading agent in the senior housing market in Israel.

For details on the potential impact of the spread of Coronavirus on the Company's business, including the senior housing segment, see Section 2.2 of the Board of Directors' Report.

The information regarding the factors which in the estimation of Palace's management may affect the scope of its operations in the senior housing segment and the implications thereof on Palace's positioning as a significant and leading factor in the senior housing market as aforesaid, constitute forward-looking information, as defined in the Securities Law, which is based on the estimations of Palace's management. Such estimations are based on external information sources and subjective assessments by Palace's management. Actual results may differ from the estimations so predicted, inter alia, as a result of non-realization of the estimations of the external information sources.

11.5. Developments in the markets or changes in the characteristics of customers

The scope of the operations in the senior housing segment is growing, as a result of the increased life expectancy of the aged population. This trend is also characterized by the desire of parts of such population to preserve the high standard of living and quality of life to which they have become accustomed during the years of their life, and the feeling of loneliness and lack of independence created due to the difficulty in accessibility to the various community services compared with the fulfillment of needs provided by senior housing. In addition, whereas the elderly population had been deterred in the past from moving to senior housing due to the negative image associated therewith and the poor level of services featured thereby, the senior housing setting presently provides a high quality of life while ensuring a safe environment that preserves the resident's independence, cares for his health, ensures an active daily schedule, which includes culture, sports, social interaction and community, and facilitates living at a high level of comfort in luxurious centers. The entry of leading entities, such as Palace, into the senior housing sector, which players introduce a modern construction standard of high-level senior homes into the sector, also contributes to the improvement of this image. These developments have brought with them new market demands for expansion of the services offered in senior housing. Therefore, recent years have seen an increased demand for an environment that offers, in addition to the basic services, a variety of social and cultural activities, such as a swimming pool, spa, classes, restaurant, cafeteria, alternative medicine services and more.

11.6. Critical success factors in the senior housing operating segment and the changes occurring therein

It is Palace's management's position that there are several critical success factors in the operating segment, which include: (1) Knowledge, experience and management: The senior housing segment is complex and requires experience in and knowledge of issues that are unique to the elderly population, with an emphasis on the operation of senior housing homes. The ability to optimally manage a senior home bears great importance in Palace's coping with the competition against the existing competitors in the sector; (2) Financial soundness: The Group's ability to withstand the costs involved in the construction, purchase and/or operation of premium high-level senior homes is critical to the subsistence of Palace's operations and its positioning as a leading factor in the senior housing market, and may be a central consideration in the choice of a senior home by potential residents. In addition, Palace's ability to provide collateral to the residents and repay the funds of the Deposit deposited by them, as mandated by the Senior Housing Law, constitutes, in the estimation of Palace's management, a key success factor; (3) Structure of the senior home, the residential units and the surroundings: Since the senior housing sector is on the course of constant development, both in terms of the quality of the structures and residential units and in terms of the level and variety of services, it is necessary to maintain a high construction and finishing standard in the senior home and the public areas thereof, which constitutes a critical success factor in the sector; (4) Location and nationwide presence: A central and accessible location that also facilitates access to nearby centers, recreation and cultural institutions, convenient access to railway stations and public transportation as well as traffic arteries, in the area of the senior home, constitutes an advantage and a central consideration in the choice of a senior home. Furthermore, the location of the senior home in relation to the place of residence of the children and family and former life center of the resident is a highly significant factor that affects the resident's choice of such or other senior home. A more attractive location of the senior home brands it as a more luxurious place and affects the price and the amount of the deposits that may be charged for the residential unit; (5) The size of the residential center: A large residential center consisting of hundreds of residential units entails economies of scale in view of the number and diversity of the residents residing therein, which enables and creates an abundance of activities and a vibrant community and social life; (6) Reputation and branding: The right branding of a senior home, i.e., the attribution of positive values, such as quality, enjoyment, luxury, value for money, the branding of the company running the senior home, years' long reputation, the company's stability, etc., and the creation of a positive position and perception among consumers with respect to the senior home, bear importance in the positioning of the senior home in relation to its competitors; (7) Resident satisfaction: Residents who express high satisfaction with their standard of living in the senior home are a major marketing tool vis-à-vis potential clients, which has a high cost-to-benefit ratio. Palace ensures that it is attentive to the needs of the residents and provides them with a quick response, while maintaining a high level of service and personal response to each and every resident. Palace also holds various multigenerational events, that involve the residents of the homes and their families in order to expose Palace's senior homes and the services provided thereby to as many potential clients as possible.

11.7. Key entry and exit barriers of the senior housing operating segment and the changes occurring therein

In the estimation of Palace's management, the principal barriers for entry into the senior housing operating segment are:

1. The need for unique knowledge, experience and reputation, which are required for the development and management of a senior home;
2. The need for material capital investments for the purpose of purchase or construction of modern senior housing homes of a high finishing standard and their marketing;
3. The shortage of potentially economically viable land for the construction of senior homes;
4. The ability to comply with regulation requirements that prescribe threshold conditions for the operation of senior homes;
5. The requirement for financial soundness and current cash flow for the purpose of ensuring the ability to repay deposits, and, *inter alia*, the provision of collateral to the residents according to the provisions of the Senior Housing Law.

In the estimation of Palace's management, the principal barriers for exit from the senior housing operating segment are:

1. The difficulty in finding a purchaser for such operation due to the substantial scope of investment, the knowledge and the experience required for the operation of a senior home under the provisions of the Senior Housing Law;
2. Long-term contractual obligations and the difficulty in evicting residents within a short time.

11.8. Alternatives to the senior housing sector and the changes occurring therein

As of the Report Date, the principal alternative to the senior housing sector is the residence of the elderly in households. In 2018, approx. 97% of persons aged 65 or older were living in households[47]. Among the reasons leading to such high rates, one may specify the improvement in the lifestyle and health of the aged population in recent years, which allow for independent living, and the increase in the variety of services offered to the

[47] The Central Bureau of Statistics - Press Release for the International Senior Citizen Day of September 25, 2019: https://old.cbs.gov.il/reader/newhodaot/hodaa_template.html?hodaa=201911301.

aged population at home (for example, emergency call centers, medical care at home, etc.). Furthermore, the ability to be assisted by live-in caregivers makes it easier for the elderly to stay at home.

Another alternative to the operating segment is retirement homes, which are mostly characterized by elderly residents of middle-to-low socioeconomic status, who are not independent and are in need of constant medical and nursing services, with the cost of residence in such homes being lower than that of senior homes. It is noted that Palace's management estimates that the existing alternatives on the market do not fully address the social and cultural life aspects that Palace offers in the senior homes, and the sense of security that senior homes provide to their residents, which constitute a significant consideration when choosing an alternative to senior housing,

11.9. Manner of performance of the Group's acquisitions in the senior housing segment

For a description of the manner of purchase and exercise of the Group's rights in properties, see Section 8.1.9 of this Chapter A.

11.10. Acquisitions made during and after the Report Period

No acquisitions were made during or after the Report Period.

11.11. Competition

To the best of Palace's knowledge, as of the Report Date, there are approx. 50 entities operating approx. 100 senior homes in Israel, among which are Mish'an Center, Mediterranean Towers, Ahuzot Rubinstein, Ad 120, Bayit Bakfar, Bayit Balev and others, with half of them being located in the center of Israel, primarily in the area of Tel Aviv and Hasharon. In the estimation of Palace's management, the following may be listed among the factors that affect the structure of the competition in the sector: (1) Geographical location, which constitutes a central consideration in the choice of a senior home by potential residents, who tend to prefer a senior home located in proximity to their family members' place of residence or in proximity to their previous living environment; (2) The nature of the residents in the senior home and their lifestyle, due to the importance of the cultural and social life that senior homes offer residents; (3) The standard of the residential units, public areas and other facilities that the senior home offers its residents; (4) The amount of the deposit and the usage fees collected from the residents. In Palace's estimation, as of the date of this Report, Palace's market share in the senior housing market is approx. 6% based on the presently existing homes and irrespective of the operation of the Medical units.

Principal methods for coping with the competition

In order to preserve Palace's competitive position in the senior housing market and cope with the existing competition, Palace takes, *inter alia*, the following measures:

1. Preserving and ensuring a high standard of services and maintenance in the senior homes. In Palace's estimation, the standard of maintenance and services that Palace provides its residents is among the highest in the sector.
2. Constructing new senior homes in attractive and competitive geographic locations, built to a high finishing standard that includes public areas, luxurious convenience facilities, including infrastructure for the provision of functional services according to the residents' needs.
3. Preserving and ensuring a high level of resident satisfaction, attention to their various needs and quick personal response.

4. Maintenance of an effective marketing and sales layout and branding of the chain as a premium chain under the “Palace” brand.

In the estimation of Palace, its competitive position is favorably affected by the following factors: The reputation and high branding of the existing homes (Palace Tel Aviv, Palace Ra’anana and Palace Modi’in), impeccable management and service, the Group’s financial soundness, presence in demanded marketing areas and more.

In the estimation of Palace, its competitive position may be adversely affected by the following factors: entry into and/or expansion of competitors into the senior housing market, mainly in the geographical areas in which Palace operates.

11.12. Goals and business strategy in the segment

For a specification of the Company’s goals and the Group’s strategy, see Section 26 of this Chapter A.

12. Income-Producing Real Estate – Additional Operations:

12.1. Data Centers

12.1.1. Current activity

Following the Company's reports, according to which it examines from time to time entry into operating segments tangent to its income-producing property activity, the Company examined the data centers market. After studying the market and the key players in the field, the Company adopted a decision during the Report Period to invest in a company engaged in this field, while noting the growth potential that exists in the field and with the intention that it will serve as another growth engine for the Group's activities. For further details see the presentation released by the Company on the Data Centers market and Compass and its business of July 18, 2019 (Ref. 2019-01-073897), which is incorporated herein by reference.

The Group decided that the first step in the Company's entry into the field would be 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 field.

Accordingly, on July 18, 2019, the Company completed, through a wholly owned (indirectly) subsidiary, an investment in Compass Holdco, LLC. ("Compass"), engaged in the field of data centers in the United States and in Montreal, Canada. In the said transaction, the Company acquired approx. 20% of the Compass unit capital (the "Initial Investment") with an option to increase its holding to approx. 33% at the unit price of the Initial Investment, plus future investments. For further details regarding the transaction, see Section 1.3.4 of this Chapter A. In February 2020, another round of investment was held in Compass and as of the Report Date, the Company holds (indirectly) approx. 20.7% of Compass unit capital.

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

The Company's estimates in this Section 12.1 of Chapter A 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, 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.

12.1.2. The structure of activity and changes therein

In the late 1980s and early 1990s, technology began to be inherently integrated in the business world, and the use of "server-client" computing architecture in large organizations began to grow in scope. In the early 2000s, there was a sharp growth in Internet users, and by 2018, there were over 4 billion Internet users worldwide[48].

As technology developed over the years, it appears that companies began to outsource services for the management of their servers and information, mainly in light of the increase in the amount of digital information that every company is required to store and process and the complexity of independent server management for the retention of such information. Many companies can no longer settle for internal server management within the organization and therefore use outsourcing in order to obtain such services.

These outsourcing services are provided at data centers, which are dedicated, secure income-producing property that serve as server processing, calculation and storage areas.

The purpose of the data centers is to provide renters using them with the optimal space and conditions for the efficient operation of IT equipment. For such efficient operation, the data centers must be located in an area where there is broad and fast connectivity to communication networks, through optical fibers, and for that area to have access to large and available power supply, to support the transfer of information from and to customers and for processing, storage and cooling of the environment in which the servers are located.

Currently, the global data centers market is one of the highest growing in the income-producing property segment and the annual revenues thereof in 2019 are estimated at approx. $36 billion[49].

12.1.3. Changes in scope of activity

In recent years, the data centers market has been growing rapidly.

This growth is mainly due to an increase in the amount of data and volume of cloud-backed information of government, business and private entities.

While the average monthly information traffic in 2016 stood at 96 ExaBytes, the projection is that by 2021, it will reach 278 ExaBytes, that is, a compound annual growth rate (CAGR) of 23.7% within five years of online content consumption[50].

Demand in the data centers market is influenced, among other things, by the following developing factors: cloud services companies, Internet Of Things (IOT), Artificial Intelligence (AI), 5G networks, smart transport, Augmented Reality and Crypto Currencies.

Furthermore, given the expectation that the "digitization" of the economy will continue to generate a huge amount of data, the International Data Corporation (IDC) estimates, that the volume of data generated will increase from 33 zettabytes (ZB) in 2018, to 175 zettabytes (ZB) in 2025[51]. As mentioned above, the rise in demand for data centers storage services also stems from the global trend of transition to outsourcing information management. While in 2016, only 12% of the data centers services were provided by outsourcing and the rest were managed by the companies themselves, in 2019, the share of outsourcing increased to 45% of said services[52]. The main causes for the transition to outsourcing are, *inter alia*, the companies' desire to focus

---

[48] Clipperton Finance, Cisco.

[49] CMA Strategy Consulting.

[50] Clipperton Finance, Cisco.

[51] The Digitization of the World From Edge to Core - https://www.seagate.com/files/www-content/our-story/trends/files/idc-seagate-dataage-whitepaper.pdf.

[52] IDC, Worldwide Datacenter Installation Census and Construction Forecast, 2019–2023, Doc #US43797219, Apr 2019, The analysis includes datacenters only (without server closet and server rooms).

on their core business, increasing viability (given the increase in costs and complexity of management of information systems internally) and the switch to IT services, from companies that provide cloud services – companies that specialize in providing services that include all IT infrastructure building and maintenance tasks as well as the retention of data and information on the servers of those "cloud companies".

The increase in demand has in recent years resulted in an increase in the volume of consumption and use of data centers[53]. While in 2016 the output was 5,353 Utilized MW, in 2018 the output was 6,439 Utilized MW, and it is expected that in 2023, the output will be 14,100 Utilized MW[54].

The profitability of the data centers, like other real estate and infrastructure assets, is measured by a cost recovery model, and this market is characterized by significantly higher returns, compared to other income-producing property segments in the international markets.

12.1.4. Developments in markets or changes in customer characteristics

The development of the cloud sector and the transition of companies to information management through outsourcing has led, as aforesaid, to rapid growth in the data centers market.

According to estimates, by 2023, revenue in the data centers market is expected to grow to approx. $47.9 billion in this year. Furthermore, the US market is a high maturity market and positioned as a global leader in the field.

To the best of the Company's knowledge, as of the Report Date, approx. 60% of the world's data centers capacity (in terms of output, i.e. MW) is in North America, approx. 20% in Asia-Pacific, approx. 13% in Europe and the remainder in the rest of the world.

12.1.5. Critical success factors

In the Company's estimation, there are a number of critical success factors in the field of data centers, including: (1) Segment entry strategy: The Company's strategy for entering the field is investment in the capital of an existing company operating in the field in North America with an option to increase the holding rate in this company, which has significant development and entrepreneurial potential; (2) Asset location: The location of the data centers assets is a significant factor for the customer, consequently, the location of the assets is of critical importance, when amongst other things, significant parameters include – the ability to supply large amounts of electricity from environmentally friendly sources, priority to cold areas with low electricity costs, and proximity to communication networks. In addition, the physical deployment with respect to customer location is relevant in view of the importance of the data transfer speed (latency), as well as the requirement of cloud companies for data center redundancy and the data centers' physical deployment requirements that include defining distances between centers; (3) High level of professionalism: A high level of professionalism and understanding is required in the relevant engineering fields of electrical, mechanical systems and communication systems and computers engineering; (4) Relationships with significant customers: In this area, there are a limited number of HyperScale customers, who are large consumers, such as large cloud service providers and telecommunications companies who are sophisticated customers with very complex and specific requirements. Therefore, the ability to communicate with these customers is an important element of success in the field; (4) Regulation: Continued growth in data consumption encourages regulators to prescribe provisions concerning protection of end-user IT infrastructure, which strengthens the vitality of the data centers market; (5) Digitization: Digitization processes and technological developments affect demand levels in the field. According to an assessment of the International Data Corporation (IDC), by 2025 each person will perform over

[53] According to the overall forecast of Retail Colocation deployment (<7979300KW) in addition to Hyperscale and Scale.
[54] CMA Strategy Consulting.

4,900 operations involving digital data a day (once every 18 seconds)[55], which is expected to increase demand for data centers.

12.1.6. The main entry barriers

The Company estimates that the main entry barriers in the field of data centers are as follows:

Entry barriers: (1) Very high capital requirements; (2) Relevant knowledge for creating value in the field of real estate; (3) Deep technical understanding of data centers' design and ability to build them quickly; (4) High availability of electricity for supply in high volume, with emphasis on renewable production sources; (5) The need for maintenance or creation of infrastructures, in a high-connectivity fiber optic communication system near the data center location; (6) Efficient capital utilization.

12.1.7. Substitutes

While data center design and deployment may change, the need for them is increasing.

As of the Report Date, there are approx. 27 billion devices connected to the Internet. This number is set to grow to more than 75 billion devices in the next five years[56], that is, a massive increase in the number of internet devices is expected, and as a result, an even larger increase in the volume of data that will require storing.

Should these projections be realized, additional infrastructures will be required to provide the services currently offered by the data centers and solutions that may replace them may be developed.

As of the Report Date, to the best of the Company's knowledge, there is no substitute for the services provided in data centers. However, as technology advances and demand increases, substitutions may develop. In the event that new server technology evolves to meet customer needs at lower costs, the data centers' infrastructure may be less attractive.

12.1.8. Key products and services of the operating segment

As of the Report Date, the Company (indirectly) holds about 20.7% of the equity units in Compass.

Compass's products include the leasing of data centers assets to companies for self-use as well as to wholesale companies and companies providing cloud services in the US and Montreal, Canada. Compass' management is experienced in developing and starting data centers as well as in relationships with strategic clients in the field.

As of the Report Date, Compass has 10 active sites and 3 Hyperscale facilities under construction and development.

Compass places emphasis on the location of the data centers in central areas and near major communications networks and major power sources. Compass also makes sure to tailor its services to its clientele.

12.1.9. Customers in the field

In the field of data centers, leasing to customers is based on power units (kw) instead of units of space.

---

[55] The Digitization of the World From Edge to Core - https://www.seagate.com/files/www-content/our-story/trends/files/idc-seagate-dataage-whitepaper.pdf.

[56] https://www.idc.com/getdoc.jsp?containerId=prUS45213219.

Customers are classified according to the amount of kw (the units of measure) requested, as follows: Hyperscale (>5 MW), Wholesale (300 KW – 5 MW) and Retail (<300 KW).

Due to the sensitivity and materiality of the services provided in data centers, customers in the field tend not to make frequent changes to their server farms and information bases, and consequently engagements in the field are long-term and characterized by stability and few replacements by tenants. Thus, for example, the duration of leases that characterize engagements with Hyperscale and wholesale customers (large cloud service providers, telecommunications companies, etc.) ranges from 5-10 years, and the duration of typical leases with retail customers (medium business - banks, airlines, etc.), is for 1-3 years.

The compound annual growth rate (CAGR) of data centers revenue from outsourcing, from 2017 to 2022, is as follows: Hyperscale – increase of 49%, wholesale – increase of 20% and retail – increase of 15%[57] (see also Section 12.1.3 above regarding changes in scope of activity).

Other customers in the field of data centers are entities from various fields, including: healthcare services, finance and government institutions. Communication with these entities takes place directly, due to the sensitivity of the information, the importance of information security and the protection of the privacy of the end customers.

12.1.10. Marketing and distribution in the field

Compass's marketing strategy is a direct appeal to the management of its prospective customers. This marketing strategy is consistent with the direct sales approach that is prevalent in the field of data centers (unlike other types of real estate, where the brokerage-based sales approach is used).

As of the Report Date, Compass has no dependency on any of its marketing methods, the loss of which would have a material adverse effect on the operating segment or which would cause Compass a material cost increase as a result of the need to replace it.

12.1.11. Competition in the field

The data centers industry is characterized by high competitiveness.

Competitiveness in the field exists in a variety of aspects, including: (1) Competitiveness between entrepreneurs with similar assets; (2) Competitiveness with respect to the lease rates offered in data centers; (3) Competitiveness with respect to the proposed rental spaces (considering other factors such as: considerations of location, connectivity, security, etc.).

As of the Report Date, there are approx. 300 certified data centers worldwide, ranging from large public companies to smaller private companies.

To the best of Compass's knowledge, its key competitors are: Digital Realty, CyrusOne, QTS, NTT, Vantage, Aligned, Stack and other similar companies.

Compass is coping with the competition in the field, *inter alia*, through modular programs based on a number of models of dedicated facilities, standardization and strict adherence to fair pricing and asset development in high-demand locations.

---

[57] Cowen Research, Sourced from Structure Research July 2019.

12.2. Hospitality

12.2.1. Current Activity

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

On December 9, 2019 the Company announced its entry into the hotel industry. For further details, see the Company's presentation of December 9, 2019 (Ref. 2019-01-107397), which is incorporated herein by reference.

On February 9, 2020, the Company closed the acquisition of the Mount Zion Hotel in Jerusalem (in this section: the "Hotel"). For further details on the Hotel purchase transaction, see the Company's immediate reports of December 9, 2019, December 18, 2019 and February 9, 2020 (Ref. 2019-01-107367, 2019-01-111237 and 2020-01-014439 respectively), which are incorporated herein by reference.

As of the Report Release Date, the Company operates the Hotel through a wholly owned management company (the "Management Company"). The Hotel's operation includes ongoing management and operations, including the provision of accommodation, food and beverage services, leisure and other accommodation services. The Company intends to renovate and expand the Hotel in accordance with the zoning plan applying to the lot on which the Hotel is built. As of the Report Release Date, the Hotel employs approx. 120 people. On March 17, 2020 the Company closed the activity of the Mount Zion hotel in view of the directives in connection with the spread of Coronavirus, which impede its activity. For details on the potential impact of the spread of Coronavirus on the Company's business, including the Hotel, see Section 2.2 of the Board of Directors' Report.

In addition, as part of the Company's activities in the hotel industry, the Company plans to build hotels as part of projects owned by the Group, characterized by a mixed-use and granting, among other things, building rights for hospitality designation, as follows: development of a hotel in the city of Modi'in (lot 21), located near the Azrieli Modi'in Mall, which is expected to include approx. 84 hotel rooms and suites; In addition, the development of a hotel in the expansion of the Azrieli Center (Spiral Tower) in Tel Aviv, which is expected to include approx. 250 hotel rooms and suites.

The Company's estimates in Section 12.2 of this Chapter A are forward-looking information, as this term is defined in the Securities Law, based on subjective estimates of the Company at the Report Release Date and sources of information external to the Company, 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 factors beyond its control, including changes in market conditions and in the hotel industry in particular, and the continued effects of the spread of Coronavirus.

12.2.2. General environment and the effect of external factors on the Company's activities

The Company's hotel operations are expected to concentrate on the Israeli hotel market; therefore, the Company is exposed to changes in the Israeli economy as a whole, and in the hotel industry in particular.

The Company's revenues from hotel operations are expected to derive from the accommodation of tourists from Israel (in this section: "Domestic Tourism") as well as from tourists from different countries of the world (in this section: "Inbound Tourism").

The significant and unique factors that may affect the Company's business results in the hotel industry are as follows: (1) Political-security related events: Since the Company's activity in the hotel industry is expected to concentrate in Israel, deterioration in the security situation, hostilities and political and military conflicts between Israel and its neighbors could lead to a decline in demand for hotel services (both foreign and domestic tourism), thus adversely affecting the state of the tourism industry in general and the Company's business in the hotel industry in particular; (2) Economic situation in the Israeli and global economy: The population's consumption habits are directly influenced by the economic situation in Israel as well as worldwide. A global or local economic crisis and economic instability can lead to a decline in general consumption and especially in consumption in the leisure and recreational field, which includes the hotel industry; (3) Continued imposition of limitations on the opening of hotels due to the spread of Coronavirus and its effects on the tourism industry.

12.2.3. The structure of activity and changes therein, and changes in the scope of the activity[58]

The hotel industry is considered a volatile industry, quickly affected by economic changes. Moreover, the industry consists of many operating inputs, thus containing inherent operational risk.

Nevertheless, according to the Central Bureau of Statistics, the hotels supply in Israel has increased, so that by 2019 there were 429[59] hotels for tourism in Israel, compared to 419 hotels in 2018.

In addition, the number of guest rooms in 2019 was estimated at approx. 55,700 rooms, compared with 54,900 rooms in 2018. Alongside the increase in hotel rooms, the annual room occupancy rose to about 70% in 2019 compared to about 68% in 2018, and in segmentation by selected tourist localities, the highest occupancy rate was found in Tel Aviv-Jaffa (76%), Eilat (73%) and Jerusalem (72%).

The industry is characterized by great competition, especially in the demand areas. The multiplicity of competitors, at all levels, increases the need for companies operating in the industry to specialize in the operating markets, in marketing, branding and for high operational efficiency, in order to increase profitability rates from operations. In addition, the industry is significantly exposed to seasonal trends, so that in strong seasons, the hotels must also cover the operating costs of the weaker seasons, some of which are fixed costs or minimum necessary costs. Regulation is also a significant factor in some cases, as activity in the industry is subject to numerous legislative provisions and government decisions, which can affect supply and demand in the industry, service prices, scope of investments and more.

For details on effects of the spread of Coronavirus on the Company’s operating segments, including the hospitality segment, see Section 2.2 of the Board of Directors’ Report.

12.2.4. Market developments or changes in customer characteristics

As mentioned, the hotel industry in Israel enjoys both Domestic and Inbound Tourism.

---

[58] This information is taken from the following sources:
Midroog – Hotel Companies Rating – Methodological Report 2016
https://www.midroog.co.il/Upload/Documents/%D7%9E%D7%AA%D7%95%D7%93%D7%95%D7%9C%D7%95%D7%92%D7%99%D7%94%20%D7%9C%D7%93%D7%99%D7%A8%D7%95%D7%92%20%D7%91%D7%AA%D7%99%20%D7%9E%D7%9C%D7%95%D7%9F%20-%D7%A1%D7%95%D7%A4%D7%99%20-%2011022016%20%20%20.pdf
Globes – 2019 Brand Index
https://www.globes.co.il/news/article.aspx?did=1001293381
Israel Hotel Association website
https://www.melonaim.org/
Central Bureau of Statistics – Press release: Overnight stays in tourist hotels in 2019
https://old.cbs.gov.il/reader/newhodaot/hodaa_template.html?hodaa=202028023

[59] According to the Israel Hotel Association, there are currently 431 tourist hotels in Israel: https://www.melonaim.org.

According to the Central Bureau of Statistics, after sharp increases in Inbound Tourism indices in 2018, record highs for tourist arrivals to Israel and the number of tourists staying in hotels were recorded in 2019. The estimated number of overnight stays is 25.5 million overnight stays in hotels in Israel in 2019 – an increase of 3% compared to 2018. The increase was due to a 5% increase in the number of inbound tourists stays (a record of 12.1 million stays) and an increase of almost one percent of domestic stays (13.4 million stays).

The Central Bureau of Statistics also estimates that about 47% of all 2019 stays are attributed to Inbound and Domestic Tourism, and that the average room occupancy in hotels in Israel was approx. 70% (a 2% increase compared to 2018)[60].

In recent years, several major trends have been observed in the hotel industry in Israel, attributed to customer characteristics and preferences, among others: (1) Changes in customer expectations: An increase in the importance of the level of service, the desire for a hospitality experience that combines culture, leisure, culinary and more; (2) Integration of technologies: A trend of adapting hotels to technological changes and developments, integrating technologies in the services offered, among other things, transition to the execution of online bookings used as the key marketing and sales tool; (3) Branding: Focus on branding and creating the characterization of the hotel according to its geographical location, target audiences and its surroundings.

Critical success factors

The Company estimates that there are a number of critical success factors in the hotel industry, including: (1) The expansion strategy in the hotel industry: The Company's possible ways of entry into the industry are, among other things, the acquisition of an existing hotel with potential for high positioning, building hotels as part of a mix-use, use of existing real estate property owned by the Group, development through the acquisition of lots, development and construction, acquisition of a hotel/ hotel chain and adapting them to the Group's standards as well as the acquisition and conversion of an existing building serving other uses to a hotel; (2) Hotel location: Operation of hotels in attractive locations; (3) Expansion and upgrading: In the event of the acquisition of an existing hotel and in particular in connection with the Mount Zion Hotel – investment in expansion, renovation and the interior and exterior design of the hotel, for its positioning as a luxury brand; (4) Customer experience: Emphasis on a high level of hospitality, courteous service, ensuring food quality and offering a wide range of services to customers; (5) Integration of technologies: Investment in information systems and technology, to improve operational efficiency and profitability; (6) Exploiting business opportunities: Locating profitable deals and exploiting business opportunities in the hotel industry; (7) Goodwill and branding: Creating a positive branding and goodwill, among other things, through high standards of construction and service, attribution of positive values, such as: quality, enjoyment, luxury, appropriate value for money; (8) A wide range of customer services: Offering a wide range of customer services, including: shops, restaurants, spa, health club, conference and event halls, swimming pools and more; (9) Maintenance and operations: Financial strength for financing ongoing high-level maintenance.

12.2.5. The main entry and exit barriers

The Company estimates that the main entry and exit barriers into the hotel industry are as follows:

Entry barriers: (1) Obtaining approvals and permits for opening a new hotel and the time required for its establishment; (2) Obtaining regulatory approvals and licenses during the hotel's ongoing operations after its opening; (3) Access to business opportunities; (4) Capital required for the ongoing maintenance and renovation of the buildings and equipment; (5) Positioning, branding and establishing customer audiences; (6) Creating and maintaining a new and successful brand given the competitiveness in the industry and alongside the veteran chains, which enjoy great reputation.

---

[60] Central Bureau of Statistics – Press release: Overnight stays in tourist hotels in 2019 https://old.cbs.gov.il/reader/newhodaot/hodaa_template.html?hodaa=202028023

Exit barriers: (1) Realization of hotel assets, most of which are of significant value; (2) Statutory difficulty and complexity in changing a hotel designation for other purposes; (3) Cancellation or termination of existing rental and management agreements, engagements with suppliers and more.

12.2.6. Substitutes

In recent years, hospitality alternatives have been expanding and the main alternatives today include: (1) Private properties: privately owned properties, which are rented for short periods, both independently (e.g. sublet) and through brokerage sites (such as Airbnb); (2) Guest houses, boarding houses and field schools; (3) Hostels. It should be noted that these alternatives appeal to certain market segments and are distinct from the Company's planned activity in the hotel industry in both the nature and level of hospitality and in the customer experience.

12.2.7. Key products and services of the operating segment

As of the Report Release Date, the Company's activity in the hotel industry is the operation of the Mount Zion Hotel, which includes the following services: (1) Accommodation services: Accommodation services (accommodation and meals), according to the packages booked by the customer. This service represents the main share of hotel operating segment revenue; (2) Food and beverages: Food and beverage services sold directly in the hotel dining rooms and restaurants; (3) Recreational and leisure services: A gym, pool, spa and wellness club operated by the management company as well as a store operated by a third-party leasing the space for the operation of the store from the hotel; (4) Business services and conference halls.

Customers in the hotel industry.

The Company's revenues from the Mount Zion Hotel derive from a wide range of customers and diverse market segments, which include, *inter alia*, Domestic and Inbound Tourism, both groups and individuals.

The volume of Domestic Tourism as of 2019 is estimated at approx. 18% of all hotel guests. The distribution between Domestic Tourism guests arriving as individuals and those arriving as groups is 72% and 28%, respectively.

The volume of Inbound Tourism as of 2019 is estimated at approx. 82% of all hotel guests. The distribution between Inbound Tourism guests arriving as individuals and those arriving as groups is 17% and 83%, respectively.

As of the Report Release Date, the Company has no dependency on any particular customer and there is no customer responsible for 10% or more of the total Mount Zion Hotel revenue.

12.2.8. Marketing and distribution in the field

The management company operates on wide-ranging marketing and sales channels and through various and varied means to reach a wide target audience in Israel and abroad. For marketing purposes, the management company operates primarily in digital media and in particular through the hotel's website, which is accessible in Hebrew as well as foreign languages (English, German, Russian, French and Chinese). The management company also makes use of marketing and distribution through tourist agents from Israel and around the world as well as social networks.

In the Company's estimation, as of the Report Release Date, the Company has no dependency on any one of its marketing channels, the loss of which would have a material adverse effect on the hotel's operations or cause the Company to incur a material cost increase as a result of the need to replace it.

12.2.9. Competition in the field

The hotel industry in Israel is characterized by high competitiveness. Competitiveness in the field exists on a variety of levels, including: at the individual hotel level in relation to other hotels at and around its level, in a specific hotel category (e.g. luxury hotels, boutique), at a geographical level (specific region), national, regional (the Mediterranean) and international level (tourism in Israel relative to other destinations around the world). Private properties, serving as an alternative to short-term rentals, pose competition for hotels, especially in Tel Aviv and Jerusalem and in respect of a particular market segment. The same is true of guest houses and boarding houses, however, there is a difference in the quality of the accommodation, its nature and in the customer experience and service.

To the best of the Company's knowledge, its major competitors in the hotel industry are individual hotels located close to the Mount Zion Hotel, including: Dan Panorama, Dan Boutique, King Solomon, Inbal, Leonardo Plaza. The Company plans to cope with competition in the industry, among other things, by renovating, branding and upgrading the Mount Zion Hotel as well as expanding its activities in the hotel industry by establishing unique, high-standard hotels in demand areas.

As of the Report Release Date, the Group's share of the hotel industry is its holding in the Mount Zion Hotel.

12.2.10. Seasonality

The hotel industry in Israel is significantly affected by seasonality and there are fluctuations in hotel occupancy rates and room rates between seasons. As a rule, the second and third quarters (i.e., April - September), which include warmer months and most of the Israeli holidays, are characterized by higher demand in the first and fourth quarters (i.e. January - March and October - December, respectively). The difference in the income of the hotel industry between the various quarters is due to differences in price levels between the different seasons, according to demand, so that in the second and third quarters prices are higher than their level in the first and fourth quarters. Furthermore, seasonality is expressed differently depending on the regional location of the hotels in Israel and the target population of the hotels.

With the aim of coping with the existing seasonality in the hotel industry, the Company will work to adjust its expenses to expected revenues during the same period, *inter alia*, by adjusting the manpower required for the hotel operations during that period.

12.2.11. Raw materials and suppliers

The main suppliers of the Mount Zion Hotel are raw material suppliers of food and beverage as well as textile suppliers.

In the Company's estimation, as of the Report Release Date, the Company has no dependency on any one of its suppliers and may engage with alternative suppliers if necessary, without any material cost increase.

13. The Granite Segment – Discontinued Operations

Until November 2019, the Company operated in another operating segment under Granite Hacarmel, which engaged, *inter alia,* through Supergas, in the marketing of alternative energy sources. In view of the closing of the transaction for the sale of the holdings in Granite, which held Supergas, Granite is presented in the Financial Statements as discontinued operations. For further details regarding the sale of Granite, see Section 1.3.5 of this chapter.

In addition, on September 12, 2019 a non-binding MOU was signed, for the sale of the entire holdings (100%) in GES[61] and on January 23, 2020, Canit Hashalom entered into an agreement for the sale of its holdings in GES[62], which engages in the treatment of water, wastewater, air, waste and chemicals for industry, and which is presented starting from the engagement in the aforesaid MOU as discontinued operations in the Financial Statements of the Company. For further details, see Section 1.3.6 of this chapter and Note 7 to the Financial Statements.

For further details regarding the operations of Supergas and GES, see Section 12 of the Description of the Corporation's Business chapter of the Company's Periodic Report for 2018, which was released on March 20, 2019 (Ref. 2019-01-024283), which is included herein by way of reference.

---

[61] For further details see the Company's immediate report dated September 12, 2019 (Ref. 2019-01-095770), which is included herein by way of reference.

[62] For further details see the Company's immediate report dated January 26, 2020 (Ref. 2020-01-009789), which is included herein by way of reference.

PART FIVE: ADDITIONAL OPERATIONS

14. Azrieli Group - Additional Operations

The Group has various operations which are not included in the operating segments described above, and do not meet the quantitative threshold for presentation as reportable segments in the Financial Statements. These activities comprise mainly the following:

14.1. The e-commerce business

On June 2, 2016 the Company closed a transaction for the purchase of an e-commerce business from Buy2 Networks Ltd. This business is currently operated by Azrieli E-Commerce (formerly Netex New Media Ltd.).

This company has been operating an e-commerce website since 2010, which until February 2017operated under the brand name “Buy2”. As of February 2017, this website was re-launched by Azrieli E-Commerce under the brand name “Azrieli.com” at the address www.azrieli.com (“Azrieli.com” or the “E-Commerce Website”)

Azrieli.com offers internet users a range of products and services, which are supplied by various businesses of various areas, including electricity and electronics, fashion, home and garden, parents and children, and more. Furthermore, the E-Commerce Website grants internet users benefits that vary from time to time, including free shipping and express deliveries to the customer’s home and payment in installments.

Azrieli.com facilitates a comprehensive solution of online marketing and sale for businesses that seek to sell products and services at Azrieli.com, including the storage of products in a central logistics center, the sale, supply and distribution of products to the customer’s home, through third parties. Azrieli E-Commerce works on the development of long-term relations and work interfaces with the businesses active on Azrieli.com, aiming to retain and increase the cooperation. Alongside the sale of the businesses’ products, Azrieli E-Commerce selectively purchases products it sells on the E-Commerce Website and supplies such products to customers by means of third parties.

Azrieli E-Commerce employs some 90 employees and its offices are located at the industrial zone of Hod HaSharon.

General description of the E-Commerce Business

Recent years saw changes in the shopping habits of Israeli consumers alongside technological changes that enable online shopping and render a larger range of online-offered products and services available to the consumer. Online shopping enables available, quick and convenient service which is customized to the consumer’s consumption habits and preferences. In recent years, the e-commerce business in Israel has been developing at an accelerated pace and this sector is expected to grow in the coming years.

Concurrently with the increase in the range of products purchased online by Israeli consumers, there is a noticeable increase in online shopping on international websites (such as eBay, AliExpress, Next and Amazon). In the estimation of Azrieli E-Commerce, the volume of the activity is affected by the volume of private consumption and changes in Israeli consumers’ use of the internet. The growing use of the internet by means of mobile devices, such as tablets and cellular telephones, may contribute to greater exposure and availability of e-commerce services.

Entry and exit barriers

The setup of a line of suppliers, while developing ties and retaining the relationship therewith, may serve as an entry barrier to new players in the short-term and the mid-term. Furthermore, the development of the technology required for the operation of the e-commerce business in similar form and scope and the need to generate a high rate of user traffic may serve as entry barriers to new players, *inter alia*, due to the great importance of the website's reliability and the high costs involved in the recruitment of user traffic. Moreover, the building of a registered user database, including the ability of mailing thereto, also serves as an entry barrier.

Exit barriers may stem from the need to convert a complex set of agreements with various suppliers, and also from the need to preserve the brand name and its credibility among the public of customers.

Restrictions on and supervision of the operations

The e-commerce operations are subject to various laws, such as: the Consumer Protection Law, 5741-1981, and regulations thereunder, the Privacy Protection Law, 5741-1981, the Communications Law (Telecommunications and Broadcasting), 5742-1982, and the Debit Cards Law, 5746- 1986, which will be revoked upon the expected taking effect, in October 2020, of the Payment Services Law, 5779-2019).

Furthermore, since purchases on Azrieli.com are made mainly by credit card, various provisions and restrictions required by the credit card companies apply, including security standard PCI.

Competition

The e-commerce market is a competitive market and includes competition by international websites that offer shipping to Israel (such as eBay, Amazon and AliExpress) along with Israeli e-commerce websites, such as Walla! Shops, Shufersal, GetIt, as well as the websites of other companies on which such companies directly offer their products for sale.

In the estimation of Azrieli E-Commerce, the success factors in the e-commerce operations are, *inter alia*: (a) The offering of high-quality products and services on attractive terms to internet users; (b) Engagement with reliable businesses, in a blend addressing a broad array of internet users; (c) User traffic and the size of the mailing list; (d) Reliable and available customer service; (e) Technological improvements and innovations that contribute to the improvement of the quality of the website's applications, with an emphasis on the devising of simple and user-friendly interfaces; (f) Compliance with supply time obligations, which contributes to the increase of the number of repeat purchases by Azrieli.com customers.

The Company's estimates with respect to the e-commerce operations, including the development of such operations in Israel, the increase in online purchases and the volume of operations in the segment constitute forward-looking information, within the meaning of this term in the Securities Law, which is based on publications in the field and subjective estimates by the Company's management as of the Report Date. There is no certainty as to the realization of such estimates, in whole or in part, and they may also be realized in a materially different manner, inter alia, due to factors that are beyond the Company's control, including changes in market conditions, growing competition and deterioration in the economic situation, which might affect customers' consumption habits.

14.2. Investments in financial assets available for sale and other investments

14.2.1. Investment in Leumi Card

On May 26, 2008, the Company invested, as a passive financial investment, in Leumi Card, and in consideration for which Leumi Card issued shares to the Company which represented 20% of the issued and paid-up capital of Leumi Card (post money and on a fully diluted basis) (the "Investment Agreement").

On February 25, 2019, a transaction was closed for the sale of all of the holdings of the Company and Bank Leumi Le-Israel Ltd. ("Bank Leumi") in Leumi Card to Warburg Pincus Financial Holdings (Israel) Ltd., a corporation controlled by the Warburg Pincus investment fund, was closed. For further details regarding the sale of Leumi Card, see Section 1.3.3 of this Chapter A. Upon the closing of the transaction, the Investment Agreement was terminated.

On February 24, 2019, the Company received a dividend of NIS 80 million in respect of its holdings in Leumi Card. In accordance with the consideration adjustments that were determined in the agreement for the sale of the Company's holdings in Leumi Card, the proceeds from the sale were reduced by the amount of the dividend paid to the Company.

Loyalty Program

On May 26, 2008, the Company entered into a cooperation agreement with Leumi Card for the establishment of a program for the benefit of customers of the commercial centers and malls owned by the Company and/or affiliates of the Company, whose members would hold a Leumi Card card conferring special benefits and services (the "Loyalty Program Agreement").

The Loyalty Program Agreement regulates the relationship between the parties, and, *inter alia*, sets forth provisions with regards to the terms of the loyalty card to be issued to the customers of the commercial centers and malls of the Company and its design, including the Company's rights to the loyalty program trademark and the member database, and registration thereof in its name.

On January 7, 2010, the Company entered into a licensing agreement with Leumi Card for the use of trademarks, whereby the Company granted Leumi Card an exclusive license to use all of the trademarks registered in the Company's name in connection with the "Multi Azrieli" mark, in connection with a loyalty program of same name.

The license is effective throughout the term of the Loyalty Program Agreement and subject to the conditions thereof. During 2011, the Company registered the "Multi Azrieli" trademark.

In the agreement, the Company undertook to employ a management team to manage the Program's activities throughout the term of the agreement, at an annual cost that shall not exceed the amount of NIS 250,000, to be financed by Leumi Card. In addition, the Company neither has had, nor expects to have any revenues or benefits in connection with the Loyalty Program Agreement. To the best of the Company's knowledge, as of the Report Date, the Loyalty Program comprises approx. 72,500 valid loyalty cards.

The loyalty card provides discounts in some of the chains which have presence in the Group's malls, and at the parking lots thereof. The Loyalty Program Agreement and the license agreement for use of trademarks, as aforesaid, remained in effect also after the closing of the transaction for the sale of Leumi Card.

14.2.2. Investment in Bank Leumi

On April 30, 2009, the Company acquired from third parties, unaffiliated with the Company, as a passive financial investment, ordinary shares of Bank Leumi, a banking corporation whose shares are listed on TASE, which represented approx. 4.8% of the issued and paid-up share capital of Bank Leumi, in consideration for a sum total of approx. NIS 742 million. During 2016-2019 and up to the Report Release Date, the Company disposed of some of its holdings in Bank Leumi for a total sum of approx. NIS 485 million, and its holding as of the report release date represents approx. 3.1% of Bank Leumi's issued and paid-up share capital (as of the Report Release Date, the total dividends received over the years and the consideration from sales is approx. NIS 667 million). The value of the Company's investment in Bank Leumi as of December 31, 2019 was approx. NIS 1,162 million. The Company's investment in Bank Leumi is presented in its books as a financial asset available for sale in accordance with GAAP.

For details on the disagreement between the Company and Bank Leumi, and the resolution thereof, with respect to the sale of Visa Europe Ltd., see Note 10B(2) to the Financial Statements.

In 2019, the Company recorded comprehensive income (before tax) of approx. NIS 130 million due to this investment. For details, see Section 3.2.1 of the Board of Directors' Report.

On the date of the acquisition, on April 30, 2009, the Bank Leumi share price was 1,055 *Agorot*. On December 31, 2019 (the last trading day of the year), the Bank Leumi share price was 2,514 *Agorot*, whereas at the close of trading on March 24, 2020, the Bank Leumi share price was 1,844 *agorot*, such that from the Report Date until its release the value of Bank Leumi shares held by the Company dropped by the amount of NIS 305 million (before tax).

On March 29, 2017, Bank Leumi's board of directors approved a dividend distribution policy, beginning on the release date of the financial statements for Q1/2017. Pursuant to the said policy, the bank will distribute, each quarter, a dividend equal to 20% of its net profit according to the bank's financial statements for the previous quarter and subject, *inter alia*, to the Bank's meeting its capital adequacy targets also after the distribution of the dividend. On November 20, 2017, the board of directors of Bank Leumi approved a modification to the dividend distribution policy, from 20% each quarter to up to 40% each quarter, of the net profit for that quarter, beginning with the profits of Q3/2017. In 2019, Bank Leumi distributed a dividend to its shareholders in the amount of approx. NIS 1.4 billion, while the sum of the dividends received by the Company in respect of such distribution is approx. NIS 43 million as specified below:

Distribution resolution date	Payment date	Total distribution amount (NIS in millions)	The Company's share out of the total distribution amount (NIS in millions)
6.3.2019	3.4.2019	Approx. 275 (approx. NIS 0.18 per share)	Approx. 8
26.5.2019	23.6.2019	Approx. 436 (approx. NIS 0.29 per share)	Approx. 13
13.8.2019	8.9.2019	Approx. 369 (approx. NIS 0.25 per share)	Approx. 12
26.11.2019	22.12.2019	Approx. 306 (approx. NIS 0.21 per share)	Approx. 10
26.2.2020	23.3.2020	Approx. 297 (approx. NIS 0.20 per share)	Approx. 9

Bank Leumi's financials are publicly posted on the distribution website of the ISA at: www.magna.isa.gov.il and on the TASE website at www.tase.co.il.

14.2.3. Investments in high-tech start-up companies and investment funds

As of December 31, 2019, the Company has invested in two investment funds, which are presented at fair value in the sum of approx. NIS 5 million, compared with a fair value in the sum of approx. NIS 9 million as of December 31, 2018.

14.2.4. Holdings in other foreign companies

The Company holds approx. 3.8% of the issued and paid-up share capital of Health and Fitness East Med. B.V., which operates the "Holmes Place" chain of fitness centers in Greece.

PART SIX: MATTERS COMMON TO THE GROUP'S ACTIVITIES IN ALL OPERATING SEGMENTS THEREOF[63]

15. Fixed assets, land and facilities

The Company's offices are situated on the 48th floor and part of the 33rd floor of the Round Tower in Azrieli Center in Tel Aviv. The Company leases its offices, a gross area of 2,450 sqm, from Canit Hashalom for a long-term period, for immaterial amounts.

The Company has no material fixed assets except for its offices.

The fixed assets of Palace Tel Aviv are primarily a building that holds the LTC and recuperation units, see Section 11.1 of this Chapter A.

The fixed assets of Palace Modi'in are primarily the LTC and recuperation units.

The fixed assets of Palace Lehavim are primarily the LTC units.

16. Intangible assets

The primary trademark owned by the Company and the Group companies (excluding Granite and its subsidiaries), is a designed mark which includes the inscription "Azrieli Group", and the Group's logo:

AZRIELIGROUP

As of the Report Release Date, the Company owns registered trademarks, including in respect of new properties, such as the trademarks of the Group's senior housing chain – Palace Senior Housing, and the trademarks of the E-Commerce Website launched by the Company in February 2017 – Azrieli.com. The Group has also registered trademarks of the sphere shape that appears at the entrance of some of the Company's malls, and it also owns the Multi Azrieli trademark. Registered trademarks are valid for 10 years from the date of their registration and can be renewed, per the Company's decision, for additional periods of 10 years each, without limit, subject to the payment of a renewal fee.

[63] This part "Matters Common to the Group's Activities in all Operating Segments thereof" does not include the e-commerce business, unless otherwise expressly stated.

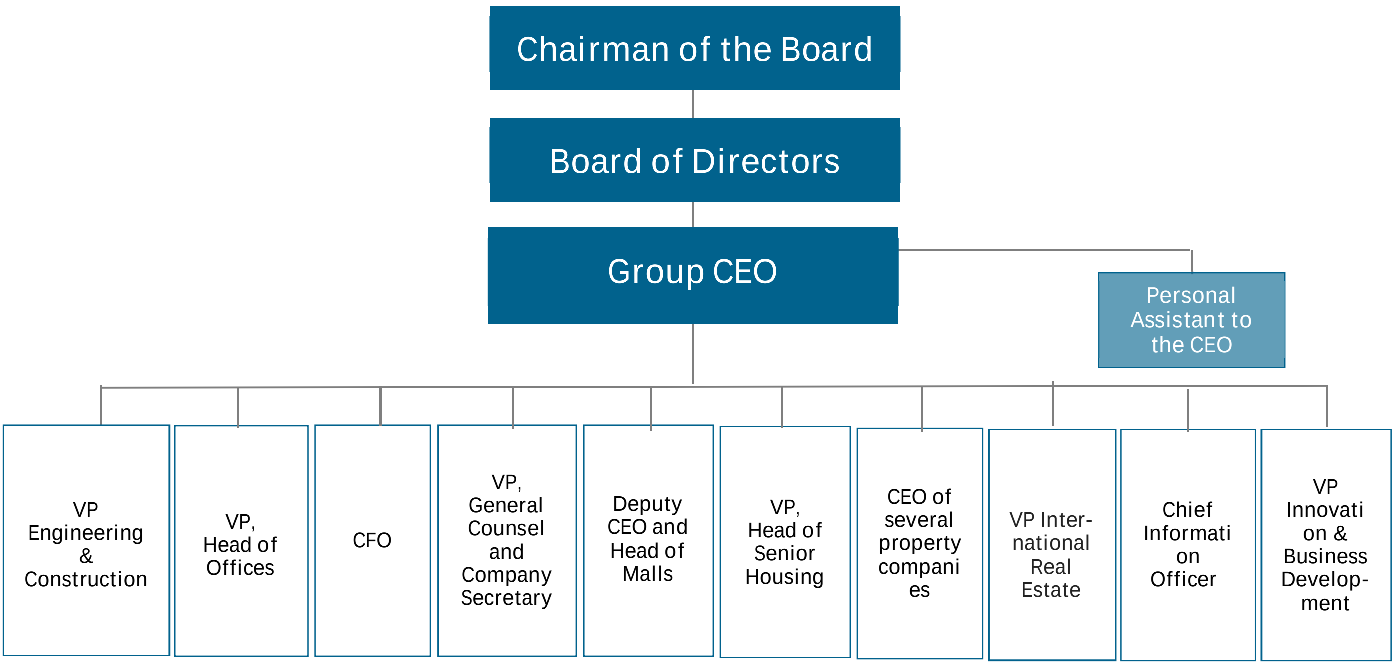
17. Human capital

17.1. General

The Company places special emphasis on the quality of human capital, particularly at the Company's management level, by hiring a professional workforce with vast knowledge and experience in a variety of fields which are required within the framework of the Company's operating segments. Most of the Company's employees, mainly at its management level, have significant seniority in the Company, and vast experience in its operating segments. Unless otherwise noted, the specification in this Section does not include reference to human capital aspects regarding the senior housing segment (see Section 11.1 of this Chapter A), the e-commerce business (see Section 14.1 of this Chapter A) and the Mount Zion hotel (see Section 12.2 of this Chapter A).

17.2. Organizational structure and workforce

The diagram below describes the Group's organizational structure as of the Report Release Date:



As of December 31, 2019, the Group companies employ 362 employees. The segmentation of the employees in the main segments is detailed below:

Department	Number of Employees as of December 31, 2019	Number of Employees as of December 31, 2018
Management Headquarters*	70	63
Commercial Centers and Malls Segment	195	179
Office and Other Space for Lease in Israel Segment	97	99
Total	362	341

* One employee from the management headquarters is attributed to the income-producing property in the U.S. segment and one employee is attributed to the senior housing segment.

** For details with respect to all employees of senior housing segment, see Section 11.1 of this Chapter A.

***For details with respect to all employees of Mount Zion hotel, see Section 12.2 of this Chapter A.

The Group's management and headquarters employs 70 employees, including the Group's CEO, the Deputy CEO and Head of Malls, CFO, VP, General Counsel and Company Secretary, VP and Head of Offices, VP International Real Estate, VP, Head of Senior Housing, VP Engineering and Construction, Chief Information Officer and VP Innovation & Business Development. The members of the Group's managerial headquarters have considerable managerial experience, and some of them have been by the Group's side for many years. The increase in the number of employees relative to the previous year is attributed to the growth in the Company's real estate business. 195 employees are employed in the Group's retail centers and malls segment, of whom 146 work for the management and maintenance teams of the retail centers and malls engaged in the current management of the retail centers and malls, 31 employees are employed in the mail distribution centers found in the retail centers and malls, and 18 provide marketing services to all of the Group's retail centers and malls.

97 employees work in the office and other space for lease in Israel segment, of whom 94 work for the segment's management and maintenance teams engaged in the current management of the offices, and 3 engage in the provision of marketing services.

As of the Report Date, the income-producing property in the U.S. segment is managed by the Company's headquarters and the Overseas Business Development Manager and management services and other services are provided to the Group in this segment by local professional management companies.

As of the Report Date, there are, between the Company and the Group companies, cooperation and agreements in connection with the provision of management services between themselves, including, *inter alia*, financial advice, strategic advice and current management advice, in consideration for a monthly payment. In addition, there are management agreements with the Group companies which derive, in part, as a percentage of such company's total expenses. The total payments that were made between the Group companies (including management agreements between subsidiaries of Granite Hacarmel and Canit Hashalom) for these management services, in 2018 and 2019, amounted to the sum of approx. NIS 56 million and approx. NIS 53 million, respectively.

17.3. Changes in senior officers in the corporation

In February 2019, Mr. Assaf Aviv was appointed as the Group's VP Innovation and Business Development, commencing in March 2019.

On May 5, 2019, after a 9-year term of office, Mr. Joseph Ciechanover ended his term of office as an independent director of the Company.

On August 23, 2019, after approval by the general meeting of the shareholders of August 11, 2019, Messrs. Ehud Rassabi and Yossef Shachak began their term of office as outside directors of the Company, for a first term of office of three years, and Mr. Dan Gillerman began his term of office as an independent director of the Company, for a term of office until the end of the next annual meeting of the Company's shareholders.

On August 23, 2019, the term of office of the two outside directors who held office at the Company, Messrs. Efraim Halevy and Niv Ahituv, came to an end after 9 years in office.

On October 2, 2019, Adv. Ran Tal ended his position as VP, General Counsel and Corporate Secretary, and Adv. Nirit Zeevi was appointed in his stead.

For further details on the senior officers in the corporation, see a specification with respect to Section 26 and Section 26A in Chapter D of the Report.

17.4. Investment in training, instruction and development of human capital

The Group companies hold training and instruction workshops from time to time for their employees in accordance with the employee's position and the Group's needs, in order to ensure that employees have adequate training. Once a year, the Company holds concentrated training for officers and employees of the Company in accordance with the Company's Internal Enforcement Program, including in the areas of securities, planning and building and real estate, labor law, environment, safety and accessibility, prevention of sexual harassment, consumer protection, as well as additional training held from time to time according to need. Employees of the Group companies keep abreast of fields touching on their responsibilities in the Group, from time to time, by participating in exhibitions, seminars, conferences and professional courses.

17.5. Benefits given to employees and the nature of the employment agreements

Employees of the Group are employed under personal contracts and no collective bargaining agreements apply.

The employment conditions of the Group's employees include, in some cases, *inter alia*, *per diems*, travel expenses/car maintenance/making a vehicle available to the employee, managers insurance/pension fund, advanced training fund, annual leave, recuperation pay, basic health insurance, work disability insurance, payment for global overtime, reimbursement of expenses and a 13th salary.

Additionally, the Group's third-party insurance policy is an extended policy that includes coverage for professional liability for the management companies and the Company's employees who are professionals, with a liability cap of $2 million per incident and per insurance period, as part of the policy's liability cap.

In addition to the above, all of the Company's and the Group Companies' liabilities are covered in respect of the employees' social benefits and termination of the employment relationship by deposits that are made in severance pay funds and insurance policies and/or provisions that exist on the Company's books. For a description of the Company's liabilities in relation to the employees' social benefits and termination of the employment relationship, see Note 18 to the Company's Financial Statements.

17.6. Employment of officers and senior management employees of the Group

As of the Report Date, members of senior management in the Group are hired as employees under personal employment agreements or through management agreements.

The Company estimates that the Group headed by the Chairman of the Board, Ms. Danna Azrieli and the CEO of the Group, Mr. Eyal Henkin, as well as the experienced officers and managers in the Company who are considered professional and leading in the field, constitute some of the success factors for the Company's business results.

17.7. Company's officer compensation plan

For details regarding the Company's officer compensation policy, approved on August 11, 2019 by the general meeting of the Company's shareholders, see the immediate reports of July 4, 2019 and August 12, 2019 (Ref.: 2019-01-068701 and 2019-01-083266, respectively), included herein by way of reference.

18. Working capital

18.1. Working capital

As of December 31, 2019, the Group has positive working capital in the sum of approx. NIS 0.6 billion compared with negative working capital in the sum of approx. NIS 1.2 billion, as of December 31, 2018.

For details regarding the Company's liquid means and its credit raising possibilities, see Section 5.2 of the Board of Directors' Report.

18.2. Customer credit

In the income-producing property segment there is no customer credit since the lease agreements with tenants contain provisions for payment of rent in advance and for monthly or quarterly periods. The Group collects the rent pursuant to the terms and conditions of the lease agreement, usually, by way of a standing order, bank transfers and postdated checks. The tenants, before the handing over of the leased premises thereto, provide collateral for performance of their undertakings pursuant to the lease agreements and the management agreements (bank guarantees, deposits, promissory notes, personal guarantees, etc.). The cases in which rent is not paid in advance are immaterial to the Group.

18.3. Suppliers credit

The Company receives credit from its suppliers (primarily contractors and maintenance service providers) for average periods ranging from 15 to 60 days, after the requested service has been completed (on average - a period of approx. 45 days). The scope of credit from suppliers in the Group, as of December 31, 2019, amounted to approx. NIS 372 million, compared with a sum of approx. NIS 286 million (excluding Granite segment suppliers) on December 31, 2018.

19. Financing

19.1. General

For the avoidance of doubt, the specification in Sections 19.1-19.16 of this Chapter A does not include reference to financing aspects related to Granite Hacarmel and other companies controlled thereby. In this section, the term "Group" does not include Granite Hacarmel and other operations of Granite Hacarmel.

The Group finances its activities from independent resources, from bank credit from financial institutions and non-bank credit, including through the issue of bonds from institutional bodies. The Group has liabilities to banking corporations and non-bank financing sources amounting, as of December 31, 2019, to the sum of approx. NIS 11.4 billion (including current maturities). Most of the agreements include provisions pursuant to which the Company has a right to prepayment which is contingent, in most cases, upon the payment of a prepayment fine to the financing entity. Additionally, the loan agreements with the banking corporations contain certain conditions, upon the occurrence of which, the banks may accelerate the loan amounts (primarily in the case of restructuring and a change of control in the Company, delinquent payments, receivership, and an adverse change in the value of the collateral, if and insofar as collateral was provided). To the best of the Company's knowledge, as of the Report Release Date, the conditions for acceleration of the loans have not been fulfilled. For details concerning the sum of the financial liabilities of the Group as of December 31, 2019, see Sections 5.5 and 5.6 of the Board of Directors' Report. For details concerning projected payments by year, see the immediate report on the status of the Company's liabilities of March 25, 2020 which is published concurrently with this Report. For further details concerning the Company's financing in general, see Section 5 of the Board of Directors' Report.

19.2. The Group's loan balance (not intended for specific uses) as of December 31, 2019

Set forth below is a specification of the average interest rate and the effective interest rate (which, as specified below, as of the Report Date, is identical to the average interest) on long-term loans and short-term loans that were in effect during 2019, and which are not intended for specific uses by the Group, while distinguishing between bank credit sources and non-bank credit sources:

As of December 31, 2019						
	Long-Term Loans			Short-Term Loans		
	Amount (NIS in millions)	Average Interest Rate	Effective Interest Rate	Amount (NIS in millions)	Average Interest Rate	Effective Interest Rate
Non-bank sources – Index-linked financing	9,464	1.55%	1.20%	-	-	-
Banking sources - Index-linked Financing	-	-	-	-	-	-
Non-bank sources - NIS financing	-	-	-	409	0.55%	0.55%
Banking sources – foreign currency financing	-	-	-	19	2.1%	2.1%
Total financial liabilities	9,464	1.55%	1.20%	428	0.62%	0.62%

19.3. Reportable credit made available to the Company

Set forth below is a specification of the balances of the material loans that were provided to the Company as of December 31, 2019 (NIS in millions)[64].

Loan provision date	Loan designation	Type of Loan: Banking corporation	Type of Loan: Short-term	Type of Loan: Long-term	Amount of loan taken (NIS in millions)	Balance (including current maturities) as of December 31, 2019 (NIS in millions	Type and rate of annual interest	Principal repayment dates	Interest repayment dates	Linkage	Guarantees / collateral	Is the Company compliant with the financial covenants?	Payment due date of long-term loans
August 2013	Financing of Azrieli Center	Institutional body group		X	710	179	1.16%	Semiannual	Semiannual	CPI	Pledge of the rights of Canit Hashalom in part of the lobby floor, the roof floor and Floors 11-49 of the Round Tower in Azrieli Center in Tel Aviv. Acceleration right for standard causes set forth in the agreement, which include, *inter alia* – an adverse material change in the status of tenants or the ratio between the loan balance as of the calculation date and the value of the Round Tower (according to an external appraisal revaluation once a year) (LTV), as of the elapse of 2 years from the loan provision date exceeds 70% (the rate decreases to 25% over the loan period).	Yes – for the results of the calculation of compliance with covenants, see Note 17D of the Financial Statements	Until August 2021
May 2016	Current needs	Institutional body		X	550	478	1.5%	Quarterly, as of July/2018	Quarterly	CPI	Canit Hashalom placed a first-ranking fixed charge in an unlimited amount on the Azrieli Rishonim Center in Rishon LeZion, including its rights to receive rent from the tenants in the property and its rights under insurance policies in relation thereto. Financial covenants as provided in the indentures of the Company's Series B and Series C bonds, i.e.: net debt to net assets ratio not exceeding 60% and equity not to fall below NIS 5 billion. In addition, the Company has undertaken as of April 1, 2018 to maintain a debt to collateral ratio (LTV) of no more than 80%. Furthermore, restrictions on dividend distributions, such that no distributions will be performed if as a result thereof equity shall fall below NIS 6 billion and the debt to assets ratio shall exceed 50%. An undertaking not to create a floating charge identical in rank and scope (pari passu).	Yes – for the results of the calculation of compliance with covenants, see Note 17B(5) of the Financial Statements	April 2028

[64] In accordance with Legal Position No. 104-15: Reportable Credit Event of October 30, 2011, as updated on March 19, 2017, and the parameters approved by the board of directors for the examination of materiality in the Reporting Procedure as part of the Internal Enforcement Program.

The Company has another non-material loan from banking corporations whose balance in the books, as of December 31, 2019, is approx. NIS 7 million with fixed interest of 5.8% that will be repaid in 2020. In addition, the Company has undertaken vis-à-vis some of the banking corporations not to create a floating charge on all of its assets without receipt of their consent, and that in the event of a breach vis-à-vis the banking corporations, they will be entitled to accelerate also other loans that shall have been given to the Company.

As of December 31, 2019, the Group's unmortgaged investment properties total approx. NIS 21.4 billion, as specified in Section 4.8 of the Board of Directors' Report, out of the sum total of the Group's income-producing properties in the sum of approx. NIS 29.1 billion. For details on non-bank credit see in this section below.

19.4. Reportable credit made available to the Group's companies

Set forth below is a specification of the balances of the material loans that were provided to the Group companies as of December 31, 2019 (NIS in millions):

Borrowing Corporation	Loan provision date	Loan designation	Type of Loan			Sum of loan taken	Balance as of December 31, 2019 (Company's share) (NIS in millions)	Principal repayment dates	Interest repayment dates	Annual interest rate	Linkage	Guarantees / Pledge	Repayment due date of long-term loans
			Banking corporation / financial institution	Short-term	Long-term								
Shareholders of the property[65]	February 2014	Acquisition of Three Galleria	Foreign financial institution A		X	$130 million	400	Monthly	Monthly	5.998%	U.S.$	Pledge of the property and all of rights related thereto and deriving therefrom. Guarantee by the Company, forfeitable only in several specific instances defined in the loan agreement. The Company's undertaking to indemnify the financer for its damage in the event of certain breaches of the buyer's undertakings in the loan agreement	By March 2021

A number of the Group's Companies have other non-material loans whose balance on the books, as of December 31, 2019, is approx. NIS 939 million, approx. NIS 919 million of which are linked to foreign currency and bear interest ranging between 3.7% and 5.5%, which shall be repaid in 2020-2033 and there are no financial covenants for these loans. A balance of approx. NIS 20 million constitutes a variable interest loan in Shekels against which there are pledges and financial covenants and it will be due for payment in the years 2020-2022.

[65] The loan was taken by Three Galleria Office Buildings, LLC, 90% of which are indirectly held by the Company. The presented amount of the loan is in respect of 100% of the loan.

19.5. Non-bank financing for the Company

Commercial paper

As of the Report Release Date, the Company has two CP series – a rated series in the amount of approx. NIS 140 million (after it repaid, during the Report Period, approx. NIS 42 million, net and from the expiration of the Report Period until the date of its release repaid an additional amount of NIS 113 million) and an unrated series in the amount of approx. NIS 5 million (after it raised, during the Report Period, approx. NIS 14 million, and from the expiration of the Report Period until the date of its release repaid the amount of NIS 149 million). For details regarding the Company's CP, see Note 17A to the Financial Statements. For details with respect to the rating of the Company's CP, see Section 19.12 of this Chapter A.

Long-term loans from institutional bodies

The Company has a non-material loan from institutional bodies, whose balance in the books as of December 31, 2019 is approx. NIS 0.1 billion. This loan bears fixed interest at a rate of 0.74%. and will be repaid in 2020-2023. The loan is subject to financial covenants, with which, as of the Report Date, the Company complies.

The Company's Series B Bonds

During the Report Period, principal and interest payments were made in accordance with the payment schedule thereof. As of the Report Date, the balance of the par value of the Company's Series B Bonds is NIS 906 million. In accordance with the terms and conditions thereof, the final maturity date of the Company's Series B Bonds is April 1, 2025. For details regarding the current credit rating of the Series B Bonds, see Section 19.12 of this Chapter A.

The Company's Series C Bonds

On December 12, 2019, the Company's Board approved the performance of full and contingent early redemption, at the Company's initiative, of the Series C Bonds. Performance of the early redemption was conditioned, *inter alia*, on completion of the offering of bonds of the Company (by way of expansion of one or more existing series of the Company), the proceeds from the offering of which will be used, *inter alia*, for the early redemption of the Company's Series C Bonds. The Company updated that upon the release of a shelf offering report of the Company of December 17, 2019 for the offering of Series E and F bonds of the Company (by way of expansion of the said series) by the Company, the condition was fulfilled, and hence the early redemption of Series C Bonds was performed on December 30, 2019. For further details, see the Company's immediate reports of December 12, 2019, December 17, 2019 and December 23, 2019 (Ref. 2019-01-120919, 2019-01-110541 and 2019-01-112536, respectively), included herein by way of reference.

The Company's Series D Bonds

On March 29, 2017, the Company released a shelf offering report for the issue and listing on TASE of up to NIS 1,090 million par value which were offered by way of expansion of the Company's Series D Bond series, by virtue of the 2016 Shelf Prospectus. On March 30, 2017, the Company announced that according to the issue results, approx. NIS 984 million par value of Series D Bonds more have been allotted in consideration for approx. NIS 960 million (approx. NIS 955 million net of issue expenses).

On January 31, 2018, the Company released a shelf offering report for the issue and listing on TASE of up to NIS 1,490 million par value which were offered by way of expansion of the Company's Series D Bond series, by virtue of the 2016 Shelf Prospectus. On February 1, 2018, the Company announced that according to the issue results, approx. NIS 1,367 million par value of Series D Bonds more have been allotted in consideration for approx. NIS 1,409 million (approx. NIS 1,400 million net of issue expenses).

During the Report Period, principal and interest payments were made in accordance with the payment schedule thereof. As of the Report Date, the balance of the par value of the Company's Series D Bonds is NIS 3,999 million. In accordance with the terms and conditions thereof, the final maturity date of the Company's Series D Bonds is July 5, 2030. For details regarding the current credit rating of Series D Bonds see Section 19.12 of this Chapter A.

The Company's Series E Bonds

On January 20, 2019, the Company released a shelf offering report for the issue and listing on TASE of up to NIS 1,335 million par value of a Series E bond series of the Company, by virtue of the 2016 Shelf Prospectus. On January 22, 2019, the Company announced that according to the issue results, NIS 1,216 million par value of the Series E Bond series had been allotted in consideration for approx. NIS 1,216 million (approx. NIS 1,207 million after attribution of issue expenses). For further details, see the Company's immediate reports of January 20, 2019 and of January 22, 2019 (Ref.: 2019-01-006388 and 2019-01-006934, respectively), included herein by way of reference.

On December 17, 2019, the Company released a shelf offering report for the issue of bonds by way of expansion of the Series E bond series of the Company, by virtue of the 2019 Shelf Prospectus. According to this issue, approx. NIS 1,217 million par value of the Series E Bonds were allotted in consideration for approx. NIS 1,355 million (approx. NIS 1,336 million after attribution of the issue expenses). For further details, see the Company's immediate reports of December 17, 2019 and December 19, 2019 (Ref.: 2019-01-110526 and 2019-01-111306, respectively), included herein by way of reference.

During the Report Period, principal and interest payments were made in accordance with the payment schedule thereof. As of the Report Date, the balance of the par value of the Company's Series E Bonds is NIS 2,433 million. In accordance with the terms and conditions thereof, the final maturity date of the Company's Series E Bonds is June 30, 2028. For details regarding the current credit rating of the Series E Bonds, see Section 19.12 of this Chapter A.

The Company's Series F Bonds

On January 20, 2019, the Company released a shelf offering report for the issue and listing on TASE of up to NIS 315 million par value of a new Series F bond series of the Company, by virtue of the 2016 Shelf Prospectus. On January 22, 2019, the Company announced that according to the issue results, approx. NIS 263 million par value of Series F Bonds have been allotted in consideration for approx. NIS 260 million (approx. NIS 260 million after attribution of issue expenses).

On December 17, 2019, the Company released a shelf offering report for the issue of bonds by way of expansion of the Series F bond series of the Company, by virtue of the 2019 Shelf Prospectus. According to this issue, approx. NIS 933 million par value of Series F Bonds were allotted in consideration for approx. NIS 1,122 million (approx. NIS 1,101 million after attribution of the issue expenses). For further details, see the Company's immediate reports of December 17, 2019 and December 19, 2019 (Ref.: 2019-01-110526 and 2019-01-111306, respectively), included herein by way of reference. During the Report Period, principal and interest payments were made in accordance with the payment schedule thereof. As of the Report Date, the balance of the par value of the Company's Series F Bonds is NIS 1,196 million. In accordance with the terms and conditions thereof, the final maturity date of the Company's Series F Bonds is December 31, 2032. For details regarding the current credit rating of Series F Bonds, see Section 19.12 of this Chapter A.

For further details on the Company's bonds, see Annex C to the Board of Directors' Report and Note 17B to the Financial Statements.

19.6. Non-bank financing for the Group's companies

In the year of the Report and as of the Report Date, other than as specified with respect to non-bank financing of the Company in Section 19.5 of this Chapter A, no use of non-bank financing has been made for companies of the Group.

19.7. Inter-company loans

Set forth below is a specification of the balances of loans provided between the Group companies, excluding inter-company debit and credit balances, as of December 31, 2019 (NIS in millions) in amounts exceeding NIS 20 million:

The Lending Corporation in the Group	The Borrowing Corporation in the Group	Date of Provision of the Loan	Original Loan Amount (NIS in millions)	Last Date For Payment	Annual Interest	Linkage	Balance of Loan Amount As of Dec. 31, 2019 (NIS in millions)
Canit Hashalom (1)	AG Galleria Office Buildings LP	February 2011	99	February 2021	Libor+ 7.1%	U.S. $	98 (2)
Canit Hashalom (3)	Gemel Tesua	January 2017	270	December 2019	1.5%	Index	286
Canit Hashalom (4)	Palace America Senior Housing Company	March 2016	41	March 2021	-	-	41
Canit Hashalom (5)	Palace Senior Housing Chain	May 2016	55	May 2021	-	-	55
Ahuzat Bayit Ra'anana (6)	Palace Lehavim	March 2017	224	December 2022	2.62%		229
Ahuzat Bayit Ra'anana (6)	Palace Modi'in	October 2016	284	September 2021	2.62%		158

* For a description of the balances of the loans provided by the Company to the Group companies, see Section 11 of Part D of this Report.

1. The loan is in the sum of approx. U.S. $28 million.
2. The loan balance, including unpaid interest as of December 31, 2019, is approx. NIS 202 million.
3. Against the loan, Gemel Tesua issued Canit Hashalom a bond in the sum of NIS 270 million. Insofar as Gemel Tesua fails to repay on the due date the principal, interest and linkage differentials accrued until the due date, the bond will be deemed to have been repaid and reissued on the day following the due date. The interest and linkage differentials shall in any case not be lower than the interest determined for purposes of Section 3(j) of the Income Tax Ordinance.
4. Against the loan, Palace America Senior Housing Company issued Canit Hashalom capital notes in the aggregate sum of approx. NIS 41 million, which bear no interest and linkage and the due date of which will be no earlier than March 23, 2021. The repayment of the capital notes is not secured by any collateral, is inferior to other liabilities of Palace America Senior Housing Company and only precedes the distribution of surplus assets upon the liquidation thereof.
5. Against the loan, Palace Senior Housing Chain issued Canit Hashalom a capital note in the sum of approx. NIS 55 million, which bears no interest and linkage and the due date of which will be no earlier than May 25, 2021. The repayment of the capital notes is not secured by any collateral, is inferior to other liabilities of Palace Senior Housing Chain and only precedes the distribution of surplus assets upon the liquidation thereof.
6. The loans bear an annual interest according to Section 3I of the Income Tax Ordinance.

19.8. Credit restrictions

For a description of the Company's undertakings in connection with the issue of the Series B Bonds, the Series D Bonds, the Series E Bonds and the Series F Bonds vis-à-vis the bondholders, see Note 17B to the Financial Statements.

19.9. Credit facilities

As of the Report Date, the Group has not been provided with any binding credit facilities or non-binding credit facilities.

19.10. Bank and non-bank credit received between the date of the Financial Statements as of December 31, 2019 until shortly before the Report Release Date

The Company took no bank and non-bank credit in the period between December 31, 2019 and until shortly before the Report Release Date.

19.11. Loans repaid between the date of the Financial Statements as of December 31, 2019 and shortly before the Report Release Date

No such loans have been repaid, over and above current payments in accordance with the payment schedule of each loan.

19.12. Credit rating

On February 2, 2020, Ma'alot ratified the Company's AA+/Stable/ilA-1+ rating. To inspect the full report by Ma'alot, see the Company's immediate report of February 2, 2020 (Ref.: 2020-01-012273), which is included herein by way of reference.

As of the Report Date, the Company's Series B Bonds are rated stable AA+ by Ma'alot, and the Company's CP are rated ilA-1+ by Ma'alot. For further details and details on the rating history of the Company's Series B Bonds and the Company's CP, see the Company's immediate report of January 24, 2019 (Ref.: 2019-01-009423) which is included herein by way of reference.

On January 20, 2019 and December 17, 2019, Midroog issued a stable Aa1.il rating for the expansion of the Company's Series E-F bond series. To inspect Midroog's full reports, see the Company's immediate report of January 20, 2019 and December 17, 2019 (Ref.: 2019-01-007728 and 2019-01-110316), included herein by way of reference.

As of the Report Date, the Company's Series D-F Bonds are rated by Midroog with an Aa1.il rating with a stable outlook. For further details and details on the rating history of the Company's Series D-F Bonds, see the Company's immediate report of December 31, 2019 (Ref.: 2019-01-116598), included herein by way of reference.

Rating of private loans taken by the Company

The Company has no other rated loans.

19.13. Pledges

For details regarding various pledges which were created by the Company and the Group's companies to secure their obligations, see Note 28A to the Financial Statements.

19.14. Guarantees

In the ordinary course of business, at the request of the Company and the Group’s companies, bank guarantees are issued by banking corporations in connection with their properties, including guarantees to secure the obligations of the Company and the Group’s companies. For information regarding guarantees which the Company has provided, *inter alia*, in connection with the financing of the acquisition of properties overseas, see Note 28B to the Financial Statements.

19.15. Variable interest credit

The Group has several loans at variable interest credit. Most of the credit was taken in Shekel currency linked to Prime or Bank of Israel interest, and the remainder in foreign currency linked to the LIBOR, plus a margin determined in relation to each loan. The foregoing credit changes in accordance with changes in the LIBOR interest or the Prime or Bank of Israel interest.

Set forth below is a specification of the range of (nominal) interest for the periods of the Report, as well as the interest rate in proximity to the Report Release Date in respect of the loans at variable interest:

Credit type	Currency	Sum of credit shortly before the Report Release Date (NIS in millions)	Interest rate shortly before the Report Release Date (in %)	Interest range in the reporting periods (in %)	
				December 31, 2019	December 31, 2018
Non-bank credit	NIS	145	0.6%	0.6%	0.6%
Bank credit	NIS	20	2.9%	2.9%	2.9%
Bank credit	GBP	19	2.1%	2.1%	2.0%

The Company and/or the Group’s companies will raise additional funds, according the Company's decision, for the purpose of its business operations, the continued construction of projects under development and investment in new projects.

19.16. Regulatory Implications

The instructions of the Supervisor of Banks in Israel include borrower group and “individual borrower” limits, that affect the provision of credit beyond certain scopes, relative to the total liability of one group of borrowers and total liabilities of the six largest borrowers of the bank.

In accordance with Section 26 of the Concentration Law, as defined below, provisions are to be determined in respect of limitations on credit to be provided by financial entities to a corporation or a business group. A ‘business group’ is defined in said Section as the “controlling shareholder and the companies controlled thereby”, notwithstanding the inclusion of any of such entities in the list of centralistic bodies. In the context of the report of the Committee to Assess Debt Restructuring Proceedings in Israel (the "Andorn Committee") that was released in November 2014, several recommendations were included regarding such matter, including a credit limit of business groups, whose effective credit exceeds 5% of the market business credit, and an imposition of a reporting obligation to the Committee for Reduction of Concentration on companies whose effective credit exceeds 3% of the scope of market business credit. As of the Report Date, such recommendations have yet to receive statutory or binding status and the Company is not aware of other new limitations deriving from the Concentration Law. It should be noted that insofar as is known to the Company’s management, as of the Report Date, a borrower limit does not apply to the Azrieli Group.

20. Insurance

The Company's insurance policies for the insurance of property and liability include insurance policies which cover certain risks in the Group's assets, up to the amounts set in such policies. These policies include: all-risks property insurance at reinstatement value, which includes coverage of fire, machinery breakdown, loss of rent and loss of profits from machinery breakdown, terror and war insurance, third party liability insurance, employers' liability insurance, contractor work insurance and crime insurance.

The amounts of the Group's property insurance were determined thereby according to its estimation, and the insurance policies are reviewed periodically by the Company's insurance consultants before the Board of Directors.

For details regarding the insurance coverage applicable to the Company's officers, see Note 33D to the Financial Statements.

21. Taxation

For details regarding the taxation applicable to the Company and the Group companies, see Note 26 to the Financial Statements.

22. Environmental risks and the management thereof

In the framework of its activities in the property segment, (including the development segment and the senior housing segment)the Group is required, *inter alia*, to meet the conditions and requirements of the Planning and Building Law, 5725-1965, including the Planning and Building Regulations (application for a permit, the conditions therein and fees), 5730-1970, the Planning and Building Regulations (Environmental Impact Surveys), 5763-2003 etc., *inter alia*, in the framework of approval of zoning plans, building permits, various licensing proceedings under the planning and building laws and the performance of building and construction work. The Group companies are responsible, by virtue of their owning or leasing land, under certain circumstances, pursuant to law, for compliance with the provisions of the environmental protection laws, including the Water Law, 5719-1959, the Business Licensing Law, 5728-1968 and the Hazardous Substances Law, 5753-1993, the Nuisance Prevention Law, 5721-1961, Sewage and Water Corporations Rules (Plant Wastewater Discharged into the Sewage System), 5771-2011, the Maintenance of Cleanliness Law, 5744-1984, the Senior Housing Law, 5772-2012 and more. A considerable tightening of the aforesaid regulation may have material implications for the Group’s business results and the amount of expenses required consequently thereto. In this context it is noted, that as of the Report Release Date, several bills are pending which, if passed, will affect the Group’s business, including: the Prevention of Soil Pollution and Treatment of Polluted Soil Bill, 5771-2011.

It shall be noted that in recent years, environmental activity, in Israel and worldwide, has significantly increased, as expressed, *inter alia*, in supervision and enforcement by government agencies and activity by environmental organizations. In the Group’s estimation, this trend is expected to continue in the coming years. The Group is investing many resources in ensuring its compliance with the provisions of the environmental laws that apply thereto, and is acting to prevent and minimize the environmental risks from its activity.

The Group’s policy is to comply with the provisions and requirements of the law, including the environmental laws, as well as the requirements of the various supervisory bodies. For this purpose, professional environmental consultants are assigned to each project of the Group, who assist the Group and advise it throughout the project.

Complex at the Check Post Intersection in Haifa - In accordance with the information leaflet that was received from the City of Haifa, the lot that is located at the Check Post intersection in Haifa, may be affected by hazardous substances. As of the Report Release Date, according to a historic soil survey and a soil testing plan that was pre-approved by the Ministry of Environmental Protection, drillings were performed in the soil. An analysis of the soil sampling results identified individual points where values higher than threshold values were found.

Cellular rental space - In some of the Group's income-producing properties, the Group leases space to the cellular companies (in this Section, the "Leased Space") for the purpose of installing and operating cellular antennas and/or miniature transmitters (the "Telecommunications Equipment"). In accordance with most of the agreements between the Company and/or the Group's management companies and the cellular companies, responsibility for obtaining all of the approvals required by law to set up and operate the antennas and/or miniature transmitters, and responsibility for complying with the various environmental protection laws lies with the cellular companies, including holding, so long as they lease the Leased Space, the approval of the Radiation Commissioner at the Ministry of Environmental Protection regarding instructions and restrictions relating to the use of the Telecommunication Equipment, and acting in accordance with this approval, and they also undertake to comply with the safety instructions that shall be published by the Company or the management companies. Additionally, in the framework of these agreements, the cellular companies undertake to indemnify and compensate the Company and/or the management companies for any damage and/or expense that shall be caused as a result of the cellular companies' activities on the Leased Space, and for their liability by law for any act or omission of the cellular companies, and they undertake to insure their liability under the law for any damage and/or harm that may be caused to a third party. Finally, pursuant to the provisions of most of the agreements as stated above, each cellular company undertake to cooperate with the other cellular companies with which the Company has engaged, with respect to the operation of the Telecommunications Equipment in the Leased Space.

Water and Sewage Corporations (Plant Wastewater Discharged into the Sewage System) Rules, 5771-2011 – In the Report Period, the Company is acting in relation to several properties owned thereby vis-à-vis the water and sewage corporations at the relevant authorities in order to arrange the issue of the waste water discharged by certain businesses leasing space in such properties, which ostensibly result in deviations in the values of the waste water discharged into the municipal sewage system. The Company has retained professional consultants on the matter and places great importance on strict compliance in environmental issues.

23. Restrictions on and Supervision over the Corporation

Below is a brief overview of the laws, regulations, orders, restrictions and requirements with which the Group is obligated to comply in its various operating segments:

23.1. In Israel

23.1.1. Real estate operations

The Company's operations in Israel is subject to the land laws, including in relation to land taxation and lease and borrowing laws, as well as directives and contracts of the Israel Land Authority and Local Authorities, planning and building laws and environmental laws.

23.1.2. General laws concerning the Group's operating segments

In the framework of its activities, the Company and the Group companies are subject to municipal bylaws in each one of the local authorities in which the Group's income-producing properties are located, insofar as relevant, including regarding the opening and closing of businesses, the Prevention of Smoking and Exposure to Smoking in Public Places Law, 5743-1983, Equal Rights for Persons with Disabilities Regulations (Service Accessibility Adjustments), 5773-2013, Water and Sewage Corporations rules, the Privacy Protection Law, 5741-

1981, the Communications Law (Telecommunications and Broadcasting), 5742-1982 (which includes clauses addressing "Spam") etc.

Furthermore, some of the Group's companies purchase electricity through a high-voltage connection and supply the electricity to tenants according to a low-voltage tariff as determined and updated from time to time by the Electricity Authority (PUA-E). To the best of the Company's knowledge, as of the date of the Report, the Ministry of Energy and the PUA-E are acting for the regulation of electricity distribution in retail centers and malls across the country.

The Concentration Law

December 2013 saw the publication of the Promotion of Competition and Reduction of Concentration Law, 5774-2013 (the "Concentration Law").

The law includes three main chapters, as follows: (a) limitation of control in companies in a pyramid structure; (b) separation between significant non-financial corporations and significant financial bodies; (c) weighing of economy-wide concentration considerations and sector-specific competition considerations in the allocation of rights by the State.

Azrieli Group (and the controlling shareholders thereof and the corporations controlled by them) was listed among the significant non-financial corporations.

Upon the closing of a transaction for the sale of all of the holdings of the Company and Bank Leumi Le-Israel Ltd. in Leumi Card to a corporation controlled by the Warburg Pincus Foundation on February 25, 2019 as specified in Section 1.3.3 of this Chapter A, the last two chapters may be relevant in the examination of future transactions of the Company.

Privacy Protection Regulations (Information Security), 5777-2017

On May 8, 2017, the Privacy Protection Regulations (Information Security), 5777-2017 were approved by the Constitution, Law and Justice Committee. The purpose of the Regulations is, *inter alia*, to define information security principles related to the management and use of information in databases, based on information security standards that are generally accepted around the world, all with the purpose of providing protection for the rights of the subjects of the information in the database from abuse of the information about them. The Regulations prescribe several provisions in relation to the definition and periodic update of risks, the setting of information security procedures according to the database's sensitivity, and also address the physical aspects of safeguarding the database and the need to secure it.

23.1.3. Senior housing

Restrictions on and supervision of the senior housing operating segment

Operations in the senior housing segment are mostly regulated by the provisions of the Senior Housing Law, which prescribes, *inter alia*, the duty to receive an operation license for the management and operation of a senior home, provisions in respect of the requirements and conditions for the receipt of a senior home operation license, the contractual relationship between the operator and the resident, the duty to enter into a written engagement agreement, the provision of collateral to secure the repayment of the funds of the residents' deposits, provisions in connection with vacation of residents, and more.

Below are additional provisions of law applicable to the senior housing segment, as prescribed by the Senior Housing Regulations, as specified in this Chapter A.

The Senior Housing Law

The Senior Housing Law prescribes, *inter alia*, that the operation of senior homes requires the receipt of an operation license on behalf of the Commissioner of Senior Homes at the Ministry of Social Affairs and Social Services (the "Commissioner of Senior Homes") and compliance with several conditions prescribed by the said law, including the applicant for the license being the owner or long-term leaseholder of the land of the senior home in respect of which the license is requested, there being no conviction of the license applicant and the senior home manager of certain offences, proof of the financial stability of the license applicant to ensure the proper operation of the senior home and so forth. The operation of a senior home without an operation license or other than according to the conditions of the license constitutes an offence that carries various fines and incarceration penalties. As of the Report Release Date, the regulations regulating the issuance of the operation licenses for senior homes have not yet been published.

Furthermore, the Senior Housing Law regulates additional matters, including the following: (1) The duty to make a written engagement agreement between the holder of the senior home operation license (the "Operator") and the person seeking to be a resident of the senior home; (2) The specification of basic mandatory services the Operator is obligated to provide the residents; (3) The duty to set up an LTC unit for senior homes consisting of at least 250 residential units, while the Commissioner of Senior Homes is authorized to exempt the senior homes from this duty in accordance with the terms and conditions stated in the Senior Housing Law[66]; (4) Limitation on arbitrary increases of the management fees and any other payment, which the resident does not have the actual ability to waive; (5) The right of the residents to set up a residents' representative body at the senior home, and more.

In addition, the Senior Housing Law prescribes that in any case in which the resident is required to deposit sums on account of the Deposit[67], which exceed a rate of 7% of the sum of the deposit or NIS 70,000, whichever is lower, the Operator will be required to provide the resident collateral to secure the funds of the Deposit, according to the Operator's choice and pursuant to the following alternatives: (1) Bank guarantee; (2) Insurance of the resident with an insurer and specification of the resident as an irrevocable beneficiary in the insurance contract, provided that the insurance fees are paid in advance; (3) Transfer of 40% of the amount of the Deposit to a trustee under a trusteeship contract in which the resident is specified as a beneficiary; or (4) Registration of a first-ranking mortgage on the real property in favor of the resident. It is noted that the resident may waive the receipt of such collateral, provided that the waiver is given in writing. Furthermore, the Operator is obligated to bear 20% of the cost of provision of the collateral, with the balance of the cost, at the rate of 80% as aforesaid, being borne by the resident. The Senior Housing Law lists causes for enforcement of the collateral by the resident, including the insolvency of the Operator, an order for stay of proceedings, an order for receipt of assets, a liquidation order, an order for appointment of a receiver, or circumstances wherein an absolute impediment to the repayment of the funds of the deposit is created.

Amendment of the Senior Housing Law

On July 25, 2018, an amendment was published to the Senior Housing Law (the Senior Housing Law (Amendment), 5778-2018) (the "Amendment to the Law"), which concerns the amendment of the provisions pertaining to the collateral used to secure the funds of the residents' deposits. The principal amendments to the Senior Housing Law are as follows: (1) Imposition of a duty on the operator to provide collateral to secure the full amount of the deposit deposited by the resident (i.e. "from the first Shekel"), such that the operator may not receive from a resident a sum exceeding 7% of the deposit or NIS 70,000, whichever is lower, other than subject to the registration of a first-ranking mortgage in favor of the resident or the depositor, on the operator's right in

---

66 It is noted that the provisions of the Senior Housing Law concerning the setting up of an LTC unit took effect at the lapse of five years as of the date on which the law took effect, i.e., on December 3, 2017.

67 "Deposit" – A payment made by a resident to an operation license holder under an engagement agreement, including as collateral for compliance with the terms and conditions of the engagement agreement, which, under the terms and conditions of the engagement agreement the operation license holder must repay the resident, in whole or in part, when the engagement comes to an end, after deduction of any sum deducted from such payment under the provisions of the engagement agreement and the law.

the land on which is built the senior home in which the resident resides (barring parts of the land that serve as retail space or as part of the senior home's LTC unit), which mortgage shall be registered in the name of a trustee who shall be appointed by the residents (according to the proportionate share of each one of them in the sum of the deposits) or, if the senior home is registered as a condominium, in the name of the resident or the maker of the deposit, or alternatively, subject to the provision of a bank guarantee or the deposit of 40% of the deposit with a trustee, with the resident as the beneficiary; (2) The operator will bear all of the costs involved in the provision of the aforesaid collateral (as distinguished from the duty to bear 20% of such costs under the provisions of the Senior Housing Law prior to the date on which the Amendment to the Law takes effect, as specified above); (3) Denial of a resident's right to waive such collateral, such that the provision of collateral will be mandatory; (4) Determination of collateral of the type of a cautionary caveat as an undertaking to register a mortgage as temporary collateral, for a period of up to two years, in favor of a trustee to be appointed by the residents, or in favor of the resident, or, if a condominium has been registered, in the name of the resident or the depositor.

Furthermore, pursuant to the provisions of the Amendment to the Law, an irregularities committee shall be established at the Ministry of Welfare, which may exempt an operator, at its request, fully or partially, from provision of the collateral under the Senior Housing Law, and determine conditions to such an exemption, or alternatively, order the provision of alternative collateral.

The Amendment to the Law further stipulates that the Commissioner of Senior Homes may require the operator, at any time, to prove its financial stability by conducting such inspections as determined in the Law and also deliver the results of such inspections to the residents, subject to the conditions specified in the Amendment to the Law.

In addition, provisions were determined regarding the establishment of a joint fund for the financing of medical expenses under circumstances of insolvency for the benefit of all of the residents, and the establishment of a joint fund for the financing of expenses due to insolvency – these funds will be managed by the Custodian General.

The Amendment to the Law includes transitional provisions whereby the provisions of the law shall apply retroactively, such that they will also apply to agreements that were made prior to the amendment. The Amendment to the Law took effect 18 months after the publication thereof (i.e. in late January 2020), with the exception of the sections concerning the irregularities committee, the examination of financial stability, the fund for the financing of medical expenses under circumstances of insolvency and the fund for the financing of expenses in a case of insolvency, which took effect 6 months after the date of publication (i.e. at the end of January 2019)[68].

In the Company's estimation, the Amendment to the Law does not materially affect the Company or its profits.

The Senior Housing Regulations

The Senior Housing Regulations (Disclosure Document Form), 5778-2018 – These regulations took effect on April 5, 2018 and determine the content of the disclosure document that the operator is required to hand over to a resident with whom the operator expects to enter into an engagement agreement. According to these regulations, the operator is required to disclose and provide to the prospective resident, *inter alia*, information and details regarding the operator and its identity, details about the operator's license, details about services to be provided by the operator, details regarding the operator's rights in the land on which the senior home is built and operates, a description of the public areas, a breakdown of payments, a specification of collateral, and all other details required to be disclosed in accordance with these regulations and the Senior Housing Law.

---

[68] It is noted that although the sections concerning the examination of financial stability, the fund for the financing of medical expenses under circumstances of insolvency, and the fund for the financing of expenses in a case of insolvency, took effect at the end of January 2019, no regulations have yet been promulgated on the said issues and/or the funds have not yet been set up, as the case may be.

Draft Senior Housing Regulations (Examination of Financial Stability), 5778-2018 – These regulations were published for public comments on March 27, 2018. These regulations determine the financial conditions required of a license applicant, *inter alia*, to prove its financial stability, and as a condition to receipt of an operating license. In accordance with the provisions of these regulations, the license applicant is required to deliver to the Commissioner of Senior Homes, *inter alia*, financial statements and other documents certified by a CPA on its behalf. The regulations also set forth the tests for examination of the license applicant's compliance with the regulations, as well as an appeal mechanism. To the best of Palace management's knowledge, the period for submission of the public's comments ended on April 17, 2018, although they have not yet been presented for discussion at the Knesset's legislative committees, and considering that the language is merely preliminary (and subject, *inter alia*, to public comment), the language of the said regulations, if approved, may be different to that presented for public comment.

Senior Housing Regulations (Apartment Specifications Form), 5778-2017 – These regulations took effect on January 17, 2018. In summary, these regulations obligate the Operator to attach to every engagement agreement with residents (pertaining to the occupancy of an apartment in a senior home) a detailed and accurate specification, which addresses all of the details and information as specified in the said Regulations. Furthermore, the Regulations stipulate that in respect of contracts between senior homes and residents regarding the occupancy of senior homes in planning stages or under construction, which construction is yet unfinished, a plan of the future apartment, including exact measurements, must be annexed to such contracts in addition to the specifications form of the future apartment;

Senior Housing Regulations (Residents' Committee), 5778-2017 – These regulations took effect on December 3, 2017. In summary, these regulations pertain to the right of residents in senior homes to appoint a representative body on their behalf, and prescribe procedures for the selection of such representative body, its powers, the manner to convene its meetings, its voting manner, its term of office and so forth.

Senior Housing Regulations (Provisions regarding Experience, Professional Training and Seniority of Senior Homes Managers), 5778-2017 – These regulations took effect on December 14, 2017. These regulations set forth the preliminary conditions and the experience and professional training requirements of a manager of a senior home, which include, *inter alia*, a duty imposed on a senior home manager to participate in a course and training according to various criteria prescribed by the Regulations, as well as a requirement of having at least three years' experience. Furthermore, these regulations obligate the owners of senior homes to ensure the enforcement and the implementation of these Regulations. The Regulations further anchor the prohibition on senior home managers to act in conflict of interests in the context of their position.

With the exclusion of the above specified regulations, as of the Report Date, additional regulations applicable to the senior housing segment did not yet take effect. To the Company's best knowledge, at this point there are additional regulations which pertain to the senior housing segment and which legislation is yet incomplete, as follows: Draft Senior Housing Regulations (Application for a Senior Home Operation License), which specify the conditions and the documents required for submitting an application for the grant or renewal of a senior home operation license.

Invalids and the mentally frail – The People's Health Ordinance and Regulations

The People's Health Ordinance, 1940, the People's Health Regulations (Registration of Hospitals), 5726-1966, and the People's Health Regulations (Nursing Staff in Clinics), 5741-1981, prescribe that the operation of hospitals, including units for invalids and the mentally frail, requires receipt of a permit from the Ministry of Health and is subject to supervision thereby. Such regulations include provisions with respect to the physical structure, the condition of the equipment, the manner of management, the rights of hospitalized patients and manpower capacities and training.

Labor law

Palace has employees in the senior housing operations and has also engaged with manpower agencies and manpower contractors for the receipt of various services in the senior homes, including cleaning, protection and security. Palace is therefore subject to the labor law and particularly to the law applicable to engagement of contractor employees, including the Employment of Workers by Manpower Contractors Law, 5756-1966, the regulations promulgated thereunder, and the Enhancement of Labor Law Enforcement Law, 5772-2011.

Planning and building laws, work safety and accessibility and consumer legislation

In the context of the planning, development and construction processes of senior homes, Palace is subject, *inter alia*, to the planning and building laws, including the decisions of local authorities and the various zoning committees, and is also subject to the Equal Rights for Persons with Disabilities Law, 5758-1998 and the secondary legislation thereunder, and to the work safety laws. Furthermore, the operation of senior homes is subject to consumer laws, such as: the Consumer Protection Law, 5741-1981 and the Control of Products and Services Law, 5718-1957.

23.1.4. Hospitality

The Company's activities in the hotel industry are subject, *inter alia,* to the provisions of law, the existence of which is a legal precondition for its ongoing operation in the field, and also to provisions of law that affect or may affect its operations and business results, as follows:

The Planning and Building Law, 5725-1965

This law prohibits construction without obtaining a building permit or in deviation from the permit/ approved building plans. Construction of buildings, including hotels, is subject to the Planning and Building Law and the regulations promulgated thereunder.

The Tourism Services Law, 5736-1976

This law and the regulations promulgated thereunder regulate the operation of hotels in Israel, among others, the services provided by hotels, their licensing, classification, and the obligation to insure the users of the service and their property.

The Business Licensing Law, 5728-1968

This law allows the local authorities, within which the hotels operate, to prescribe conditions for the granting of business licenses. As part of the conditions for obtaining such business licenses, the Company is required to have, within its hotel business, fire-fighting permits (therefore the Company is subject to compliance with the Fire Fighting Services (Fire Extinguishing Equipment in Hotels) Regulations, 5732-1972, and the requirements of the Fire Fighting Services Authority by virtue thereof), a poison permit (issued by the Ministry of Environment Protection for those dealing with poisons under the Hazardous Substances Law, 5753-1933, in connection with the operation of hotel swimming pools). On January 1, 2019, Amendment 34 of the aforementioned Business Licensing Law came into effect, the purpose of which is to facilitate the bureaucratic process of obtaining a business license, according to business's risk levels.

The Labor Inspection Organization (Safety Officers) Regulations, 5756–1996

These regulations enshrine the duty of employing a hotel safety officer where more than 50 employees are employed.

The Consumer Protection Law, 5741-1981

This law and the regulations promulgated thereunder establish various provisions relating to the activities of the Company in the hotel industry, including, prohibition of misleading (including in advertisements), disclosure obligation, consumer cancellation rights, provisions concerning special sales, remote sale transactions (online and telephone bookings), vacation unit purchases and more.

The Equal Rights for Persons with Disabilities Law, 5758-1998

This law and the regulations promulgated thereunder apply various provisions to the Company that require making accessibility adjustments for the hotels and services provided there, to persons with disabilities.

Municipal by-laws and municipal taxation laws

In addition to the aforementioned restrictions, the Company's activities in the hotel industry are subject to relevant legal provisions and in particular to the tax laws and municipal by-laws of each of the local authorities in which the Company's hotels are located. As of the Report Release Date, the Company is subject to the municipal by-laws of the city of Jerusalem in this matter.

23.1.5. Business Licensing

In the framework of the operations of the Group's companies, some of the Group's companies are required to obtain a business license pursuant to the Business Licensing Law, 5728-1968. To the best of the Company's knowledge, as of the Report Date, all of the Company's properties have a valid business license or are in the midst of proceedings for the renewal or issuance of a business license (including such which had expired), as required under the Business Licensing Law, 5728-1968. In addition, in the lease agreements in which the Group engages with the various lessees, the lessee is required to hold a business license as required by law for the operation of its business in the property.

23.1.6. Economic Competition

In the framework of expansion of the Group's operations, *inter alia*, by acquiring shares in companies owning the rights in real properties, by the Group and the Group's companies may require, under certain circumstances, to approve the merger pursuant to the Economic Competition Law, 5748-1988.

23.2. Outside Israel

The Group's operations in the U.S. and in England are subject to the laws and regulations in the said countries and, *inter alia*, in the field of land, planning and building and lease, the environment and laws on the municipal level and in connection with land taxation.

The data centers activity is characterized by high requirements in the following areas: security, both physical and of computing and server systems, environmental requirements from the various systems used by the buildings (such as the cooling systems, generators, fuel storage for the generators, etc.), very high power redundancy requirement (prevention of general failure in the event that one of the system components fails), the communication, control and safety systems. Every development project in the field is subject to regulation and provisions prescribed by the relevant authorities, depending on the area of activity.

24. Material Agreements and Collaboration Agreements

The Group is a party to collaboration agreements with third parties with respect to some of the projects within the Group’s activities.

Excluding agreements which were specified in this Chapter, in the Additional Details Chapter (Chapter D of the Report) and in the Notes to the Financial Statements, the Company is not a part of any material agreements which are not in the ordinary course of business or which were not described in Chapter A of the Report.

25. Legal Proceedings

As of the Report Date, the Company and/or the Group companies are not a party to pending material legal proceedings, except as specified in this Report and in Note 31 to the Financial Statements. In addition, as of the date of this Report, the Company and/or the Group companies are conducting various proceedings, as determined by law, *inter alia*, for the resolution of demands received from the various local authorities in respect of mandatory payments and levies, in a total amount that is immaterial to the Company. In respect of part of the proceedings, the Company included provisions in the Financial Statements on the basis of the opinion of the Company's outside advisors, under the circumstances of each matter.

26. Goals and Business Strategy

As a leading company in its segments of activity, the Company focuses on the income-producing real estate sector, mainly in Israel. In the retail centers and malls in Israel segment, the Company regularly focuses, on improving its existing properties, and acts to optimize the utilization of its commercial space and create a suitable tenant mix according to the changing demand needs, increase the number of visitors while maintaining and even improving the attractiveness of its malls and retail centers, increasing the tenants' revenues, and continuing to offer management services to its properties through the Group’s management teams, maintaining the level of its tenants and renewing the lease agreements therewith for additional long-term periods. In the office and other space for lease in Israel segment, the Group places an emphasis on the location of the property, the uniqueness of the building, accessibility and parking, and supporting functions for the tenants and their employees in order to create differentiation against competing properties in the same areas of demand. In the senior housing segment, the Group laid an emphasis on the location, standard of service, varied activities’ contents and a supportive environment.

The Group’s business strategy is mainly to continue to invest in expanding its widespread activity in retail centers and malls (including power centers), the office and other space for lease in Israel and overseas and later on the development and expansion of the senior housing segment and fields which are related to the Company’s business segments, through the purchase of lands for development and construction of assets and/or the purchase of additional assets. In addition, the Company emphasizes the betterment of existing assets, the advancement of building plans and expansions for optimal use of the rights in its assets. The Company insists on maintaining its high financial soundness and a relatively low level of leverage.

One of the Company's goals in the area of income-producing property in the U.S. is investment of up to approx. 15% of the value of the Company's investment property in Western countries (mainly the U.S.) with a high investment rating, subject to the right timing and appropriate cost.

The Company estimates that its main growth engines are, *inter alia*, the projects undergoing planning and construction, development of new properties through the identification of lands for purchase while taking into account areas of demand, large population centers, central transportation junctions and high accessibility to public transportation.

Furthermore, the Company examines from time to time additional options to expand its segments of activity in other fields of business which are synergetic or tangential to the Company’s business as additional growth engines, while taking advantage of market conditions and/or crisis conditions in leading, cash generating target companies. In such context it invested in a company that engages in the field of data centers and also decided to enter the hotel industry and purchased the Mount Zion hotel. For further details, see Sections 12.1 and 12.2 of this Chapter A.

In the Report Period, the Company continued to operate the longstanding senior home "Palace Tel Aviv", which it purchased in 2015, and the senior home “Palace Ra’anana” (formerly Ahuzat Bayit Ra’anana), which was purchased in 2016, and has populated the senior home in Modi’in. The Company is continuing the final stages of construction of the senior home in Lehavim which is expected to end in Q1 2020 and with respect to which a Form 4 is expected to be received this April, and is acting to promote the construction of additional senior homes, as specified in this Chapter A above. The Company aspires to continue developing the senior housing business and to create a significant portfolio with national presence and a 4-5 star finishing standard. In the Report Period, the Company continued to examine various ventures for the construction of new senior homes, identification of suitable land and purchase of existing senior homes, aiming to be a leading player in the senior housing market, both in terms of the number of residential units offered to residents and in terms of the standard of the services provided.

As reported thereby, the Company regularly reviews the holdings which are not in its core business in the real estate sector. For details on a transaction that was closed for the sale of Granite Hacarmel and the signing of an agreement for the sale of the holdings in GES, see Section 13 of this Chapter A.

The Company's goals as of the Report Release Date are based on the management's estimates in connection with the market conditions as of such date, and there is no certainty that the aforesaid will indeed be realized. For further details, see the Board of Directors’ Report.

27. Forecast for Development

As the Company reported in the past, during the Report Period until the Report Release Date, the Group has continued exploring business opportunities, in Israel and overseas, in connection with the expansion of its business, mainly in the real estate sector, including continued development of the senior housing segment and entry into related and other operating segments. These opportunities are examined both through the purchase of land reserves and the development of properties, and by way of purchase of properties and/or operations from third parties and/or the betterment of the existing properties owned by the Group, some of which have materialized as stated in the Company's reports. The Company is regularly engaged in identifying opportunities for expanding retail and office space in its existing properties as an addition to existing projects and is pursuing the promotion of the betterment of such properties and is expected to continue pursuing such activity also in 2020. In addition, following the sale of Granite, the Company continues to regularly look into its financial holdings, all according to its discretion as to the timing, structure and consideration of the transaction. As of the Report Date, there are no short-term plans which deviate from the Company’s ordinary course of business and which may have a material influence on the Company’s business and results.

28. Discussion of Risk Factors

In the Company’s estimation, the Group is exposed to several fundamental risk factors deriving from the economic environment and the Group’s unique characteristics.

The information concerning risk factors to which the Group is exposed, is forward-looking information as defined in the Securities Law. The Company’s expectations with respect to this issue are based on past experience, the Group’s familiarity with the markets in which it is active and its estimates in relation to its economic and business development. However, the Group’s estimates regarding the following risk factors, including the scope of their effect on the Group's business, is forward-looking information, as defined in the Securities Law, based on the Group's existing information as of the Report Date and include estimates and analysis of the Group. The effect of the realization of any particular risk factor may vary from the Group's estimations, *inter alia*, due to external factors that may be beyond the Group's control. Furthermore, in view of the Group's continued examination of the expansion of its business, in particular in the real estate segment, the Group may by exposed in the future to additional risk factors, and the effect of any risk factor, if realized, may vary from the Group's estimations. Notwithstanding the aforesaid, it is noted that the Group's operations are characterized by a large number of tenants, numerous segments and geographic dispersal. These characteristics allow the Group to reduce its exposure to changes in a specific operating segment and to reduce its exposure to the business of a specific tenant.

28.1. Macro-economic and financial risks

28.1.1. The growth and consumption rates in Israel

The Company's activity is dependent, *inter alia*, on the growth of the Israeli economy and the per capita consumption rates, which affect the demand for the Company's income-producing properties and the soundness of material tenants of the Group's properties and their ability to fulfill their undertakings thereto.

28.1.2. A change in the building inputs index

An increase in the building inputs may affect the price of the Company's engagement with sub-contractors. While construction costs are usually linked to the building inputs index, income is usually linked to the consumer price index. Therefore, the Company may be exposed to negative effects in the event of changes in these indexes.

28.1.3. Changes in the economy's interest rates

A majority of the Group's undertakings and Group's development plans are affected by changes in the economy's interest rates and the banking corporations' conditions for provision of bank credit. A long-term increase in the market interest rates may affect the Group's financing costs in relation to each project, the yield from the properties, the value of the income-producing properties and the Group's profitability.

28.1.4. Security situation

Changes in and aggravation of the security and political situation may affect the Company's activity and business results, both from the perspective of the public's readiness to visits the Group's shopping centers and malls, in high-stress areas and in general, as well as from the perspective of demand for lease spaces, shortage in manpower in the construction industry, building cost appreciation, etc.

28.1.5. Regulatory changes in the Company's business environment

The Group's activity is exposed to various regulatory limitations, including in accordance with the antitrust law, the securities law, corporate law and the supervision on banks law. Stricter regulation in areas pertaining to the Company, as well as possible implications of further regulatory changes might reduce and/or limit the Company's activity through, *inter alia*, organizational changes and the imposition of conditions on the Company's business activity and financial holdings.

28.1.6. Changes in the value of financial investments available for sale

In view of the condition of the capital market in Israel, the Company is exposed, to a certain extent, to adverse changes in the value of the company in which it has invested as a financial asset available for sale. Impairment of this company may adversely affect the comprehensive income of the Company and its equity.

The spread of Coronavirus – it is noted that in the Company's estimation, if the spread of Coronavirus aggravates over time, its impact may have material adverse effects on the economy in Israel and worldwide, and may further have an adverse effect on the macro-economic risks specified above. For further details see Section 2.2 of the Board Report.

28.2. Industry-specific risks

28.2.1. A decline in the demand for rental space

A decline in the demand for rental space and/or renewal of existing lease agreements may lead to a decline in occupancy rates in the Group's properties and a decline in income from rent and in asset value and will necessarily harm the Company's business results.

28.2.2. A decline in the rent prices

A decline in the demand for rental space together with competition becoming fiercer in the industry may lead to erosion of the Company's rent, a decline in asset value, and harm its financial results.

28.2.3. Strength of main tenants

Damage to the financial strength of tenants, and particularly main tenants, may lead to an increase in provisions for doubtful debts or alternatively, termination of lease agreements and/or eviction of tenants from the Group's properties, and therefore to a decrease in the Group's income from rent and necessarily harm the Company's business results.

28.2.4. Competition

The income-producing commercial property segment in Israel is subject to significant competition. For details regarding the effect of the Group's competitors on its business results, see Sections 8.4 and 9.3 of this Chapter A.

28.2.5. Approvals from the authorities

Activity in the income-producing property segment is characterized by the need to obtain permits from various entities at the different authorities, particularly in the area of usage and rights confirmations (zoning plans), obtaining building permits, business licenses etc. A delay in obtaining any permit or failure to obtain a permit could harm the profitability of the project or entail various financial expenses for the purpose of compliance with the requirements of the authorities for receipt of the approvals.

28.2.6. Legal and regulatory requirements, including with respect to environmental protection

The Group's companies are subject to legal and regulatory requirements from various aspects and, *inter alia*, on issues pertaining to the environment (nuisance, underground and above-ground pollution, toxic waste etc.), and they are required to bear the costs involved in meeting the same, such that it may have an adverse effect on their results. A toughening of such regulatory requirements may force the Group to allocate additional financial resources to this issue.

28.2.7. Changes in the tax burden

The Group's companies are subject to the tax laws in the jurisdictions in which they operate. Changes in the present or future tax rates, or other changes in tax laws that affect the tax liability of the companies, will cause a change in the Company's financial results.

28.2.8. Cyber Risks

Within their operations, the Group's companies use computing systems and/or computer-based systems and infrastructures (in this Section below: the "Systems"), including for the sake of information collection and processing on databases managed thereby. A cyber attack intended to penetrate or damage the Systems, the proper use of the Systems, or the material stored thereon, could cause direct and indirect damage, including the disruption, interference or shutdown of operations, ransom attacks, leakage and loss of information, theft of an asset, intelligence collection, damage to goodwill and/or public trust and recovery expenses. The Group operates to prevent and reduce the exposure to the said risks, *inter alia*, through protection systems and software, integration and enhancement of information security culture in the Group (including training for managers and employees), clarification and adaptation of procedures, internal control plans as well as monitoring and support with the assistance of experts in the field.

28.2.9. Spread of the Coronavirus

On March 14, 2020, the Israeli Government issued a directive to close recreational venues, *inter alia,* the Company's malls (other than in relation to essential businesses such as supermarkets, drugstores, clinics, food businesses for deliveries only and banks). If the spread of Coronavirus will become more severe over time, the ramifications thereof may have 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. For further details see Section 2.2 of the Board of Directors' Report.

28.3. Company-specific risks

28.3.1. Fluctuations in the Consumer Price Index

The Group has loans and bonds and deposits from senior housing residents that are linked to the Consumer Price Index and therefore the Group is exposed to fluctuations in the Consumer Price Index. However, most of the Group's revenues from rent in the commercial centers and malls segment and the office and other rental space segment are linked to the Consumer Price Index, while a rise in the Consumer Price Index may lead to an increase in the revenue from rent and reduce the exposure in relation to this risk.

28.3.2. Foreign Currency Risks

The Company has assets and liabilities that are stated in various foreign currencies. In view of the fact that the total foreign currency liabilities are not always equal in value to the total foreign currency assets, the Company is exposed to possible changes in the exchange rate of the foreign currencies versus the NIS. However, the Group's revenues from rent in the income-producing property in the USA segment are stated in foreign currency, while a rise in the exchange rate of the foreign currency may lead to growth in revenues from rent and to reduction of the exposure due to this risk.

28.3.3. Dependency on Financing Sources

The Company’s activity is also financed by external sources and an adverse change in the conditions for provision of credit and/or renewal of existing credit may materially harm the Company’s results.

28.3.4. Debt raising costs

Changes in the market interest rates may affect the cost of debt raising by the Company as well as the financing expenses. In addition, in view of the impact of the spread of Coronavirus on the entire economy, the debt raising costs may be affected by such impact.

28.4. Senior-housing specific risks

Regulation in the senior housing business

The senior housing sector has developed significantly in recent years, along with the regulation of the sector. For details regarding the Senior Housing Law, which provides, *inter alia*, the conditions for receipt of a senior home operation license, including the amendment to the Senior Housing Law, see Section 23.1.3 of this Chapter A.

Set forth below are the main risk factors described above that were ranked, in accordance with the Company's estimate, according to the extent of the effect that they may have on the Company's business:

	The Extent of the Effect of the Risk Factor on the Company		
	Large Effect	Medium Effect	Small Effect
Macro-Economic Risks			
Growth and consumption rates in Israel	X		
The security condition in Israel	X		
Changes in the interest rates in the economy		X	
Changes in the Building Input Index			X
Regulatory changes		X	
Changes in the value of available for sale financial investments			X
Industry-Specific Risks			
Decline in the demand for rental space	X		
Decline in rent prices	X		
Strength of main tenants			X
Competitive environment	X		
Approvals from authorities			X
Environment and regulatory requirements		X	
Changes in tax burden		X	
Cyber risks		X	
Spread of the Coronavirus		X	
Specific Risks			
Fluctuations in the CPI		X	
Foreign currency risks			X
Dependency on financing sources		X	
Debt raising costs		X	
Senior housing-specific risks			X

Danna Azrieli,

Chairman of the Board

Eyal Henkin,

CEO

Report Date: March 24, 2020

PART B

Board Report

DEAR SHAREHOLDERS,

2019 was an excellent year for the Azrieli Group: a year of development and growth in our core business segments, alongside entry into new and complementary areas which will serve as significant growth engines for the Company in the coming years.

This year, the Group's office segment continued to grow and lead the market, with our offices in considerable demand by an abundance of tenants. We have completed marketing all of the office space in the Azrieli Town and Holon Manor projects, which are both expected to open at the end of 2020. We are also continuing to promote the Group's flagship project: the construction of the Spiral Tower and the expansion of Azrieli Center Tel Aviv. The tower was designed in cooperation with the international firm KPF Architects, and is expected to be Israel's tallest building, incorporating multi-use in line with the world's premier skyscrapers. The project's plans reflect our superior and uncompromising construction standard, and I believe that upon its completion the tower will stand out as a distinctive, prominent and innovative installation in Tel Aviv's skyline, which will also offer an extraordinary experience to all who pass through its doors.

In the malls segment, we remain unparalleled thanks to our experience and professionalism, the services and innovation that we offer, and the prime location of the Group's malls nationwide. Our malls continue to demonstrate strength and stability, while we constantly strive to generate an exceptional "user experience" that brings abundant visitor traffic to the Group's malls. Furthermore, we are constantly striving for an optimal mix of tenants, while emphasizing the realms of leisure, entertainment, and dining, in order to create a comprehensive entertainment experience for mall visitors.

In the senior housing segment, our outstanding entrepreneurial and financial abilities allow us to continue developing projects at the highest standards. This year, we plan to launch the "Palace Lehavim" senior home, which is the first of its kind and standard in the South of Israel. Our newest project comes on the heels of the successful launch of our "Palace Modi'in" project last year, which we conceived and executed from the stage of land purchasing through construction, and which had achieved high pre-registration rates, even before the official opening date. Today, Palace Modi'in is already considered to be one of the most preeminent and innovative projects in Israel's senior housing sector. I believe that the Palace Lehavim project will also be distinctive in the standard, quality, and the experience that it will offer to the residents of the South. Concurrently with the above, we are initiating and developing two other projects in the senior housing sector, located in Rishon Letzion and Jerusalem, and we expect for the senior housing sector to continue as one of the Azrieli Group's most substantial growth engines going forward.

This year, we also invested into two new growth engines in the income-producing property sector: data centers and hotels.

In H2/2019, the Company acquired approx. 20% of the US Company Compass, which is an active platform for the development and management of data centers in North America. Compass has a veteran management team with vast knowledge in development, specification and identification of locations for data centers. Compass also has extensive business relationships with major customers. With a forward-looking perspective on technology, the data centers industry appears to have great potential for growth in the real estate realm. I believe that with the continued rapid and intensive advancement of cloud-computing technology, as well as the process of interface between the physical and digital realms, the Internet of Things, and the exponential growth of data volume, the demand for data storage solutions will only increase in the coming years.

Furthermore, at the end of 2019, the Group announced its entry into the hotel industry with the closing of its acquisition of the Mount Zion Hotel in Jerusalem in early 2020. The Mount Zion Hotel is a remarkable property in terms of both its location and the caliber of its preservation, construction, architecture and history. The Group plans to renovate and upgrade the hotel to a standard of construction and hospitality which is among the highest in Israel. This activity is synergetic to our core activities in particular when considering the increase number of our mixed use projects, for example, our Spiral Tower and our Lot 21 property in Modi'in.

In 2019, with the closing of the sale of Supergas and the signing of an agreement for the sale of GES, the Group disposed of its holdings in sectors which are not part of its core business, allowing it to intensify its focus on the income-producing property sector.

As one of the largest companies in the Israeli economy, we are guided by the values of leadership, Zionism, responsibility, excellence, professionalism, and innovation, while emphasizing customer experience, service, and honest and fair business conduct. The Group develops and manages its properties, while aspiring to create sites which are experiential, innovative and respectful of every person at every stage of life, and as a result we are shaping the way people work, shop, relax, vacation and spend their retirement. Out of a sense of social and environmental responsibility, the Group is taking action to promote environmental issues at its various properties. I see this issue as a matter of great importance which the Group will continue to vigorously promote.

We opened 2020 with an outstanding pipeline of projects, totaling over a million square meters in various stages of development, which are expected to significantly contribute to the Group's growth in the coming years. The financial resilience of the Azrieli Group has allowed it to raise, this year, close to NIS 4 billion in bond series' expansions, with low interest rates and long durations, which is indicative of an impressive vote of confidence in the Group by the capital market and is expected to be a financial anchor for our continued growth.

As you know, the entire world is dealing with the spread of the Coronavirus and its implications on the local and global economy. We are aware of the new challenges facing the tenants at this time, and we have, therefore, initiated a number of relief measures for example, we have decided to set up a designated financial aid fund for our tenants. The fund will be used to protect the economic security and business continuity of tenants of the Group's malls.

I am very optimistic that, in view of the Group's financial soundness, we will meet the challenges, weather the crisis, and come out even stronger, while maintaining our long-standing relationship of trust with our tenants. We look forward to our continued growth and activity in 2020, and I am confident that we will continue to lead the market as the strongest income-producing property company in Israel.

Yours,

Danna Azrieli,
Chairman of the Board

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 leading 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. The Company also operates in the senior housing sector and manages three active senior homes. In the United States, the Company holds several office buildings, mainly in Houston and Austin, Texas. Furthermore, in July 2019 the Company invested (indirectly) in a company operating mainly in the Data Centers industry in North America. In December 2019, the Company announced its entry into the hospitality sector, and in February 2020 closed its acquisition of the Mount Zion Hotel in Jerusalem.

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, we constantly invest in the preservation of the quality and value of our current property portfolio.

In addition to its real estate business, the Group has other holdings and activities: The Azrieli.com e-commerce platform; holdings in GES, a water and wastewater treatment and chemicals company (for details with respect to entry into an agreement for the sale of all of Granite Hacarmel's holdings in GES, see Section 1.2.3.5 below). Until recently, the Company held Supergas, the sale of which was closed on November 5, 2019 (for details with respect to the closing of the transaction for the sale of the Company's holdings in Granite Hacarmel, which wholly-owns Supergas, see Section 1.2.3.4 below). The Company also has a financial holding of Bank Leumi stock (approx. 3.1%). The Group's holdings in Leumi Card were sold in February 2019, as stated in Section 1.2.3.2 below.

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 24%. We target the best locations for our 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 our 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 3.6 billion distributed in dividends since the IPO

Over 1.2 million sqm of leasable areas and additional over 0.7 million sqm under development

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

99% occupancy rate* on average in Israel

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

18 MALLS

349 thousand sqm | 98% Occupancy*

14 OFFICE BUILDINGS

548 thousand sqm | 99% Occupancy

3 SENIOR HOMES

76 thousand sqm | 99% Occupancy*

8 OFFICE BUILDINGS OVERSEAS

246 thousand sqm | 78% Occupancy

DEVELOPMENT PIPELINE

11 properties | 723 thousand sqm

PERFORMANCE SUMMARY AND FINANCIAL HIGHLIGHTS

FOR 2019

Rise of approx. 6% in NOI (approx. NIS 1,611 million), compared with 2018 (approx. NIS 1,523 million)

Rise of approx. 4% in Same Property NOI (approx. NIS 1,572 million), compared with 2018 (approx. NIS 1,511 million)

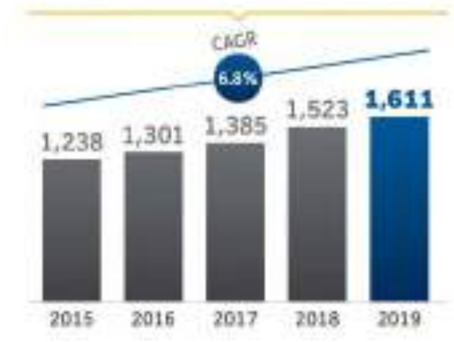
Increase of approx. 3% in the FFO attributed to the income-producing real estate business

Increase of approx. 72% in net profit (approx. NIS 2,097 million), compared with the same period last year (approx. NIS 1,219 million)

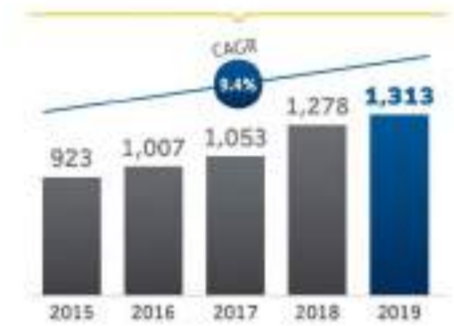
Increase of approx. 10% in total assets (in 2019- approx. NIS 35.2 billion, compared with approx. NIS 31.9 billion in 2018)

Extension of the average duration of debt simultaneously with the reduction of interest

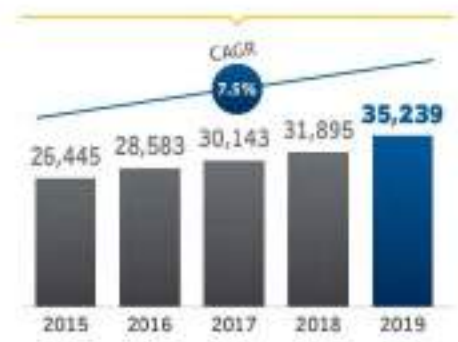
NOI



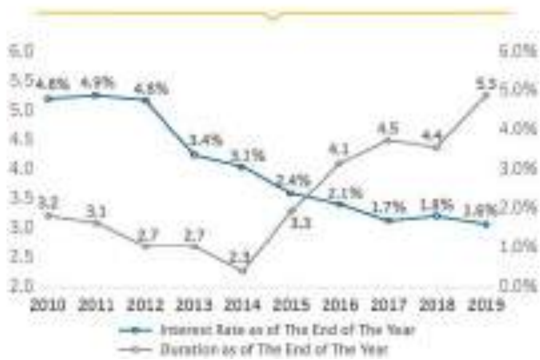
FFO from income-producing real estate business



Total Assets



Interest and average duration as of end of period



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 hereinafter be referred to as the "**Group**" or the "**Azrieli Group**") is proud to present this board of directors' report (the "**Board Report**") for the year ended December 31, 2019 and for the three-month period ended December 31, 2019 (the "**Report Period**"), in accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "**Regulations**").

The information in the Board Report is based on the consolidated financial statements as of December 31, 2019[1]. 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 and shortly before 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.

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

1.2.1. Summary of Operating Segments for 2019

In 2019, the 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, the senior housing in Israel segment and on the income-producing property overseas segment (mostly in the U.S.). The Company is also active in the e-commerce business and has holdings of minority interests in a financial corporation. In July 2019, the Group invested in Compass, operating mainly in the data centers industry in North America. Until November 2019 the Company held another operating segment under Granite Hacarmel which engaged, through Supergas, in the marketing of alternative resources. Furthermore, on September 12, 2019, a non-binding MOU was signed for the sale of the entire holdings (100%) in GES[2] and on January 23, 2020, Canit Hashalom engaged in an agreement for the sale of its holdings in GES[3] the business of which is water, wastewater, air, waste and industrial chemicals treatment.

The Group's primary growth engine is the development of income-producing real estate projects: malls, offices and senior housing. As of the date of the Report, the Company has eleven projects in Israel in various development stages, the planned area of which is approx. 723 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 18 malls and retail centers in Israel;
2. **Leasable office and other space in Israel** – The Group has 14 income-producing office properties in Israel;
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 3 active senior homes in Israel;

[1] The attached financial statements are prepared according to the International Financial Reporting Standards ("IFRS"). For further details, see Note 2A to the financial statements.

[2] For further details, see the Company's immediate report as of September 12, 2019 (Ref. 2020-01-095770), included herein by way of reference.

[3] For further details, see the Company's immediate report as of January 26, 2020 (Ref. 2020-01-009789), included herein by way of reference.

Additional activities – As of the Report Release Date, the Group is active in the e-commerce industry through Azrieli E-Commerce that holds and operates the Azrieli.com website, and holds approx. 3.1% of the shares of Bank Leumi Le-Israel Ltd. ("**Bank Leumi**"). By February 25, 2019, the Company held 20% of the shares of Leumi Card Ltd. ("**Leumi Card**")[4]. In July 2019, the Group invested in Compass, whose main activity is data centers in North America. For details on such investment, see Section 1.2.3.4 below. After the date of the Report the Company completed the purchase of the Mount Zion Hotel in Jerusalem. For further details, see Section 1.2.3.11 below.

Discontinued operations – the Granite segment - The Group held (through Granite Hacarmel) 100% of the shares of Supergas, the business of which is marketing of alternative resources, and holds 100% of the shares of GES, the business of which is water, wastewater, air, waste and industrial chemicals treatment. In view of the closing of the sale of Supergas in the context of the sale of Granite, and in view of the Group's engagement in an unbinding MOU and thereafter in a binding agreement for the sale of the holdings in GES, Granite and GES are presented in the financial statements as discontinued operations, according to GAAP.

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:[5]

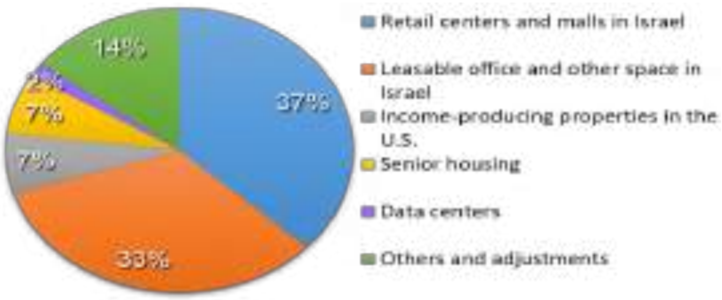
Breakdown of Total Balance Sheet Assets by Operating Segment

Comparison of Segment Assets to Previous Year

As of	31.12.2019	31.12.2018
Retail centers and malls in Israel	**13,018**	12,682
Leasable office and other space in Israel	**11,655**	10,443
Income-producing properties in the U.S.	**2,421**	2,593
Senior housing	**2,410**	2,081
Data centers	**582**	-
Others and adjustments	**5,153**	4,096*
Total	**35,239**	31,895

Percentage of Segment Assets out of Total Assets

31.12.2019



Figures are presented in millions of NIS.
*Restated and includes assets due to discontinued operations.

The retail centers and malls segment constitute approx. 37% of the total balance sheet assets. The other income-producing real estate segments constitute, in the aggregate, approx. 48% 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.

[4] For details regarding the sale of all of the Group's holdings in Leumi Card, see Section 1.2.3.3 below.
[5] The Company applied IFRS 8 – Operating Segments in its financial statements.

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 renovations of existing properties. For details on developments in the Group's development pipeline during the Report Period, see Section 7.7 of Chapter A of this report and Section 4.1 of this Board Report.

1.2.3.2. Winning of a Tender for the Construction of a Facility for Waste Storing and Recycling and Energy Production in the Rishon LeZion Area

In April 2018, notice was received by Zero Waste Ltd. ("**Zero Waste**"), a corporation held by GES in equal shares with Shikun & Binui ("**Shikun & Binui**"), whereby Zero Waste was the chosen winner of a BOT tender for the planning, funding, construction and operation of a facility for the sorting and recycling of municipal waste and energy production (in this section: the "**Project**"), which was issued by the Ministry of Finance (the Accountant General) and the Ministry of Environmental Protection. The Project will be built in the area of the Dan Region Wastewater Treatment Plant (the *Shafdan*) in Rishon LeZion and its cost during the construction period is estimated at approx. NIS 750 million. The execution of the Project is subject to the completion of a financial closing of the Project. Zero Waste has reported a delay in the Project time tables, resulting mainly from limitations discovered in the site allocated to the Project by the State. Further thereto, in February 2020, Zero Waste and the State signed an agreement that establishes the timetables for putting together an arrangement with the State in connection with the Project. For further details, see Note 7B(2) to the financial statements of the periodic report for 2019 and the Company's immediate report of April 11, 2018 (Ref: 2018-01-036841), which are incorporated herein by reference.

In July 2018, the Company updated that Zero Waste received a petition of another group that contended in the same tender, in which the Jerusalem District Court is moved, *inter alia*, to reverse the Tender Committee's decision to choose Zero Waste as the winner of the tender, and determine that the other group is the winner of the tender, or alternatively remand the case to the Tender Committee to review Zero Waste's compliance with the tender's requirements. On February 14, 2019, the Court's decision was given, denying the petition with no award of costs. For further details, see the Company's immediate reports of July 2, 2018 and of February 14, 2019 (Ref: 2018-01-058617 and 2019-01-013639, respectively), which are included herein by reference.

1.2.3.3. Sale of the Company's Holdings in Leumi Card

The Company entered into an agreement with Bank Leumi for the sale of all of the its holdings in Leumi Card to a corporation controlled by the investment fund Warburg Pincus in consideration for NIS 2,500 million (in this section: the "**Agreement**"). The Company's share in the proceeds is NIS 500 million (subject to adjustments). On February 25, 2019, the transaction was closed and the consideration for this stage was received, in accordance with the provisions of the Agreement. For further details, see the Company's immediate reports of July 28, 2018, October 29, 2018, December 3, 2018, February 4, 2019, February 14, 2019 and of February 25, 2019 (Ref.: 2018-01-069771, 2018-01-101721, 2018-01-117489, 2019-01-012261, 2019-01-013513 and 2019-01-016348, respectively), which are included herein by reference.

1.2.3.4. Investment in Compass

In July 2019, Azrieli Data Centers LLC, an (indirectly) wholly-owned subsidiary of the Company (in this section: the "**Buyer**") entered into an investment agreement (the "**Agreement**") with Compass, and in an operating agreement with the unit holders in Compass. The main business of Compass is data centers in North America. Compass owns active sites and additional sites under construction and development. The said transaction, in which the Buyer made an investment in the unit capital of Compass, was closed and the consideration therefor was paid by the Buyer to Compass. The Buyer has invested in Compass' equity and holds approx. 20% of the unit capital of Compass (the "**Initial Investment**"). The Buyer has an option to make additional investments and increase its holdings in Compass up to approx. 33% according to the price per unit in the Initial Investment. At the closing of the transaction, the Buyer paid Compass approx. U.S. $135 million in respect of the Initial Investment. For further details, see the Company's immediate report of July 18, 2019 (Ref.: 2019-01-073885), and the presentation released by the Company regarding the data centers market and regarding Compass and its operation from the same date (Ref.: 2019-01-073897), which are included herein by reference. In February 2020, another investment round was made in Compass such that as of the report release date the Company (indirectly) holds approx. 20.7% of the unit capital of Compass.

1.2.3.5. The Sale of Granite Hacarmel

Further to the Company's reports whereby it intends to focus on the core areas of the real estate business, on July 25, 2019, Canit Hashalom (in this section: the "**Seller**"), together with Granite, which holds the entire issued and paid-up share capital of Supergas, entered into an agreement (in this section: the "**Agreement**") with Elco Ltd. (in this section: the "**Buyer**"), for the sale of all of the Seller's holdings (100%) in Granite to the Buyer (the "**Transaction**").

On November 5, 2019, the Transaction was closed such that the consideration for all of the Seller's holdings in Granite was NIS 1,017 million, minus the net financial debt of Granite, Supergas and its subsidiaries, which on October 31, 2019 amounted to approx. NIS 199.5 million, such that the Transaction consideration totaled approx. NIS 817.5 million (in this section: the "**Consideration**"). On the closing date, the Buyer paid the Seller a sum of approx. NIS 567.5 million out of the Consideration.[6]

The provisions of the Agreement state that the balance of the Consideration, in the sum of NIS 250 million, will be paid by the Buyer in 7 unequal annual installments, starting 12 months after the closing date (the "**Balance of the Periodic Installments**"). To secure such payments of the balance of the Consideration, 80% of the share capital of Supergas was pledged to the Seller, by a first-ranking fixed charge, the rate of which will be gradually decreased in accordance with the mechanism set in the Agreement.

On December 2, 2019, the Buyer made a partial prepayment in the sum of approx. NIS 109.4 million out of the Balance of the Periodic Installments. As the parties agreed, as of December 2, 2019, the Balance of the Periodic Installments was NIS 125 million (plus linkage to the CPI) and will be paid by the Buyer in 7 unequal annual installments, every 12 months, starting 12 months after the closing date.

The income (after tax) that the Company recorded in connection with the sale of Granite, was approx. NIS 373 million.

It is noted that the Transaction did not include all of Granite's holdings and assets other than Supergas, its subsidiaries and assets related to any of them, nor does it include liabilities that are not attributed to Supergas and the subsidiaries of Supergas. Such assets and liabilities were transferred to the Seller, shortly before the closing date.

[6] Including a sum of NIS 10 million, which was paid by the Buyer to the Seller in proximity to the signing date, as a down payment on account of the Consideration, as well as a sum of NIS 10 million which was paid by the Buyer to the Seller on October 31, 2019 as determined in the addendum to the Agreement which was agreed between the parties and also included a change in the review of the financial debt as of October 31, 2019.

For further details with respect to the Transaction and the Agreement, see the Company's immediate reports of July 28, 2019, August 6, 2019, October 29, 2019, November 5, 2019 and December 2, 2019 (Ref.: 2019-01-077500, 2019-01-081517, 2019-01-091635, 2019-01-094782 and 2019-01-105633, respectively), which are included herein by reference.

1.2.3.6. Engagement in an Agreement for the Sale of GES

Further to the Company's reports, whereby it intends to focus on the core real estate business, on September 12, 2019, a non-binding MOU was signed with Generation Capital Ltd. (in this section: the "**Buyer**") for the sale of the entire holdings (100%) in GES,

On January 23, 2020, Canit Hashalom Investment Ltd., a subsidiary wholly owned by the Company (in this section, the "**Seller**") together with GES, engaged in an agreement (in this section, the "**Agreement**") with the Buyer for the sale of the Seller's entire holdings (100%) in GES, in consideration for NIS 110 million, subject to adjustments for changes in working capital and net financial debt of GES, if any, up to the closing date, (in this section, the "**Transaction**"). On January 30, 2020, an approval of the Competition Commissioner for the Transaction was received.

It is clarified that that closing of the Transaction, if closed, is subject to the fulfillment of certain additional closing conditions as provided in the Agreement.

For further details, see the Company's immediate reports of September 12, 2019 and January 26, 2020 (Ref.: 2019-01-095770 and 2020-01-009789, respectively), which are included herein by reference.

1.2.3.7. Winning the Tender for the Purchase of Land in Modi'in (Lot 10)

On October 6, 2019, the Company was informed that it had won a tender held by the Israel Land Authority ("**ILA**") for the purchase of a leasehold in a lot located in the Modi'in-Maccabim-Re'ut CBD, on an area of approx. 17,000 sqm, designated for the construction of a project for commerce and offices, at a scope of rights of approx. 37,000 aboveground sqm. in consideration for approx. NIS 51 million. According to the conditions of the tender, the Company, in addition to the cost of land, paid 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 reference.

1.2.3.8. Financing Transactions

In January 2019, the Company issued two new Series E and F Bonds of the Company[7], such that approx. NIS 1,216 million par value of Series E Bonds were allocated in consideration for approx. NIS 1,216 million (approx. NIS 1,207 million after attribution of the issue expenses) and approx. NIS 263 million par value of Series F Bonds were allocated in consideration for approx. NIS 263 million (approx. NIS 260 million after attribution of the issue expenses).

In December 2019, the Company issued additional Series E and F Bonds of the Company[8], by way of expansion of such series of bonds, such that approx. NIS 1,217 million par value Series E Bonds were allocated in consideration for approx. NIS 1,355 million (approx. NIS 1,336 million after attribution of the issue expenses and accrued interest) and approx. NIS 933 million par value of Series F Bonds were allocated in consideration for approx. NIS 1,122 million (approx. NIS 1,101 million after attribution of the issue expenses and accrued

[7] According to a shelf offering report released on January 20, 2019 (Ref.: 2019-01-006388), which is included herein by reference, released under the 2016 shelf prospectus.

[8] According to a shelf offering report released on December 17, 2019 (Ref.: 2019-01-110526) published under the Company's shelf prospectus released on May 7, 2019 (Ref. 2019-01-044203). Such reports are included herein by reference.

interest).

On December 30, 2019, the Company initiated a full early redemption of the balance of the Company's Series C Bonds in circulation.

For further details on the Company's bonds, see Section 19.5 of Chapter A hereof and Note 17B to the financial statements for 2019.

1.2.3.9. Changes of Company Officers

In February 2019, Mr. Assaf Aviv was appointed as VP Innovation and Business Development of the Group, and his office commenced in March 2019.

On May 5, 2019, after 9 years of office, Mr. Joseph Ciechanover ended his term as an independent director of the Company.

On August 23, 2019, after the approval by the shareholders' general meeting of August 11, 2019, Messrs. Ehud Rassabi and Yossef Shachak commenced their office as outside directors of the Company, for a first term of office of three years, and Mr. Dan Gillerman commenced office as an independent director of the Company for a term of office until the end of the next annual meeting of the shareholders of the Company. For further details, see the Company's immediate reports on the appointment of directors, of August 12, 2019 (Ref.: 2019-01-083269, 2019-01-083272 and 2019-01-083278), which are incorporated herein by reference.

On August 23, 2019, the term of office of the Company's two outside directors, Messrs. Efraim Halevy and Niv Ahituv, came to an end after 9 years in office. For further details, see the Company's immediate reports on the end of office of an officer, of August 25, 2019 (Ref.: 2019-01-087913, 2019-01-087898), which are incorporated herein by reference.

On October 2, 2019, Adv. Ran Tal ended his office as VP, General Counsel and Corporate Secretary and in his stead, Adv. Nirit Zeevi was appointed.

1.2.3.10. Release of the 2019 Shelf Prospectus

On May 7, 2019, the Company published the 2019 shelf prospectus after receiving a permit from ISA.

1.2.3.11. The Purchase of the Mount Zion Hotel in Jerusalem

Following the Company's reports, whereby it examines from time to time entry to operating segments related to its income-producing property operating segment, on December 8, 2019, the Company engaged in an agreement with a third party who is not affiliated with the Company and/or its controlling shareholders (in this section: the "**Seller**") for the purchase of the Mount Zion Hotel in Jerusalem (in this section: the "**Transaction**") in consideration for NIS 275 million plus VAT. On February 9, 2020 the Transaction was closed.

For further details, see the Company's immediate reports of December 9, 2019 (Ref. 2019-01-107367, 2019-01-107397), of December 18, 2019 (Ref.: 2019-01-111237) and February 9, 2020 (Ref.: 2020-01-014439), which are included herein by reference.

1.2.3.12. Outbreak of the Coronavirus

In the beginning of 2020, there was an outbreak in China of Coronavirus, which is continuing to spread throughout the world. On March 14, 2020, the Israeli Government issued a directive to close cultural and recreational venues which also applies to the Company's malls (other than in relation to essential businesses such as supermarkets, drugstores, clinics, food businesses for deliveries only and banks). For further details, see the Company's immediate report of March 15, 2020 (Ref.: 2020-01-024375).

Moreover, the Company has reported that in view of the decision of the Government of Israel to shut down the malls, and in view of the impact of this decision on the tenants in the Group's malls, the Board of Directors of the Company has approved the establishment of a special financial aid fund for the tenants in the Group's malls, in the amount of NIS 100 million. The Company's Board of Directors further approved the grant of additional relaxations to tenants by means of granting a rent payment exemption for the second half of March 2020 to businesses closed down following the said Government decision, and suspending the payments of rent and management fees for such tenants in the period between April 1, 2020 and the date of their return to normal routine. For further details, see the Company's immediate report of March 17, 2020 (Ref.: 2020-01-025770).

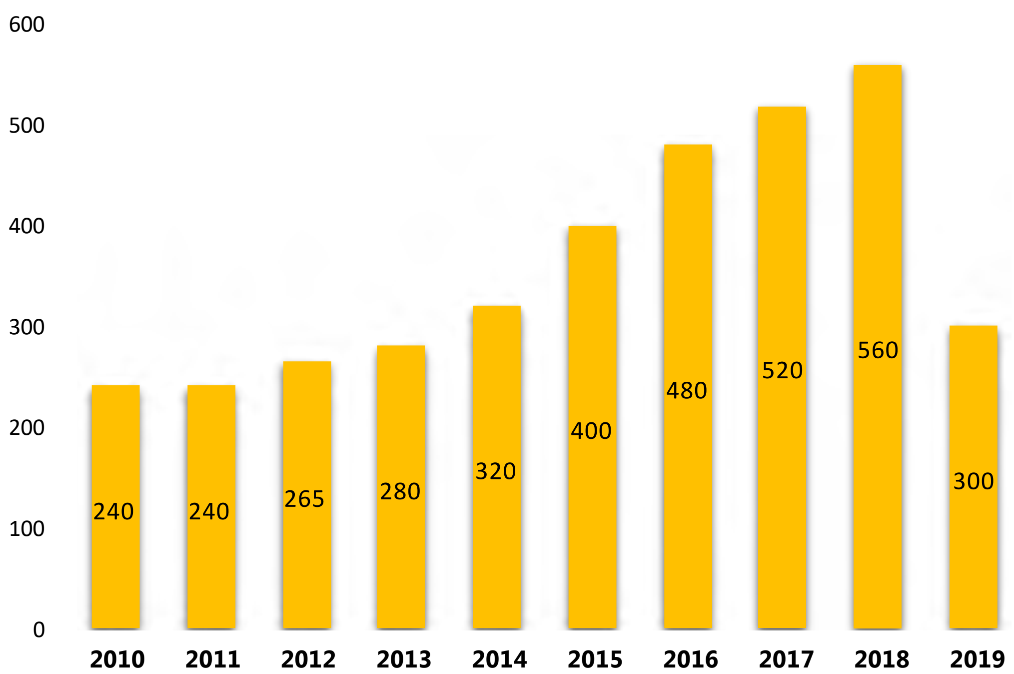
For further details in connection with the impact of the spread of Coronavirus on the Company's business, see Section 2.2 below.

1.2.4. Dividends

Since its public offering, the Company has distributed dividends every year, in increasing amounts. Considering previous distributions made by the Company, and the Company's financial results, the Company's Board examined the distribution of a NIS 600 million dividend, and reached the conclusion that such distribution meets all of the distribution tests. However, for the sake of caution and, *inter alia*, in view of the uncertainty surrounding the impact of the spread of Coronavirus affecting the world, the Company's Board decided to approve, at this time, a dividend distribution of NIS 300 million only, and to re-discuss another distribution of up to NIS 300 million more, during the course of 2020.

The total aggregate amount distributed by the Company since the listing of its shares in 2010 is approx. NIS 3.6 billion, including a dividend for 2019, which has been declared, but not yet paid. The following chart specifies the amounts of the dividends distributed in recent years:

Dividends Distributed by the Company since Listing its Shares on TASE



Figures are presented in millions of NIS.
The years noted represent the years for which dividends were distributed. Dividends were actually paid in the following year.
The dividend for 2019 has been declared but not yet paid.

2 | INCOME-PRODUCING REAL ESTATE

2.1. Business Environment

Following are macroeconomic indicators that are relevant to all of the operations in Israel, based on the publications of the Central Bureau of Statistics:[9]

- According to the macro-economic forecast of the research division of the Bank of Israel of January 2020, the indicators of the market's activity show that the Israeli market is continuing to grow. In 2020 the growth rate is expected to reach approx. 2.9% and growth at the rate of 3.2% is expected in 2021. The aforesaid notwithstanding, In March 2020 the Bank of Israel updated that insofar as the spread of the virus is stopped by the end of Q2/2020, a decrease of approx. 0.7% in growth of GDP in 2020 is expected. For further details on the potential effects of the continued spread of the Coronavirus, see Section 2.2 below.
- As of the beginning of 2020, Israel's population is approx. 9.1 million. The population growth rate is among the highest in OECD countries at approx. 1.5-2% per year (thanks to the high birth rate and an increase in life expectancy). According to population growth forecasts, in the middle of the next decade Israel's population will total approx. 10 million, and in 2035 Israel will have more than 12 million residents.
- The workforce unemployment rate is low and was approx. 3.6% as of January 2020. Following the spread of Coronavirus the unemployment rate has grown considerably in March 2020.
- The (known) Consumer Price Index (CPI) increased by approx. 0.3% in 2019. The Bank of Israel interest rate remained the same this year and as of the report release date is 0.25%.
- The Prime interest rate remained at a rate of 1.75%.
- As set forth in detail below, the income-producing real estate sector in Israel maintained stability in 2019 both in terms of demand and in terms of rent levels and occupancy rates, continuing the trend that characterized 2018.

The Company's management estimates that various factors in the Group's strategy contribute to a reduction of the exposure of the Group's business to a significant crisis or to instability resulting from the materialization of any of the Company's risk factors:

- The broad dispersion of the Group's real estate portfolio, both geographically and among its various operating segments.
- The portfolio features numerous properties located in areas of demand, which are built and maintained to very high standards.
- The high business positioning of the properties and the Company's investments in the betterment of its properties to maintain this advantage.
- The high occupancy rates, which result from the aforementioned factors.
- The diversity of businesses in the Group's malls and retail centers, which reduce the Group's exposure to such or other sector.
- The right mix of businesses, which characterizes the tenants at the retail centers and in the offices.
- Finally, the Company's stable capital structure and its financial conservativeness allow it to more easily weather fluctuations in business turnovers and profitability.

*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, within the definition of this term 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,*

[9] Central Bureau of Statistics ww.cbs.gov.il

including the further intensification of competition, a decline in demand and a deterioration of the Israeli economy and the effects of the spread of the Coronavirus.

2.2. Outbreak of the Coronavirus

The beginning of 2020 saw the outbreak of the coronavirus in China and the virus continues to spread across the world. The outbreak of the virus is affecting various business sectors in many countries. According to assessments provided by the Bank of Israel until the report release date in connection with the effects of the Corona crisis on the Israeli economy, insofar as the spread of the virus is stopped by the end of Q2/2020, a decrease of approx. 0.7% in growth of GDP in 2020 is expected, followed by a resumption of the GDP to the previous track, which will be expressed in a temporary acceleration of the growth[10]. On March 11, 2020 the WHO declared the epidemic a pandemic.

On March 14, 2020 the Government of Israel issued an order to shut down cultural and leisure venues, an order that also applies to the Company's malls (other than to vital businesses such as supermarkets, drugstores, food businesses for deliveries only, clinics and banks). The Company is regularly monitoring the developments and acting in accordance with the instructions of the various authorities. In this context it is noted that in view of the implications of these instructions for the tenants in the Group's malls, the Company has put together several measures for tenant relief, and on March 17, 2020 reported the establishment of a NIS 100 million special financial aid fund for tenants in the Group's malls, and an exemption from rent payment for the second half of March 2020 for businesses closed following the said order of the Government of Israel, as well as suspension of rent and management fee payments for the period from April 1, 2020 until such tenants return to routine. For further details, see the Company's immediate report of March 17, 2020 (Ref. no. 2020-01-025770).

The Company has also taken various measures to mitigate the spread of the virus in its properties, including enhancement of cleaning and disinfection in its properties, and strict procedures in connection with the entry of visitors to the Group's senior homes, where the residents are an at-risk population. On March 17, 2020 the Ministry of Health announced instructions in connection with the "reduction of the need for people to leave home". These instructions have led a large percentage of workers in the market to transition to working from home, thus reducing the number of workers coming to the offices in the Company's properties. In addition, on March 17, 2020 the Company closed down the activity of the Mount Zion hotel, in view of the instructions encumbering its activity.

As of the report release date and in view of the fact that the event is dynamic and characterized by significant uncertainty, *inter alia*, in connection with the rate of spread of the virus, the duration of the spread and the measures to be taken by the various countries, the Company cannot assess the said effects on its business, since the degree of impact depends on the degree and extent of their materialization. In the Company's estimation, if the spread of Coronavirus exacerbates over time, its impact may have material adverse effects on the global economy, including on some of the markets and industries in which the Company operates, as well as on some of the tenants in the Group's properties.

The Company's management estimates that its financial strength, which is expressed in its cash and cash equivalents, a low leverage rate and a significant scope of unencumbered assets, a long average duration of loans, and the broad diversity of the portfolio of assets owned by the Company, the variety of tenants and operating segments, reduce the exposure of the Group's businesses to significant crisis and/or instability due to the spread of Coronavirus.

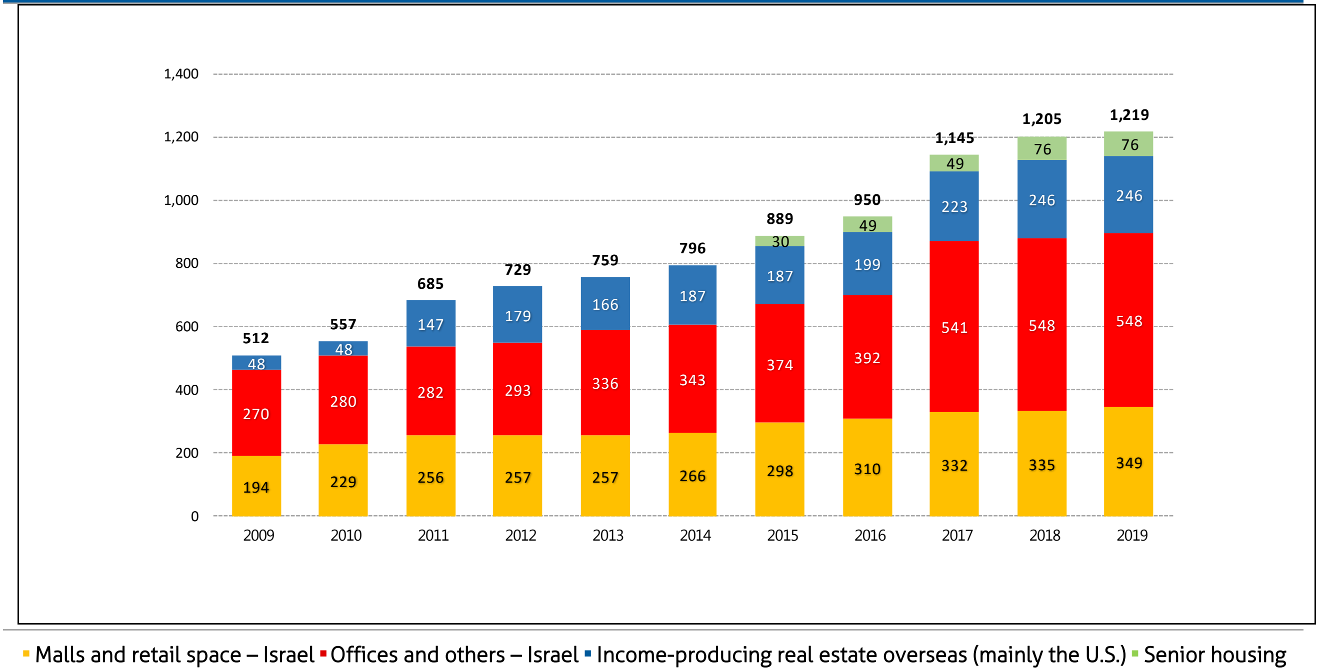
The Company's estimations in this section with respect to the possible implications of the spread of Coronavirus and the directives issued to the public as a result thereof, constitute forward-looking information, as defined in the Securities Law, 5728-1968. Such information is based, inter alia, on assessments and estimates of the Company as of the date of this report, based on the publications on this issue in Israel and worldwide and the directives of the relevant authorities, the materialization of which is uncertain and is beyond the Company's control. Non-

[10] *https://www.boi.org.il/he/NewsAndPublications/PressReleases/Pages/9-3-2020.aspx*

materialization of the Company's estimations may be caused as a result of developments or different materialization of the above-mentioned factors.

2.3. Consolidated GLA Data

GLA Breakdown as of the End of 2019



Figures present thousands of sqm.

2.4. Average Occupancy Rates in the Income-Producing Properties

As of the date of the Report, following are the average occupancy rates in the Group's income-producing properties by operating segment:

- Retail centers and malls in Israel – approx. 98%[11];
- Leasable office and other space in Israel – approx. 99%;
- Income-producing properties in the U.S. – approx. 78%;
- Senior housing in Israel – approx. 99%[12].

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 the income-producing properties.[13] 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.

[11] Excluding areas in properties whose construction has been completed and are being leased-up for the first time.
[12] Excluding areas in properties whose construction has been completed and are being leased-up for the first time.
[13] 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

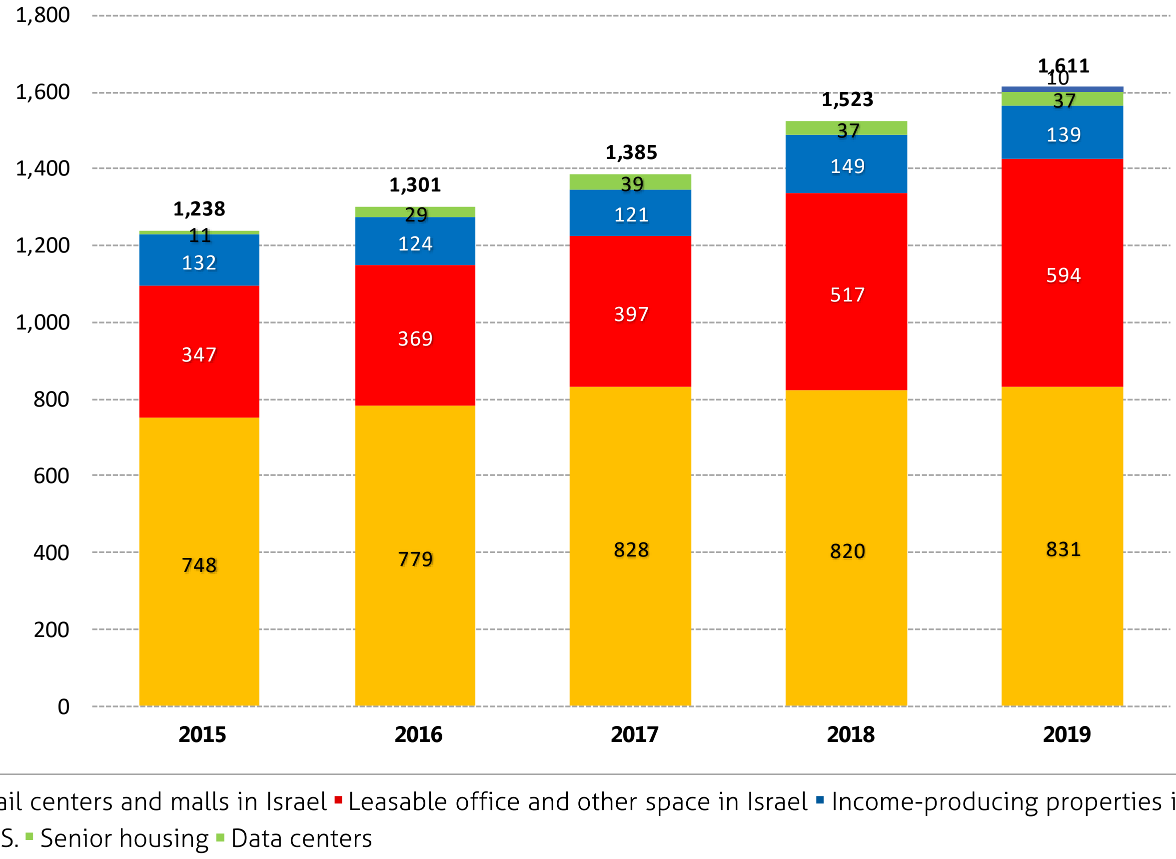
For the purpose of calculating the NOI, on the revenues side – all proceeds from tenants are taken into account (including rent, management fees and other payments), and for the purpose of calculating the costs – all operating expenses in respect of the properties are taken into account, including management, maintenance and other costs.[14]

During the last decade, the Group recorded constant growth **at an average annual rate of 7.4%**, and an overall **increase in the years 2009-2019 of approx. 105%** in actual NOI figures in all of its income-producing real estate segments, in both Israel and abroad.

The NOI figures for the income-producing real estate portfolio are as follows[15]:

NOI

Annual Data



Figures are presented in millions of NIS.

For explanations with respect to the change in NOI, see Sections 2.11.2, 2.12.2, 2.13.2 and 2.14.2 of this Chapter B.

[14] 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.

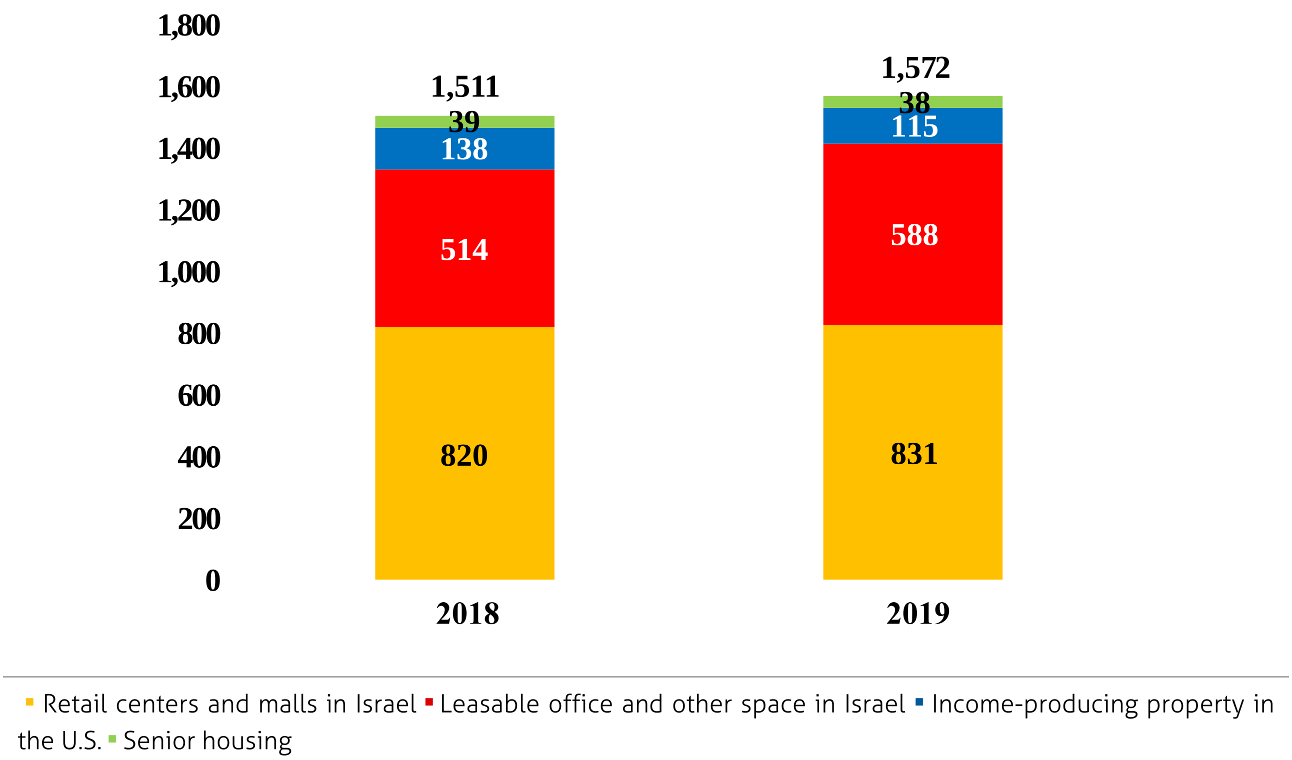
[15] Including properties from the segments: retail centers and malls in Israel; leasable office and other space in Israel; income-producing properties in the U.S. and senior housing and Data centers operation.

2.5.2. Same-Property NOI Data

The NOI indicator is affected by changes in the 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 indicator discounts such changes and allows for an examination of changes in the profitability of the same portfolio of the Group over time. For the purpose of calculation thereof, only properties that were part of the Group's portfolio throughout the analysis period are taken into account. In the years 2018-2019, this measure was as follows:

Same-Property NOI

Annual Data



Figures are presented in millions of NIS.

Same-Property NOI rose by approx. 4% between the years 2018 and 2019. Such rise derived from an increase of approx. 14% in the leasable office and other space segment (see Section 2.12 below) and from an increase in the retail centers and malls segment, net of a decrease in the income-producing property in the U.S. segment, and with stability in the senior housing segment. The difference between the NOI and Same-Property NOI mainly derives from the purchase of the property at Menahem Begin Road in Tel Aviv in May 2018, the purchase of the office building in Austin, Texas, U.S.A. in July 2018 and the investment in Compass in the data centers segment in July 2019.

2.6. Extended Standalone Statement – the Income-Producing Properties Business

In view of presenting Granite as discontinued operations in the consolidated financial statement, the Company has ceased from providing disclosure regarding extended standalone financial statements.

2.7. 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[16] and excluding the data centers[17], for 2019:

Calculation of the Weighted Cap Rate for 2019	
Total investment properties in statement	29,279
Net of value attributed to investment properties under construction	(2,863)
Net of value attributed to land reserves	(468)
Net of value attributed to income-producing senior housing	(1,805)
Total value of income-producing investment properties (including the fair value of vacant space)	24,143
Actual NOI in the quarter ended December 31, 2019 (excluding senior housing)	393
Additional future quarterly NOI (1)	32
Total standardized NOI	425
Proforma annual NOI based on the standardized NOI (excluding senior housing and data centers)	1,700
Weighted cap rate derived from income-producing investment properties (including vacant space) (2)	7.04%

Financials are presented in millions of NIS.

(1) The figure includes adjustment to NOI as included in the valuations as of December 31, 2019 and therefore includes, *inter alia*, additional NOI for vacant space which was not yet fully occupied and space occupied over the course of 2019 under a whole-year lease (the main amounts in this item are due to tenant occupancy at the mall and offices in Azrieli Sarona Center in Tel Aviv, occupancy at Azrieli Holon Center, and due to the Group's properties overseas).

(2) Standardized annual NOI rate out of total income-producing investment properties (including vacant space).
For the test of sensitivity to changes in the cap rate interest of investment properties, see Note 32E to the financial statements.
This figure does not constitute the Company's NOI forecast for 2020 and its entire purpose is to reflect the NOI assuming full occupancy for a whole year of all income-producing properties.

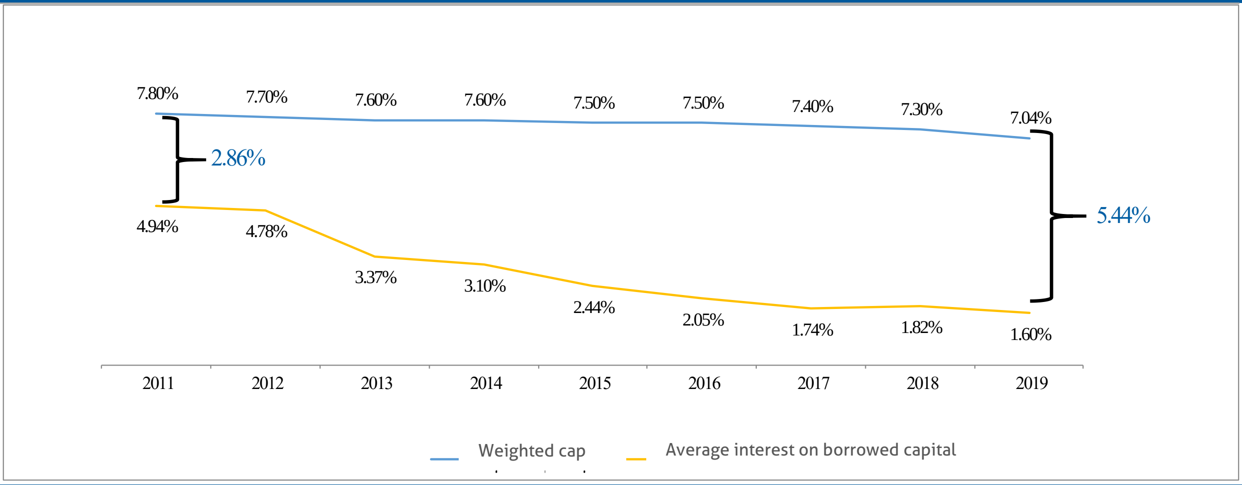
The Company's estimations in this Section include forward-looking information, within the definition of this term in the Securities Law. This information is uncertain and it is based, inter alia, on information pertaining to contractual engagement with tenants as of the date of the Report, parameters in the calculation of fair value and the Company's estimations regarding space occupancy. Actual results may materially differ from the aforesaid estimations and what they imply, 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 failure to meet the development or occupancy goals or the implications of the continued spread of the Coronavirus.

In recent years, the weighted cap rate of the Group's properties has only slightly decreased, despite the considerable decrease in the market interest rate in recent years. On the other hand, consistently with such decrease of the market interest rate, the Group's financing costs have significantly dropped in recent years. Therefore, recent years have seen major gaps between the weighted cap rate of the Group's properties and the financing costs, as depicted in the following chart:

[16] 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 date of the Report is 8.5%.

[17] Which is included in the companies accounted for by the equity method and therefore excluded from income-producing real estate.

Gap between the Weighted Cap Rate and the Average Interest Rate of the Debt



Figures are accurate as of the end of each year.

2.8. 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 accountants.

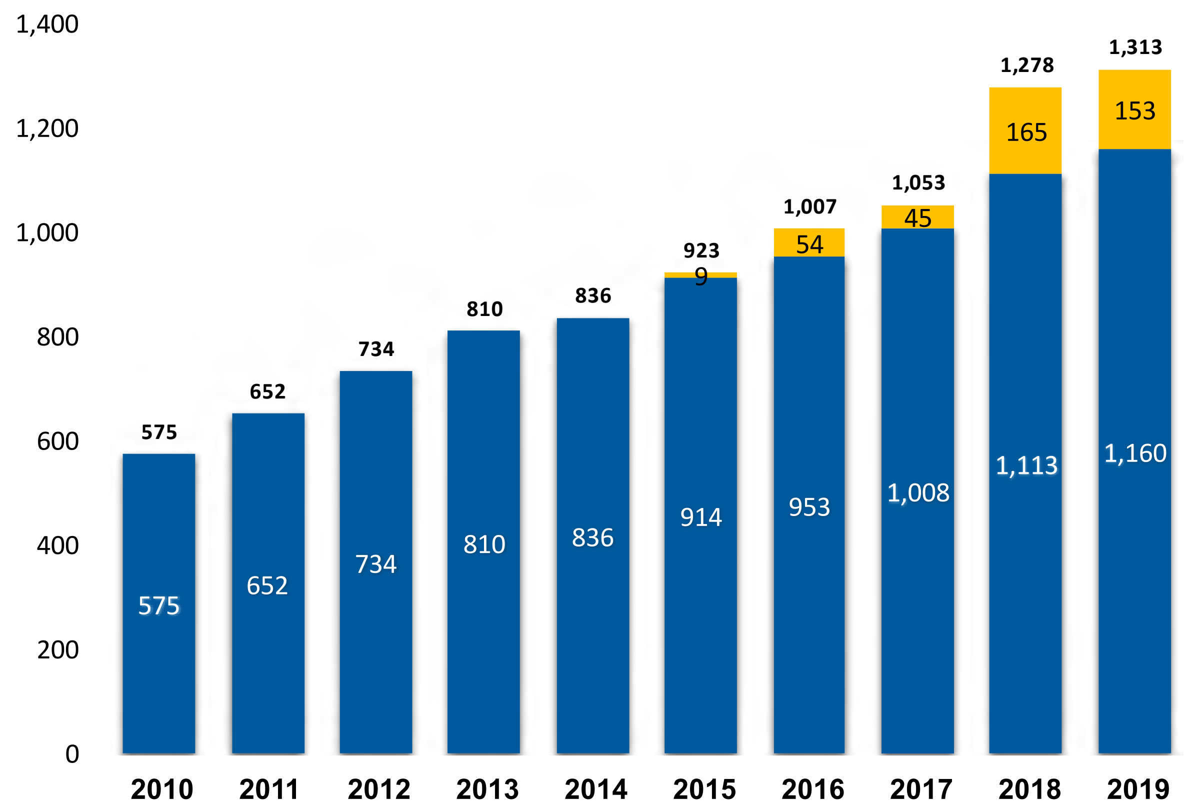
FFO from the Income-Producing Real Estate Business			
	31.12.2019	**31.12.2018**	**31.12.2017**
Net profit for the period attributable to shareholders	**2,099**	1,218	1,456
Net of loss (net income), from Granite Hacarmel and Azrieli E-Commerce attributable to the shareholders (including a deduction of excess cost)	**23**	(19)	(20)
Profit adjustments: (1)			
Increase in the value of investment properties and fixed assets net	**(898)**	(220)	(510)
Depreciation and amortizations	**13**	9	7
Net financing and other non-cash flow expenses (revenues)	**(380)**	66	(169)
Tax expenses	**335**	(7)132	253
Net of a dividend received from financial assets available for sale	**(123)**	(91)	(33)
Effect of earning of an associate	**(18)**	-	-
One-time expenses due to prepayment of bonds	**77**	-	-
Cash flow from the receipt of residents' deposits net of deposits returned to residents (2)	**169**	171	47
Net of revenues from the forfeiture of residents' deposits	**(29)**	(22)	(21)
Total profit adjustments	**(854)**	45	(426)
Plus interest paid for real investments(3)	**5**	10	13
Total FFO attributed to the income-producing real estate business (4)(5)	**1,273**	1,254	1,023
Total cash flow of financing of properties under development (6)	**40**	24	30
Total FFO attributed to the income-producing real estate business, excluding the cash flow of financing of properties under development	**1,313**	1,278	**1,053**

Financials are presented in millions of NIS.
1. The below profit adjustments do not include adjustments in respect of Granite Hacarmel 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, which include: Granite (until the sale thereof), Azrieli E-Commerce, Bank Leumi and Leumi Card, 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 153 million in 2019, in the sum of approx. NIS 165 million in 2018 and in the sum of approx. NIS 45 million in 2017.
6. Calculated on the basis of real credit costs in respect of development properties (comparison figures amended accordingly).
7. Including approx. NIS 109 million one-time tax expense in respect of an assessment agreement.

In the Report Period, the figure was adversely affected by the bringing forward of the debt raising that will be partly used for ongoing repayments of loans and bonds in the coming year.
The FFO calculation also includes cash flow financing costs with respect to projects under construction.

In recent years, the Azrieli Group's FFO has been on a constant rise, growing from year to year. From the date of the Company's IPO (some ten years ago) the FFO of the income-producing real estate business rose by approx. 128%: From NIS 575 million in 2010 to NIS 1,313 million in 2019. The following chart depicts the development of the FFO of the Group's income-producing real estate business in recent years:

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



Figures are presented in millions of NIS
Net of real credit costs in respect of development properties (comparison figures amended accordingly).
□ excluding the contribution of senior housing □ the contribution of senior housing

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

The Azrieli Group is the only Israeli real estate company included in the EPRA Indexes. EPRA is an organization that brings together the public income-producing real estate companies in Europe. Being listed in the EPRA Indexes, 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 two 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 accountants and are not a substitute for the figures contained in the financial statements.

2.9.1. EPRA NAV

The EPRA NAV (Net Asset Value) is a measure that reflects the Group's net asset value on an ongoing, long-term basis, assuming no disposal of real estate, and thus requires certain adjustments, such as presentation according to the fair value of assets that are not so presented in the financial statements and the exclusion of deferred taxes resulting from the revaluation of investment properties.

It is noted that all development properties are included at their present value, i.e., based on the fair value of the land including investments in the properties, and no value is attributed to future revenues from such properties when occupied and producing income.

EPRA NAV		
	31.12.2019	**31.12.2018**
Equity attributable to the Company's shareholders in the financial statements	**18,534**	17,077
Plus a tax reserve in respect of the revaluation of investment properties to fair value (net of minority interests)	**3,599**	3,241
EPRA NAV	**22,133**	20,318
EPRA NAV per share (NIS)	**183**	168

Figures are presented in millions of NIS, unless stated otherwise.

2.9.2. EPRA NNNAV

The EPRA NNNAV is a measure that reflects the Company's net asset value assuming the immediate disposal ("Spot") of the real estate business, and thus requires certain adjustments, such as presentation according to the fair value of assets and liabilities that are not so presented in the financial statements and adjustments to deferred taxes.

EPRA NNNAV		
	31.12.2019	**31.12.2018**
EPRA NAV	**22,133**	20,318
Adjustment of assets to fair value (excluding minority interests)	**19**	15
Adjustment of financial liabilities to fair value (excluding minority interests)	**(585)**	(103)
Net of a tax reserve in respect of the revaluation of investment properties to fair value (net of minority interests)	**(3,599)**	(3,241)
EPRA NNNAV	**17,968**	16,989
EPRA NNNAV per share (NIS)	**148**	140

Figures are presented in millions of NIS, unless stated otherwise.

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

OFFICES & OTHERS in Israel

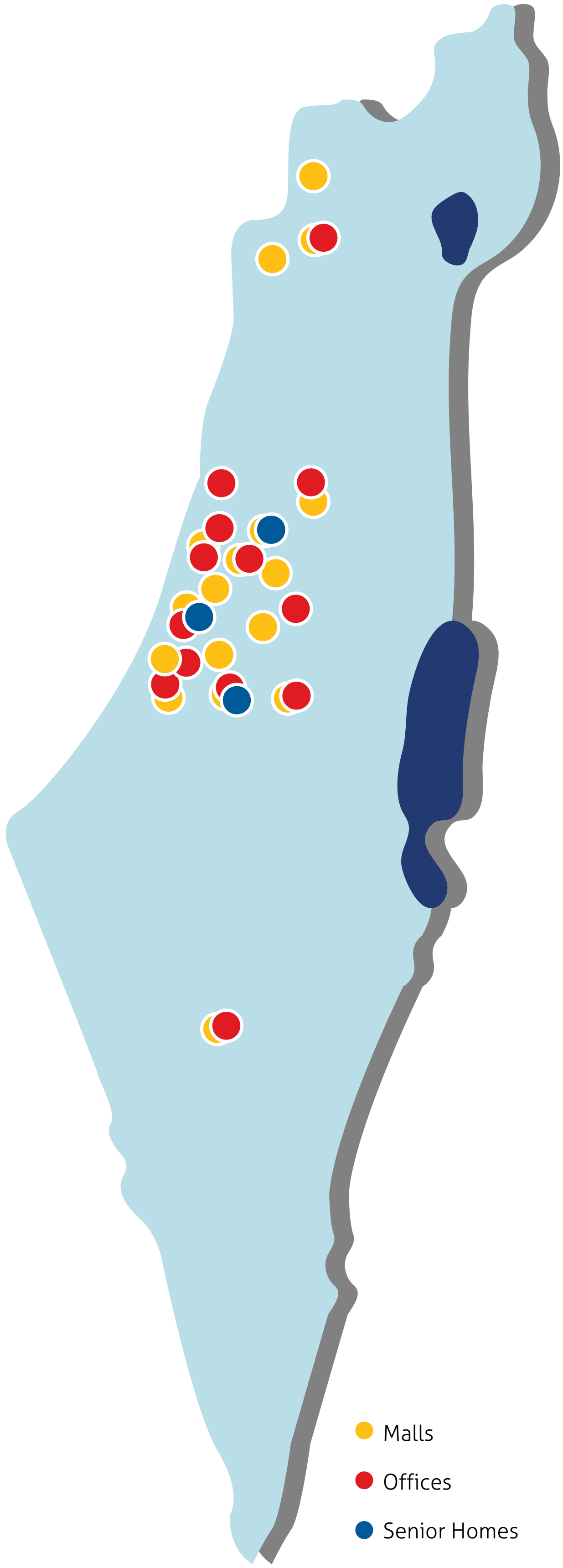
Azrieli Towers
Azrieli Sarona
Azrieli Holon Business Center
Azrieli Caesarea
Azrieli Herzliya Center
Azrieli Modi'in
Azrieli Modi'in Residential
Azrieli Petach Tikva
Azrieli Jerusalem
Azrieli Givatayim
Azrieli Kiryat Ata
Azrieli Hanegev
Azrieli Rishonim Center
Azrieli TOWN Building E

OVERSEAS

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

SENIOR HOMES

Palace Tel Aviv
Palace Ra'anana
Palace Modiin



18 malls	349,100 sqm		
14 office buildings	547,500 sqm		
3 senior homes	76,000 sqm	794 residential units	
8 office buildings overseas	246,400 sqm		
Total	**1,219,000 sqm**		

* As of December 31, 2019

2.10. Retail Centers and Malls in Israel Segment

2.10.1. Description of the Retail Centers and Malls in Israel Segment

Retail centers are, and will continue to be, a significant part of the retail market in Israel. Malls and large retail centers in Israel provide customers with a more diverse shopping experience and a vast mix, including, *inter alia*, fashion chains and various attractions for the whole family, restaurants and cafés – all gathered under one roof, in accessible locations close to public transportation and with convenient car parking, unlike other types of retail areas, which lack some of the aforesaid features.

Private consumption in Israel, as well as the business activity in malls, is expected to continue growing, on the background of fast growth of the population and the household expenditure and despite the increase in online shopping and the "open skies" policy which reduced the prices of international flights.[18]

According to data from the Central Bureau of Statistics (CBS), Israel's populations is quickly growing at an annual average rate of approx. 1.9% per year (approx. 50 thousand new households in Israel each year),[19] a rate which far exceeds the population growth rate in developed countries. In addition, private consumption in Israel has demonstrated a fast growth rate in recent years of approx. 3.8% in 2019 and approx. 3.9% in 2018, in fixed prices.[20] As part of the growth in private consumption the household annual expense for consumption also grew, including the expense on clothing and footwear, and on entertainment.[21]

For details on the effect of the spread of the Coronavirus on the Company's operating segments, including the retail centers and malls in Israel segment, see Section 2.2 of the Board Report.

It is emphasized that the ratio of retail space per capita in Israel is approx. 1.1 sqm per capita, smaller than the same ratio in many developed countries (such as the U.S., wherein the ratio is approx. 5 sqm per capita).[22]

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, development of properties, through the holding, management and betterment of the properties over years.

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 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 mall, through a selection of restaurants and cafés in the malls and renovation of the fast food courts,

[18] Geocartography, figures from a comprehensive research for the Azrieli Group on the retail sector in Israel, March 2018.
[19] CBS – population data http://cbs.gov.il/publications18/yarhon0218/pdf/b1.pdf
[20] Israel's national accounts for 2019, CBS, published on March 10, 2019: http://cbs.gov.il/reader/newhodaot/hodaa_template.html?hodaa=201808069
[21] Geocartography analyses of the surveys on household expenditures in Israel: http://cbs.gov.il/webpub/pub/text_page.html?publ=25&CYear=2015&CMonth=1
[22] Geocartography, figures from a comprehensive research for the Azrieli Group on the retail sector in Israel, March 2018.

modern design and added crowd-attracting entertainment options such as the "Zappa" club and cinemas. The Group further acts to create family entertainment 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 space in the malls and retail centers of Azrieli Group are leased to some 1,900 different 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").

2.10.2.Performance of the Retail Centers and Malls in Israel Segment and changes in Value

The Azrieli Group owns 18 malls and retail centers in Israel, in a total GLA of approx. 349 thousand sqm.

Balance of the properties of the retail centers and malls in Israel segment – in 2019, the balance of investment property in this segment increased by approx. NIS 336 million. The balance totaled approx. NIS 13 billion as of December 31, 2019, compared with approx. NIS 12.7 billion on December 31, 2018. The change derives both from investments in the segment's properties and from revaluation profits.

Change from adjustment to fair value of investment property and investment property under construction of the segment– The profit from adjustment of fair value of investment property and investment property under construction of the segment in the Report Period totaled approx. NIS 123 million, compared with a loss of approx. NIS 4 million in the same period last year. The profit in the Report Period derived mainly from the cap rate decrease. The properties are presented according to valuations prepared by an independent appraiser as of December 31, 2019.

Below is 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	December 31, 2019	December 31, 2018	Rate of change	December 31, 2019	December 31, 2018
Revenues	**1%**	**264**	262	**2%**	**1,050**	1,034
NOI	**1%**	**209**	206	**1%**	**831**	820

Figures are presented in millions of NIS.

The NOI increase in 2019 chiefly results from occupancy of areas that were vacant in previous periods due to tenant replacements in some of the malls, from development of additional income-producing space and changes in the lease agreements. The following table presents the segment's NOI development:

Development of the NOI of the Retail Centers and Malls in Israel Segment				
	For the Three Months Ended		For the Year Ended	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
NOI for segment properties owned by the Company as of the beginning of the period	**209**	206	**831**	820
NOI for properties purchased or construction of which was finished in 2018	**-**	-	**-**	-
NOI for properties operation of which was discontinued in 2018	**-**	-	**-**	-
Total NOI from all properties	**209**	206	**831**	820

Figures are presented in millions of NIS.

Same-Property NOI in the retail centers and malls in Israel segment is affected by changes in the rent which sometimes derive from a varying mix and the size of the stores, from interim periods of tenant substitutions and from changes in the operating expenses.

2.11. Office Segment

2.11.1.Description of the Office Segment

Israel's economy has continually grown in the past 15 years, and in 2019 the GDP increased by approx. 3.5%. Growth in 2019 encompassed all product components, export of good is expanded again, for the first time in two years, and inflation remained low. A low rate of unemployment was maintained, alongside the recorded growth, Israeli Governments initiated steps to encourage domestic employment.

Average occupancy rate in the office market continued to be high in 2019 throughout the country, with a slight increase in rent. Office spaces spanning approx. 200 thousand sqm were built in the past year in the center of Israel, of which approx. 130 thousand sqm are in Tel Aviv. Despite the construction momentum of the recent year, the office market maintains high occupancy rates throughout Israel, and the price level remains stable.[23]

For details on the potential impact of the spread of Coronavirus on the Company's operating segments, including the tenants in its properties, see Section 2.2 of the Board Report.

Tel Aviv is Israel's business district, and presents the highest demand for leasable offices in the country. The Group has a number of leasable office properties in the city of Tel Aviv, the Azrieli Tel Aviv project, Azrieli Sarona and projects under development and construction, Azrieli Town and the expansion of the Azrieli Center. One of the changes in the office sector in recent years was the considerable expansion of international mega high-tech companies which launched or expanded their business in Israel, especially in the center.

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.

[23] From Office Market Review – H2 2018, Inter Israel, Cushman and Wakefield, January 2019 issue.

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.

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 develop 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 whereby the properties 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 spaces 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.

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

The Group has 14 income-producing properties in this segment in Israel, with a total GLA of approx. 548,000 sqm.

Balance of the Group's investment property in the leasable office and other space in Israel Segment – In 2019, the balance of investment property in this segment increased by approx. NIS 1,212 million. The balance totaled approx. NIS 11.7 billion as of December 31, 2019, compared with approx. NIS 10.4 billion on December 31, 2018. The change derives both from investments in the segment’s properties and from revaluation profits.

Change from adjustment to fair value of investment property and investment property under construction of the segment – The profit from adjustment to fair value of investment property and investment property under construction of the segment in the Report Period totaled approx. NIS 690 million, compared with approx. NIS 167 million in the same period last year. The profit in the period derived mainly from the cap rate decrease. The properties are presented according to valuations prepared by an independent appraiser as of December 31, 2019.

Below is 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	31.12.2019	31.12.2018	Rate of change	31.12.2019	31.12.2018
Revenues	**8%**	**181**	167	**13%**	**716**	633
NOI	**13%**	**152**	135	**15%**	**594**	517

Figures are presented in millions of NIS.

The increase in revenues and in NOI chiefly results from continued lease-up at the offices at Sarona.

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		For the Year Ended	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
NOI for segment properties owned by the Company as of the beginning of the period	**152**	135	**588**	514
NOI for properties purchased or construction of which was finished in 2018	**-**	-	**6**	3
Total NOI from all properties	**152**	135	**594**	517

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 positively affected by the continued lease-up of the offices at Sarona, Rishonim and Azrieli Holon Center and by a real increase in rent when renewing contracts for the various properties (due to the exercise of options by tenants and/or the execution of new contracts), and was adversely affected by interim periods of tenant replacements and by changes in operating expenses.

2.12. Senior Housing Segment

2.12.1. Description of the Senior Housing Segment

Private senior housing in Israel most often appeals to senior Israelis from medium-high socio-economic background, offering housing services together with a multitude of complementary services aimed to enable residents to maintain an independent and satisfying lifestyle. The senior housing sector is growing as a result of the increase in life expectancy and the improved quality of life. We view constant growth in demand for housing solutions for seniors throughout the world. In Israel, this field is relatively underdeveloped, as compared to other western countries.

The Company considers the senior housing segment to be synergistic with its operations, using, *inter alia*, the years-long accumulated knowledge of the Group's managerial headquarters in respect of its operations in the field of income-producing properties. In all aspects pertaining to the senior housing segment, the Group benefits from its strengths in the location of lands, in purchase, development and efficient building and in the management of statutory processes including land use intensification. Economies of scale are also beneficial in terms of maintenance and operation of our existing senior homes. Finally, senior housing is also synergistic with retail: senior homes seek proximity to retail centers that will serve the residents of the complex.

The acquisition of land in Modi'in in 2014 marked the Group's entry into the senior housing segment, which was followed 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 is acting under the brand "Palace" to continue the successful operation and to improve the three existing homes – Palace Tel Aviv, Palace Ra'anana (formerly "Ahuzat Bait") and Palace Modi'in (the construction of which was completed in Q3/2018), and to develop two additional projects, which are under various stages of development and construction in Lehavim and Rishon LeZion.

For details on the potential impact of the spread of Coronavirus on the Company's operating segments, including the senior housing segment, see Section 2.2 of the Board Report.

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

The Azrieli Group has three active senior homes with aboveground built-up areas of approx. 76 thousand sqm (excluding areas which are attributed to the LTC unit and to retail areas), which include approx. 800 senior housing units as well as two projects under development and construction in Lehavim and Rishon LeZion for the construction of up to approx. 625 residential units in a total area of approx. 70 thousand sqm (excluding areas which are attributed to the LTC unit and to retail areas). The Company is also promoting a zoning plan for additional rights, *inter alia*, for senior housing in the Azrieli Jerusalem mall. For further details, see Section 4.1.2 of this Chapter B.

Balance of the Group's senior housing segment properties – In 2019, the balance of the segment's properties in the senior housing segment increased by approx. NIS 329 million. The balance totaled approx. NIS 2.4 billion as of December 31, 2019, compared with approx. NIS 2.1 billion on December 31, 2018. The change derives both from investments in the segment's properties and from revaluation profits.

Change from adjustment to fair value of investment property and investment property under construction of the segment – The profit from adjustment to fair value of the investment property and investment property under construction of the segment in the Report Period totaled approx. NIS 100 million, compared with approx. NIS 103 million in the same period last year. The properties are presented according to valuations prepared by an independent appraiser as of December 31, 2019.

Below is 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	31.12.2019	31.12.2018	Rate of change	31.12.2019	31.12.2018
Revenues	**17%**	**41**	35	**20%**	**156**	130
NOI	**50%**	**9**	6	**-**	**37**	37

Figures are presented in millions of NIS.

The increase in revenues and in NOI chiefly results from continued lease-up at Palace Modi'in and from an increase in occupancy in the LTC units.

The following table presents the segment's NOI development:

Development of the NOI of the Senior Housing Segment

	For the Three Months Ended		For the Year Ended	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
NOI for segment's properties owned by the Company as of the beginning of the period	**9**	8	**38**	39
For properties purchased or construction of which was finished in 2018	**-**	(2)	**(1)**	(2)
Total NOI from all properties	**9**	6	**37**	37

Figures are presented in millions of NIS.

In Q4/2019, the Same-Property NOI in the senior housing segment was primarily positively affected by the increased occupancy in the LTC and recovery units.

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

2.13.1.Description of the Income-Producing Properties in the U.S. Segment

2001 marked the beginning of the Azrieli Group diversification's of its investments with 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 Azrieli Group aspires to increase the portfolio of income-producing properties overseas to approx. 15% of its total real estate properties. We focus on the purchase of existing, high-quality Class A properties, at a value that will not decrease approx. 40 million dollars. North America is still a major target market, however the Company will consider other western countries from time to time. Most of the Group's properties overseas are focused in strong metropolis areas with a population of at least 2 million people. The Group is focused on offices but is also considering properties from other related sectors such as logistics.

Some of the Group's properties overseas are held in partnership with local partners. However, a majority of the interests and control of all of the Group's overseas properties are held thereby. We manage the properties through local management companies, with control of the Azrieli Group.

Some of the Group's properties have recently undergone significant renovation of the buildings, including the public spaces, in order to maintain the positioning of the properties in the market.

The existing properties in the U.S. are financed separately from the corporate financing, through non-recourse dollar loans, other than irregular cases which are defined in the loan agreement and are considered common practice in the U.S. market.

After the date of the report, and as part of the global events surrounding the outbreak of Coronavirus, the commodities and raw materials market has experienced significant volatility. Accordingly, since the end of 2019 the price of an oil barrel has significantly declined. At present, it is difficult to assess the impact of such decline on the office market in Texas, but if the oil prices remain at the current level over time, the Texas office market will likely be adversely affected thereby.

For details on the potential impact of the spread of Coronavirus on the Company's operating segments, including the tenants in its properties, see Section 2.2 of the Board Report.

2.13.2.Performance of the Income-Producing Property in the U.S. Segment and changes in Value

The Group has 8 income-producing property in this segment, mostly in the U.S. with a total GLA of approx. 246 thousand sqm (on a consolidated basis) and approx. 237 thousand sqm (the Company's share) leased to some 220 tenants.[24]

Balance of the Group's investment property in the segment – totaled approx. NIS 2.4 billion as of December 31, 2019, compared with approx. NIS 2.6 billion on December 31, 2018. The change mainly derives from the decrease in the dollar exchange rate as of December 31, 2019, compared with December 31, 2018.

Change from adjustment of fair value of investment property of the segment – The loss from adjustment of fair value of investment property of the segment in the Report Period totaled approx. NIS 12 million, compared with a loss of approx. NIS 48 million in the same period last year. Most of the loss in the same period last year derived from investments that were and are expected to be made in properties as well as from the Company's

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

provisions for the repair of the damage caused by Hurricane "Harvey" in some of the Company's properties in Houston, USA as well as from an increase in the cap rates in some of the properties.

Below is a summary of the business results of the income-producing property in the U.S. segment:

Summary of the Business Results of the income-producing property in the U.S. Segment – figures are presented in millions of U.S. Dollars						
	For the Three Months Ended			For the Year Ended		
	Rate of change	31.12.2019	31.12.2018	Rate of Change	31.12.2019	31.12.2018
Revenues	**(11%)**	**17**	19	**1%**	**75**	74
NOI	**(18%)**	**9**	11	**(5%)**	**39**	41

Summary of the Business Results of the income-producing property in the U.S. Segment – figures are presented in millions of NIS.						
	For the Three Months Ended			For the Year Ended		
	Rate of change	31.12.2019	31.12.2018	Rate of Change	31.12.2019	31.12.2018
Revenues	**(15%)**	**60**	71	**-**	**268**	**267**
NOI	**(22%)**	**32**	41	**(7%)**	**139**	**149**

The decrease in NOI results from effect of changes in occupancy in some of the properties.

The following table presents the segment's NOI Development:

Development of the NOI of the income-producing property in the U.S. Segment				
	For the Three Months Ended		For the Year Ended	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
NOI for segment properties owned by the Company as of the beginning of the period	32	41	115	138
NOI for properties purchased in 2018	-	-	24	11
Total NOI from all properties	32	41	139	149

Figures are presented in millions of NIS.

The decrease in the same-Property NOI in the income-producing property in the U.S. segment NOI results from effect of changes in occupancy in some of the properties.

2.14. Income-Producing Property – Additional Businesses

2.14.1.Data centers

Following the Company's reports, according to which it examines from time to time entry into operating segments tangent to its income-producing property activity, the Company examined the data centers market. After studying the market and the key players in the field, the Company adopted a decision during the Report Period to invest in a company engaged in this field, while noting the growth potential that exists in the field and with the intention that it will serve as another growth engine for the Group's business.

The Group decided that its entry into the data center field 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 field. For further details, see Section 1.2.3.4 above.

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.

2.14.2.Hospitality

As aforesaid, as part of the Company's business strategy, the Company periodically examines entry into operating segments tangent to its income-producing property activity. During the Report Period, the Company examined the expansion of its operations into the hotel industry and in this context, it recruited to the Company staff a person with extensive experience in the hotel industry. After a long and in-depth examination process conducted by the Company, the Company concluded that entering the hotel industry would be an opportunity to expand the Group's operations mix, using the existing entrepreneurial capabilities of the Company and its real estate assets and the operational experience gained in the Company in the field of senior housing. The expansion of such activities is to be carried out, *inter alia*, through the development, planning, 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 hotel industry through the acquisition of the Mount Zion Hotel in Jerusalem (in this section: the "**Hotel**"). For further details on the hotel purchase transaction, see Section 1.2.3.11 above.

As of the Report Release Date, the Company operates the Hotel through a wholly owned management company. The Hotel's operation includes ongoing management and operations, including the provision of accommodation, food and beverage services, leisure and other accommodation services. The Company intends to renovate and expand the Hotel in accordance with the zoning plan applying to the lot on which the Hotel is built. For further details, see Section 4.1 below.

On March 17, 2020 the Company closed down the activity of Mount Zion hotel, in view of the directives in connection with the spread of Coronavirus, which impede its activity.

For details on the potential impact of the spread of Coronavirus on the Company’s business, including the Hotel, see Section 2.2 above.

3 | NON-REAL ESTATE BUSINESS

3.1. Granite Segment

The Group held (through Granite Hacarmel) 100% of the shares of Supergas, the business of which is marketing of alternative resources, and holds 100% of the shares of GES, the business of which is water, wastewater, air, waste and industrial chemicals treatment. In view of the closing of the sale of Supergas in the context of the sale of Granite in November 2019, and in view of the Group's engagement in an unbinding MOU and thereafter in a binding agreement for the sale of the holdings in GES, Granite and GES are presented in the financial statements as discontinued operations, according to GAAP.

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

3.2. Additional Activities

3.2.1. Investments in Financial Corporations

Azrieli Group has holdings in the financial sector, through an investment in Bank Leumi as well as an investment in Leumi Card that was sold during the Report Period[25]. A summary of changes in the investments in 2019 follows:

Changes in Investments in Financial Companies

	Bank Leumi (1)	Leumi Card (2)	Total
Investment value in the financial statements as of December 31, 2018	1,219	450	1,669
Divestment proceeds	(186)	(380)	(566)
Investment	-	10	10
Total investment as of December 31, 2019(3)	1,033	-	1,033
Fair value of the investment as presented in the financial statements	1,162	-	1,162
Change in fair value during the Report Period	129	(80)	49
Dividend received in 2019(4)	43	80	123

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 December 31, 2019.
(2) For further details on the closing of the transaction for the sale of Leumi Card, see Note 10B to the financial statements in the periodic report for 2019.
(3) Before adjustment to changes in fair value during the Report Period
(4) With respect to the dividend declared by Bank Leumi after the date of the financial statement, see Section 14.2.2 of Chapter A of this Report.

3.2.2. E-Commerce Platform – Azrieli.com

For details on the Group's e-commerce activity, see Section 14.1 of Chapter A of this report.

[25] 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 2019.

4 | BUSINESS DEVELOPMENT – GROWTH ENGINES

4.1. Review of the Business Development Operations

4.1.1. Development of Income-Producing Properties

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

Summary of Information about Properties Under Development

Name of Property	Use	Marketable Sqm(3)	Estimated Completion	Book Value of Project (1)	Cost Invested (2)	Estimated Construction Cost including Land(2)
Development Projects under Construction in the Short-Term						
Palace Lehavim Senior Home	Senior housing	Phase A: 32,000 Phase B: 12,000	Phase A: Q1/2020 Phase B: TBD	315	318	400-410
Azrieli Town Tel Aviv (4)	Retail, offices and residence	Offices 50,000 retail 4,000 residence 21,000 (210 residential units)	Offices: Q4/2020 Retail and residence: 2022	923	645	1,080-1,130
HaManor Holon	Offices	28,000	Q3/2020	133	139	220-240
Akko	Offices	8,000	2020	2	19	70-75
Total		155,000		1,373	1,121	1,770-1,855
Development Projects in the Medium-Term						
Expansion of Azrieli Tel Aviv Center (Spiral Tower)	Retail, offices, hotel and residence	150,000(5)	2025	837	511	2,300-2,500
Modi'in - land (Lot 21)	Retail, offices, residence and hotel	20,000(7)	2023	131	135	340-370
Senior housing Rishon LeZion - land	Senior housing and retail	37,300	2024	65	63	490-510
Total		207,300		1,033	709	3,130-3,380
Total		362,300		2,406	1,830	4,900-5,235
Development Projects in Planning Stages						
Azrieli Town Building E	Offices	21,000	TBD	107(8)	116(8)	TBD
Holon 3 – Holon Industrial Zone (6)	Retail and offices	250,000	TBD	522	467	TBD
Petach Tikva - land	Offices and retail	53,000(9)	TBD	93	98	TBD
Modi'in – land (Lot 10)	Offices and retail	37,000	TBD	88	93	TBD
Total		361,000		**810**	**774**	
Total		723,300				

Cost and value figures are presented in millions of NIS.

All of the properties are held at a rate of 100% (excluding Azrieli Town Building E which does not include offices on an area of approx. 450 sqm and does not include a gas station and a convenient store next to it).

1. As of December 31, 2019.
2. Without capitalizations and tenant fit-outs, as of December 31, 2019.
3. With respect to the uses of senior housing and/or rental apartments the figure represents building rights in sqm.
4. The figures presented refer to the current zoning plan in respect of the land.
5. In April 2018 a zoning plan was validated, which increases the building rights of the fourth tower and the expansion of the mall by approx. 80 thousand sqm, resulting in building rights of approx. 150 thousand sqm in total.
6. Includes additional land (marketable areas of approx. 27,000 sqm) originally purchased in the framework of an ILA tender, which was part of the Holon HaManor land. As part of parcel consolidation, building rights of approx. 30,000 sqm were added to the lot (such that the total building rights in the consolidated lot sum up to approx. 250,000 sqm).
7. The Group is in the process of increasing the building rights in the project to approx. 28,000 sqm.
8. The building rights were purchased in the framework of the purchase of the income-producing property in May 2018.
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 approx. 150,000 sqm.

During the Report Period, the Company proceeded with the work of development of its aforesaid properties and with its efforts for the obtainment of the approvals required for the purpose of their continued development on schedule and without significant delays. Furthermore, the Group is negotiating on and is engaging in contracts for the lease of areas under construction. For further details, see Section 7.7-7.8 of Chapter A herein.

<u>Description of the Development Pipeline</u>

"Palace Lehavim" Senior Home – The land, area of which is approx. 28,300 sqm, was purchased in December 2014 and construction commenced in August 2016. The plan is to build a retirement village to high and innovative standards. The project, on a built-up area of approx. 44,000 sqm (principal and service), is expected to comprise approx. 350 residential units and an LTC unit, with related facilities, such as a swimming pool, sports center and retail areas of up to approx. 1,500 sqm. In October 2018, a changes permit for the project was received, for the addition of another LTC unit. The estimated date of completion of the construction of phase A of the project is Q1/2020 and Form 4 therefor is expected to be received in April.

Azrieli Town, Tel Aviv – The land, area of which is approx. 10,000 sqm, was purchased in October 2012 and construction commenced in September 2016. The project is expected to consist of a retail spaces of approx. 4,000 sqm and two towers: an office tower with a GLA of approx. 50,000 sqm and a residential tower consisting of approx. 210 apartments for lease. 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. In May 2018, an aboveground permit was received for the project. The Group is promoting a change of the zoning plan to increase the building rights in the complex. In May 2019, the local committee discussed the objections in connection with a zoning plan for the addition of commercial and hotel areas in the total scope of approx. 24,000 sqm (gross). The committee discussed the objections and decided to approve the publication of the plan for validation. In July 2019, an appeal was filed against the plan. In January 2020 a discussion was held on the appeal and as of the Report Release Date, no decision has yet been received.

As of the Report Release Date, the Group has signed agreements for the lease of approx. 100% of office space in the project.

HaManor, Holon – Land, which is situated near the Azrieli Holon Center and is around 6,200 sqm, was purchased in February 2015. Construction of the project began in August 2017. The land is used by the Company for the construction of approx. 28,000 sqm of offices. In September 2018, an above-ground permit was received for the project. Completion of the project is scheduled for 2020. As of the report release date the project has been leased-up in full. A contract was signed with Bezeq The Israel Telecommunication Corp. Limited in respect of - approx. 70% of the project's leasable areas.

Azrieli Akko Offices – In June 2019, a permit was received to add two office floors above the mall and add parking spaces and the work is in progress.

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.

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. The design plan in connection with the project was discussed in the local committee in November 2019. In January 2020 another discussion was held at the local committee and a decision was made to grant conditional approval for the design plan, and the Company is working to receive final approval for the design plan. In January 2020, a basement construction permit was received for the project. As of the Report Release Date, the Company is continuing excavation and shoring work at the site.

Land in Modi'in (Lot 21) – On January 11, 2018, the Group won a tender held by the ILA for the purchase of a leasehold in a lot located in Modi'in-Maccabim-Re'ut CBD (close to the Azrieli Modi'in Mall), on an area of approx. 5,300 sqm, designated for the construction of 80 residential units, 50 hotel rooms, offices and commerce, 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 incorporated herein by reference. An excavation and shoring permit was received in July 2019 and the Company has commenced work at the site. in August 2019, an application for a basement permit was submitted, and the committee has approved the same subject to conditions. These Company is now working to fulfil the permit's conditions.

In September 2019 the Company submitted the documents of the plan for increase of the above-ground building rights for the lot to 28,000 sqm and connection thereof to the existing project, for deposit at the district committee, after the local committee noted that it favorably regards promoting the said plan. In November 2019, the district committee discussed the plan and decided upon conditional deposit thereof. The Company is now working to fulfil the conditions for deposit.

Palace Rishon LeZion Senior Home – The land, area of which is approx. 3,400 sqm, located at Giv'at HaRakafot Neighborhood in East Rishon LeZion, was purchased in March 2016 in a tender held by the ILA for the purchase of the leasehold on the land. The project is in planning stages. The Company intends to build on the land a senior home which is planned to consist of up to 275 residential units (subject to the approval of a plan for the increase of rights as specified below) 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 was received, on the conditional deposit of the zoning plan. In April 2019, the zoning plan was published for objections, and in September 2019, the district committee discussed the objections that were submitted and it was decided to validate the plan. In February 2020 the plan was published for validation and as of the report release date is valid.

Azrieli Town E – On May 14, 2018, the Company closed a transaction for the purchase of rights to land located on Menachem Begin Road, Tel Aviv, holding a 4-floor building over a commercial ground floor, in the total area of approx. 5,500 sqm and underground floors mostly leased for office purposes. The property includes unused building rights under the zoning plan that applies to the land, in the total scope of approx. 21,000 sqm above-ground, as well as additional rights.

Holon 3 - Holon Industrial Zone – The land is of an area of approx. 57,500 sqm, and purchase thereof was completed 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. 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 (the "**Vacant Land**"), 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 Vacant Land includes building rights for around 53,000 sqm as well as underground parking levels. 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 reference.

In July 2019 an application was filed for a permit for excavation, shoring and basements. In January 2020 the local committee decided to grant conditional approval for the excavation, shoring and basements permit application.

In addition, in January 2020 a zoning plan under local committee jurisdiction was submitted to the local committee, in which a request was made for extra height and additional rights for 500 sqm.

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 to be used mainly for offices and which 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) – For details on the winning of the ILA tender, see Section 1.2.3.7 above.

Mount Zion Hotel – For details on the purchase of Mount Zion Hotel, see Section 1.2.3.11 above. The Company intends to continue operating the hotel while working, at the same time, on planning the renovation of the hotel and implementation of the building rights for expansion of the hotel to include up to 400 rooms and an underground parking lot with 380 parking spaces. The renovation and expansion of the hotel are subject to receipt of a building permit.

The Company's estimations in Section 4.1.1 herein, with regard to, inter alia, the investment in and expected costs of properties under construction, the financing manner of the projects, the construction completion dates, the receipt of various regulatory approvals which are required for the promotion of the projects under construction or the outcome of administrative and legal proceedings are forward looking information as per the definition thereof in the Securities Law, which is based on the Company's subjective estimations as of the date of the Report, and there is no certainty regarding their materialization, in whole or in part, or they may materialize in ways which may differ significantly, inter alia for reasons which are beyond the Company's control, including changes in the market conditions, changes in the Company's plans, the time that will take to have the zoning plans approved for execution and the prices of construction input and the implications of the spread of the Coronavirus.

For details on the projects under construction, See Section 7.7 of Chapter A of this Report.

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 HAMANOR

Use	Offices
GLA	28,000 sqm
Estimated completion	Q3/2020
Status	Under Construction

PALACE LEHAVIM SENIOR HOME

Building rights	44,000 sqm
No. of residential units	350
Estimated completion	Phase A: Q1/2020 |Phase B: TBD
Status	Under Construction

AZRIELI HOLON 3

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

AZRIELI TOWN BUILDING E

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

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, offices and residence	**Estimated completion**	Offices : Q4/2020
GLA	75,000 sqm		Residence and retail: 2022
		Status	Under Construction

MODI'IN LAND (LOT 21)

Use	Retail, offices, hotel and residence
GLA	20,000 sqm
Estimated completion	2023
Status	In planning

PALACE RISHON LEZION SENIOR HOME

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

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

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.

As of the Report Release Date, the Company is acting to improve its properties, as follows:

Azrieli Jerusalem mall – The zoning plan for expansion of the mall, senior housing and office space was discussed at the local planning and building committee and its recommendation was received for deposit to the district committee. In July 2018, the Jerusalem District Planning and Building Committee approved the Company's application for the deposit of a plan for expansion of the areas of Azrieli Jerusalem mall by approx. 100 thousand sqm gross, above-ground, which include retail, employment and senior housing areas and a building to be built for the Jerusalem municipality, and the Company is acting to publish the plan for deposit. As of the Report Release Date, the said zoning plan was deposited for objections. On January 22, 2019, a discussion on the objections was held at the local committee. The local committee recommended to the district committee to approve the plan as submitted subject to minor changes, while denying all of the third party objections. A discussion at the district committee has yet to be scheduled.

Azrieli Tel Aviv – As of the Report Release Date, the Company has finished the renovation work on the lobbies in the round and square towers, and is continuing the renovation of the public areas in the project.

Azrieli Holon Mall – In May 2019 the Company began renovating the public areas in the mall.

Herzliya Business Park – in June 2018, the local committee approved a plan for deposit for the addition of two office floors, and for the addition of retail spaces in the project. The deposit is subject to the approval of the district committee.

Azrieli Rishonim – In May 2019 a discussion was held at the district committee in connection with the addition of office space in the office tower. In January 2020 the plan was deposited for objections at the district committee.

Azrieli Ra'anana – In August 2019 a permit application was submitted to the local committee, in connection with the conversion of the top retail floor at the project to an LTC unit in Palace Ra'anana. The application has been withdrawn by the Company.

4.1.3. Identification and acquisition of properties in the Company's operating segments

One of the Company's main growth engines is its know-how, expertise and experience in the identification and acquisition of attractive properties that will yield a high return, with high demand and an improvement potential. The Company estimates that the success factors in the acquisition of such properties in its operating segments are, *inter alia*, the identification of worthwhile transactions and of opportunities in the market, positive goodwill together with business positioning and financial strength which enable the acquisition of income-producing properties and a fast response to attractive business opportunities.

As previously reported by the Group, the Group examines, from time to time, the expansion of its business including entry to related real estate sectors, through, *inter alia*, the identification and acquisition of income-producing properties as aforesaid. For details about an investment in a company in the data centers industry and the acquisition of Mount Zion Hotel, see Sections 2.15.1 and 2.15.2 above, respectively.

4.1.4. E-Commerce Business

Further to the Company's reports, whereby it continues 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 its core business in traditional retail.

5 | FINANCING 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		
	31.12.2019	**31.12.2018**
Current assets	**3,427**	1,885
Non-current assets	**31,812**	30,010
Current liabilities	**2,788**	3,092
Non-current liabilities	**13,877**	11,682
Equity attributable to the Company's shareholders	**18,534**	17,077
Equity attributable to the Company's shareholders out of total assets (in %)	**53%**	54%
Net debt to assets (in %)	**24%**	29%

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. During the Report Period, the Company issued new Series E, F and G Bonds to the public, under 2016 shelf prospectus. The Company also issued to the public bond, by way of expansion of Series E and F Bonds under 2019 shelf prospectus.

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.[26] The Group's leverage ratio is low, compared to many of its major competitors. The Group's low leverage, joined with the Company's extensive initiatives in the real estate sector, provide flexibility also at times of crises.

5.2. Composition of Financing Sources

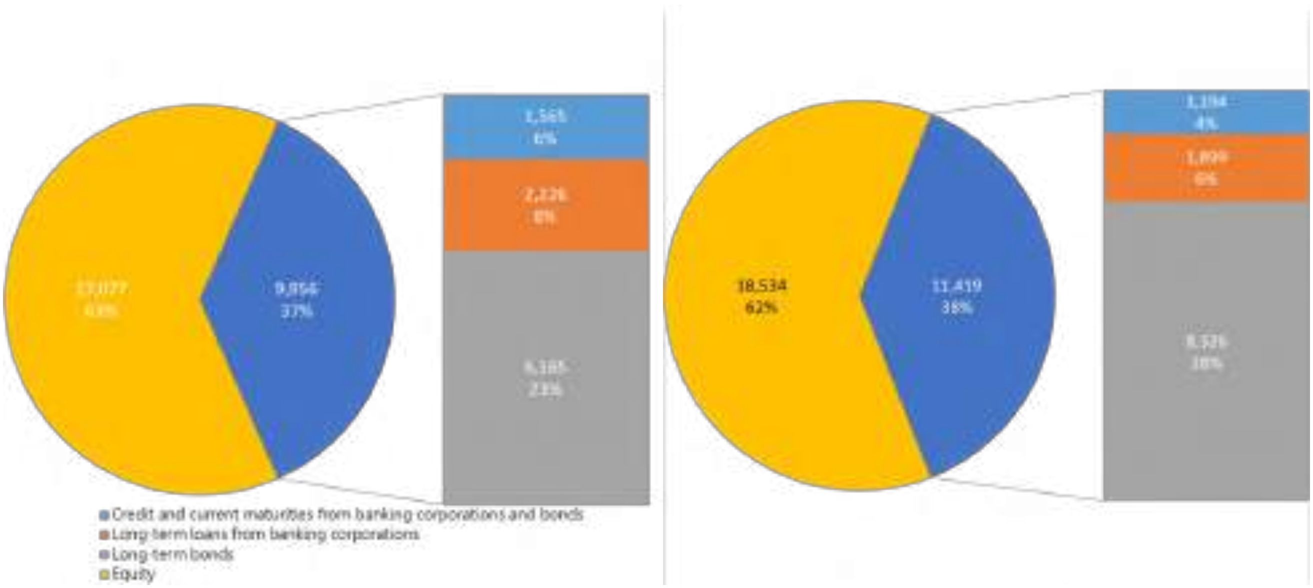
The Group has three principal debt channels: bank debt, private loans from institutional bodies or public bonds. The Group currently enjoys very high accessibility to each of these financing channels.

[26] For further details, see Section 19 of Chapter A of this Report.

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

December 31, 2018 | December 31, 2019



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

The increase in the total debt, in the sum of approx. NIS 1,463 million in the Report Period mainly stems from the issue of bonds in Q1/2019 and Q4/2019, net of ongoing repayments of loans and bonds, and net of the debt balances of Supergas that was sold.

The Group estimates that if it decides at any time to convert such credit into long-term credit, it will be able to do so in view of its financial soundness and/or the scope of its unencumbered assets.

The Group's estimations mentioned in this Section 5 of this Chapter B in relation to its liquidity and the availability of its financing sources, particularly as pertains to the possibility of converting the short-term debt into long-term debt, are forward-looking information within the definition of this term 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.

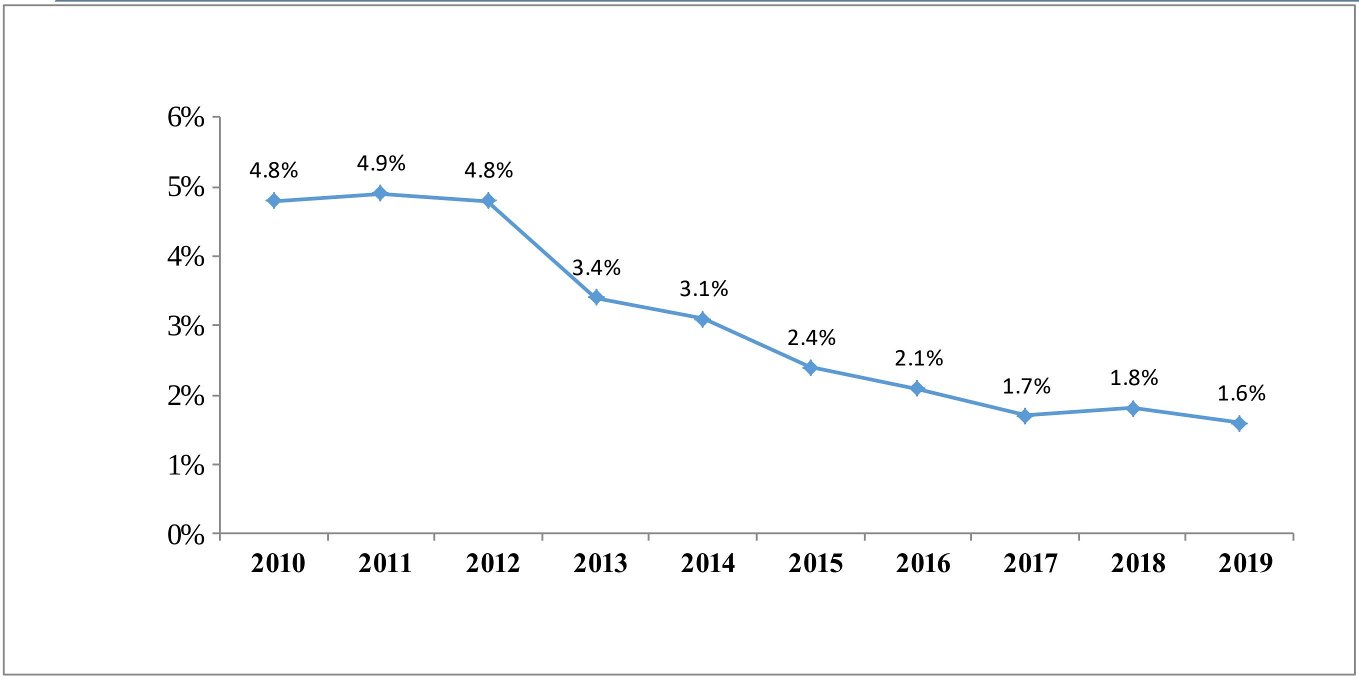
Regarding collateral and liens that were provided against the debt, as well as financial covenants with respect to the debt, see Note 17 and Note 28 to the financial statements, in Chapter C of this Report.

5.3. Financing Transactions during the Report Period and until the Report Release Date

During the Report Period, the Company raised debt at low interest rates, which are typical in the present market conditions, whilst maintaining the Company's high credit rating and extending the loans' debt duration.

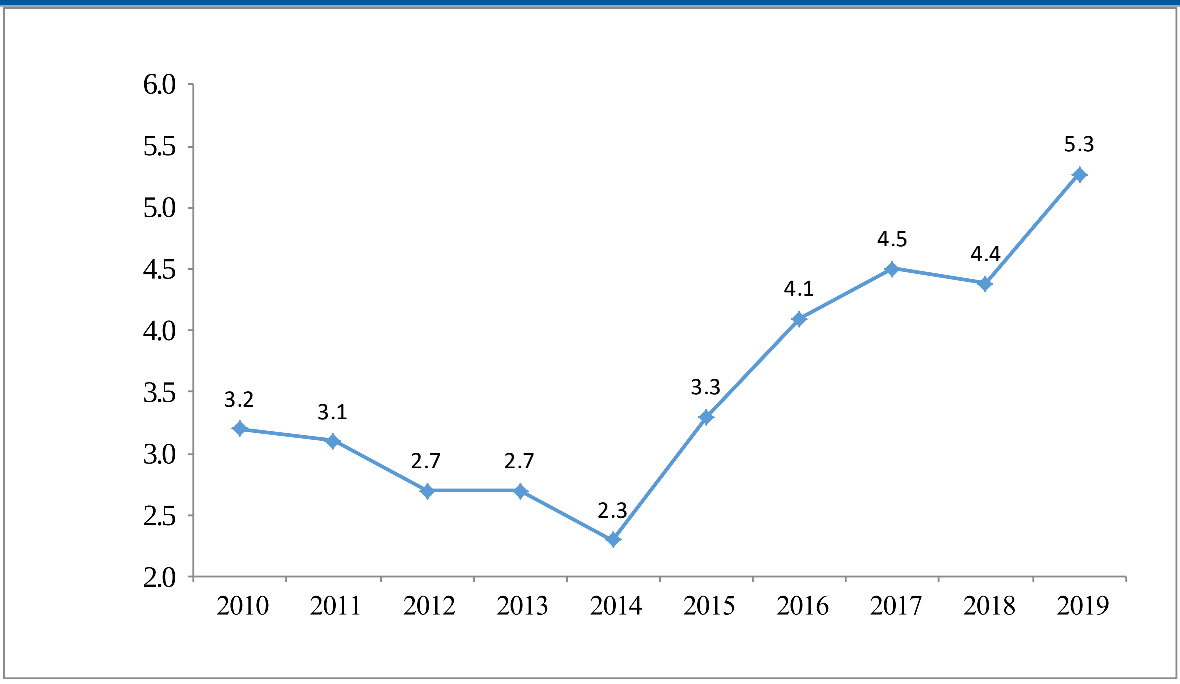
The Company acted during the Report Period to raise debt through the issue of Series E and F Bonds in January 2019 and expansion of such series in December 2019 in the scope of approx. NIS 3.9 billion, with an average duration of approx. 7.4 years and weighted, effective, index-linked interest of approx. 1.1%. For details on the debt raising, see Section 19 of Chapter A of this Report.

Reduction of Average Interest over the Years



Interest rate as of the end of the year

Extension of the Average Duration of Debt



Duration as of the end of the year

5.4. Rating

The Company's credit rating is high and reflects its financial strength, the quality of its assets and its low leverage ratio. As of the end of 2019, the Group's bonds are rated, as of the date of the Report, AA+/Stable/ilA-1+ by Ma'alot and Aa1 by Midroog.

In recent years, the Company has maintained a stable credit rating, which has even been upgraded:

- In November 2015, Moody's Midroog credit rating agency upgraded Azrieli's credit rating from Aa2 to Aa1. The rating outlook is stable.
- In January 2015, S&P Ma'alot upgraded Azrieli's credit rating from AA to AA+. The rating outlook is stable.

Various parameters that have had an effect on the Company's high rating are the low leverage ratio, the high debt repayment capacity (debt to FFO ratio), a broad dispersal of properties and tenants, various and diverse operating segments of income-producing properties, excellent locations of the properties, the considerable scope of unencumbered assets and focusing on the Company's core operations – income-producing properties.

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**	**409**	-	**428**	**428**
Long-term loans	**9,651**	**1,319**	-	-	**21**	**10,970**	**21**	**10,991**
Total	**9,651**	**1,319**	-	**19**	**430**	**10,970**	**449**	**11,419**

Figures are presented in millions of NIS as of December 31, 2019.

As of December 31, 2019, short-term loans represented approx. 4% 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 and stable 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 decided to finance its operations also by means of short-term loans as specified above.

After the date of the statement of financial position, until shortly before its release, most of the short-term loans were repaid, see Section 19.5 of Chapter A of this Report.

5.6. Designated Disclosure to Bondholders (of Series B-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 B.

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	1,194	208	1,402
2	1,248	174	1,422
3	841	155	996
4	880	143	1,023
5 forth	7,256	621	7,877
Total	**11,419**	**1,301**	**12,720**

Figures are presented in millions of NIS, as of December 31, 2019.

In the past year, the sources for the funding of the Group's financial liabilities were chiefly the following:

- Positive cash flow from current operations, which totaled approx. NIS 1,585 million in the year ended December 31, 2019, compared with NIS approx. 1,266 million in the same period last year.
- 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 banks.

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

As of December 31, 2019, the aggregate amount of liquid assets (cash and cash equivalents) held by the Group amounted to approx. NIS 2,842 million. The Company deems its liquid assets, its considerable cash flow from its current operations and its unencumbered assets (in the total value of approx. NIS 23.2 billion, in addition to the aforesaid approx. NIS 2.9 billion) 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 its ability to seize investment opportunities at various times.[27] 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 31.12.2019
Real estate of the retail centers and malls in Israel segment	10,920
Real estate of the leasable office and other space in Israel segment	10,010
Other real estate (chiefly senior housing)	462
The Company's holdings in GES and Azrieli E-Commerce	142
The Company's holdings in Compass	505
The Company's holdings in Bank Leumi	1,162
Total	**23,201**

Figures are presented 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.

[27] For details with respect to additional matters related to the Group's financing activities, see Section 19 of Chapter A herein.

The Group's estimations mentioned in this section 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 date of release of this 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 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 continued spread of Coronavirus, in a manner which will affect the Company's ability to obtain financing on convenient terms.

5.9. Financial Position

Financial Position, Liquidity and Financing Sources

Item	31.12.2019	31.12.2018
Total assets (1)	**35,239**	31,895
Current assets (2)	**3,427**	1,885
Investment properties (3)	**29,145**	27,452
Short-term credit(4)	**1,194**	1,565
Loans from banking corporations and other credit providers (5)	**1,899**	2,226
Net bonds (6)	**8,326**	6,165
Equity (7)	**18,574**	17,121

Figures are presented in millions of NIS.

(1) The increase mainly derives from an increase in investment property and investment property under construction as a result of the progress made in the investments in the projects under construction and in the income-producing properties, and from revaluation of the properties, an increase in cash from bond issues and the acquisition of Compass.

(2) The increase mainly derives from an increase in cash from bond issues, net of the write-off of the Supergas' assets as a result of its sale in the Report Period.

(3) The increase results from the progress made in the investments in the projects under construction and the income-producing properties, and from the increase of the fair value of the properties, net of a decrease in the real estate properties in the U.S. as a result of a decrease in the dollar exchange rate in the Report Period.

(4) The decrease mainly derives from maturity payments.

(5) The decrease mainly derives from a balance of loans previously classified as long-term, which have been transferred to current maturity

(6) The increase mainly results from the issue of bonds in 2019, net of prepayment of Series C Bonds, from ongoing repayments and the write-off of the Supergas' bonds as a result of its sale.

(7) The increase chiefly results from the comprehensive income, net of a dividend distribution.

6 | BUSINESS RESULTS AT A GLANCE

6.1. Summary of Business Results

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

Year:	2019	2018	2017
Net profit for the period attributable to the shareholders	**2,099**	1,218	1,456
Net profit attributable to the shareholders and to non-controlling interests	**2,097**	1,219	1,448
Basic earnings per share (NIS)	**17.31**	10.04	12.01
Basic earnings per share from continuing operations (NIS)	**14.08**	9.44	11.44
Comprehensive income to shareholders and non-controlling interests	**1,997**	1,325	1,476

Figures are presented in millions of NIS.

Net profit in the Report Period totaled NIS 2,097 million, compared with NIS 1,219 million in the same period last year. The profit in the Report Period was affected mostly by an increase of NIS 683 million compared with the same period last year, in profit from fair value adjustment, by an increase of NIS 88 million in NOI from the real estate business as well as by the profit from the sale of Supergas' business which is presented as part of the discontinued operations, net of an increase in the tax expense, mainly due to the aforesaid in the sum of NIS 198 million.

6.2. Profit Quality

The Group's net profit mainly consists of and is affected by the following components:

- Profit from the income-producing real estate business – Retail centers and malls in Israel segment, leasable office and other space in Israel segment, income-producing properties in the U.S. segment and senior housing segment; and the Group's share in the income of Compass
- Changes in the fair value of the Group's investment properties;
- The Company's HQ operation, which includes net financing expenses as well as administrative and general and marketing expenses;
- Deferred and current tax expenses;
- The Company's share in the results of Azrieli E-Commerce.

Income from the real estate business is primarily affected by the rent revenues from the various properties, which are mainly affected by supply and demand in the rental market.

The Group's income may be subject to sharp fluctuations between reporting periods, chiefly due to changes in the value of the income-producing real estate as aforesaid, which is affected, *inter alia*, by changes in the cap rates and by a change in the amount of the revenues resulting from changes in market conditions and/or a rise of the CPI. Furthermore, the Group's financing expenses are affected, *inter alia*, by changes in variable interest rates and changes in the CPI.

The Group examines the fair value of the investment properties in Israel at least once every six months and whenever there are indications of material changes in value. The determination of fair value is mainly based on valuations that are mostly prepared by appraisers who are not dependent on the Company. Fair value is measured based on discounted cash flows based on signed contracts and market rent for vacant space as of the date of examination, supported by their comparison to renewals in locations similar to the property's location close to the date of the valuation, as well as use of cap rates that are examined, *inter alia*, by analyzing comparable transactions close to the date of the valuation. The Group considers the need for an update of the value of investment properties every quarter, by examining macroeconomic changes, changes in the properties' environment and in the revenues generated therefrom, and also holds discussions with an independent real estate appraiser for examination of changes in the cap rates. Furthermore, for investment properties under construction, the costs actually invested in the period, the up-to-date forecast of costs for completion and lease contracts signed in the course of the period are taken into account. Insofar as the Company's Management estimates that material changes occurred in the value of the properties, as defined in the Group's procedures, up-to-date valuations of the relevant properties are prepared by the Company or by an appraiser.

Changes in the assumptions used by external experts and/or changes in the estimations of the Group's management, which relies on its accumulated experience, may lead to a change in the fair value recorded in the income statement, thereby affecting the Group's financial position and results of operations. For further details, see Note 32 to the financial statements.

For details with respect to the fair value of investment properties by operating segment, see Section 7.4 of Chapter A herein. Also see Notes 11 and 34 to the attached financial statements.

6.3. Comprehensive Income

The Group's capital and comprehensive income are also affected by various capital reserves, chiefly by capital reserves in respect of adjustment to 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 of this Chapter B, derives primarily from loss from translation differences from foreign operations of NIS 119 million, net of an increase in the fair value of financial assets net of tax in the amount of approx. NIS 20 million.

6.4. Results of Operations

The following table presents the marketing, general and administrative expenses, other income, financing expenses and income taxes in Y2019, compared with Y2018, and in Q4/2019 compared with Q4/2018:

Results of Operations				
	Q4/2019	**Q4/2018**	**2019**	**2018**
G&A and marketing expenses[1]	**53**	50	**174**	**156**
Net other income (expenses) [2]	**(9)**	23	**99**	**88**
Net financing expenses [3]	**85**	63	**246**	**225**
Income taxes expenses [4]	**231**	110	**471**	**273**

Figures are presented in millions of NIS.

(1) The increase in expenses in 2019 relative to the same period last year derives mainly from an increase in marketing expenses and an increase in payroll expenses due to the update of the compensation policy, from the expansion of the Company's management as a result of the entry into new operating segments, and an increase in consultancy and legal fees.

The increase in expenses in Q4/2019 relative to the same quarter last year results mainly from an increase in the payroll expenses due to the aforesaid.

(2) Other net revenues in 2019 derive mainly from dividends from Bank Leumi and Leumi Card (in 2018, from dividends from Bank Leumi and Leumi Card).

Other expenses in Q4 derive mainly from an update of indemnity receivables from an insurance company for damage from the Texas hurricane, net of a dividend from Bank Leumi, compared with dividends from Bank Leumi and Leumi Card in the same quarter last year.

(3) The increase in net financing expenses in 2019 results mainly from a one-time payment due to prepayment of the Series C Bond series in the sum of approx. NIS 77 million, net of a decrease in linkage expenses for loans, bonds and senior housing resident deposits as a result of an increase in the known index rate in the Report Period of approx. 0.3% relative to an increase of approx. 1.2% in the same period last year. The increase in net financing expenses in Q4/2019 relative to the same quarter last year, results mainly from a one-time expense due to prepayment of the Series C Bond series in the sum of approx. NIS 77 million net of a decrease in linkage expenses for loans, bonds and senior housing resident deposits as a result of a decline in the known index rate this quarter of approx. 0.2% compared with an increase of approx. 0.1% in the same period last year.

(4) The increase in tax expenses in the Report Period, compared with the same period last year, is attributed mainly to a change in deferred tax expenses due to the increase in profit from fair value adjustments of investment property in the present period, compared with the corresponding period. The increase in the Group's income tax expenses in Q4/2019, is mostly attributed to increase in deferred tax expenses due to the increase in profit resulting from fair value adjustments of investment property in this quarter compared with the corresponding quarter.

6.5. Cash Flows

The following table shows the cash flows generated by the Group in Y2019 compared with Y2018:

Annual Cash Flows		
Year	**2019**	**2018**
Net cash flows generated by the Group from current operations (1)	**1,585**	1,266
Net cash flows used by the Group for investment activities (2)	**(438)**	(1,422)
Net cash flows derived from (used by) the Group for financing activities (3)	**1,006**	(205)

Figures are presented in millions of NIS.

(1) Most of the cash flow in the period and in the same period last year resulted from the operating profit of the income-producing real estate in the sum of approx. NIS 1,601 million (excluding Compass) (approx. NIS 1,523 million in the corresponding period), plus net senior housing deposits and excluding paid income taxes.

(2) Most of the cash flow in the Report Period was used for the acquisition of, and investment in, investment properties and investment properties under construction in the sum of NIS 908 million and for the acquisition of Compass, net of proceeds from the sale of Supergas and proceeds from the exercise of the shares of Bank Leumi and Leumi Card, net of tax. Most of the cash flow in the same period last year was used for purchase of, and investment in, investment properties and investment properties under construction in the sum of approx. NIS 1,716 million, net of interest and dividend received, a decrease in short-term deposits and the proceeds from the sale of Pi-Glilot.

(3) Most of the cash flow in the Report Period derived from bond issues (net of repayment) in the sum of approx. NIS 2.3 billion, net of a dividend distribution in the sum of approx. NIS 560 million and repayment of long-term loans, net, and interest payment. Most of the increase relative to the same period last year derives from an increase in bond issues, net, in the sum of approx. NIS 1,369 million.

The following table shows the cash flows generated by the Group in Q4/2019 compared with Q4/2018:

Quarterly Cash Flows		
Quarter	**Q4/2019**	**Q4/2018**
Net cash flows generated by the Group from current operations (1)	**322**	254
Net cash flows derived from (used by) the Group for investment activities (2)	**308**	(159)
Net cash flows derived from (used by) the Group from financing activities (3)	**1,178**	(83)

Figures are presented in millions of NIS.

(1) Most of the cash flow in Q4/2020 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 402 million (excluding Compass) (approx. NIS 388 million in the corresponding period), plus net senior housing deposits net of paid income taxes.

(2) Most of the cash flow in Q4/2019 derived from the proceeds received from the sale of Supergas, net of acquisition of and investment in investment properties and investment properties under construction in the sum of approx. NIS 330 million, and for the purchase of, and payment of down-payments for fixed assets in the sum of approx. NIS 47 million. Most of the cash flow in the same quarter last year was used for the acquisition of, and investment in, investment properties and investment properties under construction in the sum of approx. NIS 209 million, net of interest and dividend received and proceeds from the exercise of Pi Glilot shares.

(3) Most of the change relative to the same period last year derived from an increase in bond issues in the quarter, net of prepayment of bonds in the sum of approx. NIS 1.5 billion and from an increase in the repayments of long-term loans, net.

7 | EXPOSURE TO AND MANAGEMENT OF MARKET RISKS

7.1. General

It is noted that the Company's financial statements present no separate reportable segment which is a "financial operating segment" and as of December 31, 2019 the Company has no "material financial operations" as stated in Regulation 10(b)(7) of the Regulations.

7.2. Description of Market Risks

For details with respect to the Company's market risks, see Notes 30 and 31 to the financial statements.

7.3. The Company's Policy on Market Risk Management

For details with respect to the Company's market risk management, see Notes 30 and 31 to the financial statements.

7.4. Policy Implementation and Oversight

At least once per year, the Financial Statements Review Committee and the Board of Directors discuss the Company's exposure to market risks and the actions taken by the Company's management, and, to the extent necessary, set quantitative criteria and restrictions. The Company's management routinely examines the operation scopes and the risk deriving from the operations.

7.5. Analysis of Sensitivity Tests and Effects on the Fair Value of the Investment Real Estate

The Group conducts tests of sensitivity to changes in cap rates affecting the fair value of investment properties.

For details, see Note 32E to the financial statements.

8 | CORPORATE GOVERNANCE ASPECTS

For details on aspects of the Company's corporate governance, including a corporate governance questionnaire, compensation of senior officers, contributions policy, details regarding the internal auditor, the auditor and an internal enforcement program at the Company, see the "Corporate Governance" chapter attached to Chapter E hereof. For details with respect to the Company's directors, see the "Additional Details" chapter attached as Chapter D hereof.

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

9.1. Report on the Group's Liabilities

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

9.2. Litigation

For details with respect to litigation, see Note 29 to the financial statements.

9.3. Disclosure of Highly Material Valuations

A directive of the Israel Securities Authority (ISA)[28] determines that a material valuation is a valuation that fulfills one of the following criteria: (1) The subject-matter of the valuation represents at least 5% of the company's total assets as presented in the consolidated statement of financial position as of the last day of the report period (the "**Balance Sheet Test**") (2) The effect of the change in value that results from the valuation on the net profit or the comprehensive income, as applicable, represents at least 5% of the company's respective total net profit or comprehensive profit in the report period and also represents at least 2.5% of the company's equity as of the end the report period[29] (the "**Consequence Test**"). In addition, the directive specifies that a highly material valuation, which is required to be attached to the financial statements of the reporting corporation, is a valuation of double materiality (10%, rather than 5%; and 5%, rather than 2.5%).

The ISA has also determined that where the valuation satisfies the quantitative tests, but qualitative considerations led to a different decision by the corporation, and it is decided not to attach it, the corporation will disclose its decision, while specifying the results of the quantitative tests and the reasons and considerations that underpinned such decision.

As of the date of the Report, the Company's board of directors has adopted the parameters determined by the ISA, as specified above, with respect to the attachment of a highly material valuation.

As of the date of the Report, and following an examination of the above determination, it transpires that the Company has no valuation that is highly material which should be attached to the Report.

9.4. Subsequent Events

See Note 35 to the financial statements.

9.5. Financials attributable to the Company as a Parent Company

In accordance with Section 9C 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.

[28] Legal statement no. 105-23 regarding parameters for testing of the materiality of valuations, last updated in July 2014, and clarification to legal statement no. 105-23 regarding parameters for testing of the materiality of valuations: Q&A's last updated in December 2018.

[29] Referring to the effect of the subject matter of the valuation after the tax effect, if any, and in absolute values.

9.6. Note on Forward-Looking Information

The Company's intentions mentioned in the introduction to the Board Report and the highlights to the Board 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 the possibility of converting short-term debt into long-term debt and/or obtaining financing, are forward-looking information as defined in the Securities Law, which is based on the Company's plans as of the date of the Report, 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, 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 implications of the continued spread of the Coronavirus.

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 2019.

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

Date: March 24, 2020

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	905.8	911.1	1.5	900.2	936.1	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	3,999.4	4,075.8	26.9	4,055.7	4,388.6	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	2,432.7	2,447.3	-	2,550.8	2,686.9	Fixed	1.77	On June 30 of each	From June 30, 2019,	Linkage (principal	

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
	Dec. 19, 2019	1,216.7								of the years 2022 through 2028	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	and interest) to the rise in the CPI for December 2018*	
Series F	Jan. 22, 2019	.2634	1,196.1	1,203.2	-	1,362.0	1,410.8	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											
Total		9,625.7	8,534	8,637.4	28.4	8,868.7	9,422.4						

* 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 July 5, 2016 (Ref.: 2016-01-075079).

   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 January 20, 2019 (Ref.: 2019-01-006388).

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.

6. For further details with respect to the terms and conditions of the Company's Bond Series, including an undertaking for the compliance with the financial covenants and restrictions regarding a dividend distribution, see Note 19B of Chapter C hereof.

Rating of the bonds of the Company held by the public:

Series	Name of Rating Company	Rating Set on the Date of the Issue	Rating Set as of the Report Release Date	Date of Issuance of the Current Rating	Additional Ratings Set between the Date of the Issue and the Report Date	
					Rating	Date of Rating
Series B	Ma'alot	AA+ stable	AA+ stable	January 24, 2019(*)	AA+ stable AA+ stable	June 21, 2015 March 28, 2017
Series D	Midroog	Aa1/stable outlook	Aa1/stable outlook	Dec. 31, 2019(**)	Aa1/stable outlook Aa1/stable outlook Aa1/stable outlook Aa1/stable outlook Aa1/stable outlook Aa1/stable outlook	July 20, 2016 March 27, 2017 March 28, 2017 December 31, 2017 January 28, 2018 January 31, 2018
Series E	Midroog	Aa1/stable outlook	Aa1/stable outlook	Dec. 31, 2019(**)	Aa1/stable outlook Aa1/stable outlook	January 20, 2019 December 17, 2019
Series F	Midroog	Aa1/stable outlook	Aa1/stable outlook	Dec. 31, 2019(**)	Aa1/stable outlook Aa1/stable outlook	January 20, 2019 December 17, 2019

* For Ma'alot's rating report on the Company's Series B, see the Company's immediate report of January 24, 2019 (Ref.: 2019-01-009423), which is included herein by way of reference.

** For Midroog's rating report on the Company's Series D-F Bonds, see the Company's immediate report of December 31, 2019 (Ref.: 2019-01-116598), which is included herein by way of reference.

PART C

Consolidated Financial Statements

Dated 31 December 2019

Azrieli Group Ltd.

Consolidated Financial Statements for the Year 2019

Azrieli Group Ltd.

Consolidated Financial Statements
For the Year 2019

C o n t e n t s

English Translation solely for the convenience of the readers of the Hebrew language audit report and Hebrew language financial statements.

Independent Auditors' Report to the Shareholders of

Azrieli Group Ltd.

Regarding Audit of Components of Internal Control over Financial Reporting pursuant to
Section 9B(c) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

We have audited components of internal control over financial reporting of **Azrieli Group Ltd. and subsidiaries** (jointly, the "**Company**") as of December 31, 2019. These components of control were determined as explained in the following paragraph. The Company's Board of Directors ("**Board**") and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of the components of internal control over financial reporting, attached to the periodic report as of the above date. Our responsibility is to express an opinion on the components of internal control over financial reporting of the Company, based on our audit.

The components of the internal control over financial reporting that were audited were determined pursuant to Audit Standard 911 of the Institute of Certified Public Accountants in Israel "Audit of Components of Internal Control over Financial Reporting" ("**Audit Standard 911**"). These Components are: (1) Entity-level controls, including controls over the financial reporting and closing process and ITGCs; (2) Controls over investment property; (3) Controls over rent revenues from investment property; (all referred to hereafter jointly as the "**Audited Components of Control**").

We conducted our audit pursuant to Audit Standard 911. This Standard requires that we plan and perform the audit with the purpose of identifying the Audited Components of Control, and to obtain reasonable assurance about whether these components of control were effectively maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the Audited Components of Control, assessing the risk that a material weakness exists in the Audited Components of Control, and testing and evaluating the design and operating effectiveness of such components of control, based on the assessed risk. Our audit of such components of control also included performing such other procedures as we considered necessary in the circumstances. Our audit only referred to the Audited Components of Control, as opposed to internal control over all of the material processes in connection with the financial reporting, and therefore our opinion refers only to the Audited Components of Control. In addition, our audit did not address mutual effects between the Audited Components of Control and non-audited controls, and therefore, our opinion does not take into consideration such possible effects. We believe that our audit provides a reasonable basis for our opinion in the context described above.

Because of its inherent limitations, internal control over financial reporting in general and components thereof in particular, may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, based on our audit, the Company effectively maintained, in all material respects, the Audited Components of Control as of December 31, 2019.

We have also audited, based on Generally Accepted Auditing Standards in Israel, the Consolidated Financial Statements of the Company as of December 31, 2019 and 2018, and for each of the three years in the period ended December 31, 2019, and our report of March 24, 2020, included an unqualified opinion on those financial statements based on our audit and on the other auditors' reports.

Brightman Almagor Zohar & Co.
Certified Public Accountants (Israel)
A Firm in the Deloitte Global Network

Tel Aviv, March 24, 2020

English Translation solely for the convenience of the readers of the Hebrew language audit report and Hebrew language financial statements.

Independent Auditors' Report to the Shareholders of

Azrieli Group Ltd.

We have audited the accompanying Consolidated Statements of Financial Position of **Azrieli Group Ltd.** (the "**Company**") as of December 31, 2019 and 2018 and the Consolidated Statements of Income, Comprehensive Income, of Changes in Capital, and of Cash Flows for each of the years in the three-year period ended December 31, 2019. The Company's Board and Management are responsible for these Financial Statements. Our responsibility is to express an opinion on these Financial Statements based on our audit.

We did not audit the financial statements of Consolidated Companies, whose consolidated assets constitute approx. 1% and approx. 3% of the total consolidated assets as of December 31, 2019 and 2018, and that the Company's share of their profits in the amount of NIS 3, 68 and 66 million is presented in the profit from discontinued operations for the years ended December 31, 2019, 2018 and 2017, respectively. The financial statements of such companies were audited by other auditors whose reports were provided to us, and our opinion, insofar as it relates to amounts that have been included in respect of such companies, is based on the reports of the other auditors.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Israel, including standards set in the Accountants Regulations (Mode of Operation of Accountants) 5733-1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board and Management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of other auditors, the Financial Statements referred to above present fairly, in all material respects, the financial position of the Company and of its subsidiaries as of December 31, 2019 and 2018 and the results of their operations, the changes in their equity and their cash flows for each of the years in the three-year period ended December 31, 2019 in accordance with International Financial Reporting Standards (IFRS) and the provisions of the Securities Regulations (Annual Financial Statements), 5770-2010.

We have also audited, pursuant to Audit Standard 911 of the Institute of Certified Public Accountants in Israel "Audit of Components of Internal Control over Financial Reporting", the components of the Company's internal control over financial reporting as of December 31, 2019 and our report of March 24, 2020 included an unqualified opinion on the effective maintenance of such components.

Brightman Almagor Zohar & Co.
Certified Public Accountants (Israel)
A Firm in the Deloitte Global Network

Tel Aviv, March 24, 2020

Azrieli Group Ltd.
Consolidated Statements of Financial Position

	Note	As of December 31 2019 NIS in millions	2018 NIS in millions
ASSETS			
Current assets			
Cash and cash equivalents	4	2,842	716
Short-term deposits and investments		19	47
Trade accounts receivable	5	54	342
Other receivables	6	228	159
Inventory		7	66
Current tax assets	26	70	105
		3,220	1,435
Asset held for sale and assets of a disposal group held for sale	7, 10B	207	450
Total current assets		3,427	1,885
Non-current assets			
Investments and loans to companies accounted for by the equity method	8B	505	100
Investments, loans and other receivables	9	614	343
Financial assets	10	1,167	1,228
Long-term receivables in respect of franchise arrangements		-	46
Investment property and investment property under construction	11	29,145	27,452
Fixed assets	12	253	530
Intangible assets	13	127	296
Deferred tax assets	26	1	15
Total non-current assets		31,812	30,010
Total assets		35,239	31,895

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

Azrieli Group Ltd.
Consolidated Statements of Financial Position
(Continued)

	Note	As of December 31 2019 NIS in millions	2018 NIS in millions
LIABILITIES AND CAPITAL			
Current liabilities			
Credit and current maturities from financial corporations and bonds	17	1,194	1,565
Trade payables	14	372	342
Other payables	15	151	225
Deposits from customers	16	957	942
Provisions		-	12
Current tax liabilities	26	2	6
		2,676	3,092
Liabilities of a disposal group held for sale	7	112	-
Total current liabilities		2,788	3,092
Non-current liabilities			
Loans from financial corporations	17	1,899	2,226
Bonds	17	8,326	6,165
Other liabilities	18	67	67
Deferred tax liabilities	26	3,585	3,224
Total Non-Current Liabilities		13,877	11,682
Capital	19		
Ordinary share capital		18	18
Share premium		2,518	2,518
Capital reserves		424	634
Retained earnings		15,574	13,907
Total equity attributable to the shareholders of the company		18,534	17,077
Non-controlling interests		40	44
Total Capital		18,574	17,121
Total Liabilities and Capital		35,239	31,895

March 24, 2020			
Date of approval of the Financial Statements	**Danna Azrieli Chairman of the Board**	**Eyal Henkin CEO**	**Irit Sekler-Pilosof CFO**

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

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

	Note	2019	2018(*)	2017(*)
		As of the year ended December 31		
		NIS in millions	NIS in millions	NIS in millions
Revenues				
From rent, management, maintenance and sales fees	20	2,235	2,101	1,887
Net profit from adjustment to fair value of investment property and investment property under construction	11	901	218	500
Share in results of a company accounted for by the equity method, net of tax		19	-	-
Financing	25	20	5	83
Other	24	124	93	126
Total revenues		3,299	2,417	2,596
Costs and Expenses				
Costs of revenues from rent, management, maintenance and sales fees	21	658	607	524
Sales and marketing	22	77	69	64
General and administrative	23	97	87	76
Financing	25	266	230	159
Other	24	25	5	2
Total costs and expenses		1,123	998	825
Income before income taxes		2,176	1,419	1,771
Taxes on income	26	(471)	(273)	(391)
Income from continued operations for the year		1,705	1,146	1,380
Income from discontinued operations, net of tax	7	392	73	68
Net profit for the year		2,097	1,219	1,448
Other comprehensive income:				
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		20	11	204
Actuarial loss due to defined benefit plan, net of tax		(1)	-	-
Amounts that were carried or will be carried in the future to the income statement, net of tax:				
Amounts that were carried to the income statement from disposition of financial assets, net of tax		-	-	(62)
Translation differences from an Investee Company		4	-	-
Translation differences from foreign operations		(123)	95	(114)
Total		(119)	95	(176)
Other comprehensive income for the year, net of tax		(100)	106	28
Total comprehensive income for the year		1,997	1,325	1,476

(*) Restated due to discontinued operations, see Note 7.

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

Azrieli Group Ltd.
Consolidated Statements of Income or Other Comprehensive Loss and Profit
(Continued)

	As of the year ended December 31		
	2019	2018	2017
	NIS in millions	NIS in millions	NIS in millions
Net profit for the year attributable to:			
Shareholders of the company	2,099	1,218	1,456
Non-controlling interests	(2)	1	(8)
	2,097	1,219	1,448
Total comprehensive income for the year attributable to:			
Shareholders of the company	2,003	1,321	1,488
Non-controlling interests	(6)	4	(12)
	1,997	1,325	1,476
Basic and diluted earnings (in NIS) per one ordinary share of par value NIS 0.1 each attributable to shareholders of the company:	NIS	NIS	NIS
Continued operations	14.08	9.44	11.44
Discontinued operations	3.23	0.60	0.57
	17.31	10.04	12.01
Average weighted share capital used in calculating the basic and diluted earnings per share	121,272,760	121,272,760	121,272,760

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

Azrieli Group Ltd.

Consolidated Statements of Changes in Capital

	For the year ended December 31, 2019								
	Share Capital	**Share premium**	**Capital reserve for changes in 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 attributable to share-holders of the company**	**Non-controlling interests**	**Total**
	NIS in millions								
Balance as of January 1, 2019	18	2,518	640	1	(7)	13,907	17,077	44	17,121
Net profit for year	-	-	-	-	-	2,099	2,099	(2)	2,097
Change in fair value of financial assets, net of tax	-	-	20	-	-	-	20	-	20
Actuarial loss due to defined benefit plan, net of tax	-	-	-	-	-	(1)	(1)	-	(1)
Translation differences from an Investee Company	-	-	-	4	-	-	4	-	4
Translation differences from foreign operations	-	-	-	(119)	-	-	(119)	(4)	(123)
Total comprehensive income for the year	-	-	20	(115)	-	2,098	2,003	(6)	1,997
Dividend to the shareholders of the Company	-	-	-	-	-	(560)	(560)	-	(560)
Investment of non-controlling interests in a subsidiary	-	-	-	-	-	-	-	4	4
Sale of shares in a consolidated company	-	-	(36)	15	-	36	15	(3)	12
Funds from investee companies	-	-	-	-	1	-	1	-	1
Acquisition of non-controlling interests in a subsidiary	-	-	-	-	(2)	-	(2)	1	(1)
Total transactions with shareholders of the Company	-	-	(36)	15	(1)	(524)	(546)	2	(544)
Carried to retained earnings as a result of disposition of financial assets	-	-	(93)	-	-	93	-	-	-
Balance as of December 31, 2019	18	2,518	531	(99)	(8)	15,574	18,534	40	18,574

The notes to the Financial Statements form an integral part thereof.

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

	For the year ended December 31, 2018								
	Share Capital	Share premium	Capital reserve for changes in 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 attributable to share-holders of the company	Non-controlling interests	Total
	NIS in millions								
Balance as of January 1, 2018	18	2,518	629	(91)	(7)	13,214	16,281	40	16,321
Effect of first application of IFRS 9	-	-	-	-	-	(5)	(5)	-	(5)
Balance as of January 1, 2018, after retroactive adjustments and restatement	18	2,518	629	(91)	(7)	13,209	16,276	40	16,316
Net profit for year	-	-	-	-	-	1,218	1,218	1	1,219
Change in fair value of financial assets, net of tax	-	-	11	-	-	-	11	-	11
Translation differences from foreign operations	-	-	-	92	-	-	92	3	95
Total comprehensive income for the year	-	-	11	92	-	1,218	1,321	4	1,325
Dividend to the shareholders of the Company	-	-	-	-	-	(520)	(520)	-	(520)
Total transactions with shareholders of the Company	-	-	-	-	-	(520)	(520)	-	(520)
Balance as of December 31, 2018	18	2,518	640	1	(7)	13,907	17,077	44	17,121

The notes to the Financial Statements form an integral part thereof.

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

	For the year ended December 31, 2017								
	Share Capital	**Share premium**	**Revaluation fund for financial assets**	**Capital reserve for translation differences from foreign operations**	**Other capital reserves**	**Retained earnings**	**Total attributable to share-holders of the company**	**Non-controlling interests**	**Total**
	NIS in millions								
Balance as of January 1, 2017	18	2,518	487	19	(7)	12,238	15,273	43	15,316
Net profit for year	-	-	-	-	-	1,456	1,456	(8)	1,448
Change in fair value of financial assets, net of tax	-	-	204	-	-	-	204	-	204
Amounts that were carried to the income statement from disposition of financial assets, net of tax	-	-	(62)	-	-	-	(62)	-	(62)
Translation differences from foreign operations	-	-	-	(110)	-	-	(110)	(4)	(114)
Total comprehensive income for the year	-	-	142	(110)	-	1,456	1,488	(12)	1,476
Dividend to the shareholders of the Company	-	-	-	-	-	(480)	(480)	-	(480)
Investment of non-controlling interests in a subsidiary	-	-	-	-	-	-	-	9	9
Total transactions with shareholders of the Company	-	-	-	-	-	(480)	(480)	9	(471)
Balance as of December 31, 2017	18	2,518	629	(91)	(7)	13,214	16,281	40	16,321

The notes to the Financial Statements form an integral part thereof.

Azrieli Group Ltd.
Consolidated Statements of Cash Flows

	As of the year ended December 31		
	2019	2018	2017
	NIS in millions	NIS in millions	NIS in millions
Cash Flows – Operating activities			
Net profit for the year	2,097	1,219	1,448
Depreciation and amortization	73	68	64
Impairment of fixed assets	10	-	-
Forfeiture of senior housing residents' deposits	(29)	(22)	(21)
Net profit from adjustment to fair value of investment property and investment property under construction	(901)	(218)	(500)
Financing and other expenses (income), net	163	142	(46)
Share in losses (profits) of associates accounted for by the equity method	(14)	6	6
Tax expenses recognized in the income statement	490	293	408
Profit from liquidation of investment in a subsidiary (Annex A)	(383)	-	-
Income taxes paid, net	(108)	(330)	(186)
Erosion of financial assets designated at fair value through profit and loss	1	8	4
Change in inventory	10	(11)	(3)
Change in trade and other receivables	54	(49)	(48)
Change in receivables in respect of franchise arrangement	2	4	2
Change in trade and other payables	(60)	12	24
Receipt of deposits from senior housing residents	236	184	112
Return of deposits from senior housing residents	(55)	(42)	(45)
Change in provisions and employee benefits	(1)	2	-
Net cash – operating activities	1,585	1,266	1,219

The notes to the Financial Statements form an integral part thereof.

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

	As of the year ended December 31		
	2019	**2018**	**2017**
	NIS in millions	**NIS in millions**	**NIS in millions**
Cash Flows - Investment Activities			
Proceeds from the disposition of fixed assets	2	1	2
Proceeds from the disposition of investment property	-	36	-
Advance payments on account of disposition of investment property	-	-	8
Purchase of and investment in investment property and investment property under construction	(899)	(1,729)	(1,052)
Purchase of and investment in fixed assets and intangible assets	(60)	(81)	(86)
Advance payments for purchase of fixed assets	(28)		
Investment in and provision of loans to companies accounted for at equity	(503)	(17)	(15)
Change in short-term deposits	(27)	97	514
Change in restricted investments	-	-	3
Receipt of insurance indemnification	-	50	-
Proceeds from disposition of financial assets designated at fair value through profit and loss	3	-	3
Provision of long-term loans	-	-	(1)
Collection of long-term loans	15	23	6
Interest and dividend received	142	100	38
Investment in financial asset	(10)	-	-
Proceeds from disposition of financial assets, net	279	87	233
Increase of our share in the partnerships in the U.S. (Annex B)	-	-	6
Proceeds from liquidation of investments in Investee Companies, net (Annex A)	673	-	22
Taxes paid for financial assets	(16)	(2)	(17)
Proceeds (payments) from institutions for real estate acquisition	(9)	13	(13)
Net cash - investment activities	(438)	(1,422)	(349)

The notes to the Financial Statements form an integral part thereof.

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

	As of the year ended December 31		
	2019	**2018**	**2017**
	NIS in millions	**NIS in millions**	**NIS in millions**
Cash Flows - Financing Activities			
Acquisition of non-controlling interests in a subsidiary	(1)	-	-
Distribution of dividend to shareholders	(560)	(520)	(480)
Repayment of bonds	(1,628)	(492)	(645)
Issuance of bonds net of issue expenses	3,904	1,399	1,354
Receipt of long-term loans from financial corporations	169	215	244
Repayment of long-term loans from financial corporations	(516)	(456)	(742)
Short-term credit from financial corporations, net	(55)	(147)	(66)
Repayment of other long-term liabilities	(17)	-	-
Repayment of deposits from customers	(5)	(7)	(7)
Deposits from customers that were received	10	9	10
Investment of non-controlling interests in a subsidiary	-	-	5
Interest paid	(295)	(206)	(179)
Net cash - financing activities	1,006	(205)	(506)
Increase (decrease) in cash and cash equivalents	2,153	(361)	364
Cash and cash equivalents at the beginning of the year	716	1,064	715
Change in net cash classified to disposal group held for sale	(7)	-	-
Effect of the changes in exchange rates on balances of cash held in foreign currency	(20)	13	(15)
Cash and cash equivalents at the end of the year	2,842	716	1,064

(*) Non-cash transactions include a change in other payables in respect of acquisitions on credit of non-current assets in 2019 in the sum of NIS 50 million (in 2018 and 2017 – NIS 34 million and NIS 39 million, respectively). In addition, non-cash transactions include an increase in receivables due to the sale of investments in financial assets in the sum of approx. NIS 282 million, and an increase in receivables due to the sale of consolidated companies in the sum of NIS 116 million.

(**) With respect to cash flows from discontinued operations, see Note 7.

The notes to the Financial Statements form an integral part thereof.

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

	As of the year ended December 31		
	2019	**2018**	**2017**
	NIS in millions	**NIS in millions**	**NIS in millions**
Annex A -			
Proceeds from liquidation of investments in Investee Companies (see Note 7):			
Working capital (excluding cash and cash equivalents)	42	-	-
Investments and loans	142	-	-
Fixed and intangible assets, net	455	-	-
Deferred tax assets	10	-	-
Other long-term liabilities	(6)	-	-
Long-term financial liabilities including current maturities	(249)	-	-
Loan given (repaid) due to sale of the investment	-	-	22
Receivables due to sale of the investment	(116)	-	-
Write-off of non-controlling interests	(3)	-	-
Write-off of capital reserve for translation differences from foreign operations	15	-	-
Profit from liquidation of investment in subsidiary before tax	383	-	-
	673	-	22
Annex B -			
Increase of our share in the partnerships in the U.S.:			
Working capital (excluding cash and cash equivalents)	-	-	(1)
Investment property	-	-	(124)
Fixed and intangible assets, net	-	-	(3)
Long-term liabilities including current maturities	-	-	134
	-	-	6

The notes to the Financial Statements form an integral part thereof.

Note 1 – G e n e r a l

A. General description of the Company and its operations:

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 traded on the Tel Aviv Stock Exchange ("**TASE**") and is included, *inter alia*, in the Tel Aviv 35 Index and in the Tel Aviv Real Estate Index. The Company has bonds that were issued to the public and as of the date of signing the financial statements, are traded on TASE (Series B as well as Series D-F). On December 30, 2019, the Company's Series C Bonds were prepaid in full at the Company's initiative. The Group's Consolidated Financial Statements as of December 31, 2019 include those of the Company and of subsidiaries thereof (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 was informed, each one of Sharon Azrieli, Naomi Azrieli and Danna Azrieli, holds, directly and through a Canadian holding corporation controlled thereby ("**Canadian 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 holds (indirectly, through a holding of shares of a Canadian Holding Corporation) approx. 15.93% of Azrieli Holdings' shares, with no voting rights (which constitutes, indirectly, a holding of approx. 8.86% of the capital rights of the Company), in addition to and separately from its direct holding of approx. 8.55% of the capital and voting rights in the Company.

As the Company was informed, on March 20, 2017, a shareholders' agreement (the "**2017 Agreement**") was signed between Sharon Azrieli, Naomi Azrieli and Danna Azrieli (in person and through companies controlled by them), the indirect Controlling Shareholders of the Company and directors thereof (the "**Controlling Shareholders**"). Additional parties to the 2017 Agreement are Azrieli Holdings, Nadav Investments and a Canadian Holding Corporation (the three, the "**Holding Corporations**"). The 2017 Agreement regulates the relations between the Controlling Shareholders, in person, and through the Holding Corporations, in respect of their rights in the Company. The terms of the 2017 Agreement include agreements regarding the sale and transfer of shares in the Company and in the Holding Corporations, including a lock-up period, right of first refusal, right of first offer, co-sale right and an exclusion in connection with certain sales of shares (drip) on TASE. The 2017 Agreement further prescribes that the manner of use of the voting rights in the Company will be determined by the Controlling Shareholders (by a majority vote), provided however, that in respect of resolutions to appoint directors of the Company, each one of the Controlling Shareholders shall have the right to use the voting rights to appoint one director who will be determined by her, whereas the manner of use of the voting rights in the Company regarding resolutions to appoint additional directors, will be adopted by a majority vote. It is clarified, that the 2017 Agreement does not change the identity of the Company's Controlling Shareholders (including of Azrieli Holdings) nor their percentage holdings in the capital and in the voting rights in the Company, and that as of the report date, Sharon Azrieli, Naomi Azrieli and Danna Azrieli are the Company's Controlling Shareholders

Note 1 – G e n e r a l (Cont.)

A. General description of the Company and its operations: (Cont.)

The Company engages (both directly and through Investee Companies in which it invests and which it develops) primarily in the following operating segments:

(1) In development, acquisition, management, lease and maintenance in the retail centers and malls in Israel segment.
(2) In development, acquisition, management, lease and maintenance in the leasable office and other space in Israel segment.
(3) In acquisition, management and lease in income-producing property in the U.S. segment.
(4) In development, acquisition and operation of senior housing.

In addition, the Company engaged in activities of alternative energy sources, water and wastewater through its holding in Granite Hacarmel Investments Ltd. and GES Global Environmental Solutions Ltd. A sector classified as discontinued operations (for details – see Note 7).

For details regarding additional operating segments of the Company, see Note 34A.

B. Definitions:

The Company	-	Azrieli Group Ltd.
Related Parties	-	As defined in IAS 24.
Consolidated Company	-	A company in which the Company has direct or indirect control and whose statements are fully consolidated with the Company's statements.
Investee Company	-	A Consolidated Company or a company under joint arrangement or an associate.
Interested Parties	-	As defined in the Securities Law, 5728-1968, and regulations thereunder.
Controlling Shareholder	-	Within the definition of "Control" in the Securities Law, 5728-1968.
Canit Hashalom	-	Canit Hashalom Investments Ltd.
Granite	-	Granite Hacarmel Investments Ltd.
GES	-	GES Global Environmental Solutions Ltd.
Supergas	-	Supergas - Israeli Gas Distribution Company Ltd.

Note 2 - Significant accounting policies

A. Declaration in respect of the application of the International Financial Reporting Standards (IFRS):

The Group's Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards (the "**IFRS Standards**") and the interpretations thereto, which have been published by the International Accounting Standards Board (IASB). The significant accounting policies that are detailed further on in this report have been applied in a consistent manner for all of the reporting periods that are presented in these Consolidated Financial Statements, except for changes in the accounting policies, which derived from the application of standards, amendments to standards and interpretation, which took effect or early adopted as of the date of the Financial Statements, as detailed in Note 2DD.

The Consolidated Financial Statements were approved for publication by the Company's Board on March 24, 2020.

B. The Financial Statements include the disclosure requirements in accordance with the Securities Regulations (Annual Financial Statements), 5770-2010 (the "**Financial Statements Regulations**").

C. The operating cycle period:

The Group's operating cycle does not exceed 12 months.

D. The format for the analysis of the expenses that have been recognized in the Statement of Comprehensive Income:

The Company's expenses in the Statement of Comprehensive Income are presented in accordance with a method of classification based on the nature of the activity to which the expense relates.

E. Foreign currency:

(1) The functional currency and the presentation currency

The financial statements of each of the companies in the Group have been prepared in the currency of the main economic environment in which it operates (the "**Functional Currency**"). For the purposes of the consolidation of the Financial Statements, the results and the financial position of each of the companies in the Group are translated into New Israeli Shekels (NIS), which is the Company's functional currency. The Company's Consolidated Financial Statements are presented in NIS in millions. On exchange rates and the changes therein in the course of the periods that are presented, see Note 2CC.

(2) The translation of transactions other than in the functional currency

In the preparation of the financial statements of each of the companies in the Group, transactions that were executed in currencies that are different from the Company's functional currency ("**Foreign Currency**") have been recorded in accordance with the exchange rates that were in force at the time of the transactions. At the end of each reporting period, monetary items that are stated in foreign currency are translated in accordance with the exchange rates in force as of that time. Non-monetary items that are measured at fair value and stated in foreign currency are translated in accordance with the exchange rate at the time at which the fair value was determined; non-monetary items that are measured in historical cost terms are translated in accordance with the exchange rates that were in force at the time of the execution of the transaction in respect of the non-monetary item.

Note 2 - Significant accounting policies (Cont.)

E. Foreign currency: (Cont.)

(3) The manner in which exchange differences are recorded

Exchange differences are recognized in the income statement in the period in which they arise, except for the following cases:

- Exchange differences in respect of transactions that were designated for the hedging of certain foreign currency risks.

- Exchange differences in respect of financial items receivable or payable from foreign operations, whose settlement is not planned or expected to occur and accordingly they constitute part of the net investment in foreign operations, are recognized in the statement of other comprehensive income under the ‘exchange differences in respect of foreign operations’ item, and are carried to profit and loss at the time of the disposition of the net investment in foreign operations and upon partial disposition of the net investment in foreign business entailing loss of control.

(4) The translation of the financial statements of foreign operations whose functional currency is different from the Company's functional currency

For the purposes of the presentation of the Consolidated Financial Statements, the assets and the liabilities of foreign operations, including attributed excess of fair value over the book value and goodwill, are presented in accordance with the exchange rates in force at the end of the reporting period. Income and expense items are translated in accordance with the average exchange rate for the reporting period unless there shall have been significant fluctuations in the exchange rates in the course of the period. In such a case, the translation of these items is done using the exchange rates at the time of the execution of the transactions, the exchange differences are recognized in the statement of comprehensive income under "translation differences from foreign operations". These translation differences are carried to the income statement on the disposition of the foreign business in respect of which they were created and upon partial disposition of foreign business entailing loss of control.

F. Cash and cash equivalents:

Cash and cash equivalents include readily-available cash, deposits available for immediate withdrawal, and term deposits whose use is unlimited and whose maturity date on the date of investment does not exceed three months.

Cash, usage of which by the Group is restricted by credit agreements, is classified by the Group as restricted cash in the Statement of Financial Position.

Deposits of restricted usage, and deposits whose maturity date on the date of investment exceeds three months, are classified as ‘Short-term deposits and investments’.

G. Consolidated Financial Statements:

The Group's Consolidated Financial Statements include the financial statements of the Company and of entities that are directly or indirectly controlled by the Company. An investing company is controlling an Investee Company when it is exposed or has rights to variable yields deriving from its holding in the Investee Company and when it has the ability to have an effect on such yields through exercise of power on the Investee Company. This principle applies to all Investee Companies.

Note 2 - Significant accounting policies (Cont.)

G. Consolidated Financial Statements: (Cont.)

Potential voting rights are considered real where the group has practical ability to exercise them. When real potential voting rights exist, such as: convertible instruments, options and forward contracts in an Investee Company by the Company or other parties holding the investment, the exercise of which will increase the entity's voting rights in the Investee Company, the Group examines whether the existence of these real potential voting rights together with other existing voting rights in the Investee Company, amount to control.

The results of operations of subsidiaries acquired or sold during the report period are included in the Company's consolidated income statements from the date control is achieved or ceased, as the case may be.

Financial statements of the Consolidated Companies that were prepared other than in accordance with the Group's accounting policies were adjusted, prior to their consolidation, to the accounting policies that have been implemented by the Group.

For the purposes of the consolidation, all inter-company transactions, balances, income and expenses have been eliminated in full.

H. Non-controlling interests:

Non-controlling interests are the capital in a subsidiary which cannot be attributed, either directly or indirectly, to the parent company.

Transactions with non-controlling interests, while retaining control, are accounted for as equity transactions. Any difference between the consideration paid or received and the change in the non-controlling interests is carried to the share of the holders of the Company directly to other capital reserves.

I. Loss of control:

Upon loss of control of a Consolidated Company, the Company recognizes a profit or loss in the sum of the difference between the aggregate value of the consideration received and the fair value of any remaining investment in the former Consolidated Company, and between the book value of the assets, liabilities and non-controlling interests in the former Consolidated Company.

When a Consolidated Company's assets are measured at revalued amounts or at fair value and the cumulative profit or loss is recognized in other comprehensive income and accumulated in equity, upon loss of control of such company, these amounts are reclassified to profit or loss or retained earnings (as determined in the relevant standard).

The fair value of any remaining investment in the former Consolidated Company is considered to be the fair value at the date of initial recognition of a financial asset, or the cost at the time of initial recognition of an associate or joint venture.

J. Business combinations:

The acquisition of activities and Consolidated Companies which constitute a business are presented while using the acquisition method. The cost of the business combination is presented as the aggregate fair value (as of the exchange date) of granted assets, incurred liabilities.

Transaction costs, which are directly related to the business combination, are carried to the profit or loss when incurred.

Note 2 - Significant accounting policies (Cont.)

J. Business combinations: (Cont.)

The identified assets and liabilities of the purchased business, which meet the conditions for recognition under the (amended) IFRS 3 "Business Combinations", are recognized according to their fair value on the purchase date, other than a number of types of assets which are presented according to the provisions of the relevant standards.

Goodwill resulting from business combination is presented at the sum of the excess of the cost of the purchase over the Company's share in the net fair value of the identified assets, liabilities and contingent liabilities of the Consolidated Company that were recognized on the purchase date. If, after revaluation, the Group's rights in the net fair value of the identified assets, liabilities and contingent liabilities that were recognized, in total, exceed the cost of the business combination, the excess is immediately recognized in the profit or loss.

Non-controlling interests in the acquired entity are presented for the first time on the date of the business combination at the rate of their share in the fair value of the assets, liabilities and contingent liabilities of the acquired entity, excluding their share in goodwill.

K. Joint arrangements:

"Joint arrangement" is a contractual agreement whereby the Group and other parties perform financial activity that is subject to joint control. Joint control is in place where the contractual arrangement includes a requirement whereby decisions pertaining to the transaction's financial and operational strategy, must be adopted unanimously by the parties which jointly control the joint transaction.

There are two types of joint arrangements. The arrangement type is dependent on the rights and obligations of the parties to the arrangement:

A “joint venture” is a joint arrangement, the parties to which have rights in net assets attributed to the arrangement.

In joint arrangements which constitute a joint venture, the Group recognizes the joint venture as an investment, and it is accounted for by the equity method. With respect to the equity method, see accounting policy Note 2L below.

“Joint operation” is a joint arrangement wherein the parties thereto have interests in the assets, and commitments with regards to the liabilities that are attributed to the arrangement.

In joint arrangements that constitute a joint operation, the Group recognizes in the Group’s Statement of Financial Position its pro-rata share in the joint operation’s assets and liabilities, including assets that are held and liabilities that were formed jointly. The income statement includes the Group’s pro-rata share in the income and expenses of the joint operation, including income derived and expenses incurred jointly.

L. Investments in associates and joint ventures:

An associate is an entity over which the Group has significant influence, and is not a subsidiary or a joint arrangement. Significant influence is the power to participate in the making of the financial and operating policy decisions of the Investee Company, but not the power to control or jointly control such policy.

When potential voting rights available for immediate exercise exist, such as convertible or exercisable warrants/options/equity instruments that may increase the Group’s voting rights in another entity, or alternatively, decrease the voting rights of other parties in another entity, the Group takes such instruments into consideration when determining whether it has significant influence over another entity.

Note 2 - Significant accounting policies (Cont.)

L. Investments in associates and joint ventures: (Cont.)

The examination of whether certain potential voting rights are available for immediate exercise does not take into account management's intentions and the group's financial ability to exercise or convert such rights.

Financial statements of associates and joint ventures which are prepared other than according to the Group's accounting policy are adjusted, before inclusion thereof in the Group's financial statements, to the Group's accounting policy.

The results, assets and liabilities of associates and joint ventures are included in these financial statements using the equity method. The Group classifies the investment as a non-current asset. According to the equity method, investments in associates and joint ventures are included in the consolidated statement of financial position at cost adjusted to the changes that occurred after the purchase in the Group's share in the net assets, including capital reserves, net of impairment, if any, of the value of the associate or the joint venture. Losses of an associate or joint venture that exceed the Group's rights in the associate or the joint venture are not recognized unless there is a legal or implied obligation of the Group to pay or payments were made for the associate or for the joint venture. With respect to the testing of impairment of an investment in associates and joint ventures, see Note 2M.

The excess purchase cost of an associate or joint venture over and above the Group's share in the fair value of identifiable assets, liabilities and contingent liabilities of the associate or the joint venture which were recognized on the purchase date, is recognized as goodwill. The goodwill is included in the book value of the investment in the associate or in the joint venture, and is tested for impairment purposes as part of the investment.

The Group ceases to use the equity method from the date on which the investment ceases to be an associate or a joint venture upon loss of the significant influence. Any investment remaining after the disposition is measured at the fair value thereof. The difference between the book value of the remaining investment and the fair value thereof is recognized in profit or loss. In addition, the amounts that were recognized in other comprehensive income in relation to such investment are accounted for in the same manner that would have been required, had the invested entity itself disposed of the related assets or the related liabilities.

When the Group reduces its holdings in an associate or in a joint venture but use of the equity method continues, the Group reclassifies as profit or loss the proportionate share of the profit or the loss that was recognized prior thereto in other comprehensive income which relates to the said reduction in the holding rates, if such profit or loss would have been classified as profit or loss upon disposition of the respective assets or liabilities.

M. Impairment of investments that are accounted for by the equity method:

The Group examines the existence of signs of impairment of investments that are accounted for by the equity method. Such impairment occurs when there is objective evidence that the future cash flows expected from the investment have been adversely affected.

The testing of impairment of the investment is carried out in relation to the investment as a whole. Accordingly, a loss that is recognized from impairment of the investment is not attributed to assets that comprise the investment account, including goodwill, but rather is attributed to the investment as a whole, and therefore the Group recognizes reversal of losses that were recognized in respect of investments accounted for by the equity method, where the increase occurs in the recoverable amount thereof.

Note 2 - Significant accounting policies (Cont.)

M. Impairment of investments that are accounted for by the equity method: (Cont.)

With the aim of determining the amount of the loss created by impairment, if any, an estimate is made of the recoverable amount of the investment. Recoverable amount is the higher of the investment's fair value net of disposition costs and its value in use. In the determination of the investment's value in use, the Group estimates its share in the present value of the estimated future cash flows expected from the activity of the associate and disposition thereof or the present value of the estimated future cash flows projected to derive from dividends that shall be received from the investment and from the final disposition thereof.

N. Goodwill:

Goodwill that derives from the acquisition of a Consolidated Company is presented in the framework of intangible assets and is measured at the level of the surplus of the cost of the acquisition over the Company's share in the net fair value of the identified assets, liabilities and contingent liabilities of the Consolidated Company, which were recognized at the time of the acquisition.

Goodwill is initially recognized as an asset at cost and is measured in following periods as cost net of accumulated losses from impairment.

For the purposes of the testing for impairment, goodwill is allocated to each of the Group's cash generating units, which derive benefits from the synergies from the business combination. Cash generating units to which Goodwill has been allocated are tested for impairment each year or more frequently, where signs exist, which evidence a possible impairment of the unit, as aforesaid. Where the recoverable amount of a cash generating unit is lower than the book value of that unit, the loss from impairment is allocated firstly to the writing down of the book value of any goodwill whatsoever in respect of the cash generating unit. Thereafter, the balance of the impairment loss, if any remains, is allocated to the other assets making up the cash generating unit, in proportion to their book value. A loss from impairment of goodwill is not cancelled in following periods.

Upon a disposition of a Consolidated Company, the amount of the goodwill that is attributed to it is included in the determination of the profit or loss on the disposition.

In the matter of the Group's policy with respect to goodwill deriving from an acquisition of an associate and/or a joint venture, se Note 2L.

O. Non-current assets and disposal groups held for sale:

Non-current assets and disposal groups are classified as held for sale if their book value was settled mainly through their sale and not through ongoing usage thereof. Non-current assets and disposal groups are classified as held for sale, where the sale is highly probable and the asset (or disposal group) is available for immediate sale in its current condition. The Group classifies non-current assets and/or disposal groups as held for sale when management is required to make the sale, and the sale is expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset and/or disposal group as held for sale.

From the period in which an asset is defined as designated for disposal it is presented in the Statement of Financial Position together with other assets directly related thereto which are expected to be disposed of upon its disposal, under the item of "non-current assets held for sale". Assets of a disposal group classified as held for sale are presented under the item of "assets of a disposal group held for sale". Current and non-current liabilities that are directly attributed to the asset designated for disposal, or the disposal group, that are expected to be settled upon disposal of the asset or the disposal group are presented in the Statement of Financial Position under the item of "liabilities of a disposal group held for sale". The recording of depreciation for a non-current asset classified as held for sale is stopped on the date it is classified as held for sale. Comparative figures relating to the asset held for sale are not re-classified as aforesaid.

Note 2 - Significant accounting policies (Cont.)

O. Non-current assets and disposal groups held for sale: (Cont.)

Non-current assets or disposal groups classified as held for sale, other than investment property that is measured at fair value, are measured at the lower of their book value and their fair value net of disposal costs.

Financial statements for periods from the date of classification as held for sale are amended accordingly if the disposal group or non-current asset which ceased to be classified as held for sale are a subsidiary, joint activity, joint venture, associate, or part of an interest in a joint venture or an associate. The entity shall present this reconciliation in the same item in the Statement of Comprehensive Income that was used to present the profit or loss on the date of the original classification.

P. Discontinued Operations:

Operations that were realized or are classified as held for sale, constitute discontinued operations when representing a business operating segment or an operations' geographic region which is significant and separate, or when they constitute part of a single and adjusted planning for the disposal of a business operating segment or of an operations' geographic region which is significant and separate. Revenues and expenses which belong to discontinued operations are presented in the Statements of Profit or Loss and Other Comprehensive Income, Net, net of taxes on income during all of the periods presented as part of the "Income from discontinued operations (net of tax)" item. The cash flows from discontinued operations are jointly presented in the Discontinued Operations Note in all of the report periods presented, according to the classification of operating activities, investment activity and financing activity.

The comparative figures in the income statement from the results of the discontinued operations, are retroactively adjusted.

Q. Loss of Control:

Upon loss of control, the Group writes-off the assets and liabilities of the subsidiary, any non-controlling interest and other capital components attributable to the subsidiary. The difference between the consideration and the fair value of the investment balance and between the balances written-off, is recognized in profit and loss under the “Other income” item. The amounts recognized in equity through other comprehensive income in reference to such subsidiary are reclassified as profit or loss or as retained earnings, as would have been required had the subsidiary disposed of the relevant assets or liabilities itself.

R. Financial instruments:

(1) Financial assets:

a. General:

Financial assets are recognized in the Statement of Financial Position when the Group becomes a party to the contractual terms of the instrument.

Investments in financial assets are initially recognized at their fair value, plus transaction costs, with the exception of such financial assets that are classified at fair value through profit and loss, which are initially recognized at their fair value. Transaction costs for financial assets at fair value through profit or loss are carried to profit or loss as an immediate expense.

After initial recognition, financial assets are measured at depreciated cost or fair value, according to their classification.

Note 2 - Significant accounting policies (Cont.)

R. Financial instruments: (Cont.)

(1) Financial assets: (Cont.)

b. Classification of financial assets:

Debt instruments are measured at depreciated cost when the following two conditions are met:

- The Group’s business model is to hold the assets with the aim of collecting contractual cash flows, and

- The contractual terms of the asset determine precise dates for receipt of the contractual cash flows that constitute principal and interest payments only.

All other financial assets are measured at fair value through profit and loss.

c. Financial assets measured at depreciated cost and the effective interest method:

The depreciated cost of a financial asset is the amount at which the financial asset is measured upon initial recognition, net of principal payments, plus or net of the aggregate depreciation, while using the effective interest method, of any difference between the initial amount and the payment amount, adjusted for any provision for loss.

The effective interest method is a method used to calculate the depreciated cost of a debt instrument and to allocate and recognize the interest income in profit or loss over the relevant period.

Interest income is calculated using the effective interest method. The calculation is made by applying the effective interest rate to the gross book value of a financial asset, other than:

- For defective financial assets due to credit risk, which were acquired or created, from the date of initial recognition, the Group applies the effective interest rate adjusted to the credit risk to the depreciated cost of the financial asset.

- For financial assets that are not defective financial assets due to credit risk, that were acquired or created but thereafter became defective financial assets due to credit risk, the Group applies the effective interest rate to the depreciated cost of the financial asset (net of a provision for projected credit losses) in subsequent reporting periods. If, in subsequent reporting periods, the credit risk of the financial instrument improves, such that the financial asset is no longer defective due to credit risk, the Group will calculate the interest income in subsequent reporting periods by applying the effective interest rate to the gross book value.

Note 2 - Significant accounting policies (Cont.)

R. Financial instruments: (Cont.)

(1) Financial assets (Cont.)

d. Equity instruments designated at fair value through other comprehensive income (see Note 10):

On the date of initial recognition, the Group may designate investments in equity instruments, that are not held for trade and do not constitute contingent consideration in a business combination, at fair value through other comprehensive income. This designation cannot be revoked in subsequent periods and can be made for each investment separately, irrespective of the designation or non-designation of other investments at fair value through other comprehensive income.

The Group has investments which were designated thereby on the date of initial recognition at fair value through other comprehensive income.

On the date of initial recognition, the investment in equity instruments that were designated at fair value through other comprehensive income is measured at fair value, plus transaction costs. In subsequent periods, the investment is measured at fair value when profits or losses arising from changes in the fair value, including such that derive from changes in exchange rates, are carried to other comprehensive income to a capital reserve for changes in fair value of investments in equity instruments designated at fair value through other comprehensive income and are never reclassified as profit or loss.

Income from dividends in respect of investment in equity instruments designated at fair value through other comprehensive income are recognized in profit or loss when the Group derives the right to receive payments therefor, unless the dividend clearly represents recovery of part of the cost of the investment.

e. Impairment of financial assets:

The Group recognizes a provision for projected credit losses in respect of:

- Financial assets measured at amortized cost.
- Contract assets as defined in IFRS 15.

With respect to trade accounts and other receivables, the expected credit losses in respect of such financial assets are assessed based on the Group's past experience of credit losses and are adjusted for borrower-specific factors, general economic conditions and an estimation of both the current trend of the conditions and the projected trend of the conditions as of the report date, including the time value of money, as needed.

With respect to all other financial instruments, the Group recognizes a provision for impairment according to the projected credit losses throughout the life of the instrument, when there is a significant increase in the credit risk from their date of initial recognition. If, on the other hand, the credit risk of the financial instrument has not significantly risen from the date of initial recognition, the Group measures the provision for impairment according to the probability of insolvency in the coming 12 months. The test of whether to recognize a provision for impairment according to the projected credit losses throughout the life of the instrument is based on the risk of default from the date of initial recognition, and not only when there is objective evidence of impairment on the report date or when the default has actually occurred.

Note 2 - Significant accounting policies (Cont.)

R. Financial instruments: (Cont.)

(1) Financial assets: (Cont.)

e. Impairment of financial assets: (Cont.)

The projected credit losses throughout the life of the instrument are the projected credit losses arising from all possible default events throughout the projected life of a financial instrument. Conversely, projected credit losses in a 12-month period are that part of the projected credit losses throughout the life of the instrument, representing the projected credit losses arising from defaults in a financial instrument that are possible within 12 months after the report date.

In the estimation of the management of the Company, the projected credit losses for customers and contract assets are immaterial.

Financial asset write-off policy:

The Group writes off a financial asset when there is information indicating that the borrower is facing severe financial difficulties and there is no realistic chance of recovery of the asset. For example, when the borrower enters dissolution or bankruptcy proceedings. Financial assets that were written off may be subject to enforcement activities in the context of the Group's collection proceedings, while obtaining legal advice as needed. Any recovery of a financial asset that was written off is carried to profit or loss.

Measurement and recognition of projected credit losses:

The measurement of projected credit losses is a function of the probability of occurrence of a default, the amount of the loss in the event of occurrence of a default and the maximum exposure to loss in a default event. The estimation of the probability of occurrence of a default and the amount of the loss are based on historic data, adjusted by forward-looking information as described above.

With respect to financial assets, the maximum exposure to a loss in a default event is the gross book value of the financial asset on the report date.

With respect to a commitment to give loans and financial guarantee contracts, the maximum exposure to loss in a default event includes the amount taken as of the report date, plus additional amounts that may be incurred in the future until the occurrence of the default based on past data, the Group's knowledge of the specific future financing needs of the borrowers, and other relevant forward-looking information.

With respect to financial assets, projected credit losses are the difference between all the contractual cash flows to which the Group is entitled under the contract, and all the cash flows the Group expects to receive, discounted at the original effective interest rate.

Note 2 - Significant accounting policies (Cont.)

R. Financial instruments: (Cont.)

(1) Financial assets (Cont.)

f. Write-off of financial assets:

The group writes off a financial asset only when the contractual rights to cash flows from the financial asset have expired.

When writing off a financial asset that is measured at depreciated cost, the difference between the book value of the asset and the consideration received or due to be received is recognized in profit or loss.

(2) Financial liabilities and equity instruments issued by the Group:

a. Classification as a financial liability or equity instrument:

Equity instruments and liabilities issued by the Group are classified as financial liabilities or an equity instrument in accordance with the nature of the contractual arrangements and the definition of financial liability and equity instrument.

b. Equity instruments:

An equity instrument is any contract attesting to a residual right in the Group's assets after deduction of all its liabilities. Equity instruments issued by the Group are recorded according to their issue proceeds net of expenses directly related to the issue of such instruments.

c. Financial liabilities:

Financial liabilities are stated and measured at depreciated cost.

Financial liabilities at depreciated cost

The financial liabilities that are not measured at fair value through profit or loss are initially recognized at fair value net of the transaction costs. After the date of initial recognition, such financial liabilities are measured at depreciated cost while using the effective interest method.

The effective interest method is a method for calculation of the depreciated cost of a financial liability and the allocation of interest expenses over the relevant credit period. The effective interest rate is the rate that accurately deducts the projected future cash flows over the expected life time of the financial liability to its book value or, where applicable, over a shorter period of time.

d. Write-off of financial liabilities:

The Group writes off a financial liability when, and only when the financial liability is paid up, cancelled or expires. The difference between the book value of the settled financial liability and the consideration paid is recognized in profit or loss.

Note 2 - Significant accounting policies (Cont.)

R. Financial instruments: (Cont.)

(3) Index-linked assets and liabilities that are not measured at fair value

The value of index-linked financial assets and liabilities, which are not measured at fair value, is revaluated in each period in accordance with the actual rise / fall in the index.

(4) Deposits from customers

The senior housing residents' deposits are a financial liability with a demand feature and are therefore presented as short-term at the fair value identical to the value of the liability as of the balance sheet date.

The deposits will be returned in accordance with the deposit prices collected by the Consolidated Companies from their customers, being linked to the index from the day of their latest update. In accordance with IFRS 13, the fair value of financial liabilities with a demand feature is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid. Accordingly, the deposits are presented at their full value. Moreover, since there is no unconditional right to defer the settlement of the liabilities in respect of the deposits for a period of at least 12 months after the report date, and since the customers of the Consolidated Companies are entitled to demand repayment of the deposit at any time, the deposits are presented as current liabilities, on the basis of their full value.

S. Fixed assets:

(1) Recognition and measurement

Fixed asset items are measured at cost net of accumulated depreciation and accumulated losses from impairment.

The cost includes expenses that are directly attributable to the acquisition of the asset. The cost of assets that were self-built includes the cost of the materials and the direct labor, as well as any additional cost that is directly attributable to bringing the asset to the location and condition that are required in order for it to operate in the manner intended by management, as well as capitalized credit costs. The cost of purchased software, which constitutes an integral part of the operation of the related equipment, is recognized as part of the cost of such equipment.

Spare parts, servicing equipment and standby equipment are classified as fixed assets when complying with the definition of fixed assets according to IAS 16. Otherwise, they are classified as inventory.

Where significant components of the fixed assets (including significant periodic inspection costs) have a different lifetime, they are accounted as separate items (significant components) of the fixed assets.

A profit or loss from the write-off of a fixed asset item is determined by a comparison of the net consideration from write-off of the asset to the book value, and is recognized in the income statement as other income or other expenses, as the case may be.

Note 2 - Significant accounting policies (Cont.)

S. Fixed assets: (Cont.)

(2) Subsequent costs

The costs of the replacement of a part of a fixed asset item and other subsequent costs, are recognized as part of the book value of such item, if the Group is expected to gain the future economic benefit inherent therein and if its cost can be reliably measured. The book value of the replaced part is written-off. The cost of ongoing maintenance of fixed asset items are carried to the profit and loss as incurred.

(3) Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over the length of its useful lifetime. The depreciable amount is the cost of the asset, or some other amount that replaces the cost, net of the residual value of the asset.

A depreciated asset, when usable, namely when in the location and condition required in order for it to operate in the manner intended by Management.

Depreciation is carried to the income statement in accordance with the straight line method in accordance with an estimate of the useful lifetime of each part of the fixed asset items, since this method reflects the manner of the forecast consumption of the future economic benefits that are inherent in an asset in the best way. Assets leased under finance leases, including lands, are amortized over the shorter of the lease period and the period in which the assets are used, unless it is reasonably expected that the Group shall acquire ownership over the asset at the end of the lease period. Lands under ownership are not amortized.

The estimated useful lifetime for the current period and for the comparative periods are as follows:

	Useful lifetime in years	Depreciation rate %
Buildings and leasehold improvements	10-50	2-10
Office furniture and equipment	3-17	6-33
Motor vehicles	7-10	10-15
Computers and software	3	33

The estimates regarding the depreciation method, useful life and the residual value are reexamined at least in the end of each year and are adjusted when necessary.

Note 2 - Significant accounting policies (Cont.)

T. Investment property:

Investment property is property (land or a building – or part of a building - or both of them), which is held by the Group for the purpose of the production of rent or for the purposes of a capital gain or both, and not for the purposes of use in the production or supply of goods or services or for administrative purposes or for sale in the ordinary course of business. Investment property, as aforesaid, also includes investment property that is under construction or development.

The Group's investment property includes buildings and land that is owned or held under lease. Investment property is initially recognized at cost. In the subsequent periods, investment property is measured at fair value. Profits or losses deriving from changes in the fair value of investment property, and with respect to specific properties also those that originate from changes in exchange rates, are recorded in the income statement in the period in which they were generated, under the 'net profit from adjustment to fair value of investment property and investment property under construction' item.

Direct initial costs incurred in obtaining an operating lease are added to the book value of the underlying asset and are recognized as an expense under the item of 'net profit from adjustment to fair value of investment property and investment property under construction'.

Investment property, as aforesaid, also includes investment property that is under construction or development. Investment property under construction is measured at fair value when the value thereof can be reliably measured. Costs of credit are capitalized to investment property under construction. When the fair value cannot be reliably measured, investment property under construction is measured according to cost in the construction period until the earlier of the date of completion of the construction and the date on which the fair value can be reliably measured.

U. Credit costs:

Specific credit costs and non-specific credit costs are capitalized to the cost of the qualifying assets and investment property under construction, the preparation of which for their designated use or sale requires a significant period of time, during the period that is required for the completion and construction up to the time at which they are ready for their designated use. Non-specific credit costs are capitalized in the same manner for the same investment in qualifying assets and investment property under construction or to the part of it that is not financed by specific credit, using a rate which is the weighted average of the rates of the cost in respect of the sources of credit whose cost has not been capitalized in a specific manner.

All other credit costs are carried to the income statement as incurred.

In the cash flow statement the Group classifies cash flows for interest payments which are capitalized on qualified assets as cash flows used for financing activity, in a manner that is consistent with the Group's policy regarding interest payments in the cash flow statement, as stated in Note 2BB.

Note 2 - Significant accounting policies (Cont.)

V. Intangible assets, except for goodwill:

Intangible assets are non-financial assets that are not identifiable and which lack a physical presence. Intangible assets having an indefinite useful lifetime are not amortized and are tested for impairment once a year, or at any time at which a sign exists, which indicates the possibility that an impairment has occurred in accordance with the provisions of IAS 36. The estimate of the useful lifetimes of intangible assets having an indefinite lifetime is tested at the end of each reporting year. A change in the estimated useful lifetime of an intangible asset, which turns from being indefinite to being defined is treated by way of "prospective application".

Intangible assets having a defined useful lifetime are amortized on a straight line over the length of their estimated useful lives, subject to testing for impairment. A change in an estimate of the useful lifetime of an intangible asset with a defined lifetime is treated by way of "prospective application".

The useful lifetime that have been used in the amortization of intangible assets having a defined lifetime are as follows:

Software	-	3-6 years.
Others	-	Over the period of the benefit.

Intangible assets that were acquired in business combinations

Intangible assets that were acquired in business combinations are recognized separately from goodwill, where they meet the definition of an asset and identifiable. Intangible assets are identifiable when they are separable or deriving from contractual or other legal rights. Such intangible assets will be recognized at the time of the business combination at their fair value.

In the periods following the initial recognition, intangible assets that have been acquired within the framework of business combinations are presented in accordance with their cost, net of amortization and accumulated losses from impairment. The amortization of intangible assets, having a defined lifetime, is calculated on the straight line basis over the length of their estimated useful lifetimes. The estimate of the useful lifetime and the method of amortization are tested at the end of each reporting year, where the effect of a change in them is treated by way of "prospective application".

Note 2 - Significant accounting policies (Cont.)

W. Leased assets:

The Group as a lessee

Includes leases, including leases of land from the Israel Land Administration or from other third parties.

The Group assesses whether a contract is a lease (or contains a lease) on the date of the engagement in the contract. The Group recognizes a right-of-use asset on the one hand and a lease liability on the other hand in respect of all of the lease contracts in which it is the lessee, with the exception of short-term leases (for a period of up to 12 months) and leases of low-value assets. In these leases, the Group recognizes the lease payments as an operating expense on a straight-line basis over the lease period, unless another systematic basis better represents the pattern of consumption of the economic benefits by the Group from the leased assets.

The lease liability is initially measured at the present value of the unpaid lease payments on the commencement date, discounted using the interest rate implicit in the lease.

The lease payments included in the measurement of the lease liability comprise the following payments:

- Fixed payments (including fixed payments by nature), net of any lease incentives;
- Variable lease payments that depend on an index or a rate, which are initially measured by using the existing index or the existing rate on the commencement date;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise this option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The Group as a lessor

Rent income in respect of operating lease is recognized on the straight line basis over the length of the lease period. Direct initial costs generated in the obtaining of the operating lease are added to the book value of the underlying asset and are recognized as an expense under the straight line basis over the length of the lease period.

X. Provisions:

A provision is recognized where the Group has a current commitment, whether legal or implicit, as the result of an event that has taken place in the past, which can be reliably measured, and where it is expected that economic resources will be required in order to clear the commitment.

Where the amount that is required for the settlement of the commitment in the present is expected to be reimbursed, in whole or in part, by a third party the Group recognizes the asset due to the reimbursement up to the provision recognized, only when it is virtually certain that the indemnity will be received and can be reliably estimated.

Legal claims

A provision for claims is recognized where the Group has a present legal commitment or an implicit commitment as the result of an event that has taken place in the past, it being more likely than not that the Group will be required to use economic resources to settle the commitment and it may be reliably estimated. Where the impact of the time value is material, the provision is measured in accordance with its present value.

Note 2 - Significant accounting policies (Cont.)

Y. Revenues:

(1) Rent income

Rent income in respect of investment property is recognized on the straight line basis over the length of the relevant rent period.

In lease arrangements in which in the beginning of the lease period no rent is received, or reduced rent is received, and when additional benefits are given to the lessee, the Group recognizes revenue on a straight line basis, over the lease period.

(2) Income from management and maintenance fees and net income from the use of electricity

Income from management and maintenance fees and net income from the use of electricity is reflected pro-rata over the length of the period in which the relevant services are provided.

(3) Dividend income

Income from dividends in respect of investment in equity instruments designated at fair value through other comprehensive income are recognized in profit or loss when the Group derives the right to receive payments therefor, unless the dividend clearly represents recovery of part of the cost of the investment.

(4) Senior housing revenues

a. The revenues from management and maintenance fees are recorded in the income statement upon performance of the service.

b. The revenues from forfeiture of deposits are recorded in the income statement when created.

(5) Revenues from provision of senior housing services

The revenues from provision of services are recorded proportionately over the term of the agreement or upon provision of the service if the likelihood of the flow of the economic benefits attributed to provision of the service is certain.

Z. Taxes on income:

(1) General

Tax expenses (income) on income include the sum of the current tax as well as the change in the deferred tax balances, except in respect of deferred taxes that derive from transactions that are reflected directly under shareholders' equity.

(2) Current taxes

The current tax on income expenses is calculated based on the Company and the Consolidated Companies' chargeable income for tax purposes, during the course of the reporting period. The chargeable income is different from the income before taxes on income, as the result of the inclusion or the non-inclusion of income and expense items that are chargeable to taxation or which are allowable as a deduction in different reporting periods, or which are not chargeable to tax or allowable as a deduction. Current tax assets and liabilities have been calculated on the basis of the tax rates and the tax laws that have been legislated or whose legislation has been effectively completed as of the date of the Statement of Financial Position.

Note 2 - Significant accounting policies (Cont.)

Z. Taxes on income (Cont.)

(2) Current Taxes (Cont.)

Current tax assets and liabilities are presented as offset, where the entity has an enforceable legal right to offset the amounts recognized as well as an intention to settle on a net basis, or to realize the asset and settle the liability at the same time.

(3) Deferred taxes

The companies in the Group record deferred taxes in respect of temporary differences between the values of assets and liabilities for tax purposes and their values in the Financial Statements. Deferred tax balances (assets or liabilities) are calculated in accordance with the tax rates that are expected to apply at the time that they are realized, based on the tax rates and the tax laws that have been legislated or whose legislation has been effectively completed as of the date of the Statement of Financial Position. Deferred tax liabilities are generally recognized in respect of all of the temporary differences between the value of assets and liabilities for tax purposes and their values in the Financial Statements. Deferred tax assets are recognized in respect of temporary differences that can be deducted up to the amount of the chargeable income against which it is expected that the deductible temporary differences can be exploited. The deferred taxes in respect of the structure component of investment property are calculated in accordance with a business model whose purpose is significant consumption over time of all of the economic benefits incorporated therein.

The Group does not record deferred taxes in respect of temporary differences deriving from the initial recognition of goodwill, and from initial recognition of an asset or liability in the framework of a transaction which is not a business combination, where on the date of the transaction the initial recognition of the asset or liability does not affect the accounting profit and the taxable income (loss for tax purposes).

Deferred taxes in respect of temporary differences that relate to investment property are determined based on the tax rate expected from the use of the asset.

The calculation of the deferred taxes does not take into account the taxes that would have applied in the event of liquidation of the investments in Investee Companies, other than due to an investment held for sale, since in the Group's management estimate, the temporary differences which are the subject matter of such deferred taxes are under the control of the Group and are not expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are presented as offset, where the entity has an enforceable legal right to offset current tax asset against current tax liabilities, and where they refer to income taxes that are imposed by such tax authority, and the Group intends to settle the current tax assets and liabilities on a net basis.

AA. Earnings per share:

The Company calculates the amounts of the basic earnings per share in respect of the profit or loss that is attributable to the shareholders in the Company by dividing the profit or loss that is attributable to the shareholders in the Company by the weighted average number of ordinary shares in circulation during the course of the reporting period.

Note 2 - Significant accounting policies (Cont.)

BB. Classification of interest paid, dividends paid, interest and dividends received and income taxes paid, net, in cash flow statement:

The Group classifies cash flows due to interest and dividends received thereby as cash flows from investment activity, as well as cash flows due to interest that was paid as cash flows used for the financing activity. Cash flows due to income taxes are classified in general as cash flows used for operating activities, other than cash flows that are easily identifiable with cash flows used for investment or financing activity. Dividends paid by the Group are classified as cash flows from financing activity.

CC. Exchange rates and linkage base:

(1) Balances that are stated in foreign currency or which are linked thereto are recorded in the Financial Statements in accordance with the representative exchange rates that were published by the Bank of Israel and which were in force as of the date of the Statement of Financial Position.

(2) Balances that are linked to the CPI are presented in accordance with the last known index as of the date of the Statement of Financial Position (the index for the month preceding the date of the Financial Statements), or in accordance with the index in respect of the last month of the reporting period (the index for the month in which the date of the Financial Statements lies), in accordance with the terms of the transaction.

(3) The following are details in respect of the exchange rates and Index:

	Representative exchange rate of		Index in Israel	
	Euro	Dollar	Index for	Known index
	(NIS to 1 Euro)	(NIS to 1 Dollar)	Basis 1993	Basis 1993
The date of the Financial Statements:				
as of December 31, 2019	3.878	3.456	224.67	224.67
as of December 31, 2018	4.292	3.748	223.33	224.00
as of December 31, 2017	4.153	3.467	221.57	221.35
	%	%	%	%
Rates of change for the year ended:				
December 31, 2019	(9.63)	(7.79)	0.60	0.30
December 31, 2018	3.35	8.10	0.80	1.20
December 31, 2017	2.69	(9.83)	0.40	0.30

Note 2 - Significant accounting policies (Cont.)

DD. New amendments, new interpretations and amendments to standards that affect the current period and/or previous reporting periods:

- **IFRIC 23 "Uncertain Tax Positions"**

  The interpretation that is applied from January 1, 2019 clarifies the income tax recognition and measurement provisions where there is uncertainty with respect to the position of the tax authorities. The interpretation determines that the entity is required to determine whether the uncertain tax positions need to be estimated separately or as part of a group of uncertain tax positions. In addition, the entity is required to estimate whether it is likely that the tax authorities will accept the treatment employed by the company, or which it expects to employ, in connection with the uncertain tax positions, assuming that the tax authorities will check the entity's reports and all of the relevant information will be in their possession (exposure risk 100%). If so, the entity is required to determine the accounting treatment in the uncertain tax positions consistently with the tax position that it employed or expects to employ. If not, the entity is required to reflect the impact of the uncertainty using the expected value method or the most likely amount method, according to the method that best predicts the outcome of the uncertainty.

  Application of the standard has no material effect on the financial statements.

- **Amendment IFRS 3 "Business Combinations" (regarding the definition of a "business")**

  The amendment prescribes that in order to be deemed a "business", the acquired assets and activities must include, at the very least, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendment removes the need to assess whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, and removes from the definition of a "business" and "outputs" reduced costs or other economic benefits, and focuses on goods and services provided to customers.

  In addition, the amendment adds a 'fair value concentration' test whereby it is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

  The amendment will be applied with respect to business combinations and asset acquisitions, the date of whose acquisition is from January 1, 2020. Early application is possible.

Note 3 – Considerations in the application of accounting policy and key factors for uncertainty of the estimate

A. General:

In the implementation of the Group's accounting policy, which is described in Note 2 above, the managements of the companies in the Group are required to exercise broad accounting judgment in respect of estimates and assumptions, in connection with the book values of assets and liabilities, which cannot necessarily be found in other sources. The estimates and the related assumption are based on past experience and on other factors, which are considered to be relevant. The actual results may well be different from those estimates.

The estimates and assumptions that they are based on are reviewed routinely by the management of the companies in the Group. Changes in the accounting estimates are recognized only in the period in which the change is made in the estimates in the event that a change affects only one period or they are recognized in the said period and also in future periods in cases where the change affect both the current period and also the future periods.

B. Critical estimates:

Following is information in respect of a critical estimate, which have been prepared whilst implementing the accounting policies, and which has a significant impact on the Financial Statements:

The revaluation of investment property and investment property under construction – (see Notes 11 and 32) in accordance with the IFRS and in accordance with the Company's selection, the Group presents investment property and investment property under construction in accordance with the fair value.

Investment property and investment property under construction – As aforesaid in Note 2T, the Group's investment property is presented at fair value, where changes in the fair value are carried to the income statement as income or as expenses.

For the purpose of the determination of the fair value of investment property, the Company's management bases itself, primarily, on evaluations that are performed once a year by independent appraisers of land, having the required knowledge, experience and expertise. The Company's management is in the habit of determining the fair value in accordance with generally accepted evaluation methods of real properties, primarily discounted cash flow and comparison with selling prices of similar assets and land and the Group's assets in the near environment. Where use has been made of the discounted cash flow method, the interest rate used in the discounting of the net cash flows that are expected from the asset can have a significant impact on the fair value.

In the determination of the fair value of investment property, the following are taken into account, *inter alia* and insofar as is relevant: the location of the property and its physical state, the cap rates, the occupancy rates, the tenant turnover rates, selling prices, the quality of the tenants and their stability, the rent period, the rent prices in similar properties, the adjustments that are required to the existing rent prices, the actual and forecast occupancy levels for the property and the costs of operating it. In the determination of the fair value of investment property under construction, the following are taken into account, inter alia and insofar as is relevant: the duration of the construction of the project, the selling prices, the amount of the rent, the additional cost required for construction thereof until the current operation thereof and the interest rate, the project's risk premium, deduction of developer profit and the required cap rate. In the determination of the fair value of land, the following are taken into account, inter alia: the location of the land, the rights and comparative transactions of similar properties, while making the required adjustments. A change in the value of any of these components, or all of them, could have a significant impact on the fair value of the property as estimated by the Company's management.

Note 3 - Critical estimates and the determination of the fair value (Cont.)

B. Critical estimates (Cont.):

The Group strives to determine as objective a fair value as possible, but at the same time, the process of estimating the fair value of investment property also includes subjective elements, which are sources, inter alia, in the past experience of the Company's management and its understanding of what is expected to take place in the investment property market at the time at which the estimate of the fair value is determined. In the light of what is stated in the previous paragraph, the determination of the fair value of the Group's investment property mandates the exercise of judgment. Changes in the assumptions that were used in the determination of the fair value could have a significant effect on the Group's state of affairs and the results of its activities.

The Company reviews in its quarterly reports the need to update the value of the investment property by examining macro-economic changes that may have a material effect on the fair value of the properties and/or upon the occurrence of a material event in an asset that was defined as a material or a very material asset in the Company's statements, due to population, material change in rent, etc. Also, with regard to investment property under construction, the following are taken into account: the costs actually invested during the period, the updated forecast of costs for completion and lease agreements signed during the period. Upon initial classification of a property that was under construction as investment property, and insofar as no valuation was received therefor in the six months preceding the classification date, an external valuation will be performed therefor, as of the end of the quarter in which it was initially classified as investment property.

Changes in the fair value are carried to the income statement and accordingly they may have a material effect on the Company's results.

Note 4 - Cash and cash equivalents

Composition:

	As of December 31	
	2019	2018
	NIS in millions	NIS in millions
Balances with banks	167	283
Short-term deposits – in NIS unlinked	2,102	358
Short-term deposits – in dollars	72	55
Financial funds	501	20
Total cash and cash equivalents	2,842	716

Note 5 - Trade accounts receivable

Composition:

	As of December 31	
	2019	2018
	NIS in millions	NIS in millions
Outstanding debts	56	328
Income receivable	9	31
	65	359
Net of – provision for doubtful debts	(11)	(17)
	54	342

For details regarding the credit risk management by the Group – see Note 30B.

Note 6 - Other receivables

Composition:

	As of December 31	
	2019	2018
	NIS in millions	NIS in millions
Institutions	31	21
Pre-paid expenses	19	25
Deposits in use restricted trust	72	47
Insurance indemnity receivable (*)	13	23
Receivables for sale of investments in financial assets	68	-
Other receivables	25	43
	228	159

(*) See Note 24.

Note 7 – Discontinued operations

A. On July 25, 2019, Canit Hashalom, a wholly-owned subsidiary of the Company (in this section: the "**Seller**"), together with Granite, who holds Supergas' entire issued and paid-up share capital, entered into an agreement (in this section: the "**Agreement**") with Elco Ltd. (in this section: the "**Buyer**"), which is a third party independent of the Group, for the sale of the Seller's entire holdings (100%) in Granite to the Buyer (in this section: the "**Transaction**").

On November 5, 2019, the Transaction, contemplated in the Agreement, was closed (in this section: the "**Closing Date**").

On and about the Closing Date, the Buyer paid the sum of approx. NIS 567.5 million, and on December 2, 2019 the Buyer paid an additional sum of approx. NIS 109.4 million. According to the parties' agreement, the balance of the deferred consideration is in the sum of NIS 125 million (plus linkage to the CPI) and will be paid by the Buyer in 7 unequal annual installments every 12 months, starting 12 months after the Closing Date.

The Transaction did not include all of Granite's holdings and assets that are not Supergas, its subsidiaries and assets related to any of them, and also did not include liabilities that are not attributed to Supergas and the subsidiaries of Supergas (the "**Excluded Assets**"). Such assets and liabilities were transferred to the Seller, shortly before the Closing Date.

To secure the deferred consideration payments, the Buyer had pledged to the Seller, in a first ranking fixed charge, 80% of the share capital of Supergas, which rate shall be gradually reduced according to the mechanism set forth in the Agreement.

The Agreement includes representations as customary in transactions of this kind, as well as a mechanism for indemnification of the Buyer for, *inter alia*, breach of representations & warranties by the Seller, as well as liabilities in connection with the Excluded Assets.

The profit from the sale (after tax) recorded by the Group in Q4/2019 is approx. NIS 373 million.

Note 7 – Discontinued operations (Cont.)

B.

(1) After the date of the Statement of Financial Position, on January 23, 2020, Canit Hashalom (in this section: the "**Seller**"), together with GES, entered into an agreement (in this section: the "**Agreement**") with Generation Capital Ltd. (in this section: the "**Buyer**") for the sale of all of the Seller's holdings (100%) in GES to the Buyer (in this section: the "**Transaction**") after engagement in a non-binding MOU on September 12, 2019.

In consideration for all of the Seller's holdings in GES, the Buyer will pay the Seller the sum of NIS 110 million, subject to adjustments, *inter alia*, in respect of changes in working capital and net financial debt of GES, insofar as shall apply, until the closing date (in this section: the "**Consideration**").

The closing of the Transaction is subject to fulfillment of several conditions precedent, which mainly include receipt of the approval of the Competition Commissioner (as of the date of approval of the Financial Statements, such approval was received), approvals of third parties and no material adverse change in the position of GES.

The parties intend to close the Transaction by April 23, 2020. However, insofar as by the said date not all of the approvals determined in the conditions precedent in the Agreement are received, the time period for the closing of the Transaction will automatically be extended by another 90 days.

The Agreement includes representations, as is accepted in transactions of this type, and a mechanism for indemnification of the Buyer, *inter alia*, in respect of a breach of representations and warranties by the Seller and/or GES.

In the Company's estimation, as of the report date, the Transaction, if and insofar as closed, is not expected to have a material effect on its results.

(2) On April 10, 2018, a notice was received by Zero Waste Ltd. ("**Zero Waste**"), a corporation held by GES in equal shares with Shikun & Binui Ltd. ("**Shikun & Binui**"), whereby Zero Waste had been elected as the winner in a BOT tender for the planning, financing, construction and operation of a facility for municipal waste sorting and recycling and energy production (in this section: the "**Project**"), published by the Ministry of Finance and the Ministry of Environmental Protection. The Project will be built in the area of the Dan Region Wastewater Treatment Plant (the "*Shafdan*") in Rishon LeZion, and its cost during the construction period is estimated at approx. NIS 750 million. On May 31, 2018, Zero Waste signed a franchise agreement with the State. As of such date, Zero Waste has begun acting for the fulfillment of its undertakings under the franchise agreement, including the accomplishment of financial closing at the lapse of 15 months as of the signing day.

GES will co-hold, with a subsidiary of Shikun & Binui, equal shares of the rights in the construction contractor that will carry out the Project's construction work, and will also co-hold, with Shikun & Binui, equal shares of the contractor that will operate the Project.

The Company is a guarantor for the fulfillment of GES's obligations vis-à-vis Shikun & Binui, subject to and as provided in the shareholders agreement between GES and Shikun & Binui with respect to Zero Waste. Such guarantee will expire upon completion of the Project's construction and receipt of the commercial operation permit therefor.

During the report period, Zero Waste has reported a delay in the Project time tables, resulting mainly from limitations discovered in the site allocated to the project by the State.

(3) Furthermore, in February 2020, an agreement was signed between Zero Waste and the State, establishing the time tables for the formation of an arrangement with the State in connection with the project.

Note 7 – Discontinued operations (Cont.)

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

	As of the year ended December 31		
	2019	2018	2017
	NIS in millions	NIS in millions	NIS in millions
Results of the discontinued operations:			
Revenues	594	737	722
Expenses	550	642	636
Income before income taxes	44	95	86
Income taxes	13	20	18
Profit after income taxes	31	75	68
Other expenses	(12)	-	-
Profit (loss) from sale of discontinued operations, net of tax	(*)373	(2)	-
Profit (loss) per year	392	73	68
Cash flows from discontinued operations:			
Net cash which derived from operating activities	88	43	66
Net cash (used for operations) which derived from investment activity	637	52	(6)
Net cash used for financing activity	(73)	(65)	(50)
Effect of exchange rate fluctuations on cash and cash equivalents balances	-	(1)	-
Net cash which derived from discontinued operations	652	29	10

(*) Including profit from disposition of the discontinued operations of Granit that was completed until the date of the statement of financial position (for details, see Section A).

Note 7 – Discontinued operations (Cont.)

D. Effect on the Group's statements of financial position from GES discontinued operation which is presented as disposal group designated for sale:

	As of December 31
	2019
	NIS in millions
Cash and cash equivalents	7
Short-term deposits and investments	5
Trade accounts receivable	57
Other receivables	8
Inventory	15
Investments and loans in associated companies	18
Investments, loans and receivables	7
Long-term receivables in respect of franchise arrangements	46
Fixed assets	9
Intangible assets	32
Deferred tax assets	3
Credit and current maturities from financial corporations	(9)
Trade payables	(17)
Payables and other current liabilities	(15)
Provisions	(4)
Loans from financial corporations	(47)
Other liabilities	(20)
Assets and liabilities classified for a disposal group held for sale, net	95

(*) Inter-company transactions (between the Group and GES) were written off from the results of the selling/service-providing company, as the case may be. In addition, an asset or a liability referring to an inter-company transaction was written off from the assets or liabilities of the discontinued operations, as the case may be.

Note 8 - Investments in Investee Companies

A. Material consolidated partnerships and companies that are held by the Group:

	State of incorporation	Operating Segment	Rates of Ownership and Control of the Holding Company as of Dec. 31, 2019
			%
Consolidated Companies:			
Canit Hashalom Investments Ltd.	Israel	Income-producing property	100.00
Gemel Tesua Investments Ltd.	Israel	Income-producing property	100.00
Otzma & Co. Investments Maccabim Ltd.	Israel	Income-producing property	100.00
Palace America Senior Housing Ltd.	Israel	Senior housing	100.00
Ahuzat Bayit Ra'anana – Retirement Home Ltd.	Israel	Senior housing	100.00
GES Global Environmental Solutions Ltd. (*)	Israel	Treatment of water, wastewater and chemicals	100.00
Otzem Enterprise and Investments (1991) Ltd.	Israel	Income-producing property	100.00
Assisted Living Modiin Ltd.	Israel	Senior housing	100.00
Partnership – held by the Company, AG Galleria office buildings, LP	U.S.	Income-producing property	90.00
AG Plaza at Enclave Inc.	U.S.	Income-producing property	100.00
AG Two Aspen, LP	U.S.	Income-producing property	100.00
AG 8 West Center LP	U.S.	Income-producing property	100.00
AG San Clemente 3700 LP	U.S.	Income-producing property	100.00

(*) The company is presented in discontinued operations, for details see Note 7B.

Note 8 - Investments in Investee Companies (Cont.)

B. Joint arrangements – joint ventures:

On July 17, 2019, Azrieli Data Centers LLC., a wholly-owned subsidiary of the Company (in this section: the "**Buyer**") entered into an investment agreement (in this section: the "**Agreement**") with Compass Holdco, LLC, a Delaware corporation ("**Compass**"), and in an operating agreement with the unit holders in Compass (in this section: the "**Unit Holders**" and the "**Operating Agreement**", respectively). The main business of Compass is data centers in North America. Compass owns active sites and additional sites under construction and development. The said transaction, in which the Buyer made an investment in the unit capital of Compass, was closed and the consideration therefor was paid by the Buyer to Compass.

The Buyer invested in Compass' equity and holds approx. 20% of the unit capital of Compass (the "**Initial Investment**"). The Buyer has an option, which is not limited in time, to make additional investments and increase its holdings in Compass up to approx. 33% according to a price per unit in the Initial Investment.

At the closing of the transaction the Buyer paid Compass the sum of approx. U.S. $135 million for the Initial Investment (an amount of approx. NIS 495 million, including transaction costs). The Company financed the transaction from its internal sources.

Compass, the Buyer and the Unit Holders entered into an operating agreement, which governs the relationship between them and includes, *inter alia*, provisions in connection with the appointment of directors in Compass, resolutions requiring the unanimous consent of the Unit Holders, separation mechanism and the manner of injection of capital into Compass.

The Company treats the acquisition as a joint arrangement which constitutes a joint transaction and is accordingly presented in the Company's financial statements by the equity method. Compass' business is included in the 'segment reporting' note under other segments.

After the date of the Statement of Financial Position, in February 2020, there was another round of investment in Compass, such that as of the Report Release Date, the Buyer holds approx. 20.7% of the Compass unit capital.

Note 9 – Long term investments, loans and receivables

A. Composition:

	As of December 31	
	2019	**2018**
	NIS in millions	**NIS in millions**
Loans provided net of current maturities (see B below)	64	92
Long-term receivables for disposition of financial assets (Note 10B)	218	-
Long-term receivables for disposition of consolidated companies (Note 7A)	120	4
Authorities (see C below)	29	36
Contract fulfillment costs	-	14
Receivables in respect of the averaging of income from rent	134	144
Restricted investments	-	19
Other receivables	49	34
	614	343

B. Additional information:

On April 14, 2016, Granite entered into an agreement with Israel Oil & Gas Fund L.P., a limited partnership incorporated in Israel, the general partner of which is controlled by Mr. David Weissman (in this section: the "**Buyer**") for the sale of all of Granite Hacarmel's holdings (100%) in Sonol Israel Ltd. (in this section: the "**Agreement**" and "**Sonol**", respectively). On July 24, 2016, the transaction was closed.

The total consideration amounts to NIS 363.5 million, of which NIS 97.5 million was paid at the closing date through the assumption of a liability of the Buyer to repay a loan that is secured by a charge on all of the sold shares. The loan will bear an annual interest comprising Prime interest + 1% and shall be paid on a quarterly basis (in this section: the "**Loan**"). The principal of the Loan shall be paid in one installment within 60 months of the transaction closing date. To secure the repayment of the Loan, the Buyer undertook (1) not to effect distributions, as defined in the Companies Law, until the full repayment of the Loan (principal and interest), unless certain cumulative conditions agreed by the parties shall have been fulfilled; and (2) to comply with limitations on changes of control in the Buyer. The principal of the Loan was repaid in installments and as of the date of the Statement of Financial Position, the principal of the Loan is in the sum of NIS 52.5 million.

C. Including a sum of approx. NIS 29 million which is part of a betterment levy assessment that the Company paid under protest. Administrative appeals from the consulting appraiser's assessment have been submitted.

Note 10 - Financial assets

Composition:

	As of December 31	
	2019	2018
	NIS in millions	NIS in millions
Financial assets at fair value through other comprehensive income	1,162	1,219
Financial assets designated at fair value through profit and loss	5	9
	1,167	1,228

Financial assets at fair value through other comprehensive income:

A. Investment in Bank Leumi Le-Israel Ltd. ("Bank Leumi"):

On April 30, 2009, the Company acquired approx. 4.8% of the shares in Bank Leumi (approx. 71 million shares) in consideration for a sum equivalent to NIS 742 million. In 2017 the Company sold approx. 16.7 million shares in consideration for approx. NIS 203 million. In 2019 the Company sold additional approx. 7.7 million shares in consideration for approx. NIS 186 million. As of December 31, 2019, the Company holds 3.15% of Bank Leumi's shares. In 2017, as a result of the sale of the shares, financing income in the sum of approx. NIS 81 million was recorded. For details regarding the accounting policy, starting from January 1, 2018, in connection with equity instruments designated at fair value through other comprehensive income, see Note 2R(1)d.

As of the date of the Statement of Financial Position, the balance of the Company's investment in Bank Leumi's shares is approx. NIS 1,162 million (as of December 31, 2018 – NIS 1,218 million) according to the value of Bank Leumi's shares on TASE.

After the date of the Statement of Financial Position, the Company sold approx. 624 thousands of the shares of Bank Leumi in consideration for approx. NIS 15.6 million. After the sales, the Company holds approx. 3.1% of Bank Leumi's shares.

In 2019, the Company received dividends in the sum of approx. NIS 43 million (in 2018 – approx. NIS 49 million) which were recorded under the 'Other Income' item in the income statement. After the date of the Financial Statements, on February 26, 2020, it was decided at Bank Leumi to distribute an additional dividend that was paid on March 23, 2020, with the Company's share in the dividend being approx. NIS 9 million.

After the date of the Statement of Financial Position, pursuant to the Coronavirus outbreak and in view of the stock market drop, on or about the Report Release Date, the Company's investment in Bank Leumi's shares was approx. NIS 841 million.

B. Investment in Leumi Card Ltd. ("Leumi Card"):

(1) In the report period and until February 25, 2019, the Company held 20% of the issued and paid-up capital of Leumi Card and 18% of the voting rights therein. In July 2018, the Company engaged, together with Bank Leumi Le-Israel Ltd. (in this section: the "**Bank**" and jointly the "**Sellers**"), in an agreement (in this section: the "**Agreement**") for the sale of all of the Sellers' holdings in Leumi Card Ltd. (in this section: "**Leumi Card**") to Warburg Pincus Financial Holdings (Israel) Ltd., a corporation controlled by the Warburg Pincus investment fund (in this section: the "**Buyer**").

Note 10 - Financial assets (Cont.)

Financial assets at fair value through other comprehensive income (Cont.)

B. Investment in Leumi Card Ltd. ("Leumi Card") (Cont.)

(1) (Cont.)

As part of the terms and conditions of the Agreement, it was agreed that in consideration for the purchase of all of the Seller's shares in Leumi Card, the Buyer shall pay the Sellers a sum of NIS 2,500 million (apart from an adjustment to a dividend distribution if and insofar as Leumi Card distributes a dividend to its shareholders in the period up to the transaction closing date) in three installments at different rates, according to the dates fixed in the Agreement. The Company's share in the consideration before adjustments is NIS 500 million. The Agreement includes provisions regarding collateral, which the Buyer is obligated to provide to the Sellers as well as representations and indemnity provisions, specified in the Agreement. The Agreement included several conditions precedent, including receipt of the regulatory approvals required by law for the transaction.

On February 25, 2019, the transaction was closed and the consideration therefor, at this stage, was received in accordance with the terms and conditions of the Agreement.

In 2018, Leumi Card distributed dividends in the sum of NIS 208 million (the Company's share is NIS 41.6 million), of which a sum of NIS 31.6 million were deducted from the total consideration according to the provisions of the Agreement.

In February 2019, prior to the closing of such transaction, the Company received a dividend in the sum of NIS 80 million, which was deducted from the total consideration in accordance with the terms and conditions of the Agreement.

In 2018, in view of the Agreement for the sale of the Company's holdings in Leumi Card, the investment in Leumi Card was classified to the 'assets held for sale' item.

(2) In accordance with immediate reports released by Bank Leumi on November 3, 2015 and December 23, 2015, Bank Leumi received notice from the companies Visa Inc. ("**Visa**") and Visa Europe Ltd. ("**Visa Europe**") regarding their engagement in an agreement, whereby Visa would acquire Visa Europe, and that the total consideration to be paid in the context of the transaction is estimated at up to approx. Euro 21.2 billion, comprising payment in cash and in shares.

It was further stated in the reports of Bank Leumi that Bank Leumi is a member of Visa Europe. The Company, as the holder of 20% of the shares of Leumi Card on the relevant date, claimed that the consideration from the acquisition transaction of Visa Europe by Visa, originates from the business of Leumi Card vis-à-vis Visa Europe.

In April 2017, Bank Leumi and the Company agreed that Bank Leumi shall transfer to the Company, in respect of the Visa Europe transaction, a total amount of approx. NIS 32 million which were recognized as 'Other Income' in the 2017 statements. Most of the amount was transferred to the Company in 2017.

Note 11 - Investment property and investment property under construction

A. Movements and composition:

	As of December 31, 2019			As of December 31, 2018		
	Land, buildings and leasable retail areas	Investment property under construction	Total	Land, buildings and leasable retail areas	Investment property under construction	Total
	NIS in millions					
Balance as at the beginning of the year	25,004	2,448	27,452	23,319	1,887	25,206
Additions during the year:						
Investments	359	644	1,003	1,280	584	1,864
Adjustments to fair value	1,022	(121)	901	140	78	218
Net translation differences deriving from the translation of the financial statements of foreign operations	(194)	-	(194)	169	-	169
Transfer from investment property under construction, net	97	(97)	-	101	(101)	-
Total additions	1,284	426	1,710	1,690	561	2,251
Write-offs during the year:						
Dispositions	-	-	-	(5)	-	(5)
Classification to fixed assets	(6)	(11)	(17)	-	-	-
Total write-offs	(6)	(11)	(17)	(5)	-	(5)
Balance at the end of the year	26,282	2,863	29,145	25,004	2,448	27,452

B. Additional information:

(1) Canit Hashalom is leasing the land on which the Azrieli Center was built from the Municipality of Tel Aviv-Jaffa under a capitalized lease for a period of 200 years. The lease period is until February 6, 2195. Pledges apply to Canit Hashalom's leasehold in part of the lobby floor, the roof floor and floors 11-49 of the Round Tower, which constitutes part of Azrieli Center in Tel Aviv, in favor of an institutional body which provided the Company with a loan.

(2) From December 24, 2003, Canit Hashalom has been leasing the land on which the Azrieli Modi'in Mall was built from the Israel Land Authority (ILA) under a capitalized lease for a period of 98 years in respect of residential units and for a period of 49 years in respect of units with other designations (mall and offices) with an option for additional periods of 98 years and of 49 years, respectively. As of the date of the approval of the Financial Statements, the lease agreement has not yet been actually signed.

(3) The Company is leasing the land on which the Azrieli Jerusalem (Malha) Mall was built from the ILA under a capitalized lease for a period of 49 years, ending on August 15, 2039, with an option for an additional period of 49 years.

(4) The Company is leasing the land on which the Azrieli Ayalon Mall was built from the ILA under a capitalized lease for a period of 49 years, ending on August 1, 2031, with an option for an additional period of 49 years.

Note 11 - Investment property and investment property under construction (Cont.)

B. Additional information: (Cont.)

(5) The Company is leasing the land on which the Azrieli Or Yehuda Outlet Mall was built from the ILA under a capitalized lease for a period of 49 years, ending on March 24, 2040, with an option for an additional period of 49 years.

(6) The Company is leasing the land on which the Azrieli Givatayim Mall was built from the ILA under a capitalized lease for periods of 49 years, ending on September 5, 2053 and February 9, 2051, with an option for an additional period of 49 years.

(7) The Company is leasing the land on which the Azrieli Haifa Mall was built from the ILA under a capitalized lease for periods of 49 years ending October 31, 2042 and March 2, 2035 with an option for an additional period of 49 years. The rights in the property are subject to pledges in favor of a bank that extended loans to the Company. After the date of the Statement of Financial Position the pledge was removed.

(8) The Company holds rights in a plot of land on an area of approx. 40,000 sqm in Caesarea Industrial Park, which was sub-leased from the Caesarea Edmond Benjamin de Rothschild Development Corporation Ltd. for periods of 49 years, starting from 2000 and 2004. With respect to part of the area, of approx. 19,000 sqm, the Group has an option to lease the rights in the land for another 49 years.

(9) The Group is leasing the land on which the Azrieli Ramla Mall was built from the ILA under a capitalized lease until January 14, 2050, with an option for an additional 49 years. The rights in the land are subject to pledges in favor of an institutional body which provided the Company with a loan.

(10) Canit Hashalom is leasing parts of the land on which the Azrieli Holon Center was built from the Municipality of Holon under a capitalized lease, in accordance with its share in the transaction for a period of 99 years, with an option for another 99 years.

On the Group's engagement with the Municipality of Holon through Canit Hashalom, see Note 27B(3).

(11) The Company is leasing the land on which the Azrieli Sarona Project from the ILA under a capitalized lease for a period of 49 years, ending on May 29, 2060 with an option for an additional period of 49 years.

(12) The Group is entitled to be registered as the owner of a sub-leasehold from the municipality in the framework of a set of agreements with a third party, in Palace Tel Aviv Senior Housing, until 2097.

(13) The Group is leasing the land on which Palace Modi'in Senior Housing was built from ILA under a capitalized lease for a period of 49 years, ending on January 25, 2063, with an option for an additional period of 49 years.

(14) The rights in the properties in the Azrieli Rishonim Center are subject to pledges in favor of an institutional body which provided the Company with a loan.

(15) The remaining income-producing properties are owned by the Group's companies.

(16) In respect of additional charges and guarantees, see Note 28.

Note 11 - Investment property and investment property under construction (Cont.)

B. Additional information: (Cont.)

(17) The Group has several additional development projects in the retail centers and malls segment and in the leasable office and other space segment and in the senior housing segment:

- **Azrieli Town project** – in Tel Aviv on an area of approx. 10,000 sqm. The land on which the project is built is partially owned and partially leased in a capitalized lease from the ILA for 49 years, ending on May 8, 2061 with an option for an additional period of 49 years.

- **Expansion of Azrieli Center Tel Aviv (the Spiral Tower)** – in Tel Aviv, on an area of approx. 8,400 sqm, under ownership.

- **Holon 3 Industrial Area Holon (“Lodzia”)** – in Holon on an area of approx. 57,500 sqm, under ownership, including within it an additional plot of land that was originally purchased in an ILA tender and constituted part of the land of Holon HaManor.

- **HaManor Holon** – in Holon on an area of 6,200 sqm, under ownership.

- **Akko offices** – on an area of approx. 4,000 sqm, leased in a capitalized lease from the Municipality of Akko for a period ending on October 11, 2114.

- **Land in Petah Tikva** –A Land, under ownership, on an area of about 19 thousand sqm located in the Eastern part of the Kiryat Aryeh industrial zone in Petah Tikva, close to an office project owned by the Group.

- **Land in Modi’in Lot 21** – On January 11, 2018, Canit Hashalom won a tender held by the ILA for the purchase of capitalized leasehold rights for a term of 98 years ending on January 9, 2116, with an option for an additional 98-year term, in a lot located in Modi'in-Maccabim-Re’ut CBD, on an area of approx. 5,300 sqm, designated for the construction of 80 residential units, 50 hotel rooms, offices and commerce, in consideration for approx. NIS 101.5 million. The transaction was closed during 2018 and Canit Hashalom is taking action to increase the building rights in the lot.

- **Azrieli Town Building E (Mivnei Gazit)** – On April 22, 2018, the Company entered into an agreement with unrelated third parties (the “**Sellers**”) for the purchase of rights to land (some under ownership and some under capitalized leasehold from the ILA for a 49-year term ending on February 5, 2060) located on Menachem Begin Road, Tel Aviv, holding a 4-floor building over a commercial ground floor, in the total area of approx. 5,500 sqm and underground floors mostly leased for office purposes. The property includes unused building rights under the zoning plan that applies to the land, in the total scope of approx. 21,000 sqm above-ground, as well as the Sellers’ rights to lease underground areas in an adjacent plot, which are intended for the expansion of the building’s parking basements. In consideration for the purchase of rights to the land, the Company paid the Sellers NIS 260 million (exclusive of VAT). The transaction was closed on May 14, 2018.

Note 11 - Investment property and investment property under construction (Cont.)

B. Additional information: (Cont.)

(17) (Cont.)

- **Land Modi'in Lot 10 -** On October 6, 2019, the Company won a tender held by the ILA for the purchase of a capitalized lease rights for a period of 98 years ending on October 5, 2117 with an option for an additional period of 98 years, in a lot located in the Modi'in-Maccabim-Re'ut CBD, on an area of approx. 17,000 sqm, designated for the construction of a commerce and office project with leasehold of approx. 37,000 sqm above-ground, in consideration for approx. NIS 51 million. According to the terms of the tender, the Company paid, in addition to the cost of the land, approx. NIS 37 million due to development costs.

- **Palace Lehavim Senior Housing** – A land in Lehavim, on an area of 28,000 sqm, leased under a capitalized lease from the ILA for 49 years, ending on November 30, 2063, with an option for another period of 49 years.

- **Land Rishon LeZion Senior Housing** – in Rishon LeZion on an area of approx. 3,400 sqm leased in a capitalized lease from the ILA for 49 years, ending on March 12, 2065 with an option for an additional period of 49 years.

(18) Some of the assets of Consolidated Companies are registered in their names in the Lands Registry. Another part has not yet been registered for technical reasons, the main reason for the non-registration deriving from the proceedings of the land arrangements and the reparcellation arrangements of the land have not yet been settled.

(19) With respect to techniques for the fair value estimation of the Group's investment property, see Note 32B(3). In addition, the fair value of the investment property is presented in the Company's books, with reconciliations for receivables in respect of the averaging of income from rent (see Note 9).

(20) The amounts recognized in the income statement:

	As of the year ended December 31		
	2019	2018	2017
	NIS in millions	NIS in millions	NIS in millions
Income from rent, management and maintenance	2,190	2,064	1,868
Direct operating expenses deriving from rent, management and maintenance fees	589	543	484

Note 11 - Investment property and investment property under construction (Cont.)

C. Income-producing property in the U.S.:

On July 12, 2018, the Company, through an (indirectly) wholly-owned American corporation, closed the acquisition of an office building in Austin, Texas, U.S. (in this section: the "**Property**"), in consideration for the sum of approx. U.S. $100.4 million. The Property is a 5-floor office building with a total area of approx. 23,214 sqm (approx. 249,870 sq. ft.) and an occupancy rate of approx. 100%. The Property also includes approx. 970 parking spaces, most of which are situated in a nearby 7-floor car park.

D. Projected revenues due to signed lease contracts:

Set forth below are the minimal lease payments due to be received due to lease contracts for the agreement periods (including revenues from rent, management and parking fees and excluding extension options):

	Revenues from fixed components	
	2019 (*)	2018
	NIS in millions	NIS in millions
The revenue recognition period:		
Up to one year	1,965	1,860
From one to four years	3,949	3,714
Over four years	2,019	1,934
	7,933	7,508

(*) Projected revenues – according to signed lease agreements as of December 31, 2019. In view of the Coronavirus outbreak and the ramifications thereof, after the date of the Statement of Financial Position, there may be changes in the projected revenues (for additional details – see Note 35B).

Note 12 - Fixed assets

A. Movement and composition:

	Land and buildings at cost	Machines and equipment	Furniture, equipment and computers	Vehicles	Installations and leasehold improvements	Down payments on account of fixed assets	Total
	NIS in millions						
Cost:							
Balance as of January 1, 2018	221	702	117	59	15	-	1,114
Additions	25	31	6	4	1	-	67
Write-offs	-	-	(1)	(3)	-	-	(4)
Effect of changes in exchange rate	2	2	-	2	-	-	6
Balance as of December 31, 2018	248	735	122	62	16	-	1,183
Additions	22	24	8	5	-	28	87
Write-offs	-	-	-	(4)	-	-	(4)
Deconsolidation	(76)	(756)	(28)	(49)	(15)	-	(924)
Classification from investment property	17	-	-	-	-	-	17
Effect of changes in exchange rate	(2)	(2)	-	(2)	-	-	(6)
Balance as of December 31, 2019	209	1	102	12	1	28	353
Accumulated depreciation and loss from impairment:							
Balance as of January 1, 2018	36	467	79	20	12	-	614
Depreciation for the year	5	25	5	6	1	-	42
Write-offs	-	-	(1)	(2)	-	-	(3)
Balance as of December 31, 2018	41	492	83	24	13	-	653
Depreciation for the year	6	19	4	5	-	-	34
Loss from impairment	6	-	1	-	-	-	7
Deconsolidation	(23)	(509)	(24)	(21)	(12)	-	(589)
Write-offs	-	-	-	(3)	-	-	(3)
Translation differences	-	(1)	-	(1)	-	-	(2)
Balance as of December 31, 2019	30	1	64	4	1	-	100
Depreciated Cost:							
As of December 31, 2019	179	-	38	8	-	28	253
As of December 31, 2018	207	243	39	38	3	-	530

B. **On charges -** see Note 28.

C. With respect to the land rights of the Company's offices and the senior homes' LTC units, see Note 11B.

Note 12 - Fixed assets (Cont.)

D. On December 8, 2019, the Company entered into an agreement with a third party, which is not affiliated with the Company and/or its Controlling Shareholders (in this section: the "**Seller**"), for the purchase of the Mount Zion hotel in Jerusalem (in this section: the "**Agreement**" and the "**Transaction**"). The property includes all of the Seller's rights in the land at 15-17 Hevron Road in Jerusalem, of a total area of around 13,000 sqm, on which a hotel is built including 137 rooms, stores, restaurants, a spa, a health club, conference and event halls, a museum, a swimming pool and landscaped open spaces, of a built-up area of around 11,600 sqm (in this section: the "**Hotel**"), 22,420 sqm of above-ground building rights, and rights designated for the construction of a 15,225 sqm underground parking lot, and the Hotel's operations and the equipment therein and other related rights of the Seller.

After the date of the Statement of Financial Position, on February 9, 2020, the Transaction was closed. On the closing date the Company paid to the Seller the sum of NIS 275 million plus VAT (out of which the Company deposited on the date of execution of the Agreement, the sum of NIS 27.5 million).

After the date of the Statement of Financial Position, the Company paid purchase tax in the sum of approx. NIS 16 million.

Note 13 - Intangible assets

A. Movement and composition:

	Goodwill	Customer relations	Rights to supply and distribution rights to oil distillates and others	Franchise arrangements	Software	Others (*)	Total
	NIS in millions						
Cost:							
Balance as of January 1, 2018	170	115	125	20	72	31	533
Additions	-	-	5	6	1	1	13
Effect of changes in exchange rates	-	-	-	1	-	-	1
Write-offs	-	-	-	-	-	(1)	(1)
Balance as of December 31, 2018	170	115	130	27	73	31	546
Additions	-	-	-	-	-	3	3
Deconsolidation	(63)	(107)	(130)	(27)	(31)	(9)	(367)
Effect of changes in exchange rates	-	-	-	-	-	(1)	(1)
Write-offs	(4)	-	-	-	-	(3)	(7)
Balance as of December 31, 2019	103	8	-	-	42	21	174

(*) The ‘Others’ item includes primarily amounts in respect of a brand, trademarks and licenses and rights for the supply of natural gas.

Note 13 - Intangible assets (Cont.)

A. Movement and composition (Cont.):

	Goodwill	Customer relations	Rights to supply and distribution rights to oil distillates and others	Franchise arrangements	Software	Others	Total
				NIS in millions			
Amortizations and losses from impairment:							
Balance as of January 1, 2018	4	90	67	4	41	17	223
Amortization for the year	-	4	8	3	10	3	28
Write-offs	-	-	-	-	-	(1)	(1)
Balance as of December 31, 2018	4	94	75	7	51	19	250
Amortization for the year	-	2	5	1	8	4	20
Deconsolidation	-	(90)	(80)	(8)	(29)	(8)	(215)
Exchange rate effect	-	-	-	-	-	(1)	(1)
Write-offs	(4)	-	-	-	-	(3)	(7)
Balance as of December 31, 2019	-	6	-	-	30	11	47
Book value:							
As of December 31, 2019	103	2	-	-	12	10	127
As of December 31, 2018	166	21	55	20	22	12	296

Original Amount of Goodwill:	NIS in Millions
As of December 31, 2017	178
As of December 31, 2018	178
As of December 31, 2019	103

Note 13 - Intangible assets (Cont.)

B. Allocation of goodwill to cash generating units:

The goodwill has been allocated to cash generating units for the purposes of the testing for impairment, as follows:

	As of December 31		
	2019	2018	2017
	NIS in millions	NIS in millions	NIS in millions
Activity A – Gas	-	63	63
Activity B – Senior Housing	77	77	77
Activity C – E-commerce	26	26	26
	103	166	166

Note 14 - Trade payables

Composition:

	As of December 31	
	2019	2018
	NIS in millions	NIS in millions
Outstanding debts	300	241
Checks payable	72	101
	372	342

Note 15 - Other payables

Composition:

	As of December 31	
	2019	2018
	NIS in millions	NIS in millions
Advance payments from customers and income in advance	59	38
Liabilities for the completion of work in progress	-	4
Liabilities to employees and other liabilities in respect of salaries and wages	29	39
Interest and expenses payable	50	105
Institutions	3	29
Others	10	10
	151	225

For further information regarding payables that constitute Related and Interested Parties, see Note 33C.

Note 16 - Deposits from customers

Liability due to senior housing deposits and liabilities due to apartment keeping deposits - the Group has liabilities due to Shekel deposits received from residents with whom contracts were signed in senior housing projects, which are operated by the Group. The liabilities due to the Shekel deposits are linked to the CPI and are presented after erosion pursuant to the agreements signed by the Group's companies with residents.

According to agreements with some of the residents, a certain percentage of the balance of the deposits is used as an advance payment for the residents' rights of usage of the property and is not repaid to the residents. The "income received in advance" component is included as part of the liability due to the deposits and is carried to the income statement as income throughout the term of the agreement.

Furthermore, there are liabilities due to apartment keeping deposits.

Note 17 - Loans from financial corporations and bonds

A. Current liabilities:

	As of December 31	
	2019	2018
	NIS in millions	NIS in millions
Credit from banking corporations		
Overdrafts	-	1
Short-term loans	19	46
	19	47
Credit from other credit providers		
Commercial paper (*)	409	436
Short-term loans	-	1
	409	437
Current maturities of long-term liabilities		
Current maturities of loans from banks	104	119
Current maturities of loans from others	119	283
Current maturities of bonds	543	679
	766	1,081
Total current liabilities	1,194	1,565

(*) On June 23, 2014, the Company issued a (rated) series of commercial paper for investors listed in the First Schedule to the Securities Law, 5728-1968, with a total par value of NIS 480 million. The commercial paper principal bears variable NIS interest comprising Prime interest less 1.2%, payable after the earlier of twenty 90-day terms or at maturity or at an exit point. The commercial paper will not be listed on TASE.

The commercial paper received an “ilA-1+” rating from Ma’alot.

In the report period, it was agreed between the Company and the holders of the series of commercial paper to add to the period of the commercial paper five 12-month periods, with no change to the other terms and conditions of the series of commercial paper.

Since the issuance in 2014, the Company has repaid and raised, from time to time, commercial paper out of this series, such that the balance of the par value of the rated commercial paper series as of December 31, 2019 is approx. NIS 253 million. After the date of the Statement of Financial Position and until on or about the Report Release Date, approx. NIS 113 million par value were repaid from this series.

In March 2015, the Company issued a new unrated series of commercial paper with a total par value of NIS 116 million. Since then, the Company has repaid and raised, from time to time, commercial paper out of this series, such that, as of December 31, 2019, the balance of the par value of the unrated series of commercial paper is approx. NIS 154 million. The principal of the commercial paper bears variable shekel interest comprised of the Prime interest rate less 1.2%, and shall be paid at the end of twenty 90-day terms or at maturity or at an exit point, whichever is earlier. After the date of the Statement of Financial Position and until on or about the Report Release Date, approx. NIS 149 million par value were repaid from this series.

Note 17 - Loans from financial corporations and bonds (Cont.)

B. Non-current liabilities:

	As of December 31	
	2019	**2018**
	NIS in Millions	**NIS in Millions**
Bonds		
Bonds (1), (2), (3), (4)	8,869	6,844
Loans from banks	27	217
Other long-term liabilities		
Long-term loans from others	2,095	2,411
	10,991	9,472
Net of current maturities	(766)	(1,081)
Total non-current liabilities	10,225	8,391
Presented under the following items:		
Loans from banking corporations and other credit providers	1,899	2,226
Bonds	8,326	6,165
	10,225	8,391

(1) In February 2015, the Company made a public offering of approx. NIS 623.3 million par value of registered Series B Bonds, based on a shelf prospectus of the Company. The bonds are linked (principal and interest) to the CPI and bear interest at a fixed rate of 0.65% per year.

The principal payments are made in 10 equal annual installments on April 1 of each of the years 2016 to 2025 (each installment will be 10% of the principal's par value). The interest is paid in semiannual installments from October 1, 2015 and on April 1 and October 1 of each of the years 2016 to 2025. The bonds were issued without a discount.

The effective interest rate in respect of the bonds is 0.78% per annum.

On January 20, 2015, Ma'alot rated the Series B Bonds as ilAA+ (stable outlook).

The bonds are not secured by any collateral.

At the time of the offering, the Company undertook to meet financial covenants and undertakings, the main ones being:

(a) So long as the Series B Bonds are not fully paid-up, the Company shall neither encumber nor pledge by way of a floating charge all of the Company's existing or future assets and rights, except under certain conditions set forth in the Indenture.

(b) Maintaining minimal equity (equity attributable to the Company's shareholders, excluding minority rights) of at least NIS 5 billion for two or more consecutive calendar quarters, according to its last consolidated financial statements.

Note 17 - Loans from financial corporations and bonds (Cont.)

B. Non-current liabilities: (Cont.)

(1) (Cont.)

(b) (Cont.)

The net financial debt to net assets ratio, according to the definitions in the Indenture, exceeded 60% for two or more consecutive calendar quarters.

The Indenture determines that in lieu of the said financial covenants, the Company may, at its sole discretion, pledge (either itself or through an Investee Company) in favor of the trustee for the holders of Series B Bonds, by way of a fixed charge, Permitted Assets as defined in the Indenture (i.e., insofar as the Company pledges Permitted Assets as aforesaid, and the pledges are in force and effect, the Company shall not be bound by the said financial covenants).

(c) The Company shall not perform a Distribution (as defined in the Companies Law) to its shareholders, if: (1) the Company's equity (equity attributable to the Company’s shareholders, excluding minority rights) according to its last published consolidated financial statements, net of the amount of the Distribution, is less than NIS 6 billion; (2) the Company's net financial debt to net assets ratio (as defined in the Indenture), net of the amount of the Distribution, exceeds 50%; (3) there are grounds for acceleration according to the definitions in the Indenture of the Series B Bonds on the date of the decision to perform the Distribution or as a result thereof.

As of the date of the Statement of Financial Position, the Company meets the financial covenants, with shareholders’ equity as of the date of the Statement of Financial Position of approx. NIS 18.5 billion and a net financial debt to net assets ratio of approx. 27%.

It was further determined that in the event that the rating of the Company's Series B Bonds falls below Ma’alot’s ilAA rating, or a corresponding rating determined by another company that rates the bonds, the rate of the annual interest borne by the unpaid balance of the bond principal shall rise, in which case, the annual interest rate that shall be added to the annual interest in respect of the bonds will range between 0.25% and 1%, according to the bonds' rating.

In addition, the Series B Bonds shall be accelerated upon fulfillment of certain conditions, including: delisting or dissolution of the Company, receivership, delinquency in payments under the bonds, attachments on all or most of the Company's assets, changes in control, a fundamental breach of the terms and conditions of the bonds or the Indenture, non-compliance with the above financial covenants, performance of a distribution contrary to the above restriction on the performance of a distribution, suspension of trading of the bonds (except on grounds of ambiguity), a demand for acceleration by financial creditors above NIS 200 million or another bond series of the Company, discontinuation of rating of the bonds due to circumstances within the Company's control, a bond rating lower than BBB-, or the sale of most of the Company's assets.

In June 2015, the Company made another public offering of approx. NIS 600.3 million par value by way of expansion of the Series B Bond series, at a price of 100.24 Agorot per NIS 1 par value (discounting at a rate of 0.44% relative to their adjusted value) based on a shelf prospectus of the Company.

In March 2017, the Company made another public offering of NIS 228.8 million par value of Series B Bonds, at a price of 97.45 Agorot per NIS 1 par value (discounting at a rate of approx. 2.55% relative to their adjusted value), by way of expansion of the bond series, based on a shelf prospectus of the Company. The gross issue proceeds amounted to NIS 223 million, and the net proceeds net of the issue expenses amounted to approx. NIS 221.2 million.

The balance of the Series B Bonds, principal and linkage differentials (net of issue expenses and discounting) as of December 31, 2019 is NIS 900 million (as of December 31, 2018 – NIS 1,047 million).

Note 17 - Loans from financial corporations and bonds (Cont.)

B. Non-current liabilities: (Cont.)

(2) In September 2015, the Company made a public offering of approx. NIS 1,005 million par value registered Series C Bonds, based on a shelf prospectus of the Company. The bonds are linked (principal and interest) to the CPI and bear fixed interest at a rate of 1.64% per annum.

In March 2017, the Company made another public offering of NIS 179 million par value of Series C Bonds, at a price of 101.4 Agorot per NIS 1 par value (premium at a rate of approx. 1% relative to their adjusted value), by way of expansion of the bond series, based on a shelf prospectus of the Company. The gross issue proceeds amounted to NIS 181.5 million, and the net proceeds net of the issue expenses amounted to approx. NIS 180.8 million.

On December 30, 2019, the Company performed full early redemption of the Series C Bonds in the sum of NIS 1,032 million, which includes payment for principal, linkage differentials, accrued interest and an additional payment for the early redemption in the sum of approx. NIS 71 million.

The balance of the Series C Bonds, principal and linkage differentials (net of issue expenses) as of December 31, 2018 was NIS 1,063 million.

(3) In July 2016, the Company issued approx. NIS 2,194.1 million par value registered Series D Bonds to the public, based on a shelf prospectus of the Company. The bonds are linked (principal and interest) to the CPI and bear fixed interest at the rate of 1.34% per annum.

The principal payments are made in 25 equal semiannual installments on January 5 and July 5 of each of the years 2018 to 2030 (each payment will be 4% of the principal's par value from July 5, 2018). The interest is paid in semiannual installments from January 5, 2017 of each of the years 2017 to 2030. The bonds were issued without a discount.

The issue proceeds amounted to approx. NIS 2,194 million, and net of the issue expenses, the net proceeds amounted to approx. NIS 2,177 million. The effective interest rate on the bonds is 1.45% per annum.

On July 5, 2016, Midroog assigned the Series D Bonds an Aa1 with a stable outlook rating, and since then, Midroog ratified this rating several times, with the last time being on December 31, 2019.

The bonds are not secured by any collateral.

At the time of the issuance, the Company undertook to comply with financial covenants and undertakings similar to the financial covenants undertakings to which it committed in respect of the Series B Bonds (for a description of the conditions and the compliance with the financial covenants – see Section 1 above).

It was further determined that in the event that the rating of the Company's Series D Bonds falls below Midroog's Aa2 rating, or a corresponding rating that is determined by another company that rates the bonds, the annual interest rate borne by the unpaid balance of the bond principal shall rise, in which case, the annual interest rate that shall be added to the annual interest in respect of the bonds will range between 0.25% and 1%, according to the bonds' rating.

In addition, the Series D Bonds shall be accelerated upon fulfillment of certain conditions, similar to the conditions that were determined in respect of the Series B Bonds (for a description of the conditions and the compliance with the financial covenants – see Section 1 above).

Note 17 - Loans from financial corporations and bonds (Cont.)

B. Non-current liabilities: (Cont.)

(3) (Cont.)

In March 2017, the Company made another public offering of NIS 983.6 million par value of Series D Bonds, at a price of 97.6 Agorot per NIS 1 par value (discounting at a rate of approx. 2.7% relative to their adjusted value), by way of expansion of the bond series, based on a shelf prospectus of the Company. The gross issue proceeds amounted to NIS 960 million, and the net proceeds net of the issue expenses amounted to approx. NIS 955.3 million.

In February 2018, the Company made another public offering of NIS 1,367 million par value of the Company's Series D Bonds by way of expansion of the bonds series, at a price of 103.1 Agorot per NIS 1 par value (premium at a rate of approx. 2.5% with respect to their adjusted value), based on a shelf prospectus of the Company. The gross issue proceeds amounted to approx. NIS 1,409 million, and the net proceeds net of the issue expenses amounted to approx. NIS 1,400 million.

The balance of the Series D Bonds, principal and linkage differentials (net of issue expenses) as of December 31, 2019 is NIS 4,056 million (as of December 31, 2018 - NIS 4,411 million).

(4) In January 2019, the Company issued to the public registered Series E Bonds in the nominal value of approx. NIS 1,216 million, based on a shelf prospectus of the Company. The bonds are linked (principal and interest) to the CPI and bear a fixed interest rate of 1.77% per annum.

The Series E Bonds will be payable (principal) in 7 annual, consecutive but not equal, payments, paid on June 30 of each of the years 2022 to 2028 as specified below:

The first and second payments will be paid on June 30 of the years 2022 and 2023 and will each be at the rate of 7.5% of the nominal value of the principal. The third and fourth payments will be paid on June 30 of the years 2024 and 2025 and will each be at the rate of 5% of the nominal value of the principal. The fifth, sixth and seventh payments (the seventh being the last) will be paid on June 30 of the years 2026, 2027 and 2028 and will each be at the rate of 25% of the nominal value of the principal.

Interest will be paid in semiannual payments as of June 30, 2019 in each of the years 2019 to 2028. The bonds were issued without discount.

The proceeds of the issuance totaled approx. NIS 1,216 million, and after deduction of the issuance expenses, the net proceeds totaled approx. NIS 1,207 million. The effective interest rate for the bonds is 1.86% per annum.

In January 2019, the Company issued to the public registered Series F Bonds in the nominal value of approx. NIS 263.4 million, based on a shelf prospectus of the Company. The bonds are linked (principal and interest) to the CPI and bear a fixed interest rate of 2.48% per annum.

The Series F Bonds will be payable (principal) in 8 annual, consecutive but not equal, payments, paid on December 31 of each of the years 2025 to 2032 as specified below:

The first payment will be paid on December 31, 2025 and will be at the rate of 2.5% of the nominal value of the principal. The second payment will be paid on December 31, 2026 and will be at the rate of 5% of the nominal value of the principal. The third payment will be paid on December 31, 2027 and will be at the rate of 7.5% of the nominal value of the principal. The fourth payment will be paid on December 31, 2028 and will be at the rate of 10% of the nominal value of the principal. The fifth payment will be paid on December 31, 2029 and will be at the rate of 15% of the nominal value of the principal. The sixth, seventh and eighth payments (the eighth being the last) will be paid on December 31 of the years 2030, 2031 and 2032 and will each be at the rate of 20% of the nominal value of the principal.

Note 17 - Loans from financial corporations and bonds (Cont.)

B. Non-current liabilities: (Cont.)

(4) (Cont.)

Interest is paid in semiannual payments from June 30, 2019 to December 31, 2032. The bonds were issued without discount.

The proceeds of the issuance totaled approx. NIS 263 million, and after deduction of the issuance expenses, the net proceeds totaled approx. NIS 260 million. The effective interest rate for the bonds is 2.57% per annum.

On January 7, 2019 and January 20, 2019, Midroog approved an Aa1 rating for the issuance of new series (Series E and Series F) (collectively: the "**Bonds**"), and since then, Midroog ratified this rating several times, with the last time being on December 31, 2019.

The Bonds are not secured by any collateral and will be of equal rank in respect of the sums due therefor, *pari passu, inter se,* without any preference right or priority of one over the other.

At the time of the issuance, the Company undertook to comply with financial covenants similar to the financial covenants undertaken thereby in respect of the Series B and D Bonds (for a description of the conditions and the compliance with the financial covenants – see Section 1 above), with the exception of the following:

In the event that a change occurs in the accounting standards applicable to the Company as compared with the accounting standards applicable to the Company on the date of issuance of the Series E Bonds and Series F Bonds for the first time, and such change has a material effect (as defined in the indenture) on the result of computation of any of the financial covenants (defined in the indenture), the Company shall examine such covenant according to a proforma income statement and balance sheet according to the standards on the date of the issuance.

It is further determined that if the rating of the Company's Series E Bonds and Series F Bonds drops below Midroog's Aa2 rating or an equivalent rating determined by another agency that shall rate the bonds, the annual interest rate to be borne by the outstanding principal of the bonds shall, in such case, increase by 0.5% up to 1%, insofar as the rating drops three tiers or more below such Aa2 rating.

Furthermore, the Series E Bonds and Series F Bonds shall be accelerated upon the fulfillment of certain conditions which are substantially similar to the conditions determined in relation to the Series B and Series D Bonds (for a description of the conditions and compliance with the financial covenants – see Section 1 above).

In December 2019, the Company made another public offering of NIS 1,217 million par value of Series E Bonds, at a price of 111.4 Agorot per NIS 1 par value (discounting at a rate of approx. 10% relative to their adjusted value), by way of expansion of the bond series, based on a shelf prospectus of the Company. The gross issue proceeds amounted to NIS 1,355 million, and the net proceeds, net of the issue expenses and accumulated interest, amounted to approx. NIS 1,336 million.

In December 2019, the Company made another public offering of NIS 933 million par value of Series F Bonds, at a price of 120.3 Agorot per NIS 1 par value (discounting at a rate of approx. 18% relative to their adjusted value), by way of expansion of the bond series, based on a shelf prospectus of the Company. The gross issue proceeds amounted to NIS 1,122 million, and the net proceeds, net of the issue expenses and accumulated interest, amounted to approx. NIS 1,101 million.

Note 17 - Loans from financial corporations and bonds (Cont.)

B. Non-current liabilities: (Cont.)

(4) (Cont.)

The balance of the Series E Bonds, principal and linkage differentials (net of issue expenses) as of December 31, 2019 is NIS 2,551 million.

The balance of the Series F Bonds, principal and linkage differentials (net of issue expenses) as of December 31, 2019 is NIS 1,362 million.

(5) On May 24, 2016, a loan was provided to the Company in the sum of NIS 550 million from an institutional body affiliated neither with the Company nor with its Controlling Shareholders, linked to the CPI, at an annual interest at the rate of 1.5%.The repayment of the loan's principal commenced from the second anniversary of the date of provision of the loan and shall be made in 40 equal quarterly installments (the last principal payment shall be made 12 years after the date of provision of the loan). The interest on the loan is paid on a quarterly basis, until the final repayment date. The Company is entitled to prepay the loan (in whole or in part) against a prepayment fee according to a mechanism defined in the agreement.

To secure repayment of the loan, Canit Hashalom, a subsidiary wholly owned by the Company, pledged in favor of the lender, by way of a first-ranking fixed pledge unlimited in amount, the Azrieli Rishonim Center in Rishon LeZion, including its rights to receive rent from the property's tenants and its rights under the insurance policies in connection with the property.

In the context of the loan agreement, the Company undertook to meet the financial covenants that were set forth in the indentures of the Company's Series B Bonds (i.e. a net debt to assets ratio that shall not exceed 60% and equity of no less than NIS 5 billion), and it further undertook to maintain an LTV ratio that shall not exceed 80%, commencing from April 1, 2018. In addition, the agreement includes limitations on the distribution of a dividend that correspond with the undertaking set forth in the Bonds' indentures (i.e. that no distributions shall be made if, as a consequence thereof, the equity shall be less than NIS 6 billion and the debt to assets ratio shall exceed 50%). In addition, the Company undertook not to create a floating charge on all or part of the Company's assets, to any entity, unless it shall create in favor of the lender, on the same date, a floating charge of identical ranking and scope (*pari passu*) (such an undertaking also exists in the Series B Bonds' indentures). The causes for acceleration are as customary in agreements of this type and in the Series B Bonds' indentures, including a cause pertaining to the acceleration of another substantial debt of the Company.

As of the date of the Statement of Financial Position, the loan balance in the books is in the sum of NIS 478 million and the Company meets the contractual restrictions determined, with the shareholders' equity of approx. NIS 18.5 billion, a net financial debt to net assets ratio of approx. 27% and the LTV ratio of approx. 49%.

Note 17 – Loans from financial corporations and bonds (Cont.)

C. Details in respect of interest and linkage:

	Currency	As of December 31 2019 Nominal interest %	As of December 31 2019 Par value	2019 Book value NIS in millions	2018 Par value	2018 Book value NIS in millions
Overdrafts from banks (*)	Unlinked	-		-		1
Short-term loans from banks (*)	Unlinked	-		-		26
Short-term loans from banks	Foreign currency	2.10		19		20
Short-term loans from other credit providers	Index	-		-		1
Commercial paper	Unlinked	Bank of Israel + 0.3		409		436
Bonds	Index	0.65-2.48	8,534	8,869	6,753	6,844
Long-term loans from banks	Index	5.80		7		189
Long-term loans from banks (*)	Unlinked	2.85		20		28
Long-term loans from others	Index	0.74-1.50		774		950
Long-term loans from others	Unlinked	3.50		2		-
Long-term liabilities from others	Linked to the Dollar	3.65-6.0		1,319		1,461
Total loans and credit from financial corporations			8,534	11,419	6,753	9,956

(*) Some of the Shekel loans bear variable interest which is dependent on the Prime interest. The Prime interest rate as of December 31, 2019 and 2018 is 1.75%.

For details on loans that are secured by charges – see Note 28.

Note 17 - Loans from financial corporations and bonds (Cont.)

D. Contractual restrictions and financial covenants in the Company:

Upon fulfillment of certain conditions, as detailed in the loan agreements (primarily upon a restructuring and change of control in the Company, arrears in payments, receivership and a reduction in the value of the collateral), the loan providers are entitled to accelerate the loans. As of December 31, 2019, the total sum of credit for which the Company has committed to the aforesaid terms and conditions amounted to approx. NIS 781 million. As of the date of the Statement of Financial Position, the Company is in compliance with the contractual restrictions that have been set.

Moreover, for additional loans whose balance, as of the date of the Statement of Financial Position, is in the sum of NIS 118 million and NIS 179 million, respectively, the LTV ratio is also required, according to the agreement, to be lower than 35% and 30%, respectively. As of the date of the Statement of Financial Position, the Company is in compliance with the contractual restrictions that have been set, with the actual LTV ratio being 25% and 14%, respectively.

E. Changes in liabilities arising from financing activities:

The table below specifies the changes in the Group's liabilities arising from financing activities, including both changes that arise from cash flows and non-cash changes. Liabilities arising from financing activities are liabilities in respect of which cash flows have been classified, or future cash flows will be classified, in the Statement of Cash Flows, as cash flows from financing activities.

	Short-term credit from financial corporations	Long-term loans from financial corporations	Bonds	Total
	NIS in millions			
Balance as of January 1, 2018	630	2,756	5,864	9,250
Adjustment to opening balance due to effect of IFRS 9	-	-	6	6
Cash flows from financing activity (a)	(147)	(241)	907	519
Linkage differentials	-	10	63	73
Exchange differences	-	103	-	103
Other changes	1	-	4	5
Balance as of December 31, 2018	484	2,628	6,844	9,956
Cash flows from financing activity (a)	(55)	(347)	2,281	1,879
Linkage differentials	-	3	32	35
Exchange differences	-	(114)	-	(114)
Classification to discontinued operations	-	(60)	(292)	(352)
Other changes	(1)	12	4	15
Balance as of December 31, 2019	428	2,122	8,869	11,419

(a) Cash flows from financing activities include the net cash flows presented in the Consolidated Statements of Cash Flows as cash flows that derive from financing activities.

Note 18 – Other liabilities

"Other liabilities" includes primarily tenant deposits in the sum of approx. NIS 59 million (2018 – approx. NIS 60 million) and employee benefits in the sum of NIS 7 million (2018 – NIS 8 million).

Employee benefits include post-employment benefits, other long-term benefits, benefits upon the termination of employment, including due to wages and salary.

In respect of post-employment employee benefits, the Group has defined benefits plans, in respect of which it deposits amounts in appropriate severance pay funds and insurance policies. Moreover, the Group has a defined deposit plan in respect of some of its employees, with regard to whom Section 14 of the Severance Pay Law, 5723-1963 applies.

Note 19 - Capital

A. The share capital and share rights as of December 31, 2019 and 2018:

	Authorized		Issued and paid-up	
	As of December 31		As of December 31	
	2019	2018	2019	2018
	NIS	NIS	NIS	NIS
Ordinary shares of par value NIS 0.1	12,750,150	12,750,150	12,127,276	12,127,276

Each fully paid-up ordinary share of par value NIS 0.1 grants the right to participate and vote at general meetings. Each shareholder will have one vote for every fully paid-up share he owns. All the shares have equal rights relating to the amounts of capital paid or credited as paid on their par value, and everything connected with distribution of dividend, bonus shares and any other distribution, repayment of capital and participation in the distribution of the Company's surplus assets upon liquidation.

B. Dividend:

The Company's Board discusses the issue of the distribution of a dividend at the Company (following the recommendation of the Financial Statements Review Committee ("**FSRC**")) on an annual basis. In such context, the desire and intention of the Company to share the Company's profits with its shareholders, versus the Company's being a development company on a significant scale and its investment needs in view of its existing activity and its future plans, were examined, while taking into account the gamut of business considerations.

In this framework, the Company's Board and the FSRC examine whether the dividend distribution meets the profit test and the solvency test set forth in Section 302 of the Companies Law. In addition, restrictions on distributions by the Company are examined, including the Company's undertaking to the trustee which includes restrictions on distributions by the Company, in connection with the indentures for the Company's Series B, Series D, Series E, and Series F Bonds, see Notes17B(1)-(4), and in relation to some of the long-term loans, see Note 17B(5).

C. On March 19, 2019, the Company's Board decided upon the distribution of a NIS 560 million dividend (which reflects NIS 4.62 per share) for 2018, which was paid on May 6, 2019.

On March 20, 2018, the Company's Board decided upon the distribution of a NIS 520 million dividend (which reflects NIS 4.29 per share) for 2017, which was paid on May 2, 2018.

With respect to the resolution of the Company's Board regarding the distribution of a dividend for 2019 in the sum of NIS 300 million after the date of the Statement of Financial Position, see Note 35A.

Note 20 - Income

Composition:

	For the year ended December 31		
	2 0 1 9	2 0 1 8(*)	2 0 1 7(*)
	NIS in millions	NIS in millions	NIS in millions
Rent, management and maintenance	2,034	1,934	1,742
Senior housing	156	130	126
Sales	45	37	19
Total income	2,235	2,101	1,887

(*) Restated due to discontinued operations, see Note 7.

Note 21 - Cost of income

Composition:

	For the year ended December 31		
	2 0 1 9	2 0 1 8(*)	2 0 1 7(*)
	NIS in millions	NIS in millions	NIS in millions
A. According to the sources of income:			
Rent, management and maintenance	470	443	394
Senior housing	119	100	90
Sales	69	64	40
Total cost of income	658	607	524
B. According to its components:			
Labor and external work salary	127	109	96
Depreciation and amortization	20	17	17
Other expenses	511	481	411
	658	607	524

(*) Restated due to discontinued operations, see Note 7.

Note 22 - Sales and marketing expenses

Composition:

	For the year ended December 31		
	2 0 1 9	2 0 1 8(*)	2 0 1 7(*)
	NIS in millions	NIS in millions	NIS in millions
Wages, salaries and related expenses	22	19	16
Advertising	53	48	46
Other sales and marketing expenses	2	2	2
	77	69	64

(*) Restated due to discontinued operations, see Note 7.

Note 23 - General & administrative expenses

Composition:

	For the year ended December 31		
	2 0 1 9	2 0 1 8(*)	2 0 1 7(*)
	NIS in millions	NIS in millions	NIS in millions
Management fees, wages, salaries and related expenses (**)	29	23	21
Consultancy, legal and audit fees	36	33	28
Provision for doubtful and lost debts	3	4	2
Depreciation and amortization	4	4	2
Other general and administrative expenses	25	23	23
	97	87	76

(*) Restated due to discontinued operations, see Note 7.
(**) For details in respect of transactions with Related and Interested Parties – see Note 33C.

Note 24 - Other income (expenses)

Other income includes primarily dividends received from investments in financial assets (Bank Leumi and Leumi Card) in the sum of NIS 123 million (in the years 2018 and 2017 – NIS 90 million and NIS 33 million, respectively), and on the other hand other expenses mainly due to update of receivables from insurance company indemnity for the Texas storm damage in the sum of approx. NIS 11 million (in 2017 other income in the sum of NIS 64 million). In 2017, includes other income from the Visa Europe transaction in the sum of approx. NIS 30 million (see Note 10B(2)).

Note 25 - Financing revenues and expenses

Composition:

	For the year ended December 31		
	2019	2018(*)	2017(*)
	NIS in millions	NIS in millions	NIS in millions
Financing revenues:			
Revenues from interest on loans and receivables	10	1	-
Profit from a change in exchange rates, net	-	2	-
Revenues from interest on deposits in banks	3	2	2
Classification as profit or loss of profits that were recognized in other comprehensive income upon the disposition of financial assets (see Note 10(a))	-	-	81
Other financing revenues	7	-	-
Financing revenues carried to profit and loss	20	5	83
Financing expenses:			
Financing expenses on loans and liabilities	89	98	90
Financing expenses on bonds	142	149	88
Financing expenses for prepayment of bonds (Note 17B(2))	77	-	-
Miscellaneous bank expenses and charges	3	11	8
Loss from change in exchange rates, net	4	-	4
Linkage on deposits from customers	3	7	2
Other financing expenses	2	9	5
Financing expenses	320	274	197
Net of capitalized credit costs	(54)	(44)	(38)
Financing expenses carried to the income statement	266	230	159
Net financing expenses carried to the income statement	246	225	76

(*) Restated due to discontinued operations, see Note 7.

Note 26 – Taxes on income

A. Details in respect of the tax environment in which the Group operates:

(1) Amendments to the Income Tax Ordinance and the Land Appreciation Tax Law

(a) On December 29, 2016, the Economic Arrangements Law (Legislative Amendments to Achieve the Budget Targets for 2017 and 2018), 5777-2016 was published in the Official Gazette, in the framework of which the corporate tax rate will be reduced from 25% to 24% in 2017 on income generated or accrued commencing January 1, 2017 and shall continue to be reduced to 23% in 2018 forth on income generated or accrued commencing January 1, 2018.

(b) In August 2013, the "Arrangements Law" was published in the Official Gazette in which context Section 100A1 of the Income Ordinance was added, determining that revaluation profits will be taxable, based on a mechanism of a notional sale and purchase of an asset at any time for which a revaluation thereof was performed, from which revaluation profits were also distributed. Accordingly, a parallel provision was set forth in the Land Taxation Law (Appreciation and Purchase) with respect to appreciation tax on a right in land or a right in a land association for which a distribution from revaluation profits was recorded in the Company's financial statements, as if the right was sold on the date of distribution of the revaluation profits, and re-purchased on the same day.

The applicability provisions determine that they shall apply to assets outside of Israel on the effective date of regulations to be promulgated by the Minister of Finance, and provisions shall be set for the avoidance of double taxation within the meaning thereof in Section 200 of the Income Tax Ordinance. Furthermore, the definition of "Revaluation Profits" determined that they are "surpluses not subject to corporate tax of the type determined by the Minister of Finance". As of the date of approval of the Financial Statements, no such regulations have been published.

(2) The Company and a subsidiary have a holding (90%-99%) in American partnerships, which hold real property. The profits (losses) of the American partnerships from the rental of the real properties and from the sale thereof are attributable directly to the partners, in accordance with their shares in the capital, because under American tax law, a partnership which has been registered in the U.S. is considered to be transparent for tax purposes.

Accordingly, the profits (losses) of the American partnerships in which it serves as a limited partner will be attributed to the Group and it will accordingly be liable for tax in the U.S. in respect of the profits, attributed thereto as aforesaid in accordance with the Federal corporate tax rate (at a rate of 21%) and Texas state franchise tax (whose rate on December 31, 2019 was 0.75% of the "taxable margin", as defined in the law), which constitutes an expense for the purposes of the calculation of the Federal tax. In addition, under certain circumstances, a "branch tax" at the rate of 12.5% may be levied on part of the profits of the partnerships (even if not yet actually distributed). If such profits are reinvested for business in the U.S. and subject to compliance with additional conditions, the "branch tax" may be deferred.

In a similar manner, the general partners in the American partnerships will be liable for tax in the U.S. in respect of their share (1%) of the profits (losses) from the rental of the real properties and/or from the sale thereof, in accordance with the tax rates that are mentioned above (with the exclusion of "branch tax").

In accordance with the provisions of Section 63 of the Ordinance, the limited partners (the Company and its subsidiary), will be liable for corporate tax in Israel in respect of their share of the profits from the rental of the land in the U.S. and in the real capital gain that is derived from their sale by the American partnerships.

Note 26 – Taxes on income (Cont.)

A. Details in respect of the tax environment in which the Group operates: (Cont.)

(2) (Cont.)

In the case of tax payable in the U.S., in respect of which it is not possible to obtain a tax credit in Israel in the tax year in which it was paid, *inter alia*, by reason of losses for tax purposes incurred by the subsidiary - a credit may be obtained in respect thereof (in adjusted values, in accordance with the rate of the rise in the CPI) against the tax imposed on the subsidiary in Israel in respect of revenues from lease overseas in the 5 subsequent years.

(3) The Company has a holding (100%) in U.S. subsidiaries that are liable for tax in the U.S.. The subsidiaries are liable for Federal Tax on the companies' current income and capital gains from the sale of the real properties at the rate of 21%, and for Texas state tax.

On January 1, 2018, a U.S. corporate tax reform took effect, after its enactment was in fact completed by its approval by the U.S. House of Representatives and Senate and signing by the President of the United States in December 2017. The main change affecting the Group was the decrease of the federal tax rate to 21% from tax year 2018 forth, instead of 35% until the end of tax year 2017. In view of the aforesaid, the Company reduced in the year 2017 its deferred tax liabilities by approx. NIS 15 million.

B. Tax revenues (expenses) on income recognized in the income statement:

	For the year ended December 31		
	2019	2018(*)	2017(*)
	NIS in millions	NIS in millions	NIS in millions
Current tax revenues (expenses)			
For the current period	(125)	(121)	(157)
Net taxes in respect of previous years	6	(108)	8
	(119)	(229)	(149)
Deferred tax expenses	(352)	(44)	(242)
Total expenses of taxes on income	(471)	(273)	(391)

(*) Restated due to discontinued operations, see Note 7.

Note 26 – Taxes on income (Cont.)

C. Taxes on income in respect of the components of other comprehensive income:

	2019			2018			2017		
	Amounts before tax	Tax income (*)	Amounts net of tax	Amounts before tax	Tax income (expenses) (*)	Amounts net of tax	Amounts before tax	Tax income (expenses) (*)	Amounts net of tax
	NIS in millions								
Translation differences from foreign operations	(123)	-	(123)	95	-	95	(114)	-	(114)
Change in the fair value of financial assets	49	(29)	20	-	11	11	269	(65)	204
Amounts carried to the income statement from disposition of financial assets	-	-	-	-	-	-	(81)	19	(62)
Actuarial losses due to defined benefit plan	(1)	-	(1)	-	-	-	-	-	-
Translation differences from investee companies	4	-	4	-	-	-	-	-	-
Total other comprehensive income	(71)	(29)	(100)	95	11	106	74	(46)	28

(*) The deferred taxes have been calculated in accordance with a tax rate of 23%.

Note 26 – Taxes on income (Cont.)

D. Compatibility between the theoretical tax on the income before income taxes and the tax expenses:

	For the year ended December 31		
	2019	2018(*)	2017(*)
	NIS in millions	NIS in millions	NIS in millions
Income before income taxes	2,176	1,419	1,771
The Company's principle tax rate	23%	23%	24%
Tax calculated at the Company's principle tax rate	500	326	425
Addition (saving) in the tax liability in respect of:			
Different tax rates and laws in subsidiaries that operate outside of Israel	(11)	8	(13)
Exempt income	(31)	(29)	(6)
Expenses not recognized	-	1	-
Utilization and creation of deferred taxes in respect of losses and benefits from previous years, in respect of which deferred taxes were not recorded	(1)	(138)	-
Losses and benefits for tax purposes from the period in respect of which deferred taxes were not recorded	23	11	17
Taxes in respect of previous years	(6)	108	(8)
Differences in the definition of capital, assets and expenses for tax purposes and others	(3)	(10)	(2)
Effect of the change in the statutory tax rate	-	-	(24)
Other differences	-	(4)	2
Expenses of taxes on income	471	273	391

(*) Restated due to discontinued operations, see Note 7.

Note 26 – Taxes on income (Cont.)

E. Deferred tax assets and liabilities:

(1) Deferred tax assets and liabilities that have been recognized

The deferred taxes in respect of companies in Israel have been calculated in accordance with the tax rates that are expected to apply at the time of the reversal, as detailed above. Deferred taxes in respect of subsidiaries that operate outside of Israel have been calculated in accordance with the relevant tax rates in each country.

The deferred tax assets and liabilities are attributed to the following items:

	Real estate and fixed assets	Employee benefits	Financial instruments (1)	Deductions and losses to be carried forward for tax purposes	Others (2)	Total
	NIS in millions					
Deferred tax as of January 1, 2018	(3,151)	5	(158)	114	11	(3,179)
Changes carried to profit and loss	(205)	-	15	141	7	(42)
Changes carried to other comprehensive income	-	-	11	-	-	11
Adjustment to opening balance due to effect of IFRS 9	-	-	-	-	1	1
Deferred tax as of December 31, 2018	(3,356)	5	(132)	255	19	(3,209)
Changes carried to profit and loss	(360)	-	-	7	4	(349)
Changes carried to other comprehensive income	-	-	(29)	-	-	(29)
Carried to retained earnings	-	-	22	(7)	-	15
Deconsolidation	11	(1)	-	(3)	(19)	(12)
Deferred tax as of December 31, 2019	(3,705)	4	(139)	252	4	(3,584)

(1) Primarily for financial assets at fair value through other comprehensive income and financial asset – receivables in respect of franchise arrangement.

(2) Primarily doubtful debts and linkage differentials on deposits from customers.

(*) The deferred taxes have been calculated in accordance with a tax rate of 23%.

Note 26 – Taxes on income (Cont.)

E. Deferred tax assets and liabilities: (Cont.)

(2) Deferred tax assets that have not been recognized

Deferred taxes not recognized in respect of the following items:

	As of December 31	
	2019	2018
	NIS in millions	NIS in millions
Losses for tax purposes	169	116
Capital loss for tax purposes	2	43
Real difference from securities	-	7
	171	166

(3) Losses and deductions for tax purposes that are available to be carried forward to the following years

(a) Current business losses and deductions from a future tax liability according to an assessment agreement for tax purposes of the Company and Consolidated Companies, which are carried forward to the following years, amount as of December 31, 2019 to approx. NIS 1,148 million (December 31, 2018 – approx. NIS 1,095 million).

As of December 31, 2019, Consolidated Companies have recorded a deferred tax asset of NIS 222 million in respect of accumulated business losses (December 31, 2018 – NIS 223 million) in accordance with the management's evaluation that these losses and deductions will be realized in the coming years.

(b) The Company and Consolidated Companies have accumulated capital losses for tax purposes in the sum of approx. NIS 114 million (December 31, 2018 – approx. NIS 184 million). The Company and Consolidated Companies recorded deferred tax assets in the sum of NIS 26 million in respect of accumulated capital losses (December 31, 2018 – NIS 32 million).

(c) According to the existing tax laws in Israel, there is no time restriction for the exploitation of losses for tax purposes, or on the exploitation of the deductible temporary differences. Deferred tax assets have not been recognized in respect of such losses and differences, in cases where it is not expected that there will be sufficient chargeable income in the coming years against which it will be possible to exploit the tax benefits.

(d) The Group does not record deferred taxes that relate to investments in Consolidated Companies in respect of which the decision as to the disposition thereof is in the Group’s hands whenever there is no decision to realize them in the foreseeable future.

Note 26 – Taxes on income (Cont.)

F. Tax assessments:

The Company and some of the Consolidated Companies have final tax assessments through 2016 tax year.

Some of the Consolidated Companies have final tax assessments through the tax years 2014-2015.

Save for the above mentioned companies, the other Group companies have final tax assessments through 2014, in the framework of Section 145(a)(2) of the Income Tax Ordinance (Prescription).

Note 27 – Engagements

The Company and Consolidated Companies have engagements and liabilities as of the date of the Statement of Financial Position, as follows:

A. Material engagements:

		NIS in millions
(1)	For the performance of projects	1,195
	For rentals and leases	3

(2) With respect to the engagements with Related and Interested Parties, see Note 33.

B. Additional engagements:

(1) The Company and subsidiaries thereof engaged with OPC Rotem Ltd. ("**OPC**"), an independent power producer, in an agreement to purchase electricity. In addition, the companies of the Group engaged in a parallel agreement between them, which regulates the relationship between the companies of the Group in relation to the aforesaid agreement. Pursuant to the agreement, OPC shall sell electricity to the companies of the Group in the volume that is set forth in the agreement, in consideration for a tariff which varies according to actual consumption which is based on the tariffs of the Israel Electric Corporation Ltd. (the "**IEC**"), net of various discount rates determined in the agreement, which depend on the companies' volumes of consumption. The agreement is effective for a 15-year period, commencing from July 2013. The agreement sets forth special conditions that allow the parties to terminate it by giving an advance notice. In the event that OPC's power plant does not work and does not supply electricity for any reason whatsoever, electricity shall be supplied directly from the IEC. The agreement sets forth maximum and minimum volumes of electricity consumption by the companies of the Group. In the event of failure to meet the minimum volumes, the discount shall be gradually reduced.

The Group's companies reserve the right to purchase 100 megawatt hour more, in the event of the construction of an additional power plant by OPC's parent company.

(2) On May 20, 2015, a Consolidated Company, Ahuzat Bayit Ra'anana – Retirement Home Ltd., entered into a trust agreement with a trust company, whereby it will serve as the trustee of the residents of the retirement home for the purpose of registration of the mortgages in their favor. Pursuant to the agreement, the Consolidated Company registered a first ranking mortgage in favor of the trust company at the Land Registry, on a majority of the sub-parcels that constitute the land of the retirement home. The Consolidated Company is acting to complete the registration of the mortgage in favor of the trust company on all of the sub-parcels of the retirement home.

Note 27 – Engagements (Cont.)

B. Additional engagements: (Cont.)

(3) Azrieli Holon Center

The Group, via Canit Hashalom, is the owner of leaseholds in a reserve of land of a total area of approx. 30,000 sqm in the East Holon Industrial Area (in this section: the "**Land Reserve**") under an agreement that was signed between the Municipality of Holon and Canit Hashalom on June 5, 2008 (in this section: the "**Agreement**") and approved by the Minster of the Interior in December 2008.

The entire Land Reserve is owned by the Municipality of Holon, without any known charges or mortgages. In accordance with the Agreement the project is for the construction of a business park, including buildings for hi-tech, offices, display halls and retail, service areas and parking areas as well as for additional uses (in this section: the "**Project**"). The Project was built and is operated as an income-producing property (for rental) by way of a joint venture, where the material terms of the transaction are as follows:

(a) The Municipality of Holon is leasing to Canit Hashalom, in accordance with the Agreement, for a period of 99 years with an option for an additional 99 years for a payment, 83% of the areas and land of the Project.

(b) The Project is managed and operated by the Company as an income-producing property that is held jointly by the two parties, where the areas of the Project are leased as a common reserve for both parties. The areas are leased via Canit Hashalom, and the division of the rent is carried out using a mechanism that has been agreed by the two parties.

(c) The Project is managed by a management company. Management is executed on the basis of cost +15%, which constitute the fees of the management company.

(d) The Agreement sets various restrictions on the transfer of rights in areas in the Project and/or in the rights and undertakings of Canit Hashalom thereupon. It is further determined in the Agreement that the transfer of shares, including by way of a public offering, in shares of Canit Hashalom in an amount of up to 25% will be permitted. It is further clarified that the provisions relating the transfer of rights and a change in the ownership structure will not apply to the parent company or to a subsidiary or an affiliate of Canit Hashalom.

(e) The Group treats this Project as a joint arrangement which constitutes a joint activity.

Note 28 - Charges and guarantees

A. Fixed and floating charges:

	As of December 31	
	2019	2018
	NIS in millions	NIS in millions
Short-term credit from banks (1)	-	17
Long-term loans from banks and others (including accumulated interest presented in short-term) (2)	2,181	2,641
Bonds (including accumulated interest presented in short-term) (3)	-	327
Senior housing residents' deposits (4)	943	819

(1) In a Consolidated Company a floating charge on credit cards in favor of liabilities to a banking corporation, which are used from time to time. In a Consolidated Company that was sold in 2019 the liabilities to banking corporations were secured by floating charges on all the assets of the Consolidated Company and fixed charges on shares of an Investee Company thereof, goodwill and an asset of its Investee Company. In addition, fixed and floating charges have been registered on assets of Consolidated Companies thereof, including on the rights existing in any agreements.

(2) A charge on the rights to receive monies in respect of investment property of the Company and of some of the Investee Companies. The book value of the pledged assets – approx. NIS 7 billion.

In a Consolidated Company, a floating charge was registered on all the assets of a Consolidated Company thereof, including rights deriving therefrom and a fixed charge on shares of an Investee Company thereof, insurance rights and rights deriving from an asset of a Consolidated Company. The value of the pledged asset of the Consolidated Company is approx. NIS 0.1 billion.

(3) In a Consolidated Company that was sold in 2019, the bonds were secured by a first ranking floating charge, in an unlimited amount, on all of the assets of the Consolidated Company. In addition, the Investee Company created a first ranking fixed charge in an unlimited amount over all the shares of a Consolidated Company thereof owned and held thereby, including the rights deriving from such shares. The value of the pledged assets of the Consolidated Company was approx. NIS 0.25 billion.

(4) On the date of entry of residents, Consolidated Companies register caveats in favor of the residents or the depositors, the purpose of which is to ensure repayment of the balance of the deposit. The collateral is to be deleted upon the registration of another permanent collateral in the form of a mortgage.

Some of the homes are in the process of condominium registration.

In a Consolidated Company, corresponding charges were registered in favor of the residents or depositors at the Companies Registrar.

At present, the Consolidated Company is acting to register another collateral, pursuant to the provisions of the Senior Housing Law, and in lieu of the said caveats, in a form of a mortgage in trust.

In circumstances wherein the senior home was under construction, and after the resident moved to live in such senior home, Consolidated Companies may register a caveat regarding an undertaking to register a mortgage on his right in the land, in favor of a trustee that will be appointed by the residents, or in favor of the resident. Such caveat shall be for a period that shall not exceed two years, and at the end of the term the consolidated companies shall register a mortgage on his right in the land pursuant to the Senior Housing Law.

Note 28 - Charges and guarantees (Cont.)

A. Fixed and floating charges: (Cont.)

(4) (Cont.)

At present, one of the Consolidated Companies is negotiating the signing of a trust agreement with a trustee that was appointed by the residents meeting pursuant to the provisions of the Senior Housing Law, for the registration of another collateral in the form of a mortgage in trust, in lieu of the caveats as aforesaid, in favor of resident or depositors of the senior home.

In an additional Consolidated Company, a first-ranking mortgage was registered in favor of the residents at the Land Registry on most of the sub-plots that comprise the land of the senior home.

In addition, to secure some of the undertakings of the Consolidated Company in respect of deposits, caveats were registered in favor of some of the residents, on apartments and other areas at the senior home.

(5) The Company committed to banking corporations, financial institutions and in the bond indentures that it would not create floating charges over its entire assets. The Company may create a floating charge as aforesaid, provided that concurrently with the creation thereof, it will create a floating charge in favor of the lender as well. The Company also committed, irrevocably, to a banking corporation that it had not created and will not create a floating charge over its entire property and assets, whether they are owned thereby or will be owned thereby in the future, including over the goodwill and share capital thereof, and it also committed towards another banking corporation not to commit in any manner to create a floating charge as aforesaid, without the advance written agreement of the banking corporation.

Note 28 - Charges and guarantees (Cont.)

B. The Company and Consolidated Companies have contingent liabilities:

		As of December 31 2019 NIS in millions	As of December 31 2018 NIS in millions
(1)	Financial guarantees to banking corporations extended by a Consolidated Company for a Consolidated Company thereof	-	75
(2)	Performance and other guarantees:		
	- Performance guarantees for customers and others, including tender guarantees (**)	34	63
	- Guarantees to authorities	64	142
(3)	Guarantees to lessor in respect of usage rights for LTC units.	1	1
(4)	Guarantees for undertakings in respect of tenants.	5	6
(5)	A guarantee extended by a Consolidated Company in favor of a Consolidated Company thereof in respect of its liabilities to banking corporations.	20	27
(6)	A guarantee extended by a Consolidated Company in favor of a Consolidated Company thereof in respect of its liabilities to its customers.	17	19
(7)	Guarantees and letters of indemnification given by a Consolidated Company to banks financing projects of former controlling shareholders of the Consolidated Company, which shall remain in effect until the completion of such projects. For such guarantees, the Consolidated Company received an indemnity from the former controlling shareholders.	4	4

(*) In addition to guarantees given by the Company and an Investee Company to consolidated limited partnerships thereof overseas and to Consolidated Companies thereof overseas, for their liabilities to financial corporations, which are enforceable only in several specific cases defined in the loan agreements (Bad Boy).

(**) On the Company's guarantee in respect of a BOT project for the treatment of solid municipal waste in the Dan Region Wastewater Treatment Plant (the "*Shafdan*"), see Note 7B(2).

Note 29 - Contingent liabilities

A.

Parties	Amount of claim	Nature of claim	Prospects of claim
Action in tort against Canit Hashalom and a former officer.	Action in tort in the sum of NIS 55 million and, on the other hand, a pecuniary claim by Canit Hashalom in the sum of NIS 15 million.	In May 2017, Canit Hashalom filed a pecuniary claim in the sum of NIS 15 million with the Tel Aviv District Court, against the companies Winditaly Ltd. and Gualini S.p.A. (jointly: "**Gualini**"), in relation to the performance of a project in which Gualini served as subcontractors. Along with the filing of the claim, Canit Hashalom forfeited a bank guarantee in the sum of NIS 2.7 million. Gualini filed an answer in which they denied Canit Hashalom's claims and filed a countersuit in the sum of NIS 55 million against Canit Hashalom and an officer, in which countersuit they alleged failure to pay the full contractual consideration, damage to reputation and loss of future profit in Israel and unlawful forfeiture of a bank guarantee.	The parties have deferred to mediation. Canit Hashalom estimates, based on its legal counsel, that the countersuit's chances as pertains to damage to reputation and loss of future profit and to the forfeiture of the bank guarantee are lower than 50%. Due to the preliminary stage, it is too early to estimate the rest of Gualini's claims. However, it appears that Canit Hashalom has good arguments to defend against the countersuit.

B. Additional claims (mostly legal and in insignificant amounts) arising from the ordinary course of business have been submitted against the Group companies.

C. The Group recorded provisions against the claims in the sum of approx. NIS 1 million (December 31, 2018 – approx. NIS 11 million). In the estimation of the Company's management, based on its legal counsel, the provisions recorded to settle the results of the claims outlined above are fair.

Note 30 - Management of financial risks

A. General:

The Group is exposed to the following risks, which derive from the use of financial instruments:

- Credit risk.
- Liquidity risk.
- Market risk (including currency risk, interest risk and other price risks).

Information is provided in this Note in respect of the Group's exposure to each of the abovementioned risks, the Group's objectives, its policy and its processes in respect of the measurement and management of the risk. Additional, quantitative disclosure is provided throughout these Consolidated Financial Statements.

The comprehensive responsibility for establishing the framework for the management of the financial risks of the Company and its subsidiaries (except for the risk management of GES, the senior housing segment and Azrieli E-Commerce, which is carried out thereby) and for overseeing the same rests with the Company's management.

The Company has a Finance Committee, which is responsible, *inter alia*, for supervising and monitoring the management of the Company's financial risks, and also supervises Management as pertains to the implementation of its decisions.

The person in charge of financial risks management in the Company is Ms. Irit Sekler-Pilosof, the Company's CFO.

The Company's managers routinely examine the market risks in the fields of interest, the index and the exchange rates and act to reduce the economic exposure that is inherent in those risks, whilst taking cost-benefit considerations, such as changes in the composition of the long-term and short-term bank credit, into account.

B. Credit risk:

Credit risk is the risk of a financial loss that would be caused to the Group if a customer or a counter party to a financial instrument does not meet its contractual commitments, and it derives primarily from the debts of customers and other receivables, from the long-term loans that have been extended and from investments in securities.

The Group has no significant credit risk from its customers in the retail centers and malls segment, the leasable office and other space segment and the income-producing property in the U.S. segment, since the Group collects its income in respect of rent and management fees in advance. Moreover, in most cases, as collateral for the rent, the tenants are required to prove personal guarantees from third parties and/or bank guarantees and/or deposits, to the Company's satisfaction.

The Group has no significant credit risk from its customers in the senior housing segment, since the Group collects a significant portion of the deposit required of the resident prior to his moving into the apartment.

The Group has credit risk in respect of credit card companies' balances deriving from the current clearing of customers' credit cards in the e-commerce segment. Azrieli E-Commerce Ltd. routinely examines customers' credit assessments and makes specific doubtful debt provisions, which, in the opinion of the management of Azrieli E-Commerce Ltd., correctly reflect the loss entailed by debts the collection of which is doubtful.

Note 30 - Management of financial risks (Cont.)

C. Liquidity risk:

Liquidity risk finds expression in the non-ability to meet the Group's financial commitments when they are due for payment. The Group's approach to the management of its liquidity risk is to ensure, in so far as it is possible, that there is a sufficient level of liquidity to meet its commitments on time. The Group verifies the existence of sufficient levels of cash and/or credit lines in accordance with the expected needs for the payment of the operating expenses, including the amounts that are required to meet the financial liabilities; the aforesaid does not take into account the potential impact of extreme occurrences, which it is not reasonably possible to forecast.

The Group is of the opinion that at the time of need, financing entities will grant it the credit required thereby for the purposes of its business.

D. Market risks:

Market risk is the risk that changes in market prices, such as the exchange rates of foreign currencies, the CPI, interest rates, the prices of capital instruments and risks associated with the prices of goods, will have an impact on the Group's income or on the value of its holdings in financial instruments and on inventory balances.

The objective of the management of market risks is to manage and supervise the exposure to market risk within the framework of generally accepted parameters.

Currency risk:

The Company's functional currency is the New Israeli Shekel (NIS).

The Group has loans in U.S. dollars, therefore its financial results are exposed to the risk of a change in the dollar exchange rate. Most of the Group's income in the income-producing property in the U.S. segment is stated in U.S. dollars, such that a rise in the exchange rate as aforesaid leads to an increase in income from rent and in the value of the property and reduces this risk.

Interest rates risk:

The Group has short-term and long-term credit at variable interest rates. Accordingly, its financial results (financing income/expenses) are exposed to the risk of a change in the interest rates (as of December 1, 2019 approx. 4% of the credit from financial corporations and bonds are at variable interest rates).

Index risks:

The Group has loans and bonds that are index-linked, and therefore its financial results (financing income/expenses) are exposed to the risk of a change in the index.

Most of the Group's income in the retail centers and malls segment and in the leasable office and other space segment are linked to the CPI, such that an increase in the index, as aforesaid, will lead to an increase in the rent income and a reduction in this risk.
Furthermore, the index rise bears an impact on the calculation of the value of investment properties due to the increase in rent revenues.

The companies in the senior housing sector have exposure in respect of the effect of changes in the CPI on the deposits of the residents in the senior home, which are linked to the CPI.

Note 30 - Management of financial risks (Cont.)

D. Market Risks: (Cont.)

Currency risk – cash:

As of December 31, 2019, a small part of the cash is managed overseas in the dollar currency, and therefore the Company may be exposed to fluctuations in the currency exchange rates. The Company does not hedge against such exposures.

Other price risk:

The Company has a material holding in Bank Leumi's shares that are traded in TASE. Changes in the rate of Bank Leumi's share may affect the equity. The Company does not hedge against such exposures.

Note 31 - Financial instruments

A. Credit risk:

The book value of the financial assets represents the maximum credit exposure. The maximum exposure to credit risk, as of the date of the Statement of Financial Position, was as follows:

	Book Value	
	As of December 31	
	2 0 1 9 (*)	2 0 1 8
	NIS in millions	NIS in millions
Financial assets at amortized cost:		
Short-term deposits and investments	24	47
Trade accounts receivable	110	342
Other receivables	180	102
Receivables for work in progress	2	3
Non-current loans	482	127
Restricted investments	-	19
Loans to associates	16	100
Receivables in respect of franchise arrangement	49	51
	863	791

(*) Including assets of a disposal group held for sale.

The maximum exposure to credit risk in respect of trade accounts receivable, other receivables, receivables for work in progress, long-term loans, as of the date of the Statement of Financial Position, by geographical region, is mainly local and the exposure overseas is negligible.

Note 31 - Financial instruments (Cont.)

B. Liquidity risk:

Set forth below are the projected repayment dates of the financial liabilities, including an estimate of interest payments:

	As of December 31, 2019 (*)							
	Book value	Forecasted cash flow	2020	2021	2022	2023	2024 forth	No repayment date /upon demand
	NIS in millions							
Non-derivative financial liabilities								
Short-term credit from financial corporations (1)	428	428	428	-	-	-	-	-
Trade accounts payable	389	389	389	-	-	-	-	-
Other payables	64	69	44	5	4	2	14	-
Deposits from customers	957	957	-	-	-	-	-	957
Long-term loans from financial corporations (2)	2,177	2,543	301	791	154	191	1,106	-
Bonds (2)	8,897	9,573	654	648	824	815	6,632	-
Long-term deposits from customers	59	59	-	-	59	-	-	-
	12,971	14,018	1,816	1,444	1,041	1,008	7,752	957

(*) Including liabilities of a disposal group held for sale.

(1) The book value includes accrued interest.

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

Note 31 - Financial instruments (Cont.)

B. Liquidity Risk: (Cont.)

	As of December 31, 2018							
	Book value	Forecasted cash flow	2019	2020	2021	2022	2023 forth	No repayment date /upon demand
	NIS in millions							
Non-derivative financial liabilities								
Short-term credit from financial corporations (1)	484	484	484	-	-	-	-	-
Trade accounts payable	342	342	342	-	-	-	-	-
Other payables	65	65	65	-	-	-	-	-
Deposits from customers	942	942	-	-	-	-	-	942
Long-term loans from financial corporations (2)	2,638	3,057	491	423	825	146	1,172	-
Bonds (2)	6,887	7,424	780	775	765	755	4,349	-
Long-term deposits from customers	59	59	-	-	56	-	3	-
	11,417	12,373	2,162	1,198	1,646	901	5,524	942

(1) The book value includes accrued interest.

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

Note 31 - Financial instruments (Cont.)

C. Index and foreign currency risks:

(1) Exposure to Index and foreign currency risk

The Group's exposure to Index and foreign currency risk, based on nominal values, is as follows:

	As of December 31, 2019		
	Israeli currency	Foreign currency	
	Index-linked	Dollar	Other (*)
	NIS in millions	NIS in millions	NIS in millions
Assets	207	219	6
Liabilities	(10,753)	(1,351)	(20)
Total net assets	(10,546)	(1,132)	(14)

	As of December 31, 2018		
	Israeli currency	Foreign currency	
	Index-linked	Dollar	Other (*)
	NIS in millions	NIS in millions	NIS in millions
Assets	105	221	5
Liabilities	(9,009)	(1,509)	(22)
Total net assets	(8,904)	(1,288)	(17)

(*) Mainly Euro and GBP.

Note 31 - Financial instruments (Cont.)

C. Index and foreign currency risks: (Cont.)

(2) Sensitivity analysis

The strengthening of the New Israeli Shekel against the following currencies as of December 31, 2019 and an increase in the CPI would increase (decrease) the capital and the profit or loss, net of tax, by the amounts that are presented below. This analysis has been made on the assumption that the other variables, and especially the interest rates, remain fixed. The analysis in respect of the year 2018 was made on the same basis.

	As of December 31, 2019	
	Capital	Profit (loss)
	NIS in millions	NIS in millions
1% rise in the CPI	(81)	(81)
3% rise in the exchange rate of the US Dollar	(26)	(26)

	As of December 31, 2018	
	Capital	Profit (loss)
	NIS in millions	NIS in millions
1% rise in the CPI	(69)	(69)
3% rise in the exchange rate of the US Dollar	(30)	(30)

A decrease in the exchange rate of the US Dollar by a similar rate and a decrease in the CPI by a similar rate as of December 31, 2019 would have had an identical effect, although in an opposite direction, in the same amount, assuming that all of the other variables remain constant.

Note 31 - Financial instruments (Cont.)

D. Interest rate risk:

Type of interest

Following are details in respect of the types of interest in the Group's interest bearing financial instruments:

	Book value	
	As of December 31	
	2 0 1 9 (*)	2 0 1 8
	NIS in millions	NIS in millions
Fixed interest instruments		
Financial assets	75	109
Financial liabilities	10,852	9,539
Variable interest instruments		
Financial assets	-	119
Financial liabilities	449	509

(*) Including instruments of a disposal group held for sale.

(1) Sensitivity analysis for the fair value in respect of fixed interest instruments

The Group's assets and liabilities at fixed interest are not measured at fair value through profit and loss, therefore, a change in the interest rates is not expected to have any effect on the profit or loss in respect of changes in the value of assets and liabilities with fixed interest rates.

(2) Sensitivity analysis for variable interest instruments

A change of 1% in the interest rates on the reporting date would increase or reduce the capital and the profit or loss, net of tax, by the sum of NIS 3 million. This analysis was made assuming that the other variables remained fixed.

E. Other price risk:

Sensitivity analysis of the security price – financial assets at fair value through other comprehensive income – (see Note 10A)

If the prices of the held securities were higher by 10%, the effect after tax would be as follows:

The net income for the year ending on December 31, 2019 would not be affected since these investments are accounted for through other comprehensive income.

The other comprehensive income would increase by approx. NIS 89 million as of December 31, 2019 as a result of the change in the fair value of the shares.

Note 32 – Fair value

A. Assets and liabilities measured at fair value in the Statement of Financial Position:

For the purpose of measurement of the fair value of the assets or liabilities, the Group classifies them in accordance with the rating that includes the following three levels:

Level 1: Quoted (not adjusted) prices in active markets for identical assets or identical liabilities to which the entity has access at the time of measurement.

Level 2: Data, other than quoted prices included in level 1, that are directly or indirectly observable for the asset or liability.

Level 3: Non-observable data for the asset or liability.

The classification of the assets or liabilities that are measured at fair value is based on the lowest level significantly used for measuring the fair value of the entire asset or liability.

Below are the Group's assets and liabilities measured at fair value in the Company's Statement of Financial Position as of December 31, according to their measurement levels.

Fair value of items measured at fair value on a periodic basis

	As of December 31, 2019		
	Level 2	Level 3	Total
	NIS in millions	NIS in millions	NIS in millions
Investment property:			
Retail centers and malls in Israel	45	12,440	12,485
Land and leasable office and other space in Israel	216	9,361	9,577
Investment property under construction in Israel	-	2,863	2,863
Senior housing	-	1,870	1,870
Total investment property in Israel	261	26,534	26,795
Income-producing property in the U.S.	-	2,350	2,350
Total investment property	261	28,884	29,145

	As of December 31, 2018		
	Level 2	Level 3	Total
	NIS in millions	NIS in millions	NIS in millions
Investment property:			
Retail centers and malls in Israel	49	11,820	11,869
Land and leasable office and other space in Israel	598	8,274	8,872
Investment property under construction in Israel	-	2,448	2,448
Senior housing	-	1,740	1,740
Total investment property in Israel	647	24,282	24,929
Income-producing property in the U.S.	374	2,149	2,523
Total investment property	1,021	26,431	27,452

Note 32 – Fair value (Cont.)

A. Assets and liabilities measured at fair value in the Statement of Financial Position (Cont.)

Fair value of items measured at fair value on a periodic basis (Cont.)

Financial assets:

	As of December 31, 2019		
	Level 1	Level 2	Total
	NIS in millions	NIS in millions	NIS in millions
Financial assets designated at fair value through profit and loss:			
Securities	1	-	1
Non-marketable investments	-	5	5
Financial assets at fair value through other comprehensive income:			
Marketable shares	1,162	-	1,162
Total fair value of financial assets	1,163	5	1,168

	As of December 31, 2018		
	Level 1	Level 2	Total
	NIS in millions	NIS in millions	NIS in millions
Financial assets designated at fair value through profit and loss:			
Securities	1	-	1
Non-marketable investments	-	10	10
Financial assets at fair value through other comprehensive income:			
Marketable shares	1,218	-	1,218
Non-marketable shares – held for sale	-	450	450
Total fair value of financial assets	1,219	460	1,679

Note 32 – Fair value (Cont.)

B. Assets and liabilities measured at fair value at level 3 in the Statement of Financial Position:

(1) Movement in investment property measured at fair value

	Real estate in Israel				Real estate in the U.S.	
	Retail centers and malls	Offices and other	Senior housing	Under construction	Income-producing property	Total
	NIS in millions					
Balance as of January 1, 2019	11,820	8,274	1,740	2,448	2,149	26,431
Profits or losses recognized in profit or loss	281	641	116	(121)	(12)	905
Purchases	118	100	14	644	33	909
Classifications	221	-	-	(221)	-	-
Transfer to fixed assets	-	(6)	-	(11)	-	(17)
Classification from level 2	-	352	-	124	374	850
Net translation differences deriving from the translation of the financial statements of foreign operations	-	-	-	-	(194)	(194)
Balance as of December 31, 2019	12,440	9,361	1,870	2,863	2,350	28,884

Note 32 – Fair value (Cont.)

B. Assets and liabilities measured at fair value at level 3 in the Statement of Financial Position: (Cont.)

(1) Movement in investment property measured at fair value (Cont.)

	Real estate in Israel				Real estate in the U.S.	
	Retail centers and malls	Offices and other	Senior housing	Under construction	Income-producing property	Total
	NIS in millions					
Balance as of January 1, 2018	11,842	8,075	1,212	1,887	1,933	24,949
Profits or losses recognized in profit or loss	(30)	147	89	78	(45)	239
Purchases	183	196	19	584	112	1,094
Classifications	(175)	(144)	420	(101)	-	-
Dispositions	-	-	-	-	(5)	(5)
Net translation differences deriving from the translation of the financial statements of foreign operations	-	-	-	-	154	154
Balance as of December 31, 2018	11,820	8,274	1,740	2,448	2,149	26,431

Note 32 – Fair value (Cont.)

B. Assets and liabilities measured at fair value at level 3 in the Statement of Financial Position (Cont.):

(2) Movement in assets measured at fair value

	For the year ended December 31	
	2019	2018
	NIS in millions	NIS in millions
Financial assets at fair value through other comprehensive income:		
Balance as of beginning of year	-	536
Carried to assets held for sale	-	(450)
Total losses recognized:		
in other comprehensive income	-	(86)
	-	-

Note 32 – Fair value (Cont.)

B. Assets and liabilities measured at fair value at level 3 in the Statement of Financial Position (Cont.):

(3) Description of evaluation techniques

Description of the measured instrument		Fair value as of December 31, 2019	Evaluation technique	Description of significant non-observable data	Mainly in the Range	Other data	Range
		NIS in millions					
Retail centers and malls in Israel	(2)	12,435	Income approach – DCF	Primary cap rate Fair value per sqm in NIS in thousands (3) Occupancy rate (**) (3)	6.5%-8% NIS 12-51 thousand 84%-100%	Marketable space (in sqm in thousands)	1-41 thousand sqm
Land		5	Cost approach				
Offices and others in Israel:							
Existing office space for lease	(2)	8,887	Income approach - DCF	Primary cap rate (3) Fair value per sqm in NIS in thousands Occupancy rate (**) (3)	6.5%-8% NIS 7-20 thousand 80%-100%	Marketable space (in sqm in thousands)	2-151 thousand sqm
Other space for lease	(2)	104	Income approach - DCF	Estimated average rent per sqm in NIS (*) Primary cap rate	NIS 28 7%		
Land and Azrieli Town Building E		370	Comparison method	Size-specific adjustment			

Note 32 – Fair value (Cont.)

B. Assets and liabilities measured at fair value at level 3 in the Statement of Financial Position (Cont.):

(3) Description of evaluation techniques (Cont.)

Description of the measured instrument		Fair value as of December 31, 2019 NIS in millions	Evaluation technique	Description of significant non-observable data	Mainly in the Range	Other data	Range
Buildings under construction in Israel	(2)	770	DCF, net of the estimated construction costs expected to arise for completion thereof	Estimated rent per sqm in NIS	Offices NIS 53-128 Retail NIS 50-90	Estimated balance of construction costs expected per sqm marketable space	NIS 1,502-31,887 per sqm
				Primary cap rate	6.5%-8%		
		305		Annual rate of resident turnover – senior housing	6.6%		
				Cap rate – senior housing	9%		
		1,788	Comparison method	Specific adjustment for location, size and standard Estimated betterment levy			
Income-producing property in the U.S.		2,333	Income approach –DCF	Estimated average rent per sqm in dollars (*)	$17-24	Marketable space (in sqm in thousands)	3-89 thousand sqm
				Primary cap rate	5.75%-7.50%		
				Fair value per sqm in NIS in thousands	7-16		
				Occupancy rate (**)	57%-100%		
		17	Comparison method	Size and standard			
Senior housing	(3)	1,805	Income approach –DCF	Cap rate	8.5%		
				Annual resident turnover rate	7.1%-14%		
		65	Cost approach				

Note 32 – Fair value (Cont.)

B. Assets and liabilities measured at fair value at level 3 in the Statement of Financial Position (Cont.)

(3) Description of evaluation techniques (Cont.)

(*) Calculated on the basis of average rent per marketable meter in each property separately.

(**) Calculated on the basis of each property separately, excluding properties that are in stages of lease-up.

(1) The fair value estimate will increase if the growth rate increases and/or the weighted cap rate decreases.

(2) The fair value estimate will increase if construction costs per sqm decrease, the rent payments increase, the weighted cap rate decreases, the annual turnover rate in the senior home increases and/or the sale prices of the senior housing units increase.

(3) Including properties under lease-up.

Note 32 – Fair value (Cont.)

B. Assets and liabilities measured at fair value at level 3 in the Statement of Financial Position (Cont.)

(3) Description of evaluation techniques (Cont.)

Description of the measured instrument		Fair value as of December 31, 2018	Evaluation technique	Description of significant non-observable data	Mainly in the Range	Other data	Range
		NIS in millions					
Retail centers and malls in Israel	(2)	11,816	Income approach – DCF	Primary cap rate Fair value per sqm in NIS in thousands (3) Occupancy rate (**) (3)	6.75%-8% NIS 12-50 thousand 85%-100%	Marketable space (in sqm in thousands)	1-40 thousand sqm
Land		4	Cost approach				
Offices and others in Israel:							
Existing office space for lease	(2)	8,136	Income approach - DCF	Primary cap rate (3) Fair value per sqm in NIS in thousands Occupancy rate (**) (3)	6.75%-8% NIS 6-20 thousand 78%-100%	Marketable space (in sqm in thousands)	2-151 thousand sqm
Other space for lease	(2)	100	Income approach - DCF	Estimated average rent per sqm in NIS (*) Primary cap rate	NIS 28 7.25%		
Land		38	Comparison method	Size-specific adjustment			

Note 32 – Fair value (Cont.)

B. Assets and liabilities measured at fair value at level 3 in the Statement of Financial Position (Cont.)

(3) Description of evaluation techniques (Cont.)

Description of the measured instrument		Fair value as of December 31, 2018 NIS in millions	Evaluation technique	Description of significant non-observable data	Mainly in the Range	Other data	Range
Buildings under construction in Israel	(2)	308	DCF, net of the estimated construction costs expected to arise for completion thereof	Estimated rent per sqm in NIS	Retail NIS 130-260	Estimated balance of construction costs expected per sqm marketable space	NIS 1,143-2,667 per sqm
				Primary cap rate	8%-8.5%		
		2,001	Comparison method	Specific adjustment for location, size and standard Estimated betterment levy			
		139	Cost approach				
Income-producing property in the U.S.		2,131	Income approach - DCF	Estimated average rent per sqm in dollars (*)	$17-22	Marketable space (in sqm in thousands)	3-89 thousand sqm
				Primary cap rate	5.75%-7.50%		
				Fair value per sqm in NIS in thousands	8-14		
				Occupancy rate (**)	67%-100%		
		18	Comparison method	Size and standard			
Senior housing	(3)	1,684	Income approach - DCF	Cap rate	8.75%		
				Annual resident turnover rate	6.7%-10%		
		56	Cost approach				

Note 32 – Fair value (Cont.)

B. Assets and liabilities measured at fair value at level 3 in the Statement of Financial Position (Cont.)

(3) Description of evaluation techniques (Cont.)

(*) Calculated on the basis of average rent per marketable meter in each property separately.

(**) Calculated on the basis of each property separately, excluding properties that are in stages of lease-up.

(1) The fair value estimate will increase if the growth rate increases and/or the weighted cap rate decreases.

(2) The fair value estimate will increase if construction costs per sqm decrease, the rent payments increase, the weighted cap rate decreases and/or the sale prices of the senior housing units increase.

(3) Including properties under lease-up.

Note 32 – Fair value (Cont.)

C. For a description of the evaluation processes used in determining the fair value – see Note 3B.

D. Fair value of items that are not measured at fair value in the Statement of Financial Position:

(1) Fair value by comparison to the book value

Following are details regarding the fair value of certain items that are not measured at fair value in the Statement of Financial Position.

		As of December 31			
		2019 (*)		2018	
	Level of fair value	Book value	Fair value	Book Value	Fair value
		NIS in millions	NIS in millions	NIS in millions	NIS in millions
Non-current assets:					
Receivables in respect of franchise arrangement (1)	2	49	68	51	66
Non-current liabilities:					
Loans from banking corporations and other credit providers (1)	2	2,177	2,238	2,638	2,692
Bonds (2)(1)	1	8,897	9,422	6,887	6,940
		11,074	11,660	9,525	9,632

(*) Including assets and liabilities of a disposal group held for sale.

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

Note 32 – Fair value (Cont.)

D. Fair value of items that are not measured at fair value in the Statement of Financial Position: (Cont.)

(2) The interest rates used in the determination of the fair value

The interest's rates used in the discounting of the expected cash flows, where relevant, are based on the government yield curve for each individual type of loan, as of the report date, with the addition of an appropriate fixed credit margin, as follows:

	As of December 31	
	(*)2 0 1 9	2 0 1 8
	%	%
Non-current assets:		
Receivables in respect of franchise arrangement	0.44-1.43	1.91-2.48
Non-current liabilities:		
Loans from banking corporations and other credit providers	0.19-4.18	0.64-4.22

(*) including assets and liabilities of a disposal group held for sale.

Note 32 – Fair value (Cont.)

E. Sensitivity to changes in the interest rates of the investment property cap rates:

	Loss from changes in the market factor			Asset fair value	Profit from changes in the market factor			Valuation method
	NIS in million	NIS in million	NIS in million	NIS in million	NIS in million	NIS in million	NIS in million	
Rate of change	2% absolute increase	10% increase	5% increase		5% decrease	10% decrease	2% absolute decrease	
Weighted cap rate:								
5.75% - 6.50%	(901)	(342)	(179)	3,753	198	418	1,713	DCF method
6.6% - 7.45%	(4,630)	(1,826)	(958)	19,549	1,063	2,241	8,526	DCF method
7.45% - 8.07%	(406)	(177)	(93)	1,644	102	216	697	DCF method
8.5% - 9%	(155)	(74)	(39)	2,146	42	90	244	DCF method
Investment property and investment property under construction	(6,092)	(2,419)	(1,269)	27,092	1,405	2,965	11,180	

Note 33 – Related and Interested Parties

A. Parent company, Controlling Shareholder and subsidiaries:

As stated in Note 1A, most of the Company's shares are held by Nadav Investments Inc, a company controlled by Mses. Sharon Azrieli, Naomi Azrieli and Danna Azrieli. On material subsidiaries, see Note 8 in respect of the Group's entities.

B. Benefits for key managerial personnel (including directors who are employed by the Company):

Benefits in respect of the employment of key management personnel (including directors who are employed by the Company) include:

	For the year ended December 31					
	2019		2018		2017	
	No. of persons	Amount	No. of persons	Amount	No. of persons	Amount
		NIS in millions		NIS in millions		NIS in millions
Short-term benefits (1) (2)	25	39.6	20	29.8	19	28.6
Other long-term benefits	2	0.2	2	1.8	2	0.3
		39.8		31.6		28.9

(1) Also see Note 33C below.

(2) Including 11 directors who are not employed by the Company (in the years 2018 and 2017 – 8 directors).

Note 33 – Related and Interested Parties (Cont.)

C. Transactions and balances with Related and Interested Parties:

	For the year ended December 31			As of December 31	
	2019	2018	2017	2019	2018
	Amounts of transactions			Balance in balance sheet	
	NIS in millions				
Interested Parties and affiliates owned by an Interested Party:					
Rent income	1	1	1	-	-
Contributions (5)	14	14	14	-	-
Trade and other payables	-	-	-	0.3	0.1
Associates:					
Financing income(*)	2.8	4.6	4.6	-	-
Loans and capital notes to associates	-	-	-	-	249.1

(*) Included in profit from discontinued operations.

	Amounts of Transactions		
	For the year ended December 31		
	2019	2018	2017
	NIS in millions		
Key management personnel (including directors) in the Company: (*)			
Interested Parties who are employed by the Company	11.3	11.0	9.7
Number of persons to whom the benefit relates	2	2	2
Director remuneration for Interested Parties who are not employed by the Company	0.3	0.2	0.2
Number of persons to whom the benefit relates	2	2	2
Remuneration for directors who are not employed by the Company (**)	1.6	1.4	1.6
Number of persons to whom the benefit relates	9	6	6

(*) This information is included in Section B above.
(**) See Note 33C(7).

Note 33 – Related and Interested Parties (Cont.)

C. Transactions and balances with Related and Interested Parties: (Cont.)

(1) On December 28, 2014, after receiving the approval of the Company's Compensation Committee and Board, the general meeting of the Company approved the engagement in a management agreement with Ms. Danna Azrieli with respect to the terms and conditions of her office and employment as Active Chairman of the Board of the Company (in this section: the "**Management Agreement**"), an agreement which took effect on January 1, 2015, and the principles of which are specified below:

The Management Services, as hereinafter defined, shall be provided to the Company by Ms. Danna Azrieli through a company wholly-owned by her (in this section: the "**Management Company**"), in the framework of which services, Ms. Danna Azrieli shall serve as the Active Chairman of the Board of the Company on a full-time basis (100% position) (it is clarified that Ms. Danna Azrieli may continue to take additional actions, including philanthropic activities in which she is involved, from time to time, provided that the performance thereof does not affect the discharge of her duties in the Company) and shall provide the following services to the Company, through the Management Company: chairman of the executive board of the Company's management, overseeing the implementation of strategic decisions, formulating business and managerial decisions related to the development and management of the Company's properties, business development, financing and budget, targets and the examination of new operating segments, providing ongoing managerial and professional advice to the Company's management and the managers of the principal operating segments, overseeing, accompanying and analyzing business opportunities and leading transactions and acquisitions in Israel and overseas, overseeing existing projects and monitoring their progress, overseeing development and construction and business development overseas, responsibility for outlining the Company's community relations and representing the Company in conferences in Israel and overseas (in this section: the "**Management Services**").

In consideration for the provision of the Management Services, the Company shall pay Ms. Danna Azrieli (through the Management Company) the following consideration:

Fixed component – Annual management fees in the amount of approx. NIS 2.7 million (in nominal terms) (constituting, as of December 2014, monthly management fees of approx. NIS 225,000), plus legal VAT, linked to the rise in the CPI for November 2014, which was published on December 15, 2014 (the "**Fixed Management Fees**") (in the event of a decline in the index in a particular month, the consideration will not be reduced, but the reduction will be offset against future Index rises). The Fixed Management Fees will be paid in each current calendar month.

Variable component – for the Management Services, the Management Company shall be entitled to an annual bonus, for each calendar year, deriving from the Adjusted Profit, as specified below:

The "**Adjusted Profit**" for purposes of this section, for each calendar year – the annual pre-tax profit, according to the Company's audited consolidated annual financial statements, net of the following amounts: (1) dividend received thereby from financial assets available for sale, which was included in the annual pre-tax profit; (2) profit (loss) deriving from the revaluation of real estate properties; (3) results of companies which do not engage in the Company's core business segments (real estate) and were included in the annual pre-tax profit; (4) linkage differentials accrued on financial liabilities; (5) interest expenses, at the actual weighted effective interest rate for such year, of the Company and companies controlled thereby, which engage in the Company's core business, on loans (regardless of whether or not they were taken) at a financing rate of 65% on the historical purchase cost in the books of the investment in companies which are not in the core business; (6) the sum total of the management fees (including bonus) to Ms. Danna Azrieli for such year, as included in the annual pre-tax profit; and (7) profit (loss) from financial assets (marketable securities) held for trading, including interest and dividend in respect thereof.

Note 33 – Related and Interested Parties (Cont.)

C. Transactions and balances with Related and Interested Parties: (Cont.)

(1) (Cont.)

Bonus threshold and brackets – in a year in which the Adjusted Profit is less than NIS 925 million – there is no bonus entitlement. In a year in which the Adjusted Profit ranges between NIS 925 million and NIS 1,050 million – a bonus shall be paid at the rate of 0.5% of the difference between the bonus threshold and the actual Adjusted Profit; in a year in which the Adjusted Profit exceeds NIS 1,050 million – for the portion of the Adjusted Profit exceeding NIS 1,050 million – the amount paid shall be 0.75% of the amount in excess of NIS 1,050 million, plus 0.5% of the difference between NIS 925 million and NIS 1,050 million.

Bonus cap and payment for a partial year – the sum total of the annual bonus for each calendar year as aforesaid shall not exceed NIS 1.5 million. If the Management Services shall have been rendered during part of a calendar year, the Management Company shall be entitled to a bonus calculated according to the relative part in the annual calculation results, on the basis of a 365 day year, in accordance with the part of the year during which the Management Services were rendered and based on the consolidated annual statements for such year in which the Management Agreement commenced or ended.

Clawback clause – if and insofar as it transpires *post factum* that the figures on which the Company relied when granting an annual bonus as aforesaid to the Management Company are incorrect and that restatement thereof in the Company’s Financial Statements is required, the Management Company shall repay the Company the difference between the amount of the bonus paid thereto based on such incorrect figures and the amount of the annual bonus to which it is entitled based on the figures following such restatement.

Reimbursement of expenses, car and telecommunication – the Company shall bear all of the expenses of the Management Company in the context of the provision of the Management Services, including entertaining expenses, travel and *per diem* expenses in Israel and abroad, all in accordance with the Company's procedures and against presentation of appropriate evidence up to a maximum amount as shall be determined by the Company's Audit Committee from time to time and which shall be determined appropriate thereby, taking into account the Company's business and the scope thereof. The Company shall further bear the costs of making available and maintaining a car for the purpose of providing the Management Services, the costs of use of telephony and telecommunication, and may also, from time to time and in accordance with the compensation policy, grant Ms. Danna Azrieli additional related benefits, such as a laptop, internet connection, subscriptions to financial newspapers and daily newspapers, payment for participation in professional conferences, professional literature, seminars, etc. Reimbursement of car and telecommunication expenses shall not exceed a maximum amount as shall be determined from time to time by the Audit Committee and which shall be determined appropriate thereby, considering the Company's business and the scope thereof.

The Management Agreement also includes the Company’s undertaking of inclusion within an officers’ insurance policy, and the grant of letters of exemption and indemnification in the standard language granted to the other officers of the Company, all subject to the provisions of the Companies Law and the approvals required thereunder, the Company's articles of association and the Company's compensation policy.

Term of the agreement and termination thereof – the Management Agreement took effect on January 1, 2015 for a three-year period as of such date, unless extended prior thereto by agreement between the parties and subject to receipt of all of the approvals required under law. The Management Agreement may be terminated by the Management Company, on the one hand, and by the Company, by way of a board resolution, on the other hand, subject to a prior notice of 6 months in advance (with no adjustment period), other than in exceptional events in which it may be terminated by the Company with immediate effect.

Note 33 – Related and Interested Parties (Cont.)

C. Transactions and balances with Related and Interested Parties: (Cont.)

(1) (Cont.)

On October 6, 2016, the general meeting of the Company's shareholders approved the extension of the Management Agreement for a three-year period, from the aforesaid meeting approval date, with no change to the agreement then in effect.

On August 11, 2019, the Company's general meeting approved, after approval by the Board and the Compensation Committee's recommendation, the update to the conditions of the management agreements with the Company's Chairman of the Board, as follows:

a. Update to the fixed component:

The annual management fees will be NIS 3 million (which constitute monthly management fees in the sum of NIS 250 thousands), plus legal VAT, linked to the increase in the CPI for the month of April 2019, which was published on May 15, 2019 (the "**Fixed Management Fees**") (the consideration will not be reduced in the event of a decrease in the CPI in a given month, but the reduction will be deducted from future increases in the CPI). The Fixed Management Fees will be paid in each current calendar month.

b. Update to the annual bonus:

In a year in which the Adjusted Profit is lower than NIS 1,015 million - there is no bonus entitlement (the "**Bonus Threshold**"). It is clarified that if the Adjusted Profit is higher than such Bonus Threshold, no bonus shall be paid for an Adjusted Profit in the sum of up to NIS 1,015 million.

In a year in which the Adjusted Profit shall be NIS 1,015 million up to NIS 1,140 million – a bonus shall be paid at a rate of 0.5% of the difference between the Bonus Threshold and the actual Adjusted Profit; In a year in which the Adjusted Profit shall exceed NIS 1,140 million – a cumulative annual bonus shall be paid as follows:

1. For an Adjusted Profit in the amount of up to NIS 1,015 million – no bonus shall be paid;
2. For that part of the Adjusted Profit between NIS 1,015 million and NIS 1,140 million – 0.5% of the difference between NIS 1,015 million and NIS 1,140 million, shall be paid.
3. For that part of the Adjusted Profit that shall exceed NIS 1,140 million – 0.75% of the difference between the Adjusted Profit and NIS 1,140 million, shall be paid.

The total annual bonus for each calendar year shall not exceed NIS 2 million.

Other than the foregoing updates, no further changes were made to the Management Agreement.

The Management Agreement will be effective for three years from the date of approval by the general meeting.

The total management fees for 2019 and 2018 totaled approx. NIS 4.3 million and NIS 4.2 million, respectively.

(2) With respect to the guarantees that the Group has made available to companies in the Group, see Note 28B.

Note 33 – Related and Interested Parties (Cont.)

C. Transactions and balances with Related and Interested Parties: (Cont.)

(3) On April 2, 2013, the Company's Board approved the appointment of Mr. Yuval Bronstein ("**Mr. Bronstein**") as the Company's CEO starting from May 1, 2013, in lieu of his office as the Company's CFO.

On June 20, 2013, the general meeting approved the terms of the Company's engagement in an agreement with a company wholly-owned by Mr. Bronstein (the "**Management Company of Mr. Bronstein**").

On October 6, 2019, the management agreement with Mr. Bronstein was updated, such that the Management Company of Mr. Bronstein was entitled to a fixed monthly payment of NIS 313,000, linked to the rate of increase of the CPI for June 2016, and to related benefits, including the provision of a vehicle (Group 7) and a mobile phone.

Furthermore, the Management Company of Mr. Bronstein was entitled to adjustment compensation in an amount equal to 9 monthly payments.

In 2017, Mr. Bronstein received a bonus in the sum of NIS 941 thousand.

In October 2017, Mr. Yuval Bronstein gave notice of the termination of his office on December 31, 2017.

(4) On October 19, 2017, the Board appointed Mr. Eyal Henkin ("**Mr. Henkin**") as the Company's CEO, starting from January 1, 2018.

On April 30, 2018, the general meeting of the Company's shareholders approved the terms and conditions of Mr. Eyal Henkin's office and employment (through a private company wholly-owned by him, the "**Management Company of Mr. Henkin**") as CEO of the Company.

The Management Company of Mr. Henkin is entitled to a fixed monthly payment of NIS 313 thousand, linked to the June 2016 index, as published in July 2016, and related benefits, including the provision of a vehicle (Group 7) and a mobile phone.

Each of the parties may terminate the agreement, for any reason whatsoever, by a prior written notice of three months.

Furthermore, the Management Company of Mr. Henkin shall be entitled to an adjustment bonus in an amount equal to 9 monthly payments.

On August 11, 2019, the Company's general meeting approved, after approval by the Board and the Compensation Committee's recommendation, the update to the conditions of the management agreements with the Company's CEO, as follows:

The Company's CEO shall be entitled to a discretionary annual bonus in the amount of up to 3 times the monthly cost of employment, according to the recommendation of the Chairman of the Board and as shall be approved by the Compensation Committee and the Board, according to criteria that will be determined in advance for each year (the "**Discretionary Bonus**").

Note 33 – Related and Interested Parties (Cont.)

C. Transactions and balances with Related and Interested Parties: (Cont.)

(4) (Cont.)

The Company's CEO shall further be entitled to an annual bonus that will be based on the following two components and will be calculated as follows (the "**Measurable Bonus**"):

a. **Meeting the FFO target** – An operational parameter based on meeting the FFO target set forth in the Company's annual work plan, as shall be approved by the Compensation Committee and the Board during the first quarter of each year for which the Measurable Bonus is granted (the "**FFO Target**").

A prerequisite for receiving this component of the bonus is meeting 90% of the FFO Target. The CEO's eligibility for the bonus shall be calculated in a linear manner in accordance with the extent to which the FFO Target is met, whereby for fully meeting the FFO Target the CEO shall be entitled to a bonus in the sum of 2 times the monthly cost of employment.

b. **Meeting the NOI target** – An operational parameter based on meeting the NOI target set forth in the Company's annual work plan, as shall be approved by the Compensation Committee and the Board of the Company during the first quarter of each year for which the Measurable Bonus is granted (the "**NOI Target**").

A prerequisite for receiving this component of the bonus is meeting 90% of the NOI Target. The CEO's eligibility for the bonus shall be calculated in a linear manner in accordance with the extent to which the NOI Target is met, whereby for fully meeting the NOI Target the CEO shall be entitled to a bonus in the sum of 4 times the monthly cost of employment.

To clarify, in any event, the total amount of the Discretionary Bonus together with the Measurable Bonus to the CEO shall not exceed the amount of 9 times the monthly cost of employment of the CEO.

Should it transpire, in retrospect, that the figures on which the Company relied at the time of granting the annual bonus are incorrect, and that restatement thereof in the Company's financial statements is required, then the Company's CEO shall return to the Company the gap between the sum of the bonus that was paid to him based on the said incorrect figures and the sum of the annual bonus to which he is entitled based on the figures after their said restatement.

Other than the update to the annual bonus to which the Company's CEO is entitled, no further changes were made to the management agreement of the Company's CEO.

In 2019, Mr. Henkin received, through his management company, a bonus in the sum of approx. NIS 2.9 million.

Note 33 – Related and Interested Parties (Cont.)

C. Transactions and balances with Related and Interested Parties: (Cont.)

(5)

a. On May 5, 2010, shortly before the Company's IPO, the Company's general meeting, after the approval of the Company's Board had been received on May 5, 2010, gave its approval that within the framework of the annual contributions which are given to NPO's by the Company, whose scope shall be determined by the Company's Board from time to time, the Company shall remit, *inter alia*, through contributions to the Azrieli Foundation (Israel) (R.A.), ("**AFI**"). The resolution was adopted based on an examination of the main objectives of AFI which are to act to promote education and culture in Israel, through projects in the field of education, culture, welfare and science, the execution of project and the conducting of research alone and/or in conjunction with other organizations, including by means of awarding grants to organizations and/or individuals for the purpose of the performance of projects and/or research work that accords with the objectives of the Foundation, which have been examined and found to accord with the Company's policy on contributions. There is nothing in the said decision that prevents the Company's Board from resolving to contribute to other charitable entities, whose objectives accord with the Company's policy on contributions, as they may be from time to time.

Within the framework of the said decision by the general meeting, it was determined that during the period until May 2015, the company will donate to the Foundation, in each calendar year, by itself or by means of companies that it controls (except for Granite), an amount that constitutes 1.5% of the Company's annual profit and in any event not more than an amount of NIS 14 million.

The contributions remitted by the Company to AFI were used for the making of donations and for the current needs of the AFI. This contribution is deemed as a contribution out of the Company's annual contribution budget, as determined by the Company's Board from time to time.

The Company's internal auditor was appointed by the Company's Board, to examine in each calendar year, until the date of signing of the financial statements for such year, the total scope of the contributions that were transferred to AFI and the use made with the contribution funds, and the match between such use and the considerations that underlay the decision of the general meeting that approved such annual contribution, and to submit a written report to the Audit Committee. In view of Amendment 16 to the Companies Law that shortened the transaction to 3 years, on March 14, 2013, the Company's Audit Committee approved the reasonableness of the period which was set at 5 years (namely – May 2015).

In May 2015, the general meeting (after the approval of the Audit Committee and the Company's Board) approved the Company's engagement with AFI in a new contribution arrangement, which extended the arrangement for contribution to AFI by another five years commencing on June 1, 2015 and ending on May 31, 2020.

Note 33 – Related and Interested Parties (Cont.)

C. Transactions and balances with Related and Interested Parties: (Cont.)

(5) (Cont.)

b. On March 13, 2014, a contribution agreement (the "**Contribution Agreement**") was signed between Azrieli Holdings and AFI.

According to the terms of the Contribution Agreement, Azrieli Holdings granted AFI, by way of a contribution, for no consideration, 6,902,000 ordinary shares of par value NIS 0.1 each of the Company (the "**Contribution Shares**"), which constitute approx. 5.69% of the Company's issued capital.

According to the provisions of the Contribution Agreement, the contribution of the Contribution Shares to AFI was made subject to the following 3 conditions:

(a) AFI shall hold the Contribution Shares, shall not transfer the same nor make any other disposition therein, for a period of at least 10 years from the date of execution of the Contribution Agreement (the "**Limitation Period**"); upon expiration of the Limitation Period, any transfer of the Contribution Shares by AFI will require a resolution by a special majority of at least 75% of the members of the board (or any other required organ), who are entitled to participate in a vote on such resolution ("**Special Approval**");

(b) Upon expiration of the Limitation Period and subject to receipt of the Special Approval as aforesaid, any future transfer of the Contribution Shares will be subject to a right of first refusal in favor of Azrieli Holdings;

(c) Azrieli Holdings shall retain all of the voting rights under the Contribution Shares, to which end AFI has signed the necessary powers of attorney. In the case of a future sale of the Contribution Shares by AFI, the voting rights under the Contribution Shares shall pass to the buyer.

As a result of receipt of the Contribution Shares, AFI became an Interested Party, as this term is defined in the Securities Law, 5728-1968 (the "**Securities Law**"), in the Company. Pursuant to the provisions of the Contribution Agreement, Azrieli Holdings and AFI are considered "Joint Holders of the Contribution Shares" (within the definition of "Holding or Purchasing Securities Together with Others" in the Securities Law). For purposes of duties applicable or relating, according to the Companies Law, to controlling shareholders of a company, the Company chose to treat AFI as if it is a controlling shareholder of the Company, even if this is not required by the provisions of the law, so long as the Company does not report otherwise.

c. The Azrieli Foundation, a registered Canadian philanthropic foundation whose assets are designated for donations and to fund philanthropic activity in Israel and in Canada holds, as of the report date, 8.55% of the Company's issued share capital.

(6) In November 2014, Gemel Tesua Investments Ltd. – a Consolidated Company ("**Gemel Tesua**") entered into an agreement AFI (see Section 5 above), according to which Gemel Tesua will lease to AFI, at arm's length, from January 2015, an area of approx. 457 sqm out of the office space in the Herzliya Business Park project, which is owned by the Group, and will also provide AFI with management and maintenance services as it provides to the other tenants in the project, which include, *inter alia*, cleaning, maintenance, building insurance and third party insurance for the public areas, payments of municipal taxes in respect of the public areas and gardening, for a period of five years, with an option to extend the period for an additional five years, in consideration for a monthly payment of approx. NIS 58 thousand. After the date of the Statement of Financial Position, the agreement was extended by additional 5 years, until January 15, 2025.

Note 33 – Related and Interested Parties (Cont.)

C. Transactions and balances with Related and Interested Parties: (Cont.)

(6) (Cont.)

It was further agreed that Gemel Tesua will receive one-time compensation from AFI in respect of the investment budget provided in relation to the old area in the sum of NIS 313 thousand, linked to the index according to the previous agreement of 2010.

In October 2013, Gemel Tesua entered into an agreement with Candan Residences Ltd. ("**Candan Residences**"), a company controlled by the Controlling Shareholder and Chairman of the Board, Ms. Danna Azrieli, whereby Gemel Tesua will lease to Candan Residences, at arm's length, effective from October 2013, an area of approx. 190 sqm of the office space in the Herzliya Business Park project that is owned by the Group, and will provide to Candan Residences management and maintenance services as it does to the other tenants in the project which include, *inter alia*, cleaning, maintenance, building insurance, third party insurance for public areas, payment of municipal taxes for public areas and gardening, for a two-year period with an option to extend the period by two more years until October 14, 2017, in consideration for a monthly payment of approx. NIS 22 thousand. The agreement was extended by additional years with the same terms and conditions until October 14, 2021.

The Company classified the transactions as negligible transactions, at arm's length and in the ordinary course of business, and determined that they are not transactions which require special approvals pursuant to the Companies Law (the classification was made in relation to each transaction separately).

(7) Remuneration of the directors - in accordance with the decision of the Company's Board and general meeting, from May 10, 2010 and August 24, 2010, the remuneration of the outside directors, who are appointed in the Company, to be in accordance with the Companies Regulations (Rules on Outside Directors' Remuneration and Expenses), 5760-2000 (the "**Remuneration Regulations**"). The annual remuneration and the remuneration for participation (including remuneration as an expert outside director) will be paid in accordance with the maximum amount that is set in the Remuneration Regulations, in accordance with the Company's capital grade, as it may be from time to time.

In accordance with the decision of the Company's Compensation Committee and Board of May 24, 2016, Mses. Sharon Azrieli and Naomi Azrieli, who serve as directors of the Company, were entitled to an annual remuneration in an amount of NIS 65 thousand and remuneration for participation in a meeting in an amount of NIS 2,300, which amounts are linked to the index in accordance with the provisions of the Remuneration Regulations. In addition, the provisions of Sections 5(B) and 6(A) of the Remuneration Regulations will apply to the remuneration paid to such directors, *mutatis mutandis*.

On July 4, 2019, the Company's Board approved, after receipt of the approval of the Compensation Committee, that as of June 3, 2019 the aforesaid directors are entitled to the remuneration to which are entitled all the other directors in the Company who do not receive a salary or management fees.

Note 33 – Related and Interested Parties (Cont.)

D. Exemption, insurance and indemnification for officers and directors:

(1) Exemption:

In accordance with the decisions of the Company's shareholders meeting from time to time, the last one being on April 27, 2019 (after the approval of the Compensation Committee and Board), the Company grants officers and directors, as being from time to time, an exemption in advance and in retrospect from their responsibility, in whole or in part, for any damage that may be caused thereto and/or that has been caused thereto, whether directly or indirectly, as a result of a breach of the duty of care of the directors and the officers vis-à-vis it and its subsidiaries, and in their capacity as officers and/or directors of the Company or officers and/or directors acting on the Company's behalf in subsidiaries, provided that the exemption will not apply to a decision or transaction in which the Company's Controlling Shareholder or officer has a personal interest.

(2) Indemnification:

In accordance with the decisions of the Company's shareholders meeting from time to time, the last one being on April 27, 2019 (after the approval of the Compensation Committee and Board), the Company grants all of the officers of the Company and directors of the Company, as being from time to time, an undertaking to indemnify for any liability or expense as specified below, imposed thereon as a result of actions made (including actions made prior to the grant of the letter of indemnification) and/or will make in their capacity as officers and/or directors of the Company or as officers and/or directors acting on the Company's behalf in subsidiaries or affiliates of the Company or any other company in which the Company has an interest: (a) a financial liability that is placed on an officer and/or director in favor of another person under a judgment, including a judgment issued by way of compromise or an arbitration award that is approved by a court and provided that those actions relate to one or more of the events that are detailed in the letter of indemnification; (b) reasonable litigation expenses, including legal fees, incurred by an officer and/or director or that they were charged to pay by a court, in proceedings that were presented against them by the Company or in its name or by another person, or on a criminal indictment that they are acquitted of, or on a criminal indictment on which they are found guilty in an offence that does not require proof of criminal intent; (c) reasonable litigation expenses, including legal fees incurred by the officer and/or director, as the result of an investigation or proceedings that are conducted against them by an authority that is authorized to conduct the investigation or proceedings, and which ended without the presentation of an indictment against them and without any financial liability being placed upon them in lieu of criminal proceedings, or which ended without the presentation of an indictment against them but with the placement of a financial liability in lieu of criminal proceedings in an offence that does not require proof of criminal intent; (d) a financial liability imposed on the officer and/or director due to payment for parties injured by a breach in administrative proceedings; (e) the expenses incurred by the officer and/or director in connection with an administrative proceedings conducted in respect to him, including reasonable litigations expenses, and including legal fees.

The amount of the indemnification that the Company will pay to all of the officers (including the directors), cumulatively, in accordance with all of the letters of indemnification that is issued to them by the Company pursuant to the indemnification decision, in respect of one or more of the events that are detailed in the letter of indemnification, may not exceed 20% of the equity that is attributed to the shareholders of the Company in accordance with the last financial statements of the Company (audited or reviewed), which were published before the date of the indemnification.

On April 27, 2017, the general meeting of the Company's shareholders approved an amendment to and extension of letters of exemption and indemnification that had been granted to Ms. Danna Azrieli, Ms. Sharon Azrieli and Ms. Naomi Azrieli, who have an indirect control of the Company and who serve as directors of the Company, for an additional three-year period.

Note 33 – Related and Interested Parties (Cont.)

D. Exemption, insurance and indemnification for officers and directors: (Cont.)

(3) Insurance:

Pursuant to the Company's compensation policy, the Company is purchasing an insurance policy for directors and officers (including from among the Company's controlling shareholders of the Company and the Company's subsidiaries, except in relation to the Granite Hacarmel group which holds an independent D&O insurance policy. On June 2, 2019, the Compensation Committee approved an engagement for the renewal of the D&O insurance policy of the Company (including from among the Company's controlling shareholders) and the subsidiaries of the Company, from June 2019 until June 2020, under the conditions specified below:

1) The limits of liability in the insurance policy shall not exceed U.S. $100 million per event and for the period of the insurance, plus reasonable legal defense costs in Israel, over and above the limits of liability, and in respect of claims filed outside of Israel – reasonable legal defense costs over and above the limits of liability, in accordance with trial costs customary in Israel and pursuant to the Israeli law.

2) The deductible per claim for the Company alone shall not exceed U.S. $150 thousand, in accordance with the cause of action and the place of filing thereof.

3) An annual premium in the sum of U.S. $144 thousand.

4) The insurance policy was extended to cover claims that are filed against the Company (as distinguished from claims against directors and/or officers thereof), which concern the violation of securities law at least in Israel (entity coverage for securities claims) as well as claims concerning employment relations with limits of liability of up to U.S. $3 million, and procedures for the payment of insurance benefits shall be determined, whereby the right of the directors and/or officers to receive indemnification from the insurer pursuant to the policy shall precede the right of the Company.

E. Negligible transactions:

On November 24, 2010, the Company's Board decided to adopt guidelines and rules regarding the classification of transactions which are not irregular transactions, of the Company or of a Consolidated Company thereof with Interested Parties therein or controlling shareholders, as a negligible transactions. Such guidelines were prescribed, *inter alia*, considering the scope of the Company's assets, the diversity of its businesses, the nature of the transactions performed thereby and the level of effect thereof on the Company's business and results. In May 2015, the Company's Board adopted a master procedure for transactions with Related Parties, which consolidated and incorporated procedures that were approved at the Company in the years preceding the approval thereof, including in respect of classification of negligible transactions.

Such rules and guidelines will serve on the one hand for examining the need to approve the transaction at the relevant institutions in the Company, and on the other hand, for examining the duty and/or scope of disclosure in the periodic report and the prospectus (including in shelf offer reports), and/or the provision of an immediate report in respect of such a transaction. It is noted that the transactions are examined at the group level, including material companies controlled by the Company.

The Company's Board determined that a negligible transaction at the Company is a transaction of the Company with controlling shareholders or another person in which the controlling shareholder has a personal interest, which is not irregular (i.e. is in the ordinary course of business, at arm's length and immaterial), and meets the following tests:

Note 33 – Related and Interested Parties (Cont.)

E. Negligible Transactions (Con.)

(1) In respect of the duty to provide an immediate report in connection with a negligible transaction – a single transaction in a company or a subsidiary controlled thereby is a negligible transaction if the financial scope thereof does not exceed the rate of 0.1% of the Company's consolidated equity according to the last financial statements; in case of ongoing transactions (including rent, leases and so forth), according to the monthly transaction amount, or the total sum of the transaction for the whole duration of the engagement, according to the shorter/lower between them. For the purpose of immediate report, the negligibility of a transaction will be examined on the basis of the specific single transaction, and to the extent such will pass the negligibility threshold, the Company will report such transaction through an immediate report.

(2) In respect of providing specification in the annual report in connection with negligible transactions – the total sum of all of the transactions of a certain type in the Company or a subsidiary controlled thereby, in a calendar year has not exceeded a rate of 0.5% of the Company's consolidated equity according to the last annual reports. The Company will include the types of transactions and aggregate amount thereof within its annual report only if the total amount exceeds the rate stated above. For the purpose of reporting within a periodic report, financial statements and a prospectus (including a shelf proposition report), the negligibility of the aggregate of all of the transactions of the same type of the Company with the controlling shareholder or with corporations controlled by the controlling shareholder, will be examined on an annual basis.

(3) Integrated transactions - upon the classification of transactions as negligible or non-negligible, each transaction will be examined in itself, however, the negligibility of integrated transactions, or such that are contingent upon each other or transactions of the same type, will be examined in the aggregate as one transaction. In respect of multiannual transactions (agreements for a period of several years), the scope of transaction will be calculated for examination of the negligibility threshold on an annual basis (i.e. – the total monetary amount deriving from the transaction exceeding the negligibility threshold as aforesaid). In insurance transactions, the premium will be examined as the transaction amount. Regardless of the insurance coverage provided, multiannual insurance transactions will be measured on the basis of the annual insurance fees paid or collected.

(4) Negligible transactions at the subsidiaries – the transactions classified as negligible by the Company's investees will be deemed as negligible at the Company level too, while those classified by them as non-negligible, will be examined on the Company level. In case that the Company does not have available information allowing the examination of the classification of transactions as negligible or non-negligible transactions, then the aggregate of all of the transactions of the same type will be deemed as a negligible or non-negligible transaction, except if according to the figures in the Company's possession, one of the two conditions has been fulfilled: (1) According to the quantitative parameter above, the transaction in itself as a single transaction is not negligible; (2) the aggregate of the transactions is material to the Company.

(5) Non-quantitative examination – notwithstanding the aforesaid, the examination of the qualitative considerations of a negligible transaction from the quantitative aspect, may lead to the classification thereof as a transaction which is not negligible, if due to its nature, materiality and effect on the Company it is perceived as a significant event by the Company's management and serves as a basis for adoption of important managerial decisions or if within the context of the Company's transaction with controlling shareholders or another person in which the controlling shareholder has a personal interest, the other party is expected to receive benefits with regards to which there is significance in the reporting thereof to the investor public. It is clarified that even if a transaction of the Company with controlling shareholders or another person in which the controlling shareholder has a personal interest meets the quantitative test below, it will not be deemed negligible if such qualitative considerations indicate a material aspect thereof.

Note 33 – Related and Interested Parties (Cont.)

E. Negligible Transactions (Con.)

(5) (Cont.)

The approving entity

Pursuant to Section 22.3 of the Company's articles, the Board determined that the classification of an Interested Parties' transaction as a negligible transaction will be examined by the CFO in cooperation with the General Counsel, to the extent required, and in any approval of a transaction as negligible the examination and classification proceeding will be documented.

In accordance with the Company's master procedure, the classification of a transaction of the Company with controlling shareholders or with another person in which the controlling shareholder has a personal interest as a negligible transaction will be examined by the CFO and the General Counsel, to the extent required, and in every approval of a transaction as a negligible transaction, the examination and classification proceeding will be documented. In addition, the Board has authorized the Company's CEO or the CFO to approve the performance of transactions which meet the definition of negligibility according to this procedure, subject to the following two exceptions: (a) a situation in which both of the said persons have a personal interest in the same transaction, in which case such person will be replaced by another senior officer at the Company; and (b) a transaction concerning the terms of office and employment of an officer, or an engagement with a controlling shareholder or his relative, directly or indirectly, including through a company controlled by him, in respect of receipt of services from him by the Company, and if he is an employee of the Company and not an officer thereof – in respect of his employment at the Company, in which case the approval proceeding will be carried out pursuant to the Companies Law.

Competitive proceeding or another proceeding

In May 2015, the Audit Committee approved an amendment to the procedure, whereby unless decided otherwise by the Audit Committee, for Irregular Transactions and Non-negligible Transactions specified in Section 270(4) of the Companies Law, the Company's management shall conduct a competitive proceeding or another proceeding at the Company under the supervision of the Audit Committee, in accordance with the following principles.

In transactions for the purchase of services and/or the purchase of equipment and systems, the amount of annual expense in respect of which exceeds the quantitative threshold set for in the procedure, proposals from at least 3 different relevant suppliers in the required field, which were given in accordance with a specification of requirements to be determined thereby according to its needs and in accordance with the Group's procurement procedures, as being from time to time, will be presented to the Audit Committee with a recommendation to the Audit Committee of the chosen bidder and the reasons for the choice. The invitation to submit proposals will be supervised by the CFO of the Company who may instruct, according to his discretion, the performance of changes and/or improvements in the proceeding and/or negotiations with the bidders.

Note 33 – Related and Interested Parties (Cont.)

E. Negligible transactions: (Cont.)

(5) (Cont.)

Competitive proceeding or another proceeding (Cont.)

With respect to transactions for the lease of income-producing spaces, which are the Company's core business, and in view of the fact that during the regular course of business the proper proceeding is not necessarily a competitive proceeding, especially when such proceeding may create a business advantage for competing companies vis-à-vis potential lessees who are good for the Company, and the length of time for conducting such proceeding may jeopardize good transactions, the Company has adopted another proceeding, whereby a transaction, the amount of annual expense in respect of which exceeds the quantitative threshold set for in the procedure, and assuming that the marketing stages for such asset shall have commenced (i.e., pricing, hiring brokers etc.), the Company shall act to collect comparative data for the transaction (price per sqm, benefits and investments, lessees and their characterization, fittingness to the mix) in similar properties of the Company and similar properties of third parties in that area, and, to the extent required, shall be assisted by external consultants for this purpose. The Audit Committee and/or Board may request the Company's management to provide additional details or a comparison from other aspects. The Company's management shall present the Audit Committee with the details of the transaction proposed for approval and the reasons with respect to its advantageousness relative to the comparative transactions. It is clarified, that if it is a transaction which the Audit Committee determines to be uncharacteristic of the Company due to its scope and content (such as the construction or purchase of an entire building for the purpose of leasing it to one lessee which is a Related Party), the Audit Committee shall determine the procedures and the transaction shall be approved according to the requirements of the law.

Related Party transactions for the purchase of products from companies owned by Granite Hacarmel, whose activity is not in the core business of the Group and their products are mostly sold "over the counter", will not be deemed a transaction under the procedure.

Transactions with respect to terms of office and employment, other transactions with companies in the Granite Group and/or the contribution to bodies in which the Controlling Shareholder has a Personal Interest, shall be discussed at the Audit Committee, which shall determine, for every transaction, the suitable procedure for approval thereof. Nothing in the aforesaid shall derogate from the duties of approval of such engagements under any law.

In types of transactions in respect of which this chapter does not stipulate whether there is a duty to conduct a competitive proceeding or another proceeding, the Audit Committee shall determine in advance, ad hoc, for any concrete future transaction, whether the competitive proceeding or another proceeding will be conducted and the nature thereof as aforesaid.

Supervision and audit

Internal bi-quarterly review – until July 15 and January 15 of each year, a report shall be made to the Company's CFO on transactions as stated in the procedure (including negligible and non-negligible transactions) in which the Company engaged in the two quarters that lapsed, and in respect of transactions with affiliates in which other companies in the Group engaged, stating the terms and conditions of each transaction (annual financial volume, general financial volume, nature of the transaction, identity of the Related Party and other material conditions).

Note 33 – Related and Interested Parties (Cont.)

E. Negligible transactions: (Cont.)

(5) (Cont.)

Annual follow-up

Once a year, before the deliberation on the Company's annual financial statements, or in special cases if the Audit Committee so requests prior thereto, the coordinator will report to the Audit Committee on transactions as stated in the procedure (including negligible and non-negligible transactions and including the Company's engagements in lease agreements with Related Parties in view of the Company's undertaking in the Company's IPO prospectus released in May 2010) and in which the Company engaged during the previous year and during the months until the date of approval of the financial statement at the Company's institutions, insofar as relevant. The report will also include Related Party transactions in other companies of the Group which were brought to the coordinator's attention during such period, stating the terms and conditions of each transaction (annual financial volume, general financial volume, nature of the transaction, identity of the Related Party and other material conditions), and regarding the sum total of the Related Party transactions in such year. In the framework of the annual follow-up as aforesaid, the officer shall attach a statement signed by him, whereby to the best of his knowledge and understanding, all of the relevant processes for mapping and identifying transactions with Related Parties were carried out at the Company and that all of the checks required by virtue of the undertaking in the prospectus were carried out, all in accordance with the provisions of the procedure, and that the transactions he reported were duly disclosed in the annual financial statements.

The Company's Board will examine, from time to time and at least once every three years, after receipt of the Audit Committee's recommendation, the implementation of the procedure by the Company and the need to update the procedure and/or the criteria therein and/or the proceedings prescribed for approval of the transactions, considering Related Party transactions in which the Company engages, material changes in the scope of the business of the Company and the Company's Investee Companies, and the relevant financial figures, and changes in the relevant statutory provisions. The provisions of the procedure do not derogate from the authority of the Audit Committee to decide to hold a discussion, from time to time, on various aspects relating to Interested Party transactions and to invite to such discussions the relevant entities, including the Company's management, the coordinator, the internal auditor and the General Counsel.

Note 34 – Segment reporting

A. General:

The Company applies IFRS 8, "Operating Segments" ("**IFRS 8**"). In accordance with the provisions of the standard, operating segments are identified on the basis of the internal reporting in respect of the components of the Group, which are reviewed on a regular basis by the Group's Chief Operational Decision Makers ("**CODM**") for the purpose of the allocation of resources and the evaluation of the performance of the operating segments.

The Company's business activities focus primarily on the various property segments, while most of the Group's business activity is in the retail centers and malls in Israel segment, and in the leasable office and other space segment, and projects under construction designated for residential lease in Israel. In addition, the Company engages in the income-producing property in the U.S. segment (office space for lease) and in the senior housing segment.

The Company has other business activities, including financial investments and e-commerce activity. In addition, in July 2019, the Group invested in Compass, which operates mainly in the data centers industry in North America (for further details, see Note 8B). After the date of the Statement of Financial Position, in February 2020 the Company completed the purchase of the Mount Zion Hotel in Jerusalem in the context of its entry into the hospitality industry.

Note 34 – Segment reporting (Cont.)

A. General (Cont.)

In addition, the Company engaged, through its holding in Granite, until November 2019, in the marketing of energy substitutes (through Supergas Israeli Gas Distribution Company Ltd., held 100% by Granite), and through its holding in GES in the field of the treatment of water, wastewater and chemicals (until November 2019 through its holding in Granite and directly since then).

In view of the completion of the sale of Supergas in the framework of the sale of Granite, and in view of the Group's engagement in an agreement for the sale of all of the Company's holdings in GES, which the parties to the agreement intend to complete until April 23, 2020, in view of the Company's intention to focus on the core real estate business, Granite is presented as discontinued operations in the report (for further details, see Note 7).

The following are the Company's operating segments:

Segment A – Retail centers and malls in Israel.

Segment B – Leasable office and other space in Israel.

Segment C – Income-producing property in the U.S..

Segment D – Senior housing.

In the following business segments: the retail centers and malls in Israel, leasable office and other space in Israel, income-producing property in the U.S. and senior housing, the data of each one of the segments was aggregated.

Following are the considerations exercised by the management in implementing the criteria for aggregation of each one of these segment:

The Group's management examined the financial characteristics of each one of these segments and reached the conclusion that the financial characteristics in each one of them are similar, due to the fact that each one of the segments is managed in the same geographical region (Israel or the U.S.), stated in the same currency (NIS or USD), subject to similar political and legal conditions, and has similar profitability rates. In addition, the Group's management considered that each one of these segments is similar in all of the following characteristics:

- The nature of the projects – all of the projects in each one these segments are in the same operating segment.
- The nature of the development and enterprise processes – all of the projects in each one of these segments involve similar development and enterprise processes.
- Type of customers – all of the projects in each one of these segments, are marketed to similar clientele (business customers, the senior population).

- The methods used for marketing the projects – the methods for marketing all of the projects in each one of these segments are similar and include identical advertising and marketing processes.
- The nature of the supervisory environment – similar laws, regulations and rules apply to all of the projects in each one of these segments, including in respect of real property, planning, construction, and leasing, environmental protection, laws on the municipal level and in respect of land taxation, and laws and regulations in the field of senior housing.

Based on the considerations specified above, the Group's management believes that the aggregation of each one of the segments: the retail centers and malls in Israel, leasable office and other space in Israel, income-producing property in the U.S. and senior housing are in accordance with IFRS 8.

Note 34 – Segment reporting (Cont.)

B. Operating segments:

	For the year ended December 31, 2019						
	Retail centers and malls in Israel	**Leasable office and other space in Israel**	**Income-producing property in the U.S.**	**Senior housing**	**Others**	**Adjustments**	**Consolidated**
	NIS in millions						
Income:							
Total external income	1,050	716	268	156	58	(13)	2,235
Total segment expenses	219	122	129	119	98	(3)	684
Segment profit (loss) (NOI)	831	594	139	37	(40)	(10)	1,551
Net profit (loss) from adjustment to fair value of investment property and investment property under construction	123	690	(12)	100	20	(20)	901
Unallocated costs							(148)
Financing expenses, net							(246)
Other income, net							99
Company's share in the results of associates, net of tax							19
Income before taxes on income							2,176
Additional information as of December 31, 2019:							
Segment assets	13,018	11,655	2,421	2,410	582	(77)	30,009
Unallocated assets (*)							5,230
Total consolidated assets							35,239
Capital investments	219	532	34	238			

(*) Mainly financial assets in the sum of approx. NIS 1.2 billion and cash and short-term deposits in the sum of NIS 2.9 billion.

Note 34 – Segment reporting (Cont.)

B. Operating segments (Cont.):

	For the year ended December 31, 2018					
	Retail centers and malls in Israel	Leasable office and other space in Israel	Income-producing property in the U.S.	Senior housing	Others	Consolidated
	NIS in million					
Income:						
Total external income	1,034	633	267	130	37	2,101
Total segment expenses	214	116	118	93	90	631
Segment profit (loss) (NOI)	820	517	149	37	(53)	1,470
Net profit (loss) from adjustment to fair value of investment property and investment property under construction	(4)	167	(48)	103	-	218
Unallocated costs						(132)
Financing expenses, net						(225)
Other income, net						88
Income before taxes on income						1,419
Additional information as of December 31, 2018:						
Segment assets	12,682	10,443	2,593	2,081		27,799
Unallocated assets (*)						4,096
Total consolidated assets						31,895
Capital investments	318	836	474	236		

(*) Mainly financial assets (including ones held for sale) in the sum of approx. NIS 1.7 billion, cash and short-term deposits in the sum of NIS 0.7 billion and assets due to discontinued operations in the sum of approx. NIS 1.1 billion.

Note 34 – Segment reporting (Cont.)

B. Operating segments (Cont.):

	For the year ended December 31, 2017					
	Retail centers and malls in Israel	Leasable office and other space in Israel	Income-producing property in the U.S.	Senior housing	Others	Consolidated
	NIS in million					
Income:						
Total external income	1,032	489	221	126	19	1,887
Total segment expenses	204	92	100	87	65	548
Segment profit (loss) (NOI)	828	397	121	39	(46)	1,339
Net profit (loss) from adjustment to fair value of investment property and investment property under construction	(25)	630	(186)	81	-	500
Unallocated costs						(116)
Financing expenses, net						(76)
Other income, net						124
Income before taxes on income						1,771
Additional information as of December 31, 2017:						
Segment assets	12,368	9,462	1,983	1,725		25,538
Unallocated assets (*)						4,605
Total consolidated assets						30,143
Capital investments	321	598	191	138		

(*) Mainly financial assets in the sum of approx. NIS 1.7 billion, cash and short-term deposits in the sum of NIS 1.1 billion and assets due to discontinued operations in the sum of approx. NIS 1.1 billion.

Note 35 - Material subsequent events

A. According to a Board resolution of March 24, 2020, it has been resolved to distribute a dividend in the total amount of NIS 300 million.

B. In the beginning of 2020, there was an outbreak in China of Coronavirus, which is continuing to spread throughout the world. The outbreak of the virus affects various fields of business in many countries. On March 11, 2020 the WHO declared the epidemic a pandemic.

On March 14, 2020, the Israeli Government issued a directive to close cultural and recreational venues, a directive which also applies to the Company's malls (other than in relation to essential businesses such as supermarkets, drugstores, food businesses for deliveries only, clinics and banks). The Company is monitoring the developments on an ongoing basis and acting according to the directives of the various authorities. In such context it is noted that in view of the implications of these directives for the tenants in the Group's malls, the Company has put together several measures for tenant relief, and on March 17, 2020 reported the establishment of a tenant financial aid fund in the scope of NIS 100 million as well as an exemption from rent payment for the second half of March 2020 to businesses that were closed pursuant to the Israeli Government's directive as aforesaid, and suspension of the rent and management payments for the period from April 1, 2020, until the date of return to routine for such tenants.

The Company has also taken various measures to mitigate the spread of the virus in its properties, including enhancement of cleaning and disinfection in its properties, and strict procedures in connection with the entry of visitors to the Group's senior homes, where the residents are an at-risk population. On March 17, 2020 the Ministry of Health announced instructions in connection with the "reduction of the need for people to leave home". These instructions have led a large percentage of workers in the market to transition to working from home, thus reducing the number of workers coming to the offices in the Company's properties. In addition, on March 17, 2020 the Company closed down the activity of the Mount Zion hotel, in view of the instructions encumbering its activity.

As of the time of release of this report and in view of the fact that the event is dynamic and characterized by much uncertainty, *inter alia*, in relation to the rate of spread of the virus, the duration of the spread and the measures that will be taken by the various countries, the Company cannot estimate the aforesaid effects on its activity, since the degree of the effect depends on the extent and scope of the materialization thereof. The Company estimates that if the spread of Coronavirus will become more severe over time, the ramifications thereof may have 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.

Azrieli Group Ltd.

Separate Financial Statement
For Y2019

Prepared pursuant to the provisions of Section 9C of the Securities Regulations
(Periodic and Immediate Reports), 5730-1970

Azrieli Group Ltd.

Separate Financial Statement
For Y2019

Contents

Deloitte.

English Translation solely for the convenience of the readers of the Hebrew language audit report and Hebrew language financial statements.

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

Dear Sir/Madam,

Re: Auditor's special report on separate financial statement pursuant to Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

We have audited the separate financial statement, which is presented according to Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, of Azrieli Group Ltd. (the "**Company**") as of December 31, 2019 and 2018 and for each of the years in the three-year period ended December 31, 2019. This separate financial statement is the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on this separate financial statement based on our audit.

We have not audited the separate financial information from the financial statements of investee companies, the total investments in which amounted to approx. NIS 114 million and approx. NIS 377 million as of December 31, 2019 and 2018, respectively, and the profit from such investee companies amounted to approx. NIS 3 million, approx. NIS 68 million and approx. NIS 66 million for the years ended on December 31, 2019, 2018 and 2017, respectively. The financial statements of these companies were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to the amounts that have been included in respect of such companies, is based upon the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and details included in the separate financial statement. An audit also includes assessing the accounting principles used in the preparation of the separate financial statement and significant estimates made by the Company's board of directors and management, as well as evaluating the overall presentation of the separate financial statement. We believe that our audit and the other auditors' reports provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of other auditors, the separate financial statement has been prepared, in all material respects, in accordance with the provisions of Regulation 9C 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, March 24, 2020

תל אביב - משרד ראשי
מרכז עזריאלי 1 תל אביב, 6701101, ת.ד. 16593 תל אביב 6116402 | טלפון: 03-6085555 | info@deloitte.co.il

משרד ירושלים
קרית המדע 3
מגדל הר הוצבים
ירושלים, 914510
ת.ת. 45396
טלפון: 02-5018888
פקס: 02-5374173
info-jer@deloitte.co.il

משרד חיפה
מעלה השחרור 5
ת.ד. 5648
חיפה, 3105502
טלפון: 04-8607333
פקס: 04-8672528
info-haifa@deloitte.co.il

משרד באר שבע
רחוב האנרגיה 77, בנין 1
פארק הרייטק, גב ים נגב
באר שבע, 8470912
טלפון: 08-6909500
פקס: 08-6909600
info-beersheva@deloitte.co.il

משרד אילת
המרכז העירוני
ת.ד. 583
אילת, 8810402
טלפון: 08-6375676
פקס: 08-6371628
info-eilat@deloitte.co.il

משרד נצרת
מרכז אבן עאמר 9
נצרת, 16100
טלפון: 073-3994455
פקס: 073-3994455
info-nazareth@deloitte.co.il

Azrieli Group Ltd.

Statement of Financial Position

	As of December 31	
	2019	2018
	NIS in millions	NIS in millions
Assets		
Current assets		
Cash and cash equivalents	2,582	372
Short-term investments	1	1
Trade accounts receivable	5	13
Other receivables	209	136
Current tax assets	43	62
	2,840	584
Asset held for sale	-	450
Total current assets	2,840	1,034
Non-current assets		
Financial assets	1,167	1,227
Investment property and investment property under construction	12,375	11,401
Investments in investee companies	11,065	9,327
Loans to investee companies	2,679	3,755
Fixed assets	39	9
Receivables	251	36
Total non-current assets	27,576	25,755
Total assets	30,416	26,789
Liabilities and capital		
Current liabilities		
Credit and current maturities from financial corporations and bonds	1,157	1,291
Trade payables	118	132
Payables and other current liabilities	80	68
Total current liabilities	1,355	1,491
Non-current liabilities		
Loans from financial corporations	595	904
Bonds	8,326	5,886
Other liabilities	28	26
Deferred tax liabilities	1,578	1,405
Total non-current liabilities	10,527	8,221
Capital		
Ordinary share capital	18	18
Share premium	2,478	2,478
Capital reserves	464	674
Retained earnings	15,574	13,907
Total capital attributed to shareholders of the Company	18,534	17,077
Total liabilities and capital	30,416	26,789

March 24, 2020			
Date of approval of the separate financial statement	**Danna Azrieli** **Chairman of the Board**	**Eyal Henkin** **CEO**	**Irit Sekler-Pilosof** **Chief Financial Officer**

Azrieli Group Ltd.

Statement of Profit or Loss and Other Comprehensive Income

	For the year ended December 31		
	2019	2018	2017
	NIS in millions	NIS in millions	NIS in millions
Revenues			
From rent and management and maintenance fees	688	629	514
Net profit from adjustment to fair value of investment property and investment property under construction	389	176	455
Financing	141	147	215
Other	123	90	63
Total revenues	1,341	1,042	1,247
Costs and expenses			
Cost of revenues from rent and management and maintenance fees	26	27	21
Sales and marketing	38	29	26
General and administrative	69	59	53
Financing	211	159	104
Other	6	3	-
Total costs and expenses	350	277	204
Profit before Company's share in the profits of investee companies	991	765	1,043
Share in profits of investee companies, net of tax	908	499 (*)	574 (*)
Profit before income taxes	1,899	1,264	1,617
Taxes on income	(192)	(119)	(229)
Net profit for the year from continuing operations	1,707	1,145	1,388
Profit from discontinued operations (after tax)	392	73(*)	68(*)
Net profit for the year	2,099	1,218	1,456
Other comprehensive income:			
Amounts that will not be classified in the future to income or loss, net of tax:			
Change in fair value of financial assets, net of tax	20	11	204
Amounts that were or will be classified in the future to income or loss, net of tax:			
Translation differences due to foreign operations	(89)	67	(81)
Amounts carried to the income statement from disposition of financial assets, net of tax	-	-	(62)
Share in the other comprehensive income (loss) of investee companies, net of tax.	(27)	25	(29)
Total	(116)	92	(172)
Other comprehensive income for the year, net of tax	(96)	103	32
Total comprehensive income for the year	2,003	1,321	1,488

(*) Restated due to discontinued operations, see Note 7 to the consolidated financial statements.

Azrieli Group Ltd.

Statement of Cash Flows

	For the year ended December 31		
	2019	2018	2017
	NIS in millions	NIS in millions	NIS in millions
Cash flows - current operations			
Net profit for the year	2,099	1,218	1,456
Depreciation and amortization	2	2	1
Net profit from adjustment of fair value of investment property and investment property under construction	(389)	(176)	(455)
Financing and other income, net	(49)	(85)	(180)
Share in profits of investee companies, net of tax	(1,300)	(572)	(642)
Tax expenses recognized in the income statement	192	119	229
Income tax paid, net	(16)	(153)	(68)
Change in trade and other receivables	(88)	(69)	1
Change in trade and other payables	31	8	(7)
Change in employee provisions and benefits	-	2	-
Erosion of financial assets designated at fair value through profit and loss	1	8	4
Net cash – current operations	483	302	339
Cash flows - investment activities			
Acquisition and investment in investment property and investment property under construction	(572)	(770)	(486)
Purchase of fixed assets	(4)	(2)	(3)
Down payments for purchase of fixed assets	(28)	-	-
Investments in investee companies	(528)	(87)	(80)
Proceeds from financial assets designated at fair value through profit and loss	3	-	3
Receipt of long-term loans to investee companies, net	1,263	101	183
Interest and dividend received	154	114	57
Return of investment in an investee company	11	14	12
Proceeds from liquidation of financial assets, net	279	-	233
Change in short-term deposits	-	100	511
Taxes paid in respect of financial assets	(16)	(2)	(17)
Proceeds from disposition of investment property	-	31	8
Investment in financial assets	(10)	-	-
Payment to institutions for real estate acquisition	(9)	-	-
Net cash - investment activities	543	(501)	421

Azrieli Group Ltd.

Statement of Cash Flows
(Continued)

	For the year ended December 31		
	2019	2018	2017
	NIS in millions	NIS in millions	NIS in millions
Cash flows - financing activities			
Issue of bonds net of issue expenses	3,904	1,399	1,354
Dividend distribution to the shareholders	(560)	(520)	(480)
Repayment of bonds	(1,595)	(454)	(609)
Repayment of long-term loans from financing corporations	(326)	(422)	(473)
Short-term credit from financing corporations, net	(28)	(146)	(74)
Customer deposits, net	3	-	1
Interest paid	(211)	(113)	(102)
Net cash - financing activities	1,187	(256)	(383)
Increase (decrease) in cash and cash equivalents	2,213	(455)	377
Cash and cash equivalents at the beginning of the year	372	826	454
Effect of exchange rates changes on cash balances held in foreign currency	(3)	1	(5)
Cash and cash equivalents at the end of the year	2,582	372	826

(*) Non-cash activities include an increase in receivables due to sale of investments in financial assets in the amount of approx. NIS 282 million.

Also, non-cash transactions include an increase in the balance of other payables for the purchase on credit of non-current assets for 2018 and 2017, in the amount of NIS 14 million and NIS 32 million, respectively.

A. **General:**

Definitions

The Company	-	Azrieli Group Ltd.
Investee company	-	See Note 8 to the Company's consolidated financial statements as of December 31, 2019.

B. **Form of Preparation of the Financial Information:**

The financial information out of the consolidated statements, attributed to the Company itself as a parent company (the "**Financial Information**") was prepared according to the provisions of Regulations 9C of and the 10th Schedule to the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

The Notes specified below also include disclosures pertaining to additional material information, according to the disclosure requirements specified in the said Regulation and as specified in the 10th Schedule, insofar as such information is not included in the consolidated statements in a manner which explicitly addresses the Company itself as a parent company.

(1) **Accounting policy**

The Company's separate financial statement is prepared according to the accounting policy specified in Note 2 to the Company's consolidated financial statements except for the amounts of the assets, liabilities, revenues, expenses and cash flows in respect of investee companies, as specified below:

a. The assets and liabilities are presented at their value in the consolidated statements attributed to the Company itself as a parent company, except for investments in investee companies.

b. Investments in investee companies are presented as the net sum amount of the total assets net of the total liabilities which present in the Company's consolidated statements financial information regarding the investee companies, including goodwill.

c. The revenues and expenses amounts reflect the revenues and expenses included in the consolidated statements attributed to the Company itself as a parent company, segmented between profit or loss and other comprehensive income, except for amounts of revenues and expenses in respect of investee companies.

d. The Company's share in the results of investee companies is presented as the net amount of the total revenues net of the total expenses presenting in the consolidated statements of the Company business results in respect of investee companies, including impairment of goodwill or the reversal thereof, in segmentation between profit or loss and other comprehensive income.

e. The cash flow amounts reflect the amounts included in the consolidated statements attributed to the Company itself as a parent company, except for amounts of the cash flows in respect of investee companies.

f. Loans given and/or received from investee companies are presented at the amount attributed to the Company itself as a parent company.

g. Balances, revenues and expenses in respect of transactions with investee companies which were written off within the consolidated statements, are measured and presented within the relevant clauses in the information on the financial position and the comprehensive income, in the same manner that such transactions would have been measured and presented had they been performed vis-à-vis third parties. Profits (losses) in respect of such transactions until the level that they are not recognized in the Company's consolidated statements, which were deferred, are presented net of (as an addition) of the items of the Company's share in the profits (losses) of investee companies and investments in investee companies so that the Company's separate profit (loss) is identical to the Company's consolidated profit (loss) attributed to the owners of the parent company.

C. Financial Assets and Liabilities:

(1) Liquidity risk management

Financial liabilities which do not constitute derivative financial instruments:

The following tables specify the Company's remaining contractual maturity dates in respect of financial liabilities which do not constitute a derivative financial instrument. The tables were prepared based on the non-discounted cash flows of the financial liabilities based on the earliest date on which the Company might be required to repay them. The table includes cash flows in respect of both interest and principal.

	As of December 31, 2019					
	Book Value	Projected cash flow	2020	2021	2022	2023 forth
	NIS in millions					
Financial liabilities which are not derivatives						
Short-term credit from financing corporations (1)	428	428	428	-	-	-
Trade accounts payable	118	118	118	-	-	-
Other payables	15	15	15	-	-	-
Loans from financing corporations (2)	784	816	196	186	95	339
Bonds (2)	8,897	9,573	654	648	824	7,447
Long-term customer deposits	24	24	-	-	24	-
Total	10,266	10,974	1,411	834	943	7,786

	As of December 31, 2018					
	Book Value	Projected cash flow	2019	2020	2021	2022 forth
	NIS in millions					
Financial liabilities which are not derivatives						
Short-term credit from financing corporations (1)	456	456	456	-	-	-
Trade accounts payable	132	132	132	-	-	-
Other payables	14	14	14	-	-	-
Loans from financing corporations (2)	1,109	1,159	218	322	186	433
Bonds (2)	6,560	7,044	722	714	706	4,902
Long-term customer deposits	23	23	-	-	23	-
Total	8,294	8,828	1,542	1,036	915	5,335

(1) Book value includes interest accrued as of December 31, 2019 and 2018.

(2) Book value includes current maturities and interest accrued as of December 31, 2019 and 2018.

C. Financial Assets and Liabilities (Cont.):

(2) Details regarding investments in other companies:

Details regarding investments in financial at fair value through other comprehensive income:

For details pertaining to the Company's investments in Bank Leumi Le-Israel Ltd. and Leumi Card Ltd., see Note 10 to the consolidated financial statements as of December 31, 2019.

D. Taxes on Income:

(1) Details regarding the tax environment in which the Group operates and changes in the tax rates:

For details pertaining to the tax environment in which the Company operates, see Note 26A to the consolidated financial statements for the year ended on December 31, 2019.

(2) Taxes on income recognized in profit and loss:

	For the year ended on December 31		
	92 0 1	82 0 1	72 0 1
	NIS in millions	NIS in millions	NIS in millions
Current taxes:			
For the current period	(40)	(40)	(74)
Adjustments for previous years, net	6	(62)	6
	(34)	(102)	(68)
Deferred taxes expenses:	(158)	(17)	(161)
Total income tax expenses	(192)	(119)	(229)

(3) Tax Assessments:

See Note 26F to the consolidated financial statements of the year ended on December 31, 2019.

D. Taxes on Income: (Cont.)

(4) Taxes on income due to other comprehensive income components:

	2019			2018			2017		
	Amounts before tax	Tax expense	Amounts net of tax	Amounts before tax	Tax income	Amounts net of tax	Amounts before tax	Tax income (expense)	Amounts net of tax
	NIS in millions								
Change in the fair value of financial assets	49	(29)	20	-	11	11	269	(65)	204
Amounts carried to the income statement from disposition of financial assets	-	-	-	-	-	-	(81)	19	(62)
Translation differences due to foreign operations	(89)	-	(89)	67	-	67	(81)	-	(81)
Share in the other comprehensive income (loss) of investee companies, net of tax	(27)	-	(27)	25	-	25	(29)	-	(29)
Total other comprehensive income (loss)	(67)	(29)	(96)	92	11	103	78	(46)	32

(*) The deferred taxes were calculated in 2019, 2018 and 2017 according to a tax rate of 23%.

D. Taxes on Income: (Cont.)

(5) Deferred taxes note:

Deferred taxes assets and liabilities which were recognized

The deferred taxes are calculated according to the tax rate expected to apply on the reversal date as specified above.

Deferred taxes assets and liabilities are attributed to the following items:

	Real estate assets and fixed assets	Employee benefits	Financial instruments (1)	Carry forward deductions and losses for tax purposes	Others (2)	Total
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Deferred tax asset (liability) balance as of January 1, 2018	(1,301)	1	(150)	-	44	(1,406)
Changes carried to profit and loss	(98)	-	8	86	(13)	(17)
Changes carried to other comprehensive income	-	-	11	-	-	11
Other	-	-	-	-	7	7
Deferred tax asset (liability) balance as of December 31, 2018	(1,399)	1	(131)	86	38	(1,405)
Changes carried to profit and loss	(143)	1	-	(7)	(9)	(158)
Changes carried to other comprehensive income	-	-	(29)	-	-	(29)
Other	-	-	22	(7)	(1)	14
Deferred tax asset (liability) balance as of December 31, 2019	(1,542)	2	(138)	72	28	(1,578)

(1) Mainly due to financial assets available for sale.

(2) Mainly due to the capital reserve created due to credit given to subsidiaries other than at arm's length.

E. Material Engagements and Transactions with Investee Companies:

(1) On material investments in companies directly held by the Company, see Note 8 to the consolidated financial statements as of December 31, 2019.

(2) **a.** On January 1, 2018, Canit Hashalom Investments Ltd. ("**Canit Hashalom**") issued to the Company NIS 1,412 million in bonds linked to the Consumer Price Index (the "**CPI**") payable at the end of the year with an option for prepayment of the bonds. The linkage differentials in respect of the loan will in no event be lower than the interest rate determined in respect of Section 3(j) of the Income Tax Ordinance. If Canit Hashalom does not repay the principal, interest and linkage differentials by the maturity date, the bonds shall be deemed as having been paid and reissued on the day following the maturity date.

On January 1, 2019, Canit Hashalom issued NIS 1,201 in bonds million on the aforesaid terms. The said series of bonds were repaid during 2019.

b. On January 1, 2018, Canit Hashalom Ltd. ("**Canit Hashalom**") issued to the Company NIS 1,047 million in bonds linked to the CPI and bearing interest at the rate of 1% per annum payable at the end of the year with an option for a prepayment of the bonds. The interest and the linkage differentials in respect of the loan will in no event be lower than the interest rate determined in respect of Section 3(j) of the Income Tax Ordinance. If Canit Hashalom does not repay the principal, interest and linkage differentials by the maturity date, the bonds shall be deemed as having been paid and reissued on the day following the maturity date

On January 1, 2019, Canit Hashalom issued NIS 1,444 million in bonds on the aforesaid terms.

After the date of the Statement of Financial Position, on January 1, 2020, NIS 1,371 million were issued in bonds on the aforesaid terms.

The credit is presented and measured at fair value on the date of initial recognition, according to the current value of the projected returns. The difference between the fair value measured on the date of initial recognition and the loan amount actually granted, is carried to a capital reserve from transactions with a controlling shareholder. The balance of the liability due to the capital fund from transactions with controlling shareholders as of December 31, 2019 is approx. NIS 68 million (December 31, 2018 – approx. NIS 91 million).

(3) Material arrangements between the Company and Investee Companies

a. The Company and several companies held thereby and other companies in the Group have agreements, according to which the Company is entitled to management fees at a fixed rate out of those companies' total expenses. In the years 2019 and 2018, the Company received management fees as aforesaid at a total sum of approx. NIS 31 million.

b. The Company and several companies held thereby have agreements, according to which the Company is entitled to amounts for a depreciation and replacement fund for the replacement and/or fundamental repair of facilities and equipment serving all of the tenants in the Company's real estate. In the years 2019 and 2018, the Company received proceeds as aforesaid in a total amount of approx. NIS 10 million and approx. NIS 11 million, respectively.

c. The Company and several companies held thereby have agreements, according to which the Company is entitled to amounts for rent due to the companies' use of areas owned thereby. In the years 2019 and 2018, the Company received rent as aforesaid in a total amount of approx. NIS 2 million.

E. Material Engagements and Transactions with Investee Companies: (Cont.)

(3) Material arrangements between the Company and Investee Companies (Cont.)

d. The Company provided loans to several investee companies thereof, as detailed below:

Loans in an amount of approx. NIS 142 million linked to the USD and bearing interest at a rate of approx. 10% per annum.

A loan in an amount of approx. NIS 41 million linked to the USD and bearing interest at a rate of approx. 6.5% per annum.

A loan in an amount of approx. NIS 20 million linked to the USD and bearing interest at a rate of approx. 6% per annum.

Capital notes in the amount of approx. NIS 940 million linked to the CPI and bearing no interest for a period of 5 years. The balance is presented net of capital reserve.

With regards to the loans to Canit Hashalom, see Section 2 above.

The remaining loans bear interest pursuant to the Income Tax Regulations.

The interest and linkage differentials which were accrued due to such loans and were presented in the statement of net profit of the Company for the years ended on December 31, 2019 and 2018 are in a total amount of approx. NIS 128 million and approx. NIS 148 million, respectively.

e. The Company bears expenses for office, insurance, compensation and benefits of senior employees at the group (the "**Group's Expenses**"). The Company and several companies held thereby and other companies in the Group have agreements, according to which the Company is entitled to reimbursement for amounts paid thereby for the companies. In the years 2019 and 2018 the Company received such proceeds in a total amount of approx. NIS 28 million and approx. NIS 27 million, respectively.

f. The Company and companies held thereby have an agreement, according to which the investee companies are entitled to rent, management fee and parking fees for areas owned thereby. In the years 2019 and 2018, the Company paid rent, management fees and parking fees as aforesaid in a total amount of approx. NIS 6 million.

F. Guarantees:

For details on guarantees provided by the Company – See Note 28B to the consolidated financial statements as of December 31, 2019.

G. Contractual Restrictions and Financial Covenants:

For details regarding contractual restrictions undertaken by the Company, see Note 17 to the consolidated financial statements as of December 31, 2019.

H. Dividends from Companies Directly held by the Company:

Companies directly held by the Company have no contractual restrictions on dividend distribution.

I. Pledges:

With respect to pledges – see Note 28A to the consolidated financial statements as of December 31, 2019.

J. Engagements with Affiliated and Interested Parties:

Regarding engagements with related and interested parties, see Note 33 to the consolidated financial statements as of December 31, 2019.

K. Subsequent Events:

(1) Regarding the board of directors' resolution on the distribution of a dividend - see Note 35A to the consolidated financial statements as of December 31, 2019.

(2) Regarding the effects of the Coronavirus - see Note 35B to the consolidated financial statements as of December 31, 2019.

Deloitte.

English Translation solely for the convenience of the readers of the Hebrew language audit report and Hebrew language financial statements.

Date: March 24, 2020

The Board of Directors of Azrieli Group Ltd.
1 Azrieli
Tel Aviv

Dear Sir/Madam,

Re: Consent 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 that are specified below in connection with the shelf prospectus of May 2019:

(1) Auditor’s report of March 24, 2020 on the consolidated financial statements of the Company as of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019.

(2) Auditor’s report of March 24, 2020 on the audit of components of internal control over the financial reporting of the Company as of December 31, 2019.

(3) Special auditor’s report of March 24, 2020 on the separate financial statement of the Company pursuant to Section 9C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 as of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019.

Sincerely,

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

תל אביב - משרד ראשי
מרכז עזריאלי 1 תל אביב, 6701101, ת.ד. 16593 תל אביב 6116402 | טלפון: 03-6085555 | info@deloitte.co.il

משרד ירושלים
קרית המדע 3
מגדל הר חוצבים
ירושלים, 914510
ת.ת. 45396
טלפון: 02-5018888
פקס: 02-5374173
info-jer@deloitte.co.il

משרד חיפה
מעלה השחרור 5
ת.ד. 5648
חיפה, 3105502
טלפון: 04-8607333
פקס: 04-8672528
info-haifa@deloitte.co.il

משרד באר שבע
רחוב האנרגיה 77, בנין 1
פארק ההייטק, גב ים נגב
באר שבע, 8470912
טלפון: 08-6909500
פקס: 08-6909600
info-beersheva@deloitte.co.il

משרד אילת
המרכז העירוני
ת.ד. 583
אילת, 8810402
טלפון: 08-6375676
פקס: 08-6371628
info-eilat@deloitte.co.il

משרד נצרת
מרג' אבן עאמר 9
נצרת, 16100
טלפון: 073-3994455
פקס: 073-3994455
info-nazareth@deloitte.co.il

PART D

Further Details about the Corporation

CHAPTER D | ADDITIONAL DETAILS ABOUT THE CORPORATION

Regulation 25A – Registered Address

Company Name: Azrieli Group Ltd.

Company Number in the Registrar of Companies: 51-096071-9

Address: 1 Azrieli Center, Tel Aviv, 6702101

Facsimile: 03-6081380

Telephone: 03-6081400

email: Niritz@azrieli.com

Date of the Statement of Financial Position: December 31, 2019

The Report Date: March 24, 2020

Regulation 10A - Summary of the Reports on Results of the Company's Operations for Each Quarter of 2019 (NIS in million)

	1-3/2019	4-6/2019	7-9/2019	10-12/2019	1-12/2019
Income					
From rent, management and maintenance fees, and sales	550	553	572	560	2,235
Profit (loss), net of fair value adjustment of investment properties and investment properties under construction	(2)	180	(3)	726	901
Share in results of Companies accounted for by the equity method, net of tax	-	-	(3)	22	19
Financing	10	2	3	5	20
Other	89	13	12	10	124
Total Income	647	748	581	1,323	3,299
Costs and Expenses					
Cost of income from rent, management and maintenance fees, and sales	159	161	174	164	658
Sale and marketing	16	20	18	23	77
General and administrative	21	21	25	30	97
Financing	27	155	(6)	90	266
Other	6	-	-	19	25
Total Costs and Expenses	229	357	211	326_	1,123
Profit before tax on income	418	391	370	997	2,176
Tax on income	(80)	(64)	(96)	(231)	(471)
Income from continuing operations	338	327	274	766	1,705
Income from discontinued operations (after tax)	32	4	15	341	392
Net profit per period	370	331	289	1,107	2,097
Attributed to:					
Owners of the Company	370	331	289	1,109	2,099
Non-controlling interests	-	-	-	(2)	(2)
	370	331	289	1,107	2,097

Regulation 10C - Use of Proceeds from Securities

Series E Bonds

On January 22, 2019, approx. NIS 1,216 million par value of new Series E Bonds were issued in consideration for approx. NIS 1,216 million (approx. NIS 1,207 million net of attribution of the issue expenses), in accordance with a shelf offering report released on January 20, 2019 (Ref. No.: 2019-01-006388), included herein by way of reference and released by virtue of the 2016 shelf prospectus.

On December 19, 2019, approx. NIS 1,217 million par value of Series E Bonds were issued in consideration for approx. NIS 1,355 million (approx. NIS 1,336 million net of attribution of the issue expenses), by way of expansion of the Series E Bonds of the Company in accordance with a shelf offering report released on December 17, 2019 (Ref. No.: 2019-01-110526), included herein by way of reference and released by virtue of the 2019 shelf prospectus.

Series F Bonds

On January 22, 2019, approx. NIS 263 million par value of new Series F Bonds were issued in consideration for approx. NIS 263 million (approx. NIS 260 million net of attribution of the issue expenses), in accordance with a shelf offering report released on January 20, 2019 (Ref. No.: 2019-01-006388), included herein by way of reference and released by virtue of the 2016 shelf prospectus.

On December 19, 2019, approx. NIS 933 million par value of Series F Bonds were issued in consideration for approx. NIS 1,122 million (approx. NIS 1,101 million net of attribution of the issue expenses), by way of expansion of the Series F Bonds of the Company in accordance with a shelf offering report released on December 17, 2019 (Ref. No.: 2019-01-110526), included herein by way of reference and released by virtue of the 2019 shelf prospectus.

The proceeds received from these issues were and shall be used by the Company, *inter alia*, for the refinancing of an existing financial debt and for current financing needs, from time to time, according to the Company's goals and business plans.

Regulation 11 - List of Investments in Material Subsidiaries and Affiliates as of the Date of the Statement of Financial Position

See Annex A to this Chapter D.

Regulation 12 - Changes in Investments in Material Subsidiaries and Affiliates, Directly and Indirectly, in the Report Period

Date of Change	Nature of Change	Name of Company	Name of Holder	Remarks
February 2019	Sale of holdings in the Company	Leumi Card Ltd.	Azrieli Group Ltd.	See Section 1.3.3 of Chapter A of this report
July 2019	Investment in Compass	Compass Holdco. LLC.	Azrieli Data Centers LLC.	See Section 1.3.4 of Chapter A of this report
November 2019	Sale of 100% of the shares of Granite Hacarmel Investments Ltd.	Granite Hacarmel Investments Ltd.	Canit Hashalom Investments Ltd.	See Section 1.3.5 of Chapter A of this report

Regulation 13 - Profit of Material Subsidiaries and Affiliates and the Corporation's Income therefrom as of the Date of Statement of Financial Position (NIS in Million)

Investee Company	Main Business	Profit (Loss) (NIS in million)		Company's Income from the Affiliate		
		Net Profit	Comprehensive Income	Dividend	Management Fee	Interest and Linkage Differentials
Canit Hashalom Investments Ltd.	Development, management, construction, acquisition and lease of commercial and office buildings in Israel and in the US. Holding in Granite Hacarmel	1,280	1,270	-	-	78
Otzem Initiation & Investments (1991) Ltd.	Development, construction and lease of commercial buildings (Or Yehuda and Ramla)	-	-	-	-	10
AG Galleria Office Buildings, LP	Holding of 90% of the rights in office buildings situated in Houston, Texas, USA, which are known by the name Galleria	(24)	(58)	-	4	-
Gemel Tesua Investments Ltd.	Development, management, construction, acquisition and lease of commercial and office buildings in Israel	114	114	-	-	-
Otzma & Co. Investments Maccabim Ltd.	Development, management, construction, acquisition and lease of office buildings in Israel	10	10	-	-	2
AG Plaza at Enclave	Holding of 100% of the rights in an office building in Houston, Texas, USA - "Houston Dow Center"	8	(12)	-	-	1
Granite Hacarmel Investments Ltd.(1)	Private holding company which holds, *inter alia*, Supergas	31	31	-	-	-
GES Global Environmental Solutions Ltd.(1)	Wastewater treatment and chemicals	3	3	-	-	-
Supergas Israel Gas Distribution Company Ltd.	Marketing of energy substitutes	36	27	-	-	-
Palace America Senior Housing Company Ltd.	Operation of a senior home for nursing and recuperation	43	43	-	-	-

Ahuzat Bayit Ra'anana – Senior Housing Ltd.	Operation of a senior home and a retail center	27	27	-	-	13
Modi'in Senior Housing Ltd.	Establishment and operation of a senior home	37	37	-	-	1
Azrieli E-Commerce Ltd.	eCommerce segment	(53)	(53)	-	-	4
Compass	Data Centers in North America segment	19	8	-	-	-
International Consultants (E-Consult) Ltd.	Development, construction and lease of offices and industrial buildings	8	8	-	-	1
AG 8 West Centre	Holding of 100% of the rights in an office building in Houston, Texas, USA	6	(3)	-	-	-
AG San Clemente	Holding of 100% of the rights in an office building in Houston, Texas, USA	25	13	-	-	(1)
AG Two Aspen	Was established for the purpose of holding 100% of the rights in an office building in Austin, Texas, USA	10	3	-	-	(1)

* Including capital reserve.

(1) As of the Report Date, is not held by the Company.

Regulation 20 - Trade on the Stock Exchange – Listed Securities / Trading Suspensions - Dates and Reasons

a. Shares/Securities

On January 24, 2019, trade commenced on TASE in the new series of Series E Bonds issued by the Company under the shelf offering report released on January 20, 2019 (Ref. No. 2019-01-006388), with a par value of approx. NIS 1,216 million.

On January 24, 2019, trade commenced on TASE in the new series of Series F Bonds issued by the Company under the shelf offering report released on January 20, 2019 (Ref. No. 2019-01-006388), with a par value of approx. NIS 263 million.

On December 19, 2019, approx. NIS 1,217 million par value of Series E Bonds were listed on TASE, which were issued to the public by way of expansion of the Series E Bond series.

On December 19, 2019, approx. NIS 933 million par value of Series F Bonds were listed on TASE, which were issued to the public by way of expansion of the Series F Bond series.

For further details, see Regulation 10C of this Chapter D.

b. Trading Suspensions

On December 30, 2019, upon the full early redemption of the Company's Series C Bonds, the Company's Series C Bonds were delisted from TASE. For further details see the Company's immediate report of December 17, 2019 (Ref. no.: 2019-01-112536), which is included herein by way of reference.

Regulation 21 - Payments to Senior Officers

For a specification of the compensation granted in the Report Period, as specified in Schedule 6 of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, see Section 1 of Chapter E of this Report.

Regulation 21A - Control of the Company

As of the Report Release Date, Azrieli Holdings Inc. ("Azrieli Holdings"), a private company incorporated under Canadian law, holds, directly and indirectly, through its holding of the entire share capital of Nadav Investments Inc. ("Nadav Investments"), a private company incorporated under Canadian law, which is the direct controlling shareholder of the Company, 55.62% of the share capital and 61.31%[1] of the voting rights of the Company *de facto* and on a fully-diluted basis. As the Company has been informed, Azrieli Holdings is controlled by Sharon Azrieli, Naomi Azrieli and Danna Azrieli, either directly or through Canadian holding corporations.

Until his death, in July 2014, Mr. David Azrieli OBM directly and indirectly held approx. 44.77% of the share capital of Azrieli Holdings and all of the voting rights in Azrieli Holdings (including the voting rights of his children's shares, which were held by him in trust). Following the passing of Mr. David Azrieli OBM, the shares of Azrieli Holdings that had been held by him and his shares in a Canadian holding corporation controlled by him ("David Holding Corporation") were transferred to his estate, and Sharon Azrieli, Naomi Azrieli and Danna

1 Which include all of the voting rights by virtue of the Contribution Shares. According to the Contribution Arrangement (as defined in Note 33C(7) to the Financial Statements), Azrieli Holdings granted Azrieli Foundation Israel, by way of contribution without consideration, 6,902,000 ordinary shares of the Company of par value NIS 0.1 each, which constitute approx. 5.69% of the Company's issued capital (the "Contribution Shares").

Azrieli were appointed as the 3 directors of Azrieli Holdings and of Nadav Investments. As the Company has been informed, on April 13, 2015, shares of Mr. David Azrieli OBM in Azrieli Holdings and in 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 together they hold approx. 81.73% of the capital rights in Azrieli Holdings and approx. 99.39% of the voting rights therein. The remainder of Azrieli Holdings' shares are mainly held by the Azrieli Foundation of Canada (an interested party in the Company), which, following the distribution of the estate, holds (indirectly, through a holding of shares of David Holding Corporation) 15.93% of Azrieli Holdings' shares, with no voting rights (which holding indirectly constitutes a holding of approx. 8.86% of the capital rights of the Company), in addition to and separately from its direct holding of 8.55% of the capital and voting rights in the Company. As the Company has been informed, on March 20, 2017, a shareholders' agreement (the "2017 Agreement") was signed between Sharon Azrieli, Naomi Azrieli and Danna Azrieli (by themselves and through companies controlled by them), the indirect controlling shareholders of the Company and directors thereof (the "Controlling Shareholders"). Additional parties to the 2017 Agreement are Azrieli Holdings, Nadav Investments and David Holding Corporation (the three "Holding Corporations"). The 2017 Agreement replaces and substitutes the former shareholders agreement made by the parties in November 2012 (the "2012 Agreement"), and it regulates the relations between the Controlling Shareholders, by themselves, and through the Holding Corporations, in respect of their rights in the Company. Similarly to the 2012 Agreement, the terms of the 2017 Agreement include agreements regarding the sale and transfer of shares in the Company and in the Holding Corporations, including a lock-up period, right of first refusal, right of first offer, co-sale right and an exclusion in connection with certain sales of shares (drip) on TASE. The 2017 Agreement further prescribes that the manner of use of the voting rights in the Company will be determined by the Controlling Shareholders (by a majority vote), provided however, that in respect of resolutions to appoint directors of the Company, each one of the Controlling Shareholders shall have the right to use the voting rights to appoint one director who will be determined by her, whereas the manner of use of the voting rights in the Company regarding resolutions to appoint additional directors, will be adopted by a majority vote. Together with the 2017 Agreement, another agreement was signed between all of the direct shareholders in Azrieli Holdings (including the controlling shareholders). Such additional agreement was required under Canadian law, in order to ensure that Azrieli Holdings is subject to part of the provisions of the 2017 Agreement. It is clarified, that the 2017 Agreement does not change the identity of the Company's controlling shareholders (including of Azrieli Holdings) nor their percentage holdings in the capital and in the voting rights in the Company, and that as of the Report Release Date, Sharon Azrieli, Naomi Azrieli and Danna Azrieli are the Company's controlling shareholders. For further details see the immediate report of March 21, 2017 (ref. no.: 2017-01-026388), which is included herein by way of reference.

Regulation 22 - Transactions with the Controlling Shareholder

For details with respect to transactions with the controlling shareholder or in the approval of which the controlling shareholder has a personal interest, in which the Company or a corporation controlled thereby or an affiliate thereof engaged, see Section 2 of the Company's Corporate Governance Report, which is attached as Chapter E hereof.

Regulation 24 - Holdings of Interested Parties and Senior Officers

For details regarding the holdings of interested parties and senior officers of the Company, see the immediate report regarding the holdings of interested parties and officers released by the Company on July 7, 2019 (Ref. No.: 2019-01-069121), which is included herein by way of reference.

Regulation 24A - Authorized Capital, Issued Capital and Convertible Securities

As of December 31, 2019, the registered share capital of the Company is 127,501,500 ordinary shares par value NIS 0.1 each, and the issued share capital of the Company is 121,272,760 ordinary shares par value NIS 0.1 each.

Regulation 24B - The Company's Shareholders' Register

Shareholder's Name	Company	Address	Class of Shares	Quantity of Shares	Par value
Registration Co. of Bank Hapoalim Ltd.	510356603	62 Yehuda Halevi, Tel Aviv	Ordinary par value NIS 0.1	121,272,760	NIS 0.1

Regulation 26 - Directors of the Corporation (as of the Report Date)

Below are personal and professional details with regard to the Company's directors:

(1)	Director's Name:	Danna Azrieli, Active Chairman of the Board
	Identification number:	321657744
	Date of Birth:	June 3, 1967
	Address for service of process:	Azrieli Center 1, Tel Aviv
	Citizenship:	Israeli
	Membership on board of directors' committees	None
	Outside Director/Independent Director:	No
	Position filled at the Company/Subsidiary/Affiliate of the Company or of an interested party therein:	Active Chairman of the Board
	Date of commencement of service as director of the Company:	June 1, 2010
	Education:	BA in Sociology and Anthropology from Swarthmore College; Juris Doctor of Law from Vermont Law School; member of the Massachusetts State Bar Association in the U.S. and the Israel Bar Association.
	Occupation in the past five years and other corporations in which he holds office as director:	Active Vice Chairman of the Board of the Company; Serves as a director of subsidiaries of the Company and of the companies: Nadav Investments Inc., Azrieli Holdings Inc., Candan Residences Ltd., Dan Squared Ltd., Candan Constructions' Maintenance and Management Ltd., Candan Management Services Ltd. and Candan Holdings Ltd.; Chair of Azrieli Foundation (Israel), R.A., Director of Azrieli Foundation (Canada), a Canadian nonprofit organization, Director of Weizmann Institute of Science, Director of Tel Aviv University and Director of Darca Schools NPO (R.A.).
	Family relation to an interested party:	Controlling shareholder. For details see Regulation 21A above.
	Accounting and Financial Expertise or Professional Qualification:	Professional Qualification

(2)	Director's Name:	Sharon Azrieli
	Identification number:	HM841817
	Date of Birth:	August 4, 1960
	Address for service of process:	Azrieli Center 1, Tel Aviv
	Citizenship:	Canadian
	Membership on board of directors' committees	None
	Outside Director/Independent Director:	No
	Position filled at the Company/Subsidiary/Affiliate of the Company or of an interested party therein:	None
	Date of commencement of service as director of the Company:	June 1, 2010
	Education:	PhD in Music from the University of Montreal; MA in Music from the University of Montreal; BA in Art from Vassar College; Certificate from the Juilliard School of Music; Associate degree from the Parsons School of Design.
	Occupation in the past five years and other corporations in which he holds office as director:	Opera singer, cantor and artist; Publisher of interior design magazines; Member of the board of Azrieli Foundation (Israel), R.A., and director of Azrieli Foundation (Canada), a Canadian nonprofit organization. Serves as President Emeritus in Orchestre Classique de Montreal; Served as President of the Directors Board of the Orchestre de Chambre McGill; Sharon Azrieli Foundation for the Arts (SAFA); Opera Cares Foundation; Shir Chadash Synagogue. A director of the following organizations: 7809298 Canada Inc.; 7807872 Canada Inc.; Vancouver Home Magazine Inc.; Toronto Home Magazine Inc.; Montreal Home Magazine Inc.; McCord Museum (Montreal); Canadian Vocal Arts Institute; America-Israel Cultural Foundation (AICF). My Dezign S.L Ltd.; Immeuble 348 Victoria Inc; Immeubles Avishar Inc; 4287690 Canada Inc; 6011667 Canada Inc.; Viva Diva Canada Inc.; Viva Diva U.S Inc.; Canbonim Ltd.; My Dezign Inc.; Canadian Children's Literacy Foundation. Owner and manager of foreign private companies.
	Family relation to an interested party:	Controlling shareholder. For details see Regulation 21A above.
	Accounting and Financial Expertise or Professional Qualification:	No

(3)	Director's Name:	Naomi Azrieli
	Identification number:	HB510031
	Date of Birth:	September 26, 1965
	Address for service of process:	Azrieli Center 1, Tel Aviv
	Citizenship:	Canadian
	Membership on board of directors' committees	None
	Outside Director/Independent Director:	No
	Position filled at the Company/Subsidiary/Affiliate of the Company or of an interested party therein:	None

Date of commencement of service as director of the Company:	June 1, 2010
Education:	PhD (D. Phil) in International History from Oxford University, England; Master of International Affairs in International Relations, Finance and Economics from Columbia University, New York; BA from the University of Pennsylvania in Political Science and Russian Studies.
Occupation in the past five years and other corporations in which he holds office as director:	CEO and Director of the Azrieli Foundation (Canada), a Canadian nonprofit organization. Member of the board of Azrieli Foundation (Israel), R.A. Owner and manager of foreign private companies. Director and president of the corporations: Canpro Investments Ltd., Omico Investments Ltd., Omico Residential Ltd., Omico NY Limited Partnership Director in the following entities: Canadian Society for Yad Vashem, Technion International Board, Yeshiva University, Brain Canada Foundation, Weizmann Institute of Science, Canadian Children's Literacy Foundation
Family relation to an interested party:	Controlling shareholder. For details see Regulation 21A above.
Accounting and Financial Expertise or Professional Qualification:	Professional Qualification

(4) Director's Name:	Dan Isaac Gillerman
Identification number:	07132889
Date of Birth:	March 26, 1944
Address for service of process:	Nehardea 5, Tel Aviv
Citizenship:	Israeli
Membership on board of directors' committees	Audit Committee, FSRC and Enforcement Committee
Outside Director/Independent Director:	Independent Director
Position filled at the Company/Subsidiary/Affiliate of the Company or of an interested party therein:	None
Date of commencement of service as director of the Company:	May 6, 2010
Education:	Law studies, Tel Aviv University
Occupation in the past five years and other corporations in which he holds office as director:	Chairman of Blackstone Group Israel, CEO of Gillerman Global Ltd.; Chairman of the Israeli Opera; Member of the Board of Trustees of the Hebrew and Tel Aviv Universities; Member of the Board of Trustees of the Jewish Agency; Member of the Board of the Weizmann Institute of Science; Chairman of Nagum Ltd. (private company)
Family relation to an interested party:	None
Accounting and Financial Expertise or Professional Qualification:	Has professional qualifications

(5) Director's Name:	Tzipora Carmon
Identification number:	51528933
Date of Birth:	December 7, 1952
Address for service of process:	Azrieli Center 1, Tel Aviv
Citizenship:	Israeli
Membership on board of directors' committees	Audit Committee, Compensation Committee, FSRC and Enforcement Committee ("All of the Committees")

Outside Director/Independent Director:	Independent director
Position filled at the Company/Subsidiary/Affiliate of the Company or of an interested party therein:	None
Date of commencement of service as director of the Company:	May 19, 2013
Education:	BA in Sociology and Education, the Hebrew University, Jerusalem; MBA, UCLA, California, USA.
Occupation in the past five years and other corporations in which he holds office as director:	Manager and owner of T.C. Exports Ltd. in the last 21 years; Director of Delta Galil Industries Ltd. and of Rafael – Advanced Defense Systems Ltd.
Family relation to an interested party:	No
Accounting and Financial Expertise or Professional Qualification:	Has accounting and financial expertise.

(6) Director's Name:	Ehud Rassabi, Outside Director
Identification number:	52017142
Date of Birth:	July 30, 1953
Address for service of process:	2 Lipski, Tel Aviv
Citizenship:	Israeli
Membership on board of directors' committees	All of the Committees
Outside Director/Independent Director:	Outside Director
Position filled at the Company/Subsidiary/Affiliate of the Company or of an interested party therein:	None
Date of commencement of service as director of the Company:	August 23, 2019
Education:	Bachelor's degree, Economics and Accounting, Tel Aviv University, CPA, accredited arbitrator and mediator
Occupation in the past five years and other corporations in which he holds office as director:	Self-employed accountant since 1981; Volunteer President of Lahav – the Bureau of Sole-Proprietors and Businesses (until October 2015); Volunteer Active Chairman of the Board of Ilan – Israel Association for Children with Disabilities; Outside director of Elron Electronic Industries Ltd.; Outside director of Gold Bond Group Ltd.; Outside director of Electra Ltd.; Outside director of Bank Yahav for Government Employees (until December 2015); Director of Yehuda Steel Ltd. (private company) and a private company owned by him
Family relation to an interested party:	None
Accounting and Financial Expertise or Professional Qualification:	Has accounting and financial expertise

(7) Director's Name:	Yossef Shachak, Outside Director
Identification number:	008025009
Date of Birth:	August 25, 1945
Address for service of process:	28 Burla, Tel Aviv
Citizenship:	Israeli

Membership on board of directors' committees	All of the Committees
Outside Director/Independent Director:	Outside Director
Position filled at the Company/Subsidiary/Affiliate of the Company or of an interested party therein:	None
Date of commencement of service as director of the Company:	August 23, 2019
Education:	Bachelor's degree, Accounting, Hebrew University of Jerusalem, CPA
Occupation in the past five years and other corporations in which he holds office as director:	Consultant to companies and boards of directors; Business mediator and arbitrator; Member of the Public Council of the Israel Accounting Standards Boards; Member of the finance committee of the Israel Cancer Association; Chairman of the Board of Emilia Development (O.F.G.) Ltd.; Director of Tefron Ltd.; Outside director of Southern Properties Capital Ltd.; Outside director of Habima National Theatre; Independent director of Partner Communications Ltd.; Director of Yogi Consulting and Investments Ltd. (a private company controlled by him); Director of Shachak & Co. Properties Ltd. (a private company of which he is a shareholder).
Family relation to an interested party:	None
Accounting and Financial Expertise or Professional Qualification:	Has accounting and financial expertise

(8) Director's Name:	Oran Dror
Identification number:	024973315
Date of Birth:	August 2, 1970
Address for service of process:	Azrieli Center 1, Tel Aviv
Citizenship:	Israeli
Membership on board of directors' committees	Audit Committee, FSRC and Enforcement Committee
Outside Director/Independent Director:	Independent Director
Position filled at the Company/Subsidiary/Affiliate of the Company or of an interested party therein:	None
Date of commencement of service as director of the Company:	November 18, 2014
Education:	BA in Economics and East Asian Studies from the Hebrew University, Jerusalem. Research studies in the field of management and marketing for two years at the Waseda University, Tokyo, Japan – School of Commerce.
Occupation in the past five years and other corporations in which he holds office as director:	CEO and director of Axilion Ltd.; CEO and director of Dror Liat Investment Ltd. (a company he controls); executive director and VP Telecom – MEA Regional Management of Microsoft International; executive director and VP Sales at Microsoft Israel; CEO and director at N.B.X. – E - Service Solutions Ltd. (a company he controls); VP at Vatbox Ltd. (through Dror Liat Investment Ltd.).
Family relation to an interested party:	Fourth degree cousin of the controlling shareholders and directors Danna, Sharon and Naomi Azrieli
Accounting and Financial Expertise or Professional Qualification:	Has accounting and financial expertise

(9)	Director’s Name:	Menachem Einan
	Identification number:	008995383
	Date of Birth:	June 17, 1939
	Address for service of process:	Azrieli Center 1, Tel Aviv
	Citizenship:	Israeli
	Membership on board of directors’ committees	Audit Committee, FSRC and Enforcement Committee
	Outside Director/Independent Director:	No
	Position filled at the Company/Subsidiary/Affiliate of the Company or of an interested party therein:	In addition to his being a director of the Company, Mr. Einan served as an external consultant of the Company until February 28, 2017.
	Date of commencement of service as a director of the Company:	March 22, 2016
	Education:	BA in Humanities from Tel Aviv University; degree in Business Administration from UCLA.
	Occupation in the past five years and other corporations in which he holds office as director:	Director and Active Deputy Chairman of the Board of the Company until February 2015; Served as Chairman of the Board of Granite Hacarmel Investments Ltd. and as a director at Tambour Ltd., Sonol Israel Ltd., Supergas Israel Gas Distribution Company. Ltd. and GES Global Environmental Solutions Co. Ltd. until February 2015. A director of Leumi Card Ltd., member of the board of Azrieli Foundation (Israel), R.A.
	Family relation to an interested party:	No
	Accounting and Financial Expertise or Professional Qualification:	Professional qualifications

Regulation 26A: Senior Officers of the Corporation as of the Report Release Date

Name	Eyal Henkin	Irit Sekler-Pilosof	Arnon Toren	Gideon Avrami	Nirit Zeevi	Israel Keren	Avraham Jacoby	Moshe Cohen	Rafi Wunsh	Sharon Arie	Yoram Polak Ben Porat	Rachel Mittelman	Assaf Aviv
Identity Number	024604332	025710542	054121678	056524325	036386795	003105657	052253747	051209971	028145738	023544612	056000813	035730746	31787625
Date of Birth	November 3, 1969	October 31, 1973	July 14, 1957	July 6 1960	March 11, 1979	September 17, 1947	March 31, 1954	April 3, 1952	February 15, 1971	July 2, 1968	July 29, 1959	August 14, 1978	August 12, 1974
Office Commence-ment Date	January 1, 2018	May 1, 2013	November 1, 2013	May 15, 2016	October 2, 2019	July 1, 2002	July 1, 1987	March 22, 2017	October 15, 2010	December 1, 2017	March 22, 2016	September 1, 2018	March 1, 2019
Position held in the Company/ Subsidiary/ Affiliate or in an interested party	CEO of the Company. CEO of Canit Hashalom Investments Ltd. Director of Compass Data Center and of subsidiaries of the Company	CFO and in charge of financial risks at the Company, and a director of subsidiaries of the Company	Deputy CEO and Head of Malls. Director of subsidiaries of the Company	VP, Head of Office Segment. Director of subsidiaries of the Company	VP, General Counsel and Company Secretary	CEO of asset companies Gemel Tesua Investments Ltd., Otzma & Co. Investments-Maccabim Ltd., Urban A.A.R. Ltd., Azrieli Ra'anana and Herzliya Business Park Operations Ltd.	Chief Comptroller	The internal auditor	VP International Real Estate. Director of Compass Data Center and of subsidiaries of the Company	VP Engineering and Construction	VP, Head of Senior Housing Sector	Chief Information Officer	VP Innovation and Business Development

Name	Eyal Henkin	Irit Sekler-Pilosof	Arnon Toren	Gideon Avrami	Nirit Zeevi	Israel Keren	Avraham Jacoby	Moshe Cohen	Rafi Wunsh	Sharon Arie	Yoram Polak Ben Porat	Rachel Mittelman	Assaf Aviv
Education	B.A. in Computer Science and Management from Tel Aviv University; Executive MBA, in the Kellogg Recanati program of Northwestern University and Tel Aviv University	B.A. in Business Administration, major in Accounting, The College of Management; LL.M., Bar Ilan University; Licensed as a CPA (Israel)	B.A. in Economics and Sociology, Hebrew University	B.A. in History and International Relations, the Hebrew University 1986. Diploma in Hotel Management 1994.	LL.B in Law and B.A in Business Administration, specializing in Information Technology, both from the IDC Herzliya; Member of the Israeli Bar	B.A. in General History, Tel Aviv University	B.A. in Accounting and Economics, Bar Ilan University; Licensed as a CPA (Israel)	CPA, B.A. in Economics and Accounting, Tel Aviv University	B.A. in Economics and Accounting, Hebrew University of Jerusalem	Technion graduate of studies of Civil Engineering	Technion graduate of studies of Business Administration and Hotel Management; Certification in nursing home management from the University of Haifa	Industrial and Management Engineer and an MBA both from Tel Aviv University	B.A. in Business Management and MBA, specializing in marketing from the College of Management
Business experience in the last five years	CEO of Supergas Israel Gas Distribution Company Ltd. in the eight years prior to his appointment as CEO	Comptroller in Azrieli Group in the 13 years preceding the office commencement date.	Manager of the office segment in Azrieli Group and CEO of Azrieli Center in Tel Aviv in the six years prior to his current appointment	CEO of Jerusalem mall, Malcha 2005-2016	The Company's Deputy General Counsel in the 6 years preceding the appointment	Manager of properties, property marketing and management of logistics projects	Managing comptroller, Azrieli Group	Managing partner at Chaikin Cohen Rubin & Co.; director and manager at private companies affiliated with Chaikin Cohen Rubin & Co., CPA; internal auditor at a large number of public companies and public entities	VP Quebec Region, Elad Group Canada Inc. CFO, Elad Group Canada Inc.	VP Engineering, Nitsba Holdings, VP Engineering and Business Development, Aura Israel	Head of Senior Housing Development at the Group for the three years preceding the appointment. Previously CEO and director of Hon, a real estate management company of the Property & Building Group and the CEO of the chain Mediterranean Towers – Senior Housing for 14 years.	Chief Information Officer Supergas Israeli Gas Distribution Company Ltd.	VP Marketing, Bezeq International

None of the officers is an interested party in the Company or has a family relation to another officer of the Company or to another interested party in the Company.

Senior officers whose office ended during the Report Period and in the subsequent period until the Report Date:

Name	Joseph Ciechanover	Efraim Halevy	Niv Ahituv	Ran Tal
Identification number	5991468	49871718	008115693	027474824
Position held in the corporation	Independent director	Outside director	Outside director	VP, General Counsel and Company Secretary
Office commencement date	May 6, 2010	August 24, 2010	August 24, 2010	August 1, 2016
Office end date	May 5, 2019	August 23, 2019	August 23, 2019	October 2, 2019

Regulation 26B – Authorized Signatories of the Corporation

See Section 8 of Chapter E of this Report.

Regulation 27 - The Company's Accountants

The Company's auditors are Deloitte Brightman Almagor Zohar & Co., CPA, 1 Azrieli Center, Tel Aviv.

Regulation 28 – Changes in the Memorandum or Articles of Association

No change was performed in the Report period.

Regulation 29 - Resolutions and Recommendations of the Board of Directors

See Section 4 of Chapter E of this Report.

Regulation 29A - The Company's Resolutions

See Section 4 of Chapter E of this Report.

Exemption, Indemnification and Insurance of Officers:

For a description of the applicable arrangements with regard to exemption, indemnification and insurance for Directors and Officers in the Company, see Note 33D to the Financial Statements as of December 31, 2019.

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

Date: March 24, 2020

Annex A – Regulation 11 – List of Investments in Material Subsidiaries and Affiliates as of the Date of the Statement of the Financial Position

				Rate in %				NIS in million					
Company name	Shares' class	Total par value of shares in NIS	Total par value of held shares in NIS	Of the capital	Of voting	Authority to appoint Directors	Cost of the held shares	Book value of investment (*)	Balance of the loans from the Company	Manner of presentation in the financial statements	Company's country of incorporation	Securities exercisable into capital rights or voting rights in the Company's investee company	Guaranties the Company provided to the investee company
Directly held companies													
Canit Hashalom Investments Ltd.	ordinary	114	114	100%	100%	100%	51	9,774	1,289[1]	Consolidated Company	Israel	-	-
International Consultants (Iconsult) Ltd.	ordinary	3,900	3,900	100%	100%	100%	30	100	30[2]	Consolidated Company	Israel	-	
Otzem Initiation & Investments (1991) Ltd.	Management	80	80			100%	-	209	334[2]	Consolidated Company	Israel	-	-
	ordinary A	21,330,220	21,330,220										
	ordinary B	4,999	4,999										
		21,335,299	21,335,299	100%	100%	100%							
Azrieli E-Commerce Ltd.	ordinary	1,600	1,600	100%	100%	100%	26	(124)	171[2]	Consolidated Company	Israel		
Modi'in Senior Housing	ordinary	1,000	1,000	100%	100%	100%	32	139	32[2]	Consolidated Company	Israel		
Compass				19.5%	19.5%		495	505					
AG Galleria Office Buildings, LP (3)		-	-	100%	100%	-	220	91	-	Consolidated Company	USA	-	Guarantee in several cases which were defined in the loan agreement
AG Plaza at Enclave (3)		-	-	100%	100%	-	50	128	82	Consolidated Company	USA	-	Guarantee in several cases which were defined in the loan agreement
AG 8 West Center (3)		-	-	100%	100%	-	14	40	60	Consolidated Company	USA	-	Guarantee in several cases which were defined in the loan agreement
AG San Clemente (3)				100%	100%	-	88	87	69[4]	Consolidated Company	USA		Guarantee in several cases which were defined in the loan agreement
AG Two Aspen (3)		-	-	100%	100%	-	18	49	41	Consolidated Company	USA	-	Guarantee in several cases

													which were defined in the loan agreement
Companies held by Canit Hashalom													
							1,059						
Gemel Tesua Investments Ltd.	ordinary	53,750,000	53,721,650	99.9%	99.9%		-		-	Consolidated Company	Israel	-	-
Otzma & Co. Investments Maccabim Ltd.	ordinary	16,100,000	16,091,764	.9%99	.9%99	100%	-		90(2)	Consolidated Company	Israel	-	-
GES Global Environmental Solutions Ltd.	ordinary	17,304,169	17,304,169	100%	100%	100%	57		-	Consolidated Company	Israel	-	See Note 28B(7)
Companies held by Palace Senior Housing Group Ltd.													
Palace America Senior Housing Company Ltd.	ordinary	100	100	100%	100%	100%	270		-	Consolidated Company	Israel	-	-
Ahuzat Bayit Ra'anana Senior Housing Ltd.	ordinary	15,000,000	15,000,000	100%	100%	100%	55		472(2)	Consolidated Company	Israel	-	-
													8

* The data refers solely to the companies directly held by the Company.

(1) After deduction of capital reserve

(2) Capital notes after deduction of capital reserve

(3) Foreign partnership

(4) Including loan and capital notes after deduction of capital reserve

PART E

Corporate Governance

CHAPTER E – CORPORATE GOVERNANCE REPORT

PART A | ASPECTS OF CORPORATE GOVERNANCE

Following are details regarding corporate governance processes in the Company for 2019, which include both issues relating to corporate governance in accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "**Report Regulations**"), and a corporate governance questionnaire in accordance with the version included in the document on proposed legislative amendments regarding improvement of the reports which was published by the Israel Securities Authority on March 16, 2014.

1. Regulation 21 - Payments to Interested Parties and Senior Officers – 2019

The compensation as recognized in the Company's Financial Statements in 2019 for the five highest paid individuals among the senior officers of the corporation or a corporation controlled thereby, in connection with their office at the corporation or a corporation controlled thereby, are as follows (in terms of annual costs to the corporation, NIS in thousands, for the twelve-month period that ended on December 31, 2019 (as specified in the Sixth Schedule of the Report Regulations):

Details of the Compensation Recipient				Compensation			
Name	Position	Position Scope	Rate of Holding in the Corporation's Capital	Management Fees (a)	Bonus	Other	Total
(1) Danna Azrieli	Active Chairman of the Board	100%*	(b)	3,003	1,444	-	4,447
(2) Eyal Henkin	CEO of the Company	100%	---	3,941	2,862	73 (c)	6,876
(3) Arnon Toren	Deputy CEO and Head of Malls Segment	100%	---	3,431	1,672	-	5,103
(4) Irit Sekler-Pilosof	CFO	100%	---	2,440	1,608	-	4,048
(5) Yoram Ben Porat	VP Head of Senior Housing	100%	---	1,904	797	-	2,701

* It is clarified that Ms. Danna Azrieli may continue to perform additional activities, including philanthropic activities in which she is involved, from time to time, provided that performance thereof does not compromise the fulfillment of her duties at the Company.

a) The management fee component includes the following components: cost of monthly management fees and related costs such as car maintenance, reimbursement of communications and other expenses and/or cost of monthly salary, social rights, social and related benefits as customary, car maintenance and reimbursement of communication and other expenses.

b) For details regarding control of the Company on the Report Date see Regulation 21A of Chapter D of this Report.

c) Reflects expenses in 2019 due to adjustment.

(1) Ms. Danna Azrieli

Ms. Danna Azrieli has been serving as the Company's Active Chairman of the Board since July 2014, through a company under her control (in this section: the "**Management Company**"). For details on the management agreement of the Company with the Management Company, which took effect on January 1, 2015, see Note 33C(1) to the Financial Statements. On October 6, 2016, the general meeting of the Company's shareholders approved (after approval of the Compensation Committee and the Board of Directors (the "Board") of the Company on August 22, 2016 and August 24, 2016, respectively) extension of the said management agreement for another three years from the date of the meeting's approval as aforesaid (Ref.: 2016-01-060735). It is emphasized that there is no change in the terms and conditions of the agreement which was approved in October 2016 versus the agreement that was approved in December 2014. On August 11, 2019, the general meeting of the Company's shareholders approved (after approval by the Compensation Committee and the Board of the Company on July 4, 2019) an update and extension of the said management agreement for another three years from the date of the meeting's approval as aforesaid (Ref.: 2019-01-083266). The modifications to the management agreement come down to an update of the fixed component and an update of the variable component, as follows:

1. **Update to the fixed component -** The fixed component was increased, such that after the change, the annual management fees are NIS 3 million (nominal) (which constitute, as of this date, monthly management fees in the sum of NIS 250 thousands), plus legal VAT, linked to the increase in the Consumer Price Index ("**CPI**") for the month of April 2019, which was published on May 15, 2019 (the "**Fixed Management Fees**") (the consideration will not be reduced in the event of a decrease in the CPI in a given month, but the reduction will be deducted from future increases in the CPI). The Fixed Management Fees are paid in each current calendar month. The Fixed Management Fees remained the same since January 1, 2015, such that the said update reflects an average increase of approx. 2.1% per annum in this component.

2. **Update of the variable component** – In view of the growth in the Company's financial results compared with these figures on the date of the engagement in the original management agreement (2014) and on the date of the approval of the previous management agreement (2016), the variable component was changed such that the quantitative threshold condition for the bonus was updated, the bonus brackets were updated and the bonus cap was updated, in order to create a threshold and brackets that fit the Company's results, as follows:

   2.1. Bonus threshold: In a year in which the adjusted profit[1] shall be less than NIS 1,015 million, there is no entitlement to a bonus. It is clarified that even if the adjusted profit shall be higher than such bonus threshold, no bonus shall be paid in respect of adjusted profit in the sum of up to NIS 1,015 million.

   2.2. Bonus brackets: In a year in which the adjusted profit shall be in the sum of NIS 1,015 million to NIS 1,140 million, a bonus shall be paid at the rate of 0.5% of the difference between the bonus threshold and the actual adjusted profit; in a year in which the adjusted profit shall exceed NIS 1,140 million, an aggregate annual bonus shall be paid as follows:

      (a) In respect of adjusted profit in the sum of up to NIS 1,015 million – no bonus shall be paid;

      (b) In respect of the part of the adjusted profit between NIS 1,015 million and NIS 1,140 million, an amount shall be paid at the rate of 0.5% of the difference between NIS 1,015 million and NIS 1,140 million;

[1] "Adjusted Profit" for this purpose, in respect of any calendar year – annual profit before tax, in accordance with the Company's audited consolidated annual financial statements, net of the amounts specified below: (1) a dividend it received from financial assets available for sale that was included in the annual profit before tax; (2) profit (loss) deriving from revaluation of real properties; (3) results of companies that do not engage in the Company's core (real estate) sectors and were included in the annual profit before tax; (4) linkage differentials accrued on financial liabilities; (5) interest expenses at the rate of the actual weighted effective interest for such year, of the Company and companies controlled thereby that engage in the Company's core business, in respect of loans (regardless or whether or not they were taken), at a financing rate of 65% of the historical cost of purchase on the books of the investment in companies that are not in the core business; (6) the sum total of management fees (including bonus) for the (active) Chairman of the Board for such year, as included in the annual profit before tax; and (7) profit (loss) from financial assets (marketable securities) held for trading, including interest and dividends in respect thereof.

(c) In respect of the part of the adjusted profit that exceeds NIS 1,140 million, an amount shall be paid at the rate of 0.75% of the difference between the adjusted profit and NIS 1,140 million.

2.3. Maximum bonus cap: The total annual bonus for any calendar year as aforesaid shall not exceed the sum of NIS 2 million. It is noted that the Company deems the creation of a link between the Company's performance and the compensation paid to the management company to be of considerable importance, and therefore, the new variable component brackets are based on performance from a long-term perspective, and ensure congruence between the amount of the variable component and the Company's performance.

It is emphasized that over and above the aforesaid, the management agreement that was approved in August 2019 contains no additional change to the current engagement terms between the management company and the Company and/or to its role, the scope of its position, the services that it provides to the Company and its powers, relative to the agreement that was approved in October 2016.

The reports mentioned in this Paragraph (1) are included herein by way of reference.

According to the provisions of the Company's compensation policy[2] (the "**Compensation Policy**"), and according to the management agreement, the Management Company is entitled to an annual bonus for meeting an adjusted profit target. In 2019, the adjusted profit was approx. NIS 1,237 million, and therefore the sum of the variable bonus to which Ms. Danna Azrieli is entitled, through the Management Company, for the 2019 results was NIS 1,444 thousand.

(2) Mr. Eyal Henkin

Mr. Henkin holds office as the Company's CEO since January 1, 2018, through a company that owned by him. Prior thereto, starting from September 1, 2010 and until December 31, 2017, Mr. Henkin held office through a company owned by him as the CEO of Supergas (after previously serving as Deputy CEO of Supergas for approx. eight months). In consideration for his office as the Company's CEO, Mr. Henkin is entitled to fixed monthly management fees, linked to the rate of the rise in the CPI for June 2016 as published in July 2016, which as of December 31, 2019 were approx. NIS 318 thousand. In addition, he is entitled to a 9-month adjustment period and in any event of termination of the Agreement, the Company shall pay Mr. Henkin, for the adjustment period, the full consideration and ancillary benefits. In addition, Mr. Henkin was granted a letter of indemnification and exemption in accordance with the Compensation Policy and as customary for the Company's other officers, and included in the insurance policy of the Company's officers[3]. Additionally, the Company shall provide Mr. Henkin with a suitable Grade 7 car and the Company shall bear the full cost of the car's use. The Company shall indemnify Mr. Henkin (including the management company through which he provides the CEO's services as aforesaid), as customary for such positions, for the actual expenses occasioned to him in providing the CEO's services to the Company, all in accordance with the Company's procedures and against the presentation of suitable references. The reimbursement of expenses as aforesaid shall not be more than the maximum amount determined, from time to time, by the Audit Committee, that it determines is appropriate, having regard to the Company's activity and scope. In addition, the Company shall provide him with a mobile phone and bear its full cost and the cost of use thereof. Each one of the parties may bring the Agreement to an end, for any reason,

[2] The Company's compensation policy was amended and approved by the Company's general meeting on August 11, 2019. For details, see Part B of the notice of meeting report as published on July 4, 2019 (Ref.: 2019-01-068701), included herein by way of reference.

[3] For details about the letters of indemnity and exemption that the Company grants the officers as at the date of this Report, see Section 6 of the meeting notice report of March 23, 2017 (Ref.: 2017-01-028392), which is included herein by way of reference.

subject to the grant of written 3-month notice. In addition, according to the Company's Compensation Policy, Mr. Henkin will be entitled to an annual bonus, as follows:

A discretionary bonus in an amount of up to 3 times the monthly cost of employment, according to the recommendation of the Chairman of the Board and as shall be approved by the Compensation Committee and the Board, according to criteria to be determined in advance for each year (the "**Discretionary Bonus**").

In addition, Mr. Henkin shall be entitled to an annual bonus that will be based on the following two components and will be calculated as follows (the "**Measurable Bonus**"):

1. **Meeting the FFO target** – An operational parameter based on meeting the FFO target set forth in the Company's annual work plan, as was approved by the Compensation Committee and the Board during the first quarter of each year for which the Measurable Bonus is granted (the "**FFO Target**")[4]. A prerequisite for receiving this component of the bonus is meeting 90% of the FFO Target. Mr. Henkin's eligibility for the bonus shall be calculated in a linear manner in accordance with the extent to which the FFO Target is met, whereby for fully meeting the FFO Target Mr. Henkin shall be entitled to a bonus in the sum of twice the monthly cost of employment.

2. **Meeting the NOI target** – An operational parameter based on meeting the NOI target set forth in the Company's annual work plan, as was approved by the Compensation Committee and the Board of the Company during the first quarter of each year for which the Measurable Bonus is granted (the "**NOI Target**")[5]. A prerequisite for receiving this component of the bonus is meeting 90% of the NOI Target. Mr. Henkin's eligibility for the bonus shall be calculated in a linear manner in accordance with the extent to which the NOI Target is met, whereby for fully meeting the NOI Target Mr. Henkin shall be entitled to a bonus in the sum of four times the monthly cost of employment.

To clarify, in any event, the total amount of the Discretionary Bonus together with the Measurable Bonus to Mr. Henkin shall not exceed the amount of nine times the monthly cost of employment.

In accordance with the aforesaid, on March 22, 2020, the Compensation Committee examined, and on March 24, 2020, the Company's Board examined, the CEO's contribution (after the recommendation of the Chairman of the Board was received), and it was resolved that on the basis of his contribution as aforesaid and the Company's results for 2019, Mr. Henkin will be granted a Discretionary Bonus in the sum of three (3) times the monthly management fees.

In addition, the FFO Target and the NOI Target, as were approved by the Compensation Committee and the Board for 2019 are NIS 1,274 million and NIS 1,582 million, respectively. The Company's FFO and NOI for 2019 were NIS 1,316[6] million and NIS 1,611 million, respectively.

In accordance with the aforesaid, on March 22, 2020, the Compensation Committee approved, and on March 24, 2020, the Company's Board approved that (1) for meeting the FFO Target, the Company's CEO will be granted a bonus in the sum of twice his monthly cost of employment, i.e. approx. NIS 636 thousand; and (2) for meeting the NOI Target, the Company's CEO will be granted a bonus in the sum of four times his monthly cost of employment, i.e. approx. NIS 1,272 thousand.

[4] The FFO target for 2019 was determined shortly after the approval by the meeting of August 11, 2019 of the update of the terms of such bonus.

[5] The NOI target for 2019 was determined shortly after the approval by the meeting of August 11, 2019 of the update of the terms of such bonus.

[6] The calculation includes conversion between the lease model and the deposits in senior housing model.

(3) Mr. Arnon Toren

As of June 1, 2014, Mr. Toren holds the office of Deputy CEO of Azrieli Group and Head of the Mall Segment (following his former office as CEO of Azrieli Malls), through a company owned by him. In consideration for his services, Mr. Toren is entitled to CPI-linked, fixed monthly management fees which, as of December 31, 2019, amounted to approx. NIS 279 thousand and standard related benefits, including the provision of a (Grade 6) vehicle, cellular telephones, expense reimbursements and advance notice of 6 months. The Company bears the full cost of all the benefits (including the cost of use and gross-up of the tax value).

According to the Compensation Policy, an officer who does not hold office as the Company's CEO or as a director thereof will be entitled, in the aggregate, to two annual bonuses, as shall be determined according to the recommendation of the Chairman of the Board and the CEO and shall be approved by the Compensation Committee and the Board:

1. **<u>Discretionary bonus</u>** – a discretionary annual bonus in the amount of up to six times the monthly employment cost, out of which a bonus in the sum of up to three times the monthly employment cost shall be granted in consideration of the officer's compliance with criteria which shall be based mainly on the officer's contribution to the Company in accordance with his role and responsibilities, and a bonus in the sum of up to three times the monthly employment cost shall be granted subject to the relevant officer's compliance with measurable targets, to be determined each year in advance by the Company's CEO in relation to the officer.

2. **<u>Special bonus</u>** – a special annual bonus in the amount of up to three times gross monthly salary. The special bonus shall be granted in special cases, such as: for promotion of a transaction or a significant strategic or business event or for completion of a project, which was not included in the Group's work plan. For the avoidance of doubt, it is not possible to grant an officer more than one special bonus in any calendar year, but it is possible to approve and grant a special bonus in the course of the year and on a date that does not coincide with the date of approval or granting of the annual bonus.

In accordance with the aforesaid, on March 22, 2020, the Compensation Committee examined, and on March 24, 2020, the Company's Board examined, Mr. Arnon Toren's contribution, and it was resolved that Mr. Toren will be granted a bonus in the sum of 6 times his monthly cost of employment.

(4) Ms. Irit Sekler-Pilosof

Ms. Irit Sekler-Pilosof has been serving as the Company's CFO since May 1, 2013. As remuneration for her services, Ms. Sekler-Pilosof, through a company owned by her, is entitled to fixed monthly management fees, linked to the CPI, which, as of December 31, 2019, amounted to approx. NIS 201 thousand, and standard related benefits, including the provision of a (Grade 6) vehicle, cellular telephones, expense reimbursements and advance notice of 6 months. The Company bears the full cost of all the benefits (including the cost of use and gross-up of the tax value). In accordance with bonuses to an officer who does not hold office as the Company's CEO or as a director thereof, as specified in Section (3) above, it was resolved to grant Ms. Sekler-Pilosof a bonus in the sum of eight times her monthly cost of employment.

(5) Mr. Yoram Ben Porat

Mr. Yoram Ben Porat has been serving as the Company's VP Head of Senior Housing since January 1, 2017. For his work, Mr. Ben Porat is entitled to a gross, fixed, CPI-linked, monthly salary which, as of December 31, 2019, amounts to approx. NIS 89 thousand, and standard related benefits, including the provision of a (Grade 6) vehicle, cellular telephones, expense reimbursements, advance notice of 3 months and a 3-month adjustment period. The Company bears the full cost of all the benefits (including the cost of use and gross-up of the tax value). In accordance with bonuses to an officer who does not hold office as the Company's CEO or as a director thereof, as specified in Section (3) above, it was resolved to grant Mr. Ben Porat a bonus in the sum of nine times his monthly cost of employment.

The compensation which was paid during the year prior to the Report Release Date to interested parties in the Company who are not listed in the table above, in relation to services they provided as functionaries in the corporation or a corporation controlled thereby, are as follows (in terms of annual cost for the corporation, in NIS in thousand, for the period of the twelve months ended on December 31, 2019, as specified in the Sixth Schedule to the Report Regulations):

Name of compensation recipient				Compensation					
Name	**Position**	**Scope of position**	**Rate of holding in corporation's capital**	**Salary**	**Bonus**	**Share-based payment**	**Management fee(*)**	**Other**	**Total**
Eight directors	Directors of the Company (a)	---		---	---	---	---	1,878 (b)	1,878

(a) Three independent directors, two outside directors, one dependent director and two directors who are controlling shareholders.
(b) Directors' compensation.

(6) Directors of the Company

In accordance with the Company's Compensation Policy, the remuneration for outside directors and other directors of the Company who do not receive a salary or management fee as will hold office from time to time, shall be the remuneration in the amount of the "maximum amount" per director (and in respect of directors who are controlling shareholders – up to the "maximum remuneration" amount), according to the rating of the Company as provided in the Companies Regulations (Rules on Remuneration and Expenses for the Outside Director), 5760-2000 (the "**Remuneration Regulations**") and the classification of such director. In addition, the directors may be included in an insurance policy for officers of the Company and shall receive an undertaking of indemnification, or indemnification pursuant to an indemnification permit and exemption from liability subject to the provisions of the Companies Law. In 2019, the remuneration paid by the Company to all of the independent directors (two outside directors and three independent directors), amounted to a total of approx. NIS 1,391 thousand and to the dependent director NIS 227 thousand. For further details, see Note 33C(7) and 33D to the Financial Statements. In addition, the directors are entitled to the reimbursement of expenses as customary in the Company and in accordance with the Remuneration Regulations.

Remuneration of additional directors of the Company who are controlling shareholders: For details see Regulation 22 below – Remuneration of Additional Directors who are Controlling Shareholders of the Company.

2. Regulation 22 - Controlling Shareholder Transactions

Following are details, to the Company's best knowledge, with regard to transactions with the controlling shareholder or in the approval of which the controlling shareholder has a personal interest, in which the Company or a corporation controlled thereby or an affiliate thereof engaged in the Report Period, and which are still in force as of the Report Date:

Transactions listed in Section 270(4) of the Companies Law

- **Engagement in a Management Agreement with a Management Company Controlled by Ms. Danna Azrieli**

  As aforesaid, on December 28, 2014, the Company's general meeting approved the Company's engagement with a Company controlled by Ms. Danna Azrieli in a management agreement through which Ms. Danna Azrieli provides to the Company Active Chairman of the Board services. For details on the management agreement, see Regulation 21(1) of this chapter above. On October 6, 2016, the general meeting of the Company's shareholders approved the extension of the management agreement, with no change to the terms and conditions of the engagement between a company controlled by Ms. Danna Azrieli and the Company, for another three years from the date of the meeting's approval (Ref.: 2016-01-060735). On August 11, 2019, the general meeting of the Company's shareholders approved the update and extension of the management agreement once again, for another three years from the date of the meeting's approval (Ref.: 2019-01-083266), which is included herein by way of reference, and see also Note 33C(1) to the Financial Statements. For specifics about the changes in the terms and condition of the engagement between a company controlled by Ms. Danna Azrieli and the Company, see Regulation 21(1) of this Chapter E.

- **Remuneration of Additional Directors who are Controlling Shareholders of the Company**

  Ms. Sharon Azrieli and Ms. Naomi Azrieli, controlling shareholders of the Company, are entitled to directors' remuneration as approved by the Board and the general meeting of the Company on May 6, 2010, and ratified by the Company's Board on May 13, 2013, on May 24, 2016 and on July 4, 2019 (following receipt of the approvals of the Company's Compensation Committee) and reported to the public on May 14, 2013, May 25, 2016 and July 4, 2019, respectively, and pursuant to Section 1B(3) of the Companies Regulations (Relief in Transactions with Interested Parties), 5760-2000. The aforesaid remuneration approval of July 4, 2019 was granted for a 3-year period commencing from June 3, 2019. In addition, the provisions of Sections 5(b) and 6(a) of the Remuneration Regulations pertaining to reimbursement of expenses to directors, including flights, per diems and hospitality, shall apply also with regard to such directors, *mutatis mutandis*. The Audit Committee and the Board approved a framework for such expenses, which is examined from time to time. In accordance with the aforesaid, in 2019, the remuneration paid by the Company to Naomi Azrieli and Sharon Azrieli as aforesaid amounted to a total of approx. NIS 260 thousand. For details, see an immediate report released by the Company on July 4, 2019 (Ref.: 2019-01-068692), included herein by way of reference, Regulation 21(6) of this part above and Note 33C(7) to the Financial Statements.

- **Insurance, indemnification and exemption for Controlling Shareholders in the Company**

  Ms. Danna Azrieli, the Company's Chairman of the Board , Ms. Naomi Azrieli, Director, and Ms. Sharon Azrieli, Director (the "**Controlling Shareholders who are Directors**"), are entitled to an officers' insurance arrangement to which all of the directors and officers of the Company are entitled. On June 2, 2019, the Compensation Committee approved an engagement for renewal of the D&O insurance policy of the Company (including from among the controlling shareholders of the Company) and the Company's subsidiaries from June 3, 2019 until June 2, 2020. The engagement is according to the framework of the engagement specified in the Company's Compensation Policy. In addition, the Controlling Shareholders who are Directors are entitled to letters of indemnification and exemption according to the Company's Compensation Policy. For details see Note 33D to the Financial Statements. On April 27, 2017, the

Company's general meeting approved the amendment and extension of letters of indemnification that were granted to the Controlling Shareholders who are Directors, for an additional three year period, and the granting of exemption from liability to the Controlling Shareholders who are Directors, commencing from April 27, 2017. For further details, see the notice of meeting report dated March 23, 2017 (Ref.: 2017-01-028392), and an immediate report on the results of the meeting dated April 20, 2017 (Ref.: 2017-01-043866), included herein by way of reference. On August 11, 2019, the general meeting of the Company's shareholders (after the approval of the Company's Compensation Committee and Board of July 4, 2019) approved the extension of the aforesaid management agreement of Ms. Danna Azrieli as the Company's Chairman of the Board for additional three years starting from the date of such approval by the meeting (Ref. 2019-01-083266), in which framework the grant of letters of indemnification and exemption to Ms. Danna Azrieli, was also approved.

- **Contributions to the Azrieli Foundation (Israel), a Registered Association**

  In May 2010 (following approval by the Board), the general meeting, approved the Company's policy on contributions to the Azrieli Foundation (Israel) R.A. (the "**Azrieli Foundation**"). On March 14, 2013, the Company's Audit Committee determined that the length of time which was originally set forth by the general meeting of the Company in respect of the Company's contributions to the Azrieli Foundation, i.e. five years, is reasonable under the circumstances. In May 2015, the general meeting approved (after approval by the Audit Committee and the Board of the Company) the Company's engagement with the Azrieli Foundation in a new contribution arrangement, whereby the arrangement for contribution to the Azrieli Foundation would be extended for an additional period of five years, commencing on June 1, 2015 and ending on May 31, 2020. For details about the contribution arrangement, see Note 33C(5) to the Financial Statements. Sharon Azrieli, Naomi Azrieli and Danna Azrieli may be deemed as having a personal interest in the contribution to the Azrieli Foundation due to their office on the Company's Board and the board of the Azrieli Foundation. It is further clarified that following the receipt of the contribution shares (for details with respect to the contribution shares, see Note 33C(5)b to the financial statements in Chapter C of this Report), the Azrieli Foundation became an interested party in the Company, within the definition of such term in the Securities Law, and following the provisions of the aforesaid contribution arrangement, Azrieli Holdings and the Azrieli Foundation are deemed as "co-holders", within the definition of such term in the Securities Law; for the purpose of duties applicable or relating under the Companies Law to the controlling shareholders of the Company, the Company has chosen to treat the Azrieli Foundation as if it were a controlling shareholder of the Company, together with Azrieli Holdings, even if not required under the provisions of the law, and for as long as no other notice is given by the Company in an immediate report.

Negligible Transactions

In the Report Period, the Group performed negligible transactions with the controlling shareholders thereof, or that the controlling shareholders thereof had an interest in their approval, of the kinds and characteristics in accordance with a negligible transactions procedure approved by the Board of the Company, as specified in Note 33E to the Financial Statements, including:

- **Lease Agreements with Related Parties**

  The Company, companies controlled by the Company and affiliates thereof, have engaged in lease agreements with lessees, in the engagement with whom the controlling shareholders have a personal interest, pursuant to which part of the aforesaid companies lease out for several years now and/or leased out during 2019, in the ordinary course of business and at arm's length, areas in some of the income-producing properties of the Company. The income with respect to the aforesaid rentals in the year ending on December 31, 2019, totaled approx. NIS 1,606 thousand (about 4 lessees, including the Azrieli Foundation). For details, see Note 33E to the Financial Statements.

- **Ties with the community**

  From time to time the Company makes, either itself or through companies which are among the members of the Group, direct contributions as well as contributions through the Azrieli Foundation as specified in Section 2 above. In addition, to the Company's best understanding, the Azrieli Foundation may donate to the community and to bodies or entities which require assistance, including bodies to which interested parties of the Company may have a link, or in which interested parties of the Company are volunteer members.

3. Additional Issues in Relation to the Control of the Company

3.1 Restructuring

In the context of a process of restructuring of the companies in the Group and primarily, steps for the consolidation of similar activities of the Group which were performed in fellow subsidiaries, and streamlining of the Group's current operation, the Company engaged, in November 2008, in an agreement with Nadav Investments whereby Nadav Investments transferred its shares in some of the Group's companies to the Company, as is, in consideration for an allotment of shares of the Company (the "**Restructuring Agreement**"). As of the Report Date, the restriction period by virtue of Section 104A of the Income Tax Ordinance (New Version), 5721-1961, pertaining to the sale of shares which have been transferred, has expired.

Due to it being a company which is incorporated under Canadian law, Nadav Investments is governed, *inter alia*, in connection with its operations or investments in Israel, by the rules of taxation which are set forth in the treaty between the State of Israel and Canada pertaining to the prevention of double taxation and tax evasion with regard to taxes on income and capital (the "**Treaty**"), including with regard to the sale of shares in companies whose assets are mainly real properties. For purposes of clarification and interpretation of the sections of the Treaty which contemplate this issue, various tax ramifications and provisions regarding the sale of the Company's shares were set forth in the context of an agreement between the Israel Tax Authority and the Company, Canit Hashalom and Nadav Investments, dated November 2008, in accordance with the rate of the Company's holdings in real properties in Israel.

In addition, the aforesaid agreement set forth provisions whereby Nadav Investments shall not act towards receiving any tax benefits in Canada which are not in accordance with the provisions of the law in Canada or the Treaty, provisions pertaining to the possibility to terminate the agreement if in the future the provisions of the Treaty and/or Chapter E of the Ordinance will be materially modified in the manner which has an effect on the manner of taxation of the sale, and additional provisions whereby in any event where there will be a tax liability in Canada due to the sale of the shares, the same shall have no effect on the tax liability which is set forth in the agreement. Any restructuring in accordance with the provisions of the second part of the Ordinance which addresses the Company's shares and/or the shares of Canit Hashalom shall be performed solely after the receipt of the advance consent of the Mergers and Splits Department of the Tax Authority.

3.2 Definition of Business

On May 24, 2016, the Company's Board, after the approval of the Audit Committee of May 22, 2016, approved the Company's Definition of Business Procedure (the "**Procedure**") which shall apply to the Company's directors and to the Company's controlling shareholders. The Procedure determines the types of business in which they will not be able to engage in transactions in Israel and overseas, and the manner of disclosure to the Company, prior to engagement in such transactions, and the how the Company shall make the decision as to whether such transactions are relevant to the Company. The Procedure shall apply to controlling shareholders and board members at the Company and will be in effect throughout the period of their being controlling shareholders of the Company and/or their term of office as members of the Company's Board, whichever is later, and with respect to directors for an additional period of six months from the end of the said timeframe, so long as no other resolution shall have been adopted by the Company's Board, after receipt of the resolution of the Company's Audit Committee. The Procedure determines that a controlling shareholder and/or director of the Company is prohibited from being involved, either directly or indirectly, in business activity which may, according to the Companies Law, fall under the definition of a business opportunity of the Company, and in any event which falls within one or more of the activities to which the Procedure applies.

The Procedure regulates the process of approval of performance of the transaction by a controlling shareholder and/or director, if the Company chooses not to perform such transaction itself. According to the Procedure, a controlling shareholder and/or director is required to present, in writing, to the Company's management and subsequently to the Audit Committee, an outline of the transaction in connection with a property and/or activity which fall within any of the activities according to the Procedure which he is interested in performing, and to forward all of the material relevant to the transaction for their perusal. Only if the Company's management, and subsequently the Audit Committee, decide that the proposed activity does not interest the Company, will the controlling shareholder and/or director of the Company be free to engage in such transaction.

Due to the complexity of the issues covered by the Procedure, the timetables for performance of transactions and the concern of other bodies which may frustrate the transaction, decisions must be made under the Procedure on short notice and even immediately, all as specified in the Procedure. Therefore, the decision of the Audit Committee as to whether to approve the proposed activity or alternatively to seek supplementary details from the Company's management, shall be given no later than up to 10 business days after the date of presentation of the proposal by such person and receipt of the material and information required, such decision being made by a majority of members who do not have a personal interest in the decision.

It is clarified that the provisions of the Companies Law and the provisions of supplementary laws such as securities law prevail over the provisions of the Procedure, and therefore the Company is required to seek advice in each case according to the special circumstances thereof from the legal aspect, as applicable at such time.

In addition, there is a definition of business procedure for the Chairman of the Board, Ms. Danna Azrieli, which applies to her in addition to the provisions of the Procedure.

4. Regulation 29 and Regulation 29A - Recommendations and Resolutions of the Board

For details on resolutions of the Board with regards to dividend distribution, see Section 4 of Chapter A of this Report and Notes 19 and 35A to the Financial Statements.

Resolutions of the Special General Meeting

Set forth below is a specification of resolutions which were approved during a special general meeting of the Company's shareholders:

Date of resolution	Subject of resolution	Ref.[7]
August 11, 2019	Approval of an updated Compensation Policy; Approval of the update to terms of office and employment of Mr. Eyal Henkin as the Company's CEO (through a private company wholly owned by him); Approval of an update to and extension of the terms of the management agreement with Ms. Danna Azrieli, as the Active Chairman of the Company; Appointment of Mr. Ehud Rassabi as an outside director of the Company; Appointment of Mr. Yossef Shachak as an outside director of the Company.	2019-01-068701

Resolutions of the Company – Regulation 29A

In the Report Period, and until the Report Release Date, no Company resolutions were adopted on the issues specified in Regulation 29A of the Report Regulations, other than as specified below:

For details in relation to the resolution for renewal of the Company's D&O insurance policy (including from among the controlling shareholders of the Company) of the Company and the Company's subsidiaries, from June 2019 until June 2020, see Section 2 above, which is included in the specification with respect to insurance and indemnification for controlling shareholders of the Company, that was adopted pursuant to the provisions of Regulations 1B(5) and 1B1 of the Companies Regulations (Relief in Transactions with Interested Parties), 5760-2000 and Note 33D to the Financial Statements.

5. Compensation of Senior Officers

On August 11, 2019, the Company's general meeting approved the updated compensation policy for the Company's officers. The Company's Compensation Policy determines a compensation plan for officers of the Company, including directors of the Company who are controlling shareholders.

At the meetings of the Compensation Committee and the Board of the Company of July 4, 2019, a discussion was held on the compensation due to Ms. Naomi Azrieli and Ms. Sharon Azrieli, controlling shareholders of the Company who hold office as directors thereof and do not receive management fees. For further details, see Section 2 above.

[7] The reports in this table are included herein by way of reference.

At the meeting of the Compensation Committee of March 22, 2020 and at the Board meeting of March 24, 2020, a discussion was held on the terms of employment and the compensation granted to the senior officers of the Company and the interested parties thereof in 2019 which are specified in Regulation 21 of this chapter with respect to each one of the said senior officers and interested parties separately.

The Company's Board determined, after having received the recommendation of the Compensation Committee, *inter alia*, that all of the compensation terms of the officers are consistent with the Company's Compensation Policy.

6. Internal Audit

In 2010 the Company adopted an internal audit procedure (the "**Internal Audit Procedure**"), whose purpose is to define the status and scope of activity of the internal auditing of the Company, as well as the methods and means for fulfillment of its tasks. This Procedure was approved by the Audit Committee in its meeting of November 15, 2010 and by the Company's Board in its meeting of November 24, 2010.

Identity of the Internal Auditor: Mr. Moshe Cohen, CPA and managing partner at Chaikin Cohen Rubin (the "**Internal Auditor**"), was appointed to the position of the internal auditor of the Company and the Group's companies and began his service at the Company in March 2017.

Compliance of the Internal Auditor with Legal Requirements: To the best of the knowledge of the Company's management, according to the Internal Auditor's statement, he complies with the requirements of Section 146 (b) of the Companies Law and the provisions of Section 3(a) and 8 of the Internal Audit Law, 5752-1992 (the "**Internal Audit Law**").

Holding Securities of the Company or a Body Related Thereto: As of this Report Date, as the Internal Auditor informed the Company, he does not hold securities of the Company or a body related thereto.

Ties of the Internal Auditor with the Company or a Body Related Thereto: To the best of the knowledge of the Company's management, as the Internal Auditor informed the Company, the Internal Auditor does not have material business or other ties with the Company, and nothing in other business ties of the Internal Auditor creates a conflict of interest with his duties as an internal auditor of the Company.

Additional Positions of the Internal Auditor in the Company: The Internal Auditor is an external service provider to the Company on behalf of Chaikin Cohen Rubin. According to the Internal Audit Procedure, the Internal Auditor and the audit workers will not hold a position in the Company in addition to the internal audit. As of the Report Date, except for his position as the Company's internal auditor, the Internal Auditor is neither employed by the Company nor provides any other external services thereto.

Other positions of the Internal Auditor outside the Company: Mr. Moshe Cohen is a managing partner at Chaikin Cohen Rubin.

Method of Appointment of the Internal Auditor: Mr. Moshe Cohen was appointed to serve as the Internal Auditor of the Company pursuant to the recommendation of the Company's Audit Committee of March 19, 2017 and the resolution of the Company's Board of March 21, 2017, after an in-depth review of his education, qualifications and experience of many years in internal auditing while considering the obligations, authorities and duties imposed on the internal auditor according to law.

Mr. Cohen was found suitable to serve as the Internal Auditor of the Company, *inter alia,* considering the scope of business and complexity of the company. Within the framework of the Company's Internal Audit Procedure which was approved by the Audit Committee and the Board of the Company in November 2010, the Company's Board appointed the Internal Auditor and determined his status and compensation terms.

Conclusion of term of office: According to the Internal Audit Procedure which determines that the term of office of the Company's Internal Auditor shall not exceed 6 years, and therefore on March 21, 2023 Mr. Moshe Cohen will end his term of office as the Company's Internal Auditor.

The Identity of the Supervisor of the Internal Auditor: The organizational supervisor of the Internal Auditor is, as of the Report Date, the Company's Chairman of the Board, in coordination with the Company's Audit Committee.

The Audit Plans: According to the Internal Audit Procedure, the internal auditor submits a proposal for an annual work plan, in coordination with the Company's Chairman of the Board and the CEO. The Audit Committee must discuss the plan and approve it, and thereafter the plan is forwarded for the Board's approval. In November 2017, the Audit Committee adopted the report of the Internal Auditor regarding a multi-annual risk survey, according to which the Audit Committee laid down a multi-annual plan for the years 2017-2021 for determination of the audit objectives, which served as an outline for laying down the annual work plan of the internal audit. The audit plan of the Internal Auditor is an annual plan, derived from a multi-annual work plan, *inter alia*, according to the following considerations: potential for streamlining and saving, risks inherent to the Company's business, rules and regulations applicable to the Company and weaknesses which the Company's Board, management or Internal Auditor observe on an ongoing basis.

The annual work plan of the internal audit includes also the performance of an audit of the follow up on implementation of the internal auditor and Audit Committee's recommendations by the Company's management. The audit is carried out according to the plan under the supervision of the internal auditor and is adapted, according to developments and findings which are discovered during the audit. The work plan leaves discretion with the Internal Auditor for change in the audited issues, after a discussion on the subject with the relevant parties.

Material Transactions: The Internal Auditor receives an invitation, including background material for meetings of the Company's Audit Committee in which transactions are examined and approved, as specified in Section 270 of the Companies Law. According to his choice, after receiving proper details, he is present at the meetings or is updated in respect thereof. Also, the Internal Auditor may receive, according to his request, minutes of the Company's Board meetings in which such transactions had been approved.

Audit of Investee Corporations: The Internal Auditor also serves as the internal auditor of the subsidiaries in the Group, excluding in the senior housing segment in which an internal audit is performed by another internal auditor. The audit plan also refers to material investee corporations of the Company in which no internal auditor had been appointed, including overseas.

Scope of Retaining of the Internal Auditor: The scope of retaining of the Internal Auditor was approved by the Audit Committee according to the audit plan which was approved thereby.

In respect of the audit plan for 2019, the hours of the internal audit in the Company and in its investee companies (excluding in the senior housing segment) which were performed by the Internal Auditor amounted to approx. 1,015 hours. The management has the option to expand the scope of retaining according to circumstances.

In the Company's estimate, the scope of the Internal Auditor's work in respect of 2019 is appropriate.

The scope of hours for the audit work in the Company and in the subsidiaries is determined according to the audit plan proposed by the Internal Auditor and is approved by the Audit Committee.

In 2019, the internal audit hours in senior housing, which were performed by the internal auditor (CPA Gali Gana) amounted to approx. 250 working hours.

Guideline Professional Standards in the Performance of the Audit: The internal auditor and the team of employees reporting to him perform the audit work in meticulous compliance with necessary standards for the performance of professional, reliable, autonomous audit, independent of the auditee. Pursuant to information provided to the Company's management by the Internal Auditor, the audit reports rely on the audit findings and the facts recorded in the audit are carried out according to accepted professional standards according to professional guidelines on internal auditing, including standards of the Institute of Internal Auditors in Israel (IIA), and in accordance with the Internal Audit Law and the Companies Law. The Board relied on the reports of the Internal Auditor regarding his compliance with the professional standards according to which he performs the audit.

Free Access to the Internal Auditor: The Internal Auditor of the Company has free, unlimited and direct access, in coordination, to documents, information and the relevant information systems of the Company, and of investee companies, including financial data, as well as an independent status. The Internal Auditor undertakes to keep in confidence, not to provide to others and not to make any use for his own use or for the use of others, of any information pertaining to the Company.

The Report of the Internal Auditor: The internal audit reports are submitted in writing and discussed on an ongoing basis with the Company's management and the CEO.

The dates on which a report was submitted regarding the findings of the Internal Auditor to the CEO are: on August 5, 2019 (one report) and on November 3, 2019 (2 reports). The dates on which a discussion was held at the Audit Committee on the findings of the Internal Auditor, are as follows: on August 11, 2019 and on November 17, 2019, respectively.

The Evaluation by the Company's Board of the Activity of the Internal Auditor: According to the evaluation of the Board, the qualifications of the Internal Auditor and his team, the scope, nature and continuity of the activity of the Internal Auditor and his work plan are reasonable in the circumstances of the matter, and fulfill the purposes of the internal audit at the Company.

Compensation of the Internal Auditor: The payment to the Internal Auditor of the Company and of subsidiaries in Israel is done according to actual working hours and according to the work plan approved by the Audit Committee and the progress in the audit work of each and every subject. In the beginning of each year the Internal Auditor submits a proposal for an annual audit plan which will include a planned hourly framework.

The Audit Committee determines the audit plan and the hour quota. The Internal Auditor will not deviate from the hour quota without the approval of the Audit Committee. In case that further tasks will be imposed on the Internal Auditor during the audit year – the Audit Committee will determine the hour quota for the further tasks.

In respect of 2019, the cost of the fee to the Internal Auditor and his team amounted to approx. NIS 213 thousand (plus VAT).

According to the Company's estimation, due to the fact that the compensation is based on working hours, the aforesaid compensation cannot affect the exercise of the Internal Auditor's professional discretion. The Company determined as a matter of essential policy the independence of the internal audit, and therefore, the Internal Auditor is not dependent at all upon the Company and the management thereof.

7. The Outside Auditor

The Auditor’s Identity

The primary outside auditors of the Company and of the investee companies are the accounting firm of Deloitte Brightman Almagor Zohar (the "**Auditor**"). It shall be stated that the firm leases offices from the Company at the Azrieli Center in Tel Aviv for amounts which are immaterial to the Company. However, in order to ensure that the independence thereof is not prejudiced, the Auditor has assumed (within the framework of an agreement with the Israel Securities Authority) parameters which will be examined from time to time in respect of the engagement, including with respect to the specificity of the terms of the lease agreement and non-modification thereof; written – at arm's length fee agreements; separation between the identity of the service providers and the decision makers in respect of the lease agreement; restrictions regarding the settling of accounts with respect to the lease agreement and the services and agreement that in case of dispute the Auditor shall act for termination of his office. The Company confirms with the Auditor the fulfillment of such parameters and the validity thereof on an annual basis.

The Auditor's Fee

In the years 2018 and 2019, the accountant fee for audit services, audit-related services and tax services and consultation services totaled as follows:

2019		Audit Services, Audit-Related Services and Tax Services		Other Services		Total	
Company	**Auditor**	**NIS in thousands**	**Hours**	**NIS in thousands**	**Hours**	**NIS in thousands**	**Hours**
Azrieli Group Ltd.	Deloitte Brightman Almagor Zohar & Co.	2,145	8,700	249	620	2,394	9,320
GES	Somekh Chaikin KPMG (auditors)	300	1,516	98	189	398	1,705

2018		Audit Services, Audit-Related Services and Tax Services		Other Services		Total	
Company	**Auditor**	**NIS in thousands**	**Hours**	**NIS in thousands**	**Hours**	**NIS in thousands**	**Hours**
Azrieli Group Ltd.	Deloitte Brightman Almagor Zohar & Co.	2,000	9,110	60	155	2,060	9,265
Supergas and GES	Somekh Chaikin KPMG (auditors)	568	3,530	182	480	750	4,010

Determination of the Auditor's Fee

The Company's Board, after receiving the recommendation of the Company's Audit Committee, was authorized in the Company's articles of association to determine the fee of the outside auditor. The fee is determined based on the work required and past experience, while adjusting such to changes in regulation and scope of work, development of the Company and events which occurred during the passing year.

8. Independent Authorized Signatory

As of the Report Release Date, the Company does not have an independent authorized signatory.

9. Contributions

The Company has a deep commitment to the improvement and promotion of the community in Israel. The social accountability, the integration and giving to the community are strategic objectives which constitute an integral part of the Company's business work plan, which allocates financial resources to the matter, in the annual work plan, mainly under the contribution arrangement, as specified in Section 2 of this chapter.

Over the course of 2019 the Company made contributions, itself and through consolidated companies, in money and in finished products, at a total value of approx. NIS 14.1 million.

For resolutions adopted by the Company in respect of its contribution policy, through the Azrieli Foundation, which also includes undertakings to grant future contributions, see Regulation 2 above and Note 33C(5) to the Financial Statements.

10. Internal Enforcement Plan in the Company

In 2012, the Company has adopted an internal enforcement plan. Within the framework of the internal enforcement plan, the Company's Board appointed a board committee designated for the issue of internal enforcement in the Company (the "**Enforcement Committee**") which held a series of discussions regarding required adjustments for an enforcement outline and an enforcement system procedure for the needs of the Company, the unique structure of the Company and its field of business. The supervisor of internal enforcement in the Company is Adv. Nirit Zeevi, VP, General Counsel and Corporate Secretary.

In the context of the enforcement plan, the Company updated and adopted several procedures regarding corporate governance in the Company, which constitute part of the overall enforcement system in the Company, including: (a) Procedure for the work of the Board and its committees; (b) Procedure for identifying transactions with related parties (which also addresses the identification of transactions with interested parties, the classification of irregular and negligible transactions and criteria for types of transactions and acts as being irregular); (c) Immediate reports procedure (for examination of the materiality and the need for submitting an immediate report upon the occurrence of various events); (d) Insider information procedure; (e) Whistleblower employees procedure; (f) Ethical code; (g) Officer holdings procedure; (h) Cluster of companies procedure; (j) Definition of business for directors and controlling shareholders of the Company procedure and other procedures designated to support and regulate the work of the different organs in the Company and its management.

In 2019, the Company implemented the enforcement plan and acted in accordance therewith, in the context of which it also held the annual training day, which compiles the relevant updates for the managers and employees of the Group.

PART B | CORPORATE GOVERNANCE QUESTIONNAIRE[8]

To clarify, for the avoidance of doubt, the questionnaire is not intended to exhaust all corporate governance aspects relevant to the Company, but only addresses several aspects; for receipt of further information, please inspect the Company's reports, including in this periodic report.

Independence of the Board of Directors

		Correct	Incorrect
1.	Throughout the entire report year, two or more outside directors held office in the corporation. In this question you may reply "Correct" if the period of time in which two outside directors did not hold office does not exceed 90 days, as provided in Section 363A(b)(10) of the Companies Law. However, any reply which is (Correct/Incorrect) shall state the period (in days) in which two or more outside directors did not hold office in the corporation in the report year (including also a term of office which was retroactively approved, while distinguishing between the different outside directors): Director A: Prof. Niv Ahituv, who ceased to hold office on August 23, 2019. Director B: Mr. Efraim Halevy, who ceased to hold office on August 23, 2019. Director C: Mr. Ehud Rassabi, who took office on August 23, 2019. Director D: Mr. Yossef Shachak, who took office on August 23, 2019. Number of outside directors holding office in the corporation as of the date of release of this questionnaire: 2.	✓	
2.	The rate[9] of independent directors[10] holding office in the corporation as of the date of release of this questionnaire: 5/9 The rate of independent directors determined in the articles of association[11] of the corporation[12]: ______. ☒ Irrelevant (no provision set in the articles of association).		
3.	In the report year, an examination was held with the outside directors (and the independent directors) and it was found that in the report year they complied with the provision of Section 240(b) and (f) of the Companies Law regarding the absence of a link of the outside (and independent) directors holding office in the corporation, and that they also fulfill the conditions required for holding office as an outside (or independent) director.	✓	
4.	All of the directors who held office in the corporation during the report year do not, directly or indirectly, report[13] to the CEO (excluding a director who is a workers' representative, if there is a workers' representative body in the corporation).If your answer is "Incorrect", (i.e., the director reports to the CEO as aforesaid) – state the number of directors not complying with the aforesaid restriction: ______.	✓	
5.	All of the directors who notified of the existence of a personal interest they have in the approval of a transaction on the meeting's agenda, neither attended the deliberation nor participated in a vote as aforesaid (other than a deliberation and/or vote in circumstances as stated in Section 278(b) of the Companies Law): If your answer is "Incorrect" – Was it for the purpose of presentation of a specific issue by him pursuant to the provisions of the last part of Section 278(a): ☐ Yes ☐ No (check the appropriate box). State the number of meetings in which such directors were present at the deliberation and/or participated in the vote, other than in circumstances as provided in Subsection a.: ___________.	✓	

[8] According to the language included in the document on proposed legislative amendments regarding improvement of the reports which was published by the Israel Securities Authority on March 16, 2014.
[9] In this questionnaire, "rate" – a specific number out of the total. For example 3/8.
[10] Including "outside directors" as defined in the Companies Law.
[11] In the context of this question – "articles of association" including pursuant to a specific legal provision that applies to the corporation (for example, in a banking corporation – the guidelines of the Supervisor of Banks).
[12] A bond company is not required to answer this section.
[13] For purposes of this question – the mere holding of office as a director in a held corporation which is controlled by the corporation, shall not be deemed as "reporting", conversely, a director's office in a corporation acting as an officer (other than a director) and/or employee in the held corporation which is controlled by the corporation, shall be deemed as "reporting" for purposes of this question.

6.	The controlling shareholder (including his relative and/or anyone on his behalf), who is not a director or another senior officer of the corporation, did not attend the board meetings held in the report year. If your answer is "Incorrect" (i.e., the controlling shareholder and/or his relative and/or anyone on his behalf who is not a board member and/or a senior officer of the corporation attended such board meetings) - the following details regarding the attendance of any additional person in such board meetings shall be stated: Identity: Ms. Stephanie Azrieli; Holds no position at the Corporation; the wife of Mr. David Azrieli OBM and the mother of Danna Azrieli, Chairman of the Board, Naomi and Sharon Azrieli, directors. Was it for the purpose of presentation of a certain issue by him: □ Yes ☒ **No** (check the appropriate box) The rate of his attendance[14] at board meetings held in the report year for the purpose of presentation of a specific issue by him: ___________. Other presence: Ms. Stephanie Azrieli, accompanies her daughters, Danna Azrieli, Chairman of the Board, Naomi and Sharon Azrieli, directors; however, she does not take an active part in the discussions and resolutions.		✓

Directors' qualifications and skills

		Correct	Incorrect
7.	In the corporation's articles of association there is no provision limiting the possibility to immediately terminate the office of all of the directors of the corporation who are not outside directors (in this context - a determination by a regular majority is not deemed a limitation)[15]. If your answer is "Incorrect" (i.e., such limitation exists), state -	✓	
	a. The period prescribed in the articles of association for the office of a director: ______.		
	b. The required majority prescribed in the articles of association for the termination of office of the directors: ______.		
	c. The legal quorum at the general meeting prescribed in the articles of association for the termination of office of the directors: ______.		
	d. The majority required for amending these provisions in the articles of association: ______.		
8.	The corporation has a training plan for new directors, in the field of the corporation's business and in the field of the law applicable to the corporation and the directors, as well as a continuing plan for the training of incumbent directors, which is adjusted, *inter alia*, to the position held by the director in the corporation. If your answer is "Correct" - state whether the plan was implemented in the report year:☒**Yes** ☐ No (check the appropriate box)	✓	
9.	a. The corporation determined a required minimum number of directors on the board who must have accounting and financial expertise. If your answer is 'Correct' - *state the minimum number which was determined: 1 (apart from the outside director having accounting expertise).*	✓	
	b. Number of directors holding office in the corporation during the report year - Having accounting and financial expertise[16]: 4. Having professional qualifications: 4. *If there were changes in the number of directors as aforesaid in the report year, provide the figure of the lowest number (other than in the 60-day period from the change) of directors of any kind who held office in the report year.*	✓	

[14] While separating the controlling shareholder, his relative and/or another on his behalf.
[15] A bond company is not required to answer this section.
[16] After the Board's estimation, in accordance with the provisions of the Companies Regulations (Conditions and Tests for Directors Having Accounting and Financial Expertise and Directors with Professional Qualifications), 5766-2005.

			Correct	Incorrect
10.	a.	Throughout the report year, the composition of the board included members of both genders. If your answer is "Incorrect" – state the period (in days) in which the aforesaid was not met: ______. In this question, you may answer "Correct" if the period in which directors of both genders did not hold office does not exceed 60 days. However, in any answer (Correct/Incorrect), state the period (in days) in which directors of both genders did not hold office in the corporation: 0.	✓	
	b.	Number of directors of each gender holding office on the board of the corporation as of the date of publication of this questionnaire: Men: 5 Women: 4.		

Board Meetings

			Correct	Incorrect
11.	a.	Number of board meetings held during each quarter in the report year: Q1: 5. Q2: 3. Q3: 4. Q4: 3.		
	b.	Alongside each of the names of the directors holding office in the corporation during the report year, state their participation rate[17] in the board meetings (in this subsection - including meetings of the board committees of which they are members, and as stated below) held during the report year (in reference to his term of office): (Add extra lines according to number of directors)		

Name of Director	**Rate of Participation in the Board Meetings (15 meetings)**	**Rate of Participation in the Meetings of the Audit Committee[20] (4 meetings)**	**Rate of Participation in the Meetings of the Financial Statements Review Committee[19] (4 meetings)**	**Rate of Participation in Meetings of Compensation Committee[18] (6 meetings)**	**Rate of Participation in Meetings of Additional Board Committees of which he is a Member (state the committee's name)**	
Danna Azrieli	15/15	--	--	--	--	
Naomi Azrieli	13/15	--	--	--	--	
Sharon Azrieli	13/15	--	--	--	--	
Joseph Ciechanover	6/6	1/1	1/1	--	Enforcement Committee – 1/1	Note: Mr. Ciechanover ceased to hold office in May 2019. Figures about him are until then.
Oran Dror	15/15	4/4	4/4	--	Enforcement Committee – 1/1	
Niv Ahituv	11/11	3/3	3/3	5/5	Enforcement Committee – 1/1	Note: Mr. Ahituv ceased to hold office in August

[17] See footnote 9.
[18] With regard to a director who is a member of this committee.
[19] With regard to a director who is a member of this committee.
[20] With regard to a director who is a member of this committee.

						2019. Figures about him are until then.
Efraim Halevy	11/11	3/3	3/3	5/5	Enforcement Committee – 1/1	Note: Mr. Halevy ceased to hold office in August 2019. Figures about him are until then.
Tzipora Carmon	14/15	4/4	4/4	6/6	Enforcement Committee – 1/1	
Menachem Einan	15/15	4/4	4/4	--	Enforcement Committee – 1/1	
Dan Isaac Gillerman	4/4	1/1	1/1	--	Enforcement Committee – 0/0	Note: Mr. Gillerman took office in August 2019. Figures about him are from then on.
Ehud Rassabi	4/4	1/1	1/1	1/1	Enforcement Committee – 0/0	Note: Mr. Rassabi took office in August 2019. Figures about him are from then on.
Yossef Shachak	4/4	1/1	1/1	1/1	Enforcement Committee – 0/0	Note: Mr. Shachak took office in August 2019. Figures about him are from then on.

12.	In the report year, the board held at least one deliberation on the management of the corporation’s business by the CEO and the officers reporting to him, in their absence, and they were afforded the opportunity to express their position.	✓	

Separation between the Positions of the CEO and the Chairman of the Board

		Correct	Incorrect
13.	Throughout the entire report year, a chairman of the board held office in the corporation. In this question, you may answer “Correct” if the period in which a chairman of the board did not hold office in the corporation does not exceed 60 days, as provided in Section 363A(2) of the Companies Law). However, in any (Correct/Incorrect) answer, state – The period (in days) during which there was no chairman of the board holding office in the corporation as aforesaid: ______.	✓	
14.	Throughout the entire report year, a CEO held office in the corporation. In this question, you may answer "Correct" if the period during which there was no acting CEO in the corporation does not exceed 90 days as provided in Section 363A.(6) of the Companies Law, however, in any (Correct/Incorrect) answer, state the period (in days) during which there was no CEO holding office in the corporation as aforesaid: ______.	✓	

		Correct	Incorrect
15.	In a corporation in which the chairman of the board also serves as the CEO of the corporation and/or exercises his powers, the dual office was approved in accordance with Section 121(c) of the Companies Law[21]. ☒Irrelevant (insofar as such dual office does not exist in the corporation).		
16.	The CEO is not a relative of the chairman of the board.	✓	
17.	A controlling shareholder or his relative do not serve as the CEO or as a senior officer in the corporation, other than as a director.	✓	

The Audit Committee

		Correct	Incorrect
	The following did not hold office in the audit committee during the report year -		
	a. The controlling shareholder or his relative.	✓	
	b. The chairman of the board.	✓	
	c. A director who is employed by the corporation or by the controlling shareholder of the corporation or by a corporation controlled by him.	✓	
	d. A director who regularly provides services to the corporation or to the controlling shareholder of the corporation or a corporation controlled by him.	✓	
	e. A director whose primary livelihood depends on the controlling shareholder.	✓	
	No one who is not entitled to be a member of the audit committee, including a controlling shareholder or his relative, was present, in the report year, in the audit committee meetings, other than pursuant to the provisions of Section 115 (e) of the Companies Law.	✓	
	The Legal quorum for deliberation and adoption of resolutions in all of the audit committee's meetings held during the report year was a majority of the committee members, where the majority of the attendees were independent directors and at least one of them was an outside director. If your answer is "Incorrect" - state the rate of the meetings in which the said requirement was not met: ______.	✓	
	In the report year, the audit committee held at least one meeting in the presence of the internal auditor and the outside auditor, and in the absence of officers of the corporation who are not members of the committee, regarding deficiencies in the business management of the corporation.	✓	
	In all of the audit committee's meetings in which a person who is not entitled to be a committee member was present, it was with the approval of the chairman of the committee and/or at the request of the committee (regarding the general counsel and secretary of the corporation who is not a controlling shareholder or his relative).	✓	
	In the report year, there were valid arrangements which were set forth by the audit committee regarding the manner of handling complaints of employees of the corporation in relation to flaws in the management of its business and with regard to the protection that will be provided to employees who complained as aforesaid.	✓	
	The audit committee and/or the Financial Statements Review Committee is satisfied that the scope of work of the auditor and his fee with respect to the financial statements in the report year were appropriate for the performance of proper audit and review work.	✓	

[21] In a bond company – an approval pursuant to Section 121(d) of the Companies Law.

The Duties of the Financial Statements Review Committee (hereinafter - FSRC) in its Preliminary Work for the Approval of the Financial Statements				
			Correct	**Incorrect**
25.	a.	State the period (in days) prescribed by the board of directors as reasonable time for delivery of the FSRC's recommendations in contemplation of the board's deliberation for the approval of the financial statements: 2 business days apart from cases in which it is otherwise determined under the circumstances.		
	b.	The number of days actually elapsed between the date of delivery of the recommendations to the board and the date of the board's deliberation for the approval of the financial statements: Q1 statement (for 2019): 2. Q2 statement: 2. Q3 statement: 2. Annual Statement: 2.		
	c.	The number of days elapsed between the date of delivery of the draft financial statements to the directors and the date of the board's deliberation for the approval of the financial statements: Q1 statement (2019): 6 days. Q2 statement: 6 days. Q3 statement: 6 days. Annual statement: 5 days.		
26.		The Corporation's outside auditor was invited to all of the FSRC and board meetings, in which the financial statements of the corporation referring to periods included in the report year were deliberated.	✓	
27.		All of the conditions specified below were fulfilled at the FSRC throughout the entire report year and until the release of the annual statement:		
	a.	The number of the members was not less than three (on the date of the deliberation by the FSRC and approval of the statements as aforesaid).	✓	
	b.	All of the conditions specified in Section 115 (b) and (c) of the Companies Law (in respect of the office of audit committee members) were met thereby.	✓	
	c.	The chairman of the FSRC is an outside director.	✓	
	d.	All of its members are directors and most of its members are independent directors.	✓	
	e.	All of its members have the ability to read and understand financial statements and at least one of the independent directors has accounting and financial expertise.	✓	
	f.	The members of the FSRC provided a statement prior to their appointment.	✓	
	g.	The legal quorum for discussion and decision making on the FSRC was the majority of its members provided that most of those present were independent directors including at least one outside director.	✓	

Compensation Committee

		Correct	Incorrect
28.	In the report year, the committee consisted of at least three members and the outside directors constituted a majority therein (on the date of the deliberation by the committee).	✓	
29.	The terms of office and employment of all of the members of the remuneration committee in the report year are in accordance with the Companies Regulations (Rules on Remuneration and Expenses for an Outside Director), 5760-2000.	✓	
30.	The following did not hold office in the compensation committee during the report year -	✓	
	a. The controlling shareholder or his relative.	✓	
	b. The chairman of the board.	✓	
	c. A director who is employed by the corporation or by the controlling shareholder of the corporation or by a corporation controlled by him	✓	
	d. A director who regularly provides services to the corporation or to the controlling shareholder of the corporation or a corporation controlled by him.	✓	
31.	In the report year, a controlling shareholder or his relative did not attend meetings of the compensation committee, unless the chairman of the committee determined that any one of them is required in order to present a specific issue.	✓	
32.	The compensation committee and the board did not exercise their power pursuant to Sections 267A(c), 272(c)(3) and 272(C1)(1)(c) to approve a transaction or compensation policy, despite the objection of the general meeting.	✓	

Internal Auditor

		Correct	Incorrect
33.	The chairman of the board or the CEO of the corporation is the organizational supervisor of the internal auditor in the corporation.	✓	
34.	The chairman of the board or the audit committee approved the work plan in the report year. In addition, specify the audit issues addressed by the internal auditor in the report year: In the year of the report, as in every year, the audit plan was preapproved by the audit committee and the board of directors of the Company.	✓	
35.	Scope of employment of the internal auditor in the corporation in the report year (in hours[22]): According to the specification in Section 6 of Chapter E of the annual report above. In the report year a deliberation was held (by the audit committee or the board) on the internal auditor's findings.	✓	
36.	The internal auditor is neither an interested party in the corporation, nor its relative, auditor or another on its behalf, nor maintains material business ties with the corporation, its controlling shareholder, relative or corporations controlled thereby.	✓	

[22] Including working hours invested in investee corporations and in auditing overseas, and as the case may be.

Transactions with Interested Parties

		Correct	Incorrect
37.	The controlling shareholder or his relative (including a company controlled by him) is neither employed by the corporation nor provides management services thereto. If you answer is "Incorrect" (i.e. the controlling shareholder or his relative is employed by the corporation or provides management services thereto) state - – The number of relatives (including the controlling shareholder) employed by the corporation (including companies controlled by them and/or through management companies): 1 (Ms. Danna Azrieli). – Have the agreements for such employment and/or management services been approved by the organs specified in the law: ☒ Yes (the management agreement with Ms. Danna Azrieli, who serves as the Company's Active Chairman of the Board, was approved by the compensation committee, the board of directors and the general meeting of the Company held in August 2019). ☐ No		✓
38.	To the best knowledge of the corporation, the controlling shareholder does not have other businesses in the operating segment of the corporation (in one or more segments). If your answer is "Incorrect" - state whether an arrangement was prescribed to define activities between the corporation and the controlling shareholder thereof: ☒Yes, see specification on the arrangement to define activity in Section 3.2 of this chapter above. ☐ No		✓

Chairman of the Board: Ms. Danna Azrieli **Chairman of the Audit Committee:** Ehud Rassabi, CPA **Chairman of the FSRC:** Yossef Shachak, CPA

PART F

Effectiveness of Internal Control over the Financial Reporting and Disclosure

ATTACHED HERETO IS AN ANNUAL REPORT ON THE EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE PURSUANT TO REGULATION 9B(A) FOR 2019:

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**, 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, which are designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the reports according to the provisions of the law, and to ensure that information which the Corporation is required to disclose in reports released thereby according to the law is gathered, processed, summarized and reported within the time frames and in the format set forth by the law.

Internal control includes, *inter alia*, controls and procedures designed to ensure that information which the Corporation is thus required to disclose, is gathered and transferred to the management of the Corporation, including the CEO and the most senior financial officer, or anyone actually performing such functions, in order to enable the timely decision making in reference to the disclosure requirement.

Due to its inherent limitations, internal control over financial reporting and disclosure is not designed to provide absolute assurance that misrepresentation or omission of information in the reports is avoided or discovered.

The management, under the supervision of the Board of Directors, carried out an examination and evaluation of internal control over financial reporting and disclosure at the Corporation, and the effectiveness thereof. The evaluation of the effectiveness of internal control over financial reporting and disclosure carried out by the management under the supervision of the Board of Directors included:

- Mapping and documentation of the controls and identification of the very material processes at the Company and at the main consolidated companies according to the reporting risks, in respect of each of the Company or the main consolidated companies, as the case may be.
- The processes in the Company which were defined as very material are: revenues from rent in investment property and investment property.
- Examination of the actual performance and documentation of the controls defined in the control processes on the organization level (ELC), the information systems (ITGC), the financial statements preparation process and the processes which were identified as very material to the financial reporting and disclosure.
- General evaluation of the internal control effectiveness.

- Based on the effectiveness evaluation performed by the management with the supervision of the Board of Directors as specified above, the Board of Directors and management of the Corporation reached the conclusion that internal control over financial reporting and disclosure in the Corporation, as of December 31, 2019 is effective.

Attached please find the statements of the CEO and the CFO, who is responsible for the financial reporting in the Company.

Date: March 24, 2020

STATEMENT OF MANAGERS:

STATEMENT OF CEO PURSUANT TO REGULATION 9B(D)(1):

I, Eyal Henkin, represent that:

1. I have reviewed the periodic report of Azrieli Group Ltd. (the "**Corporation**") for the year 2019 (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. Have evaluated the effectiveness of internal control over financial reporting and disclosure and presented in this report the conclusions of the Board of Directors and management with regard to the effectiveness of internal control as aforesaid as of the date of the Reports.

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

Date: March 24, 2020

Eyal Henkin | CEO

STATEMENT OF MANAGERS:

STATEMENT OF THE MOST SENIOR FINANCIAL OFFICER PURSUANT TO REGULATION 9B(D)(2):

I, Irit Sekler-Pilosof, represent that:

1. I have reviewed the Financial Statements and other financial information included in the reports of Azrieli Group Ltd. (the "**Corporation**") for year 2019 (the "**Reports**");
2. To my knowledge, the Financial Statements and the other financial information included in the Reports do not contain any misrepresentation nor omission of a material fact required for the representations included therein, given the circumstances under which such representations were included, not to be misleading with regard to the period of the Reports.
3. To my knowledge, the Financial Statements and other financial information included in the Reports adequately reflect, in all material respects, the financial position, operating results and cash flows of the Corporation for the periods and as of the dates covered by the Reports;
4. I have disclosed to the Corporation's auditor and to the Corporation's Board of Directors and the Audit Committee and Financial Statement Committee, based on my most current evaluation of internal control over financial reporting and disclosure:
    a. Any and all significant flaws and material weaknesses in the setting or maintaining internal control over financial reporting and disclosure insofar as it relates to the Financial Statements and the other information included in the Reports, which may reasonably adversely affect the Corporation's ability to gather, process, summarize or report financial information in a manner which casts doubt on the reliability of financial reporting and preparation of the Financial Statements in conformity with the provisions of the law; and -
    b. Any fraud, either material or immaterial, which involves the CEO or anyone reporting to him directly or which involves other employees who play a significant role in internal control over financial reporting and disclosure;
5. I, myself or jointly with others at the Corporation:
    a. Have set controls and procedures, or 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, insofar that it is relevant to the financial statements and other financial information included in the Reports, 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. Have evaluated the effectiveness of internal control over financial reporting and disclosure, insofar as it relates to the Financial Statements and the other financial information included in the Reports, as of the date of the Reports. My conclusions in respect of my evaluation as aforesaid were presented to the Board of Directors and management and are incorporated in this Report.

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

Date: March 24, 2020

Irit Sekler-Pilosof | CFO