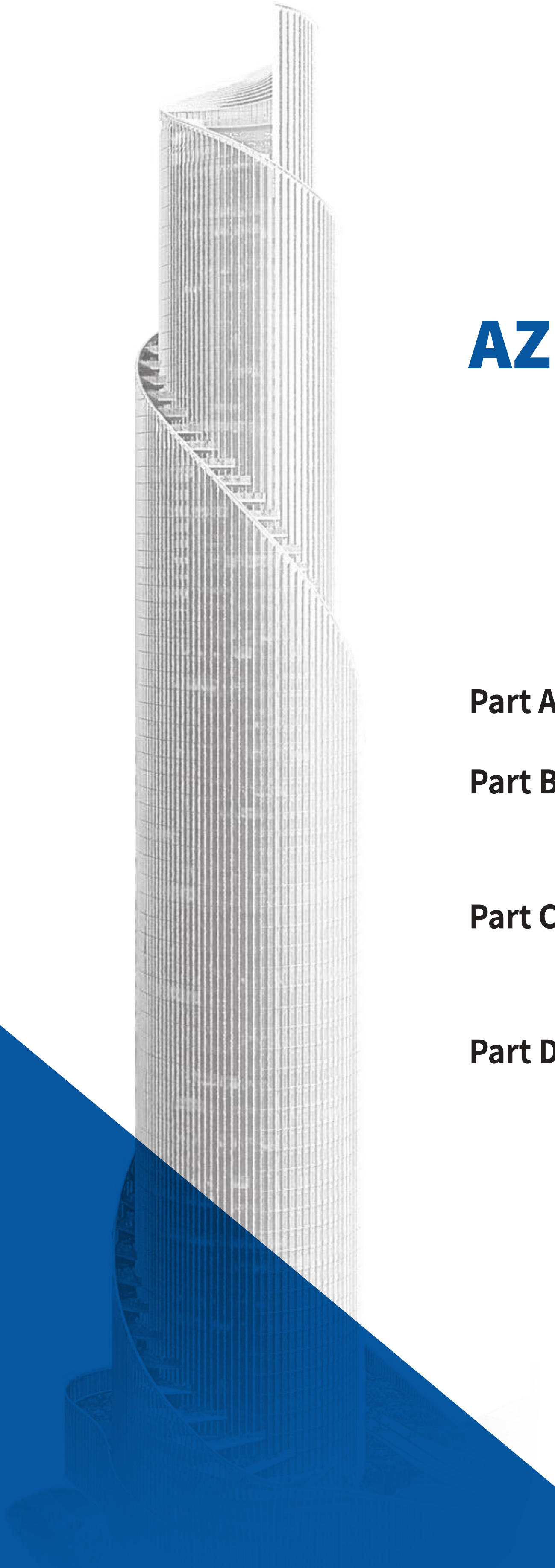
AZRIELI GROUP

AZRIELI GROUP LTD.

Quarterly Report Q3/2019

Dated 30 September 2019



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Dated 30 September 2019

PART A

Board Report

Azrieli Group

BUSINESS CARD

Azrieli Group is focused on the income-producing real estate sector and is Israel's largest real estate company.

In the shopping mall sector, the Group holds several 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, the Company has recently invested in a company operating mainly in the Data Centers industry in North America.

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 a non-binding MOU 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's low leverage ratio is low, with a net debt to assets ratio of just 28%. 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 3.3 billion distributed in dividends since the IPO

Over 1.2 million sqm of leasable areas and close to 0.7 million sqm under development

Israel's largest real estate company with total assets of NIS 32.9 billion

99% occupancy rate* on average in Israel

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

17 MALLS

337 thousand sqm | 98% Occupancy

14 OFFICE BUILDINGS

549 thousand sqm99 | % Occupancy

3 SENIOR HOMES

76 thousand sqm | 794 residential units
99% Occupancy*

8 OFFICE BUILDINGS OVERSEAS

246 thousand sqm77 | % Occupancy

DEVELOPMENT PIPELINE

11 properties | 690 thousand sqm

PERFORMANCE SUMMARY AND FINANCIAL HIGHLIGHTS FOR Q3/2019

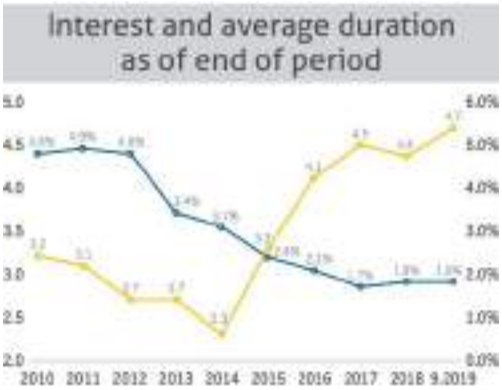
Rise of approx. 5% in NOI (approx. NIS 407 million), compared with the same period last year (approx. NIS 386 million)

Rise of approx. 4% in Same Property NOI (approx. NIS 396 million), compared with the same period last year (approx. NIS 382 million)

Increase of approx. 2% in the FFO attributed to the income-producing real estate business, excluding senior housing, **and increase of approx. 11%** in the FFO for the entire income-producing real estate business

Increase of approx. 9% in net profit (approx. NIS 289 million), compared with the same period last year (approx. NIS 264 million)

Extension of the average duration of debt simultaneously with the reduction of interest



This is a translation of Azrieli Group's Hebrew-language Quarterly Report and Financial Statements as of September 30, 2019. It is prepared solely for convenience purposes. Please note that the Hebrew version constitutes the binding version, and in any event of discrepancy, the Hebrew version shall prevail.

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

1.1. General

The board of directors of Azrieli Group Ltd. (the "**Company**"; the Company jointly with all corporations directly and/or indirectly held thereby shall be referred to as the "**Group**" or the "**Azrieli Group**") is proud to present this board of directors' report for the nine and three months ended September 30, 2019 (the "**Report Period**" and/or the "**Quarter**"), in accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "**Regulations**").

The review presented below is limited in scope and refers to events and changes in the state of the Company's affairs that occurred during the Report Period and have a material effect. The review should be read in conjunction with the Description of the Corporation's Business chapter in the periodic report for December 31, 2018, the financial statements and the board of directors' report on the state of the Company's affairs for the year ended on the same date[1] (the "**Periodic Report for 2018**"), and the update to the Corporation's Business chapter and the financial statements as of September 30, 2019.

The information in the board of directors' report is based on the consolidated financial statements as of September 30, 2019.[2] The Company's financials and results of operations are affected by the financials and results of operations of the companies held thereby. In some cases, we present details of events that occurred subsequently to the date of the financial statements as of September 30, 2019 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] See the Company's immediate report of March 20, 2019 (Ref.: 2019-01-024283), which is incorporated herein by reference.
[2] The attached financial statements are prepared according to the International Financial Reporting Standards ("IFRS"). For further details, see Note 2 to the financial statements as of September 30, 2019.

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

1.2.1. Summary of Operating Segments for the Nine and Three Months Ended September 30, 2019

During the Report Period and as of the Report Release Date, the Azrieli Group continued to focus its business operations on various real estate sectors, primarily on the retail centers and malls in Israel segment and the leasable office (and other) space in Israel segment, as well as on the income-producing property overseas segment (mostly in the U.S.). The Company has also been active in the senior housing segment, the Granite segment which, as of the Report Period is presented as discontinued operations as provided below (which mainly consists of the marketing of alternative energy sources and the treatment of water, wastewater, air, waste and industrial chemicals), as well as additional E-Commerce business and holdings of minority interests in a financial corporation. In July, the Company (indirectly) invested in Compass, operating mainly in the Data Centers industry in North America.

The Group's primary growth engine is the development of income-producing real estate projects: malls, offices and senior housing. As of the Report date, the Company has eleven projects in Israel in various development stages, the planned area of which is approx. 690 thousand sqm, as well as land for development. A brief description of the Group's five reported operating segments, as well as its additional activities ("**Others**") follows:

1. **Retail centers and malls in Israel –** The Group has 17 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;

5. **Granite** – The Group held marketing activity in alternative energy sources; and still holds activity in the treatment of water, wastewater and chemicals[3]. In view of the closing of the sale of Supergas within the framework of the sale of Granite as provided in Section 1.2.3.4 below and in view of the Company's engagement in a non-binding MOU for the sale of the Company's holdings in GES as provided in Section 1.2.3.5 below, which the Company estimates, shall be sold within the next 12 months, and in view of the Company's intention to focus on the core areas of the real estate business, Granite is presented in the statement as discontinued operations.

Additional activities – The Group holds an E-Commerce business through the Azrieli.com website, as well as interests in a financial corporation: approx. 3.1% of the shares of Bank Leumi Le-Israel Ltd. ("**Bank Leumi**") as of the Report Release Date. By February 25, 2019, it held 20% of the shares of Leumi Card Ltd. ("**Leumi Card**")[4]. In July 2019, the Company (indirectly) invested in Compass, whose main activity is data centers in North America. For details on such investment, see Section 1.2.3.3 below.

[3] The Group, through Granite Hacarmel Investments Ltd. ("**Granite**" or "**Granite Hacarmel**"), held 100% of the rights in Supergas Israeli Gas Distribution Company Ltd. ("**Supergas**"), which markets alternative energy sources; and still holds 100% of the rights in G.E.S. Global Environmental Solutions Ltd. ("**GES**"), the business of which is the treatment of water, wastewater, air, waste and industrial chemicals. For details regarding the closing of the sale of all of the Group's holdings in Supergas through the sale of Granite, see Section 1.2.3.4 below. For details regarding the engagement in a non-binding MOU for the sale of all of the holdings of Granite Hacarmel in GES, see Section 1.2.3.5 below.

[4] For details regarding the sale of all of the Group's holdings in Leumi Card, see Section 1.2.3.2 below.

1.2.2. Breakdown of Asset Value by Operating Segment

The following chart presents a breakdown of the total balance sheet assets by operating segment:[5]

Breakdown of Total Balance Sheet Assets by Operating Segment

As of	30.9.2019	31.12.2018
Retail centers and malls in Israel	**12,800**	**12,682**
Leasable office and other space in Israel	**10,932**	**10,443**
Income-producing properties in the U.S.	**2,431**	**2,593**
Senior housing	**2,163**	**2,081**
Granite	**1,091**	**1,099**
Data centers	**508**	**-**
Others and adjustments	**2,994**	**2,997**
Total	**32,919**	**31,895**

Percentage of Segment Assets out of Total Assets

30.9.2019

Figures are presented in millions of NIS.

The retail centers and malls segment constitutes approx. 39% of the total balance sheet assets. The other income-producing real estate segments, in the aggregate, constitute approx. 49% of the total balance sheet assets. In the Company's estimation, the relative share of retail centers and malls is expected to decrease over time, in view of the Group predominantly focusing its development efforts in the coming years on the office and senior housing segments.

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

1.2.3.1. Winning of a Tender for the Construction of a Facility for Waste Sorting 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. According to the report, an agreement was reached with the State on a postponement of the binding date for the financial closing to April 30, 2020, plus a grace period of another 60 days, and actions are being taken to establish the agreements with the State in writing. For further details, see Note 29B(7) to the financial statements as of

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

December 31, 2018, Note 4 to the financial statements as of September 30, 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 (Ref: 2018-01-058617) and of February 14, 2019 (Ref: 2019-01-013639), which are incorporated herein by reference.

1.2.3.2. 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 for the consideration of 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, of October 29, 2018, of December 3, 2018, of February 4, 2019, of 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 incorporated herein by reference.

1.2.3.3. Investment in the Compass Company

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 Holdco, LLC, a Delaware corporation ("**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 incorporated herein by reference.

1.2.3.4. 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 Investments Ltd., a wholly-owned subsidiary of the Company (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 in consideration for all of the Seller's holdings in Granite, the Buyer paid the Seller 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 balance of the Consideration in the sum of NIS 250 million will be paid by the Buyer according to the provisions of the Agreement in 7 unequal annual installments, starting 12 months after the closing date. To secure the remaining Consideration payments as aforesaid, 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.

The income (after tax) that the Company will record in connection with the sale of Granite, shall total approx. NIS 380 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.

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 and November 5, 2019 (Ref.: 2019-01-077500, 2019-01-081517, 2019-01-091635 and 2019-01-094782 respectively), which are incorporated herein by reference.

1.2.3.5. Engagement in a non-binding MOU 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, Granit engaged with Generation Capital Ltd. (in this section: the "**Buyer**") in a non-binding Memorandum of Understanding for the sale of its entire holdings (100%) in GES, in consideration for NIS 110 million, subject to adjustments for changes in working capital and GES's net financial debt, if any, up to the closing date, in accordance with the provisions of the Memorandum of Understanding (in this section: the "**MOU**").

As part of the MOU, Granit undertook a 60-day No Shop period, during which the parties shall negotiate an engagement in a binding detailed agreement (the "**Binding Agreement**").

It is clarified that that closing of the transaction is subject to the completion of the parties' negotiations and the signing of the Binding Agreement and the closing conditions to be determined therein (if signed). At this stage, there is no certainty that such negotiations will mature into the signing of the Binding Agreement and/or that the transaction shall be consummated.

For further details, see the Company's immediate report of September 12, 2019 (Ref.: 2019-01-095770), which is incorporated herein by reference.

1.2.3.6. 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 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 shall, in addition to the cost of land, pay approx. NIS 37 million for development costs.

[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, see the Company's immediate report of October 7, 2019 (Ref.: 2019-01-086697), which is incorporated herein by reference.

1.2.3.7. Financing Transactions[7]

In January 2019, the Company issued two new Series E and F Bonds of the Company, 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 in consideration for approx. NIS 263 million (approx. NIS 260 million after attribution of the issue expenses).

1.2.3.8. 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.

1.2.3.9. The Shelf Prospectus

On May 7, 2019, the Company published a new shelf prospectus after receiving a permit from ISA.

[7] According to a shelf offering report released on January 20, 2019 (Ref.: 2019-01-006388) released under the Company's shelf prospectus of May 11, 2016 (Ref.: 2016-01-063049). Such reports are incorporated herein by reference.

1.2.4. Dividends distributed by the Company

	Date of Approval	Date of Payment	Sum of Dividend
Azrieli Group	March 19, 2019	May 6, 2019	NIS 560 million[8]

1.2.5. Dividends distributed to the Company

	Date of Approval	Date of Payment	Sum of Dividend	Company's Share out of the total Dividend Distributed
Leumi Card	February 24, 2019	February 24, 2019	NIS 400 million	Approx. NIS 80 million[9]
Bank Leumi	March 6, 2019	April 3, 2019	NIS 275 million	Approx. NIS 9 million
Bank Leumi	May 26, 2019	June 23, 2019	NIS 437 million	Approx. NIS 13 million
Bank Leumi	August 13, 2019	September 8, 2019	NIS 369 million	Approx. NIS 12 million

[8] As of September 30, 2019, the Company has retained earnings in the sum of approx. NIS 14 billion.

[9] According to the agreement for the sale of the Company's holdings in Leumi Card, as stated in Section 1.2.3.2 above, the proceeds from the sale decreased by the amount of the dividend that was paid.

2 | INCOME-PRODUCING REAL ESTATE

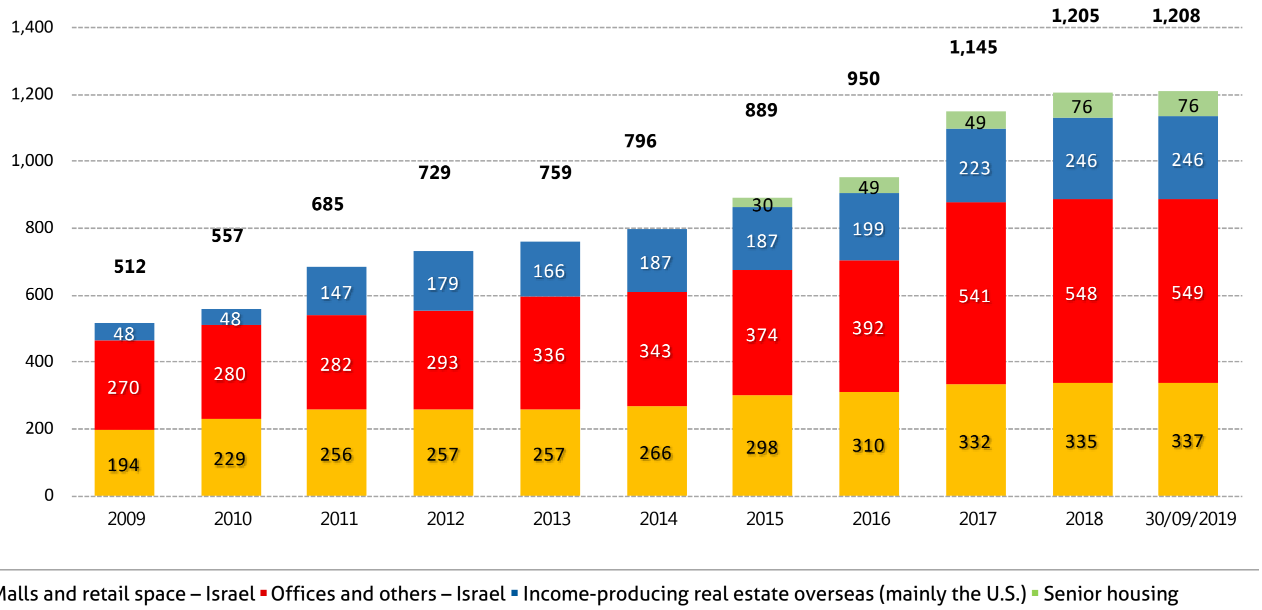
2.1. Business Environment

In the estimation of the Company's management, there has been no material change in the business environment in which it operates, as described in Section 6 of Chapter A of the Periodic Report for 2018.

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

2.2. Consolidated GLA Data

As of September 30, 2019



Figures represent thousands of sqm.

2.3. Average Occupancy Rates in the Income-Producing Properties

Following are the average occupancy rates in the Group's income-producing properties by operating segments as of September 30, 2019:

- Retail centers and malls in Israel – approx. 98%;
- Leasable office and other space in Israel – approx. 99%;
- Income-producing properties in the U.S. – approx. 77%;
- Senior housing in Israel – approx. 99%[10].

[10] Excluding areas in properties whose construction has been completed and for the first time are in lease-up stages.

2.4. NOI of the Properties

Net Operating Income (NOI) is a measure that presents the net operating income of the properties: income after the deduction of the property's operating expenses and prior to the deduction of taxes and interest. It serves as one of the important parameters in the valuation of income-producing real estate companies, as its division by the appropriate cap rate for the properties provides an indication for the determination of the value of income-producing properties[11]. 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.

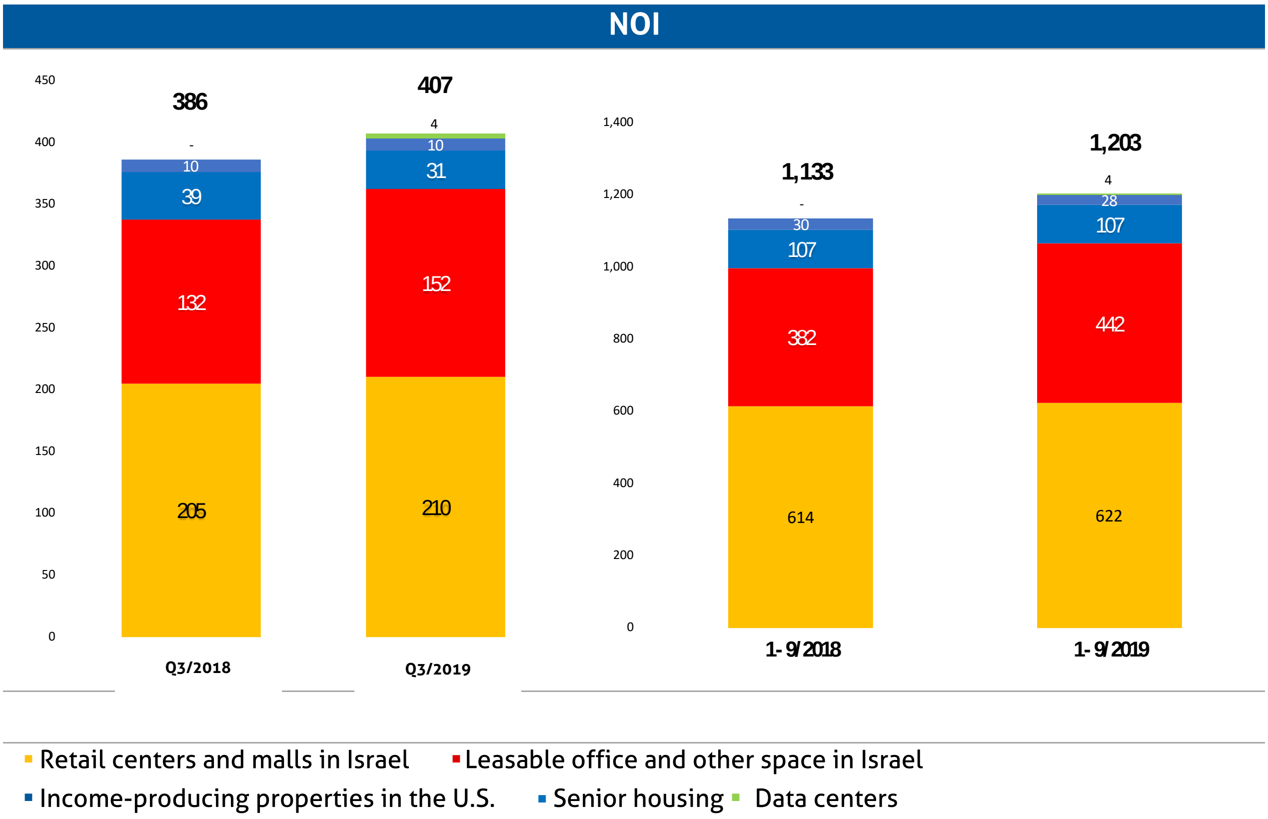
We wish to emphasize that these parameters do not present cash flows from current operations according to generally accepted accounting principles, nor do they reflect cash available for the funding of all of the Group's cash flows (including its ability to make distributions), and they are not meant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

[11] 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.

2.4.1. 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).[12]

The NOI figures for the income-producing real estate portfolio are as follows:[13]



Figures are presented in millions of NIS.

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

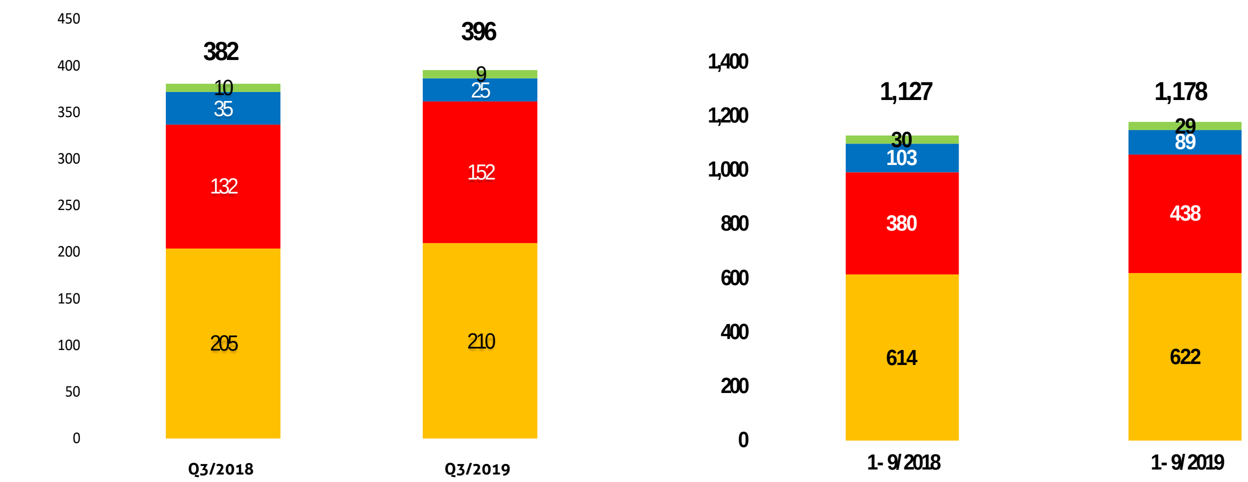
[12] The Group prepares its financial statements based on international standardization, and consequently, in the calculation of the cost of leasing and operating the properties classified as investment properties, depreciation was not taken into account. Furthermore, for the purpose of calculating the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

[13] 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.

2.4.2. 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 Report Period and the same period last year, this measure was as follows:

Same-Property NOI



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

Figures are presented in millions of NIS.

2.5. 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.

2.6. Weighted Cap Rate

The following table shows the calculation of the weighted cap rate derived from all of the Group's income-producing real estate, excluding senior housing[14] and excluding the Data centers[15] as of September 30, 2019:

Calculation of the Weighted Cap Rate for the Report Period	
Total investment properties in the statement	28,125
Net of value attributed to investment properties under construction	(2,790)
Net of value attributed to land reserves	(498)
Net of value attributed to income-producing senior housing	(1,691)
Total value of income-producing investment properties (including the fair value of vacant space)	23,146
Actual NOI in the quarter ended September 30, 2019 (excluding senior housing and Data centers)	393
Additional future quarterly NOI (1)	29
Total standardized NOI	422
Proforma annual NOI based on the standardized NOI (excluding senior housing and Data centers)	1,688
Weighted cap rate derived from income-producing investment properties (including vacant space) (2)	**7.3%**

Financials are presented in millions of NIS.

(1) The figure mainly includes estimates of additional NOI for vacant space not yet occupied, space occupied and to be occupied during 2019 under a whole-year lease in respect of which value was recorded in the update of the valuations as of June 30, 2019 (the sums under this item are chiefly for the lease-up of the offices at Azrieli Sarona Center in Tel Aviv, at Azrieli Holon Center and for the Company's properties overseas).
(2) Standardized annual NOI rate out of total income-producing investment properties (including vacant space).

This figure does not constitute the Company's NOI forecast for 2019 and its entire purpose is to reflect the NOI assuming full occupancy for a whole year of all income-producing properties.

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

[14] Since the value of senior housing properties is derived from the FFO indicator, rather than the NOI indicator, such properties were not included in this calculation. The weighted senior housing cap rate as of the Report Release Date is 8.75%.
[15] Which is included in the companies accounted for by the equity method and therefore excluded from income-producing real estate.

2.7. Real Estate Business FFO

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

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

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

FFO from the Income-Producing Real Estate Business

	For the three months ended		For the nine months ended	
	September 30, 2019	**September 30, 2018**	**September 30, 2019**	**September 30, 2018**
Net profit for the period attributable to shareholders	**289**	264	**990**	759
Discounting the net loss (profit) from Granite Hacarmel and Azrieli E-Commerce attributable to the shareholders (including a deduction of excess cost)	**(2)**	2	**(11)**	(10)
Profit adjustments:(1)				
Decrease (increase) in the value of investment properties	**3**	12	**(175)**	35
Depreciation and amortizations	**3**	2	**10**	6
Net financing and other expenses(2)	**(53)**	4	**31**	39
Share in results of companies accounted for by the equity method	**3**	-	**3**	-
Tax expenses	**53**	27	**124**	45
Net of a dividend received from financial assets available for sale	**(12)**	(33)	**(114)**	(65)
Cash flow from the receipt of residents' deposits net of deposits returned to residents(3)	**33**	5	**136**	16
Net of revenues from the forfeiture of residents' deposits	**(7)**	(6)	**(21)**	(16)
Total profit adjustments	**23**	11	**(6)**	60
Plus interest paid for real investments(4)	**1**	3	**4**	8
Total FFO attributed to the income-producing real estate business(5)(6)	**311**	280	**977**	817
Total cash flow of financing of development pipeline(7)	**8**	6	**22**	18
Total FFO attributed to the income-producing real estate business, excluding the cash flow of financing of development pipeline	**319**	286	**999**	835

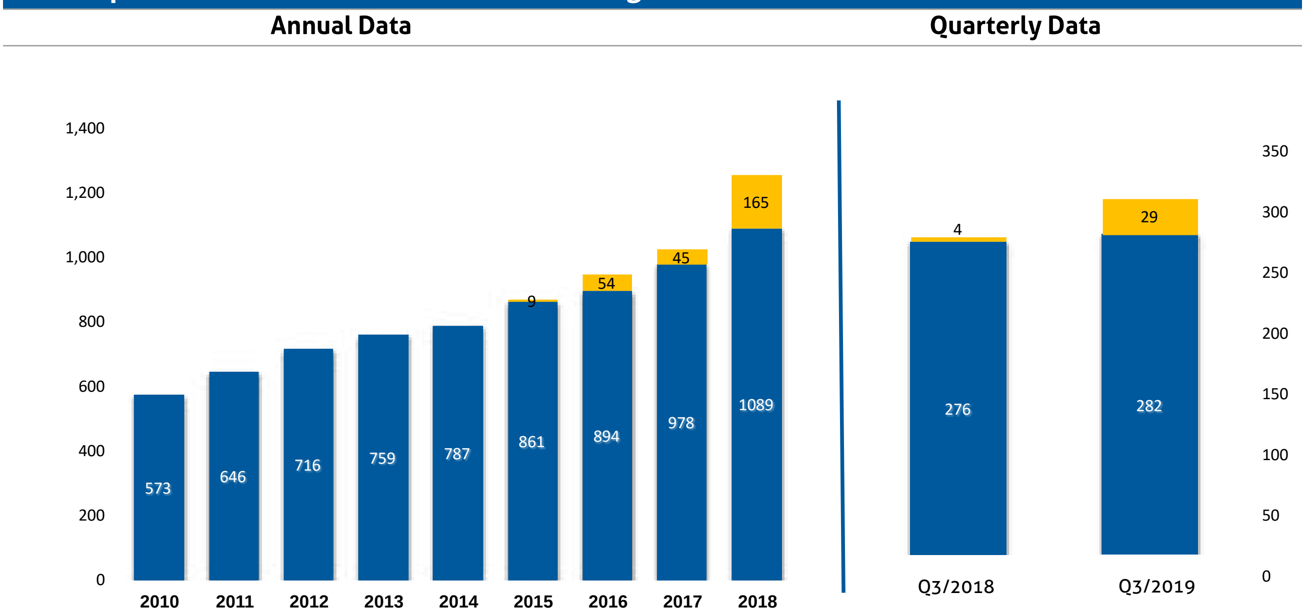
Financials are presented in millions of NIS.

(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) Net of one-time transaction costs.
(3) Senior housing residents' deposits are deemed received or returned on the date on which the agreement is signed or terminated, as applicable.
(4) Calculated according to the Group's weighted interest for the real investments, which include: Granite Hacarmel, Azrieli E-Commerce, Bank Leumi and the remaining consideration for Leumi Card, for 65% of the cost of the investments.
(5) Attributable to shareholders only.
(6) Including FFO from the senior housing segment in the sum of approx. NIS 29 million and approx. NIS 125 million in the three and nine months ended September 30, 2019, respectively (and in the sum of approx. NIS 4 million and approx. NIS 15 million in the three and nine months ended September 30, 2018 respectively).
(7) Calculated based on credit costs which were capitalized to qualified assets and investment property under construction in the financial statements, net of the CPI effect.
The FFO calculation also includes cash flow financing costs in relation to projects under construction.

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

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

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



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

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

The Azrieli Group is 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 and worldwide. Being listed in the EPRA measures 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 auditors and are not a substitute for the figures contained in the financial statements.

2.8.1. 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 pipeline are included at their present value, i.e., based on historic cost including investments in the properties, and no value is attributed to future revenues from such properties when occupied and producing income.

EPRA NAV

	30.9.2019	**30.9.2018**
Equity attributable to the Company's shareholders in the financial statements	**17,402**	16,646
Plus a tax reserve in respect of the revaluation of investment properties to fair value (net of minority interests)	**3,368**	3,120
EPRA NAV	**20,770**	**19,766**
EPRA NAV per share (NIS)	**171**	**163**

Figures are presented in millions of NIS, unless otherwise noted.

2.8.2. 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		
	30.9.2019	**30.9.2018**
EPRA NAV	**20,770**	19,766
Adjustment of assets to fair value (excluding minority interests)	**18**	17
Adjustment of financial liabilities to fair value (excluding minority interests)	**(804)**	(250)
Net of a tax reserve in respect of the revaluation of investment properties to fair value (net of minority interests)	**(3,368)**	(120)
EPRA NNNAV	**16,616**	**16,413**
EPRA NNNAV per share (NIS)	**137**	**135**

Figures are presented in millions of NIS, unless otherwise noted.

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

OFFICES & OTHERS

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

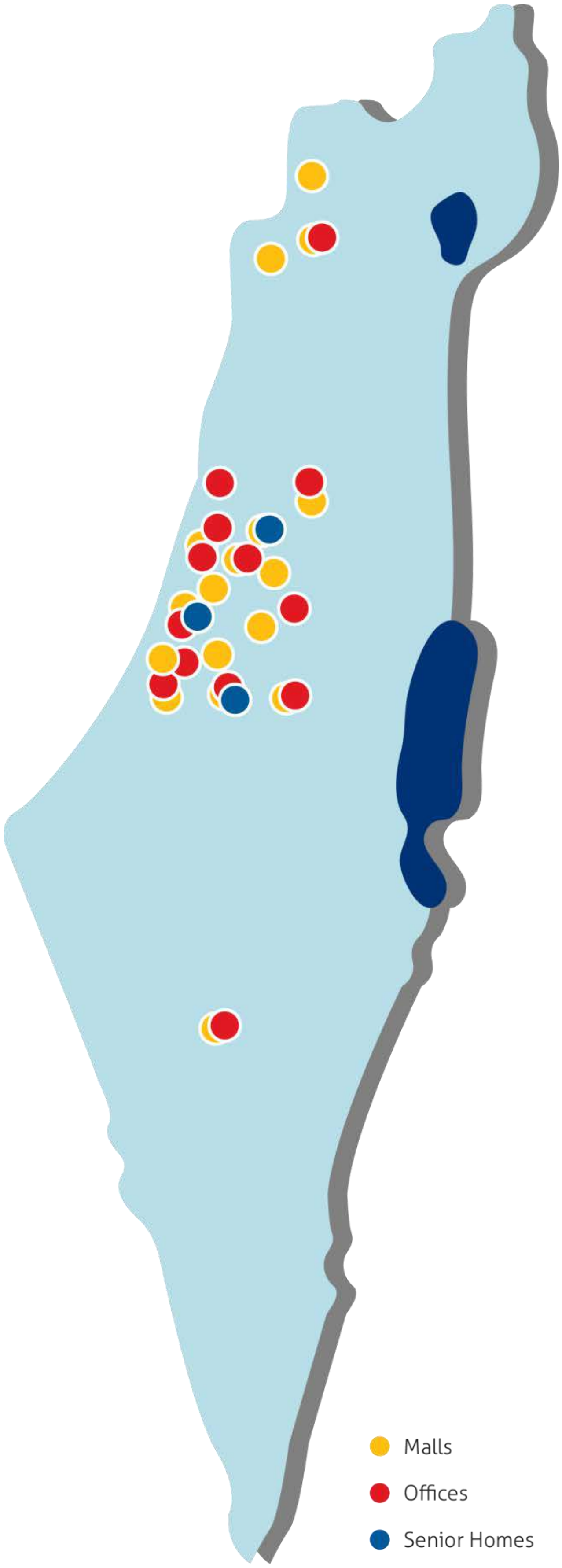
Galleria
Plaza
8 West
3 Riverway
1 Riverway
Aspen Lake II
San Clemente
Leeds

SENIOR HOMES

Palace Tel Aviv
Palace Ra'anana
Palace Modiin

17 malls	337,000 sqm	
14 office buildings	549,000 sqm	
3 senior homes	76,000 sqm	794 residential
8 office buildings overseas	246,000 sqm	
Total	1,208,000 sqm	

*As of September 30, 2019



2.9. Retail Centers and Malls in Israel Segment

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

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

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

The retail areas in Azrieli Group's malls and retail centers are leased to some 1,900 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").

<u>Performance of the retail centers and malls in Israel segment and changes in value</u>

The Azrieli Group has 17 malls and retail centers in Israel with a total GLA of approx. 337 thousand sqm.

Balance of the properties of the retail centers and malls in Israel segment – The balance totaled approx. NIS 12.8 billion as of September 30, 2019, compared with approx. NIS 12.7 billion on December 31, 2018. The change mainly derives from investments in the segment's properties.

Change due to adjustment of the fair value of the segment's investment properties and investment properties under construction – Profit from fair value adjustment of the segment's investment properties and investment properties under construction in the Report Period totaled approx. NIS 14 million, compared with a loss of approx. NIS 58 million in the same period last year, deriving mainly from betterment levy charges. The properties are presented according to an update to the valuations prepared by an independent appraiser as of June 30, 2019.

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

Summary of the Business Results of the Retail Centers and Malls in Israel Segment							
	For the Three Months Ended			For the Nine Months Ended			For the Year Ended
	Rate of Change	30.9.2019	30.9.2018	Rate of Change	30.9.2019	30.9.2018	31.12.2018
Revenues	**3%**	**269**	262	**2%**	**786**	772	1,034
NOI	**2%**	**210**	205	**1%**	**622**	614	820

Figures are presented in millions of NIS.

The table below presents the segment's NOI development:

Development of the NOI of the Retail Centers and Malls in Israel Segment				
	For the Three Months Ended		For the Nine Months Ended	
	30.9.2019	30.9.2018	30.9.2019	30.9.2018
NOI from segment properties owned by the Company as of the beginning of the period	**210**	205	**622**	614
NOI from properties purchased or construction of which was finished in 2018	-	-	-	-
Total NOI from all properties	**210**	205	**622**	614

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.

2.10. Office Segment

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

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

- **Positioning** – among the Company's properties are projects which are considered to be leading and very significant in the field of leasable office spaces in Israel, and are an icon in Israeli landscape in general, and in Tel Aviv in particular, such as the Azrieli Tel Aviv Center and the Azrieli Sarona Tower.
- **Location** – the Company engages in the development of leasable office spaces and acts to locate and build its properties in this segment in areas which enjoy a high demand for offices. The Company's projects are mostly located in the heart of Israel's CBDs and in proximity to city centers and are characterized by convenient access by both private and public transportation. For example, the Company has several projects in Tel Aviv's northern CBD with both income-producing projects and projects under development and construction.

- **Large floors** – the Company's property portfolio includes a number of projects that can offer large floor spaces. These projects can meet the growing demand by large companies that are interested in creating one central site for employees, and their spread over a smaller number of floors. The planning of the Azrieli Sarona project and the Azrieli Holon center, for example, enables tenant to unite several sites which were previously spread across the country.
- **Building standard** – the Group persistently applies high building standards to all of its properties, as expressed in the architectural design, the properties' functionality and the meticulous attention to high building qualities as well as to details such as new and fast elevators, advanced lighting and more. This is rooted in the long-term vision of properties that will be owned and managed by the Group for many years to come.
- **Operational efficiency** - The size of the Company's properties leads to operational efficiency which is expressed, *inter alia*, in the ability to implement technological and infrastructural improvements including the installation of complex communication networks and Leed Certificate which enable large multinational which require compliance with strict standardization to lease spaces at the Company's properties.
- **Management** – all of the Group's leasable office spaces are managed by management companies which are subsidiaries of the Company and are committed to high service standard.

Azrieli's office spaces in Israel are leased to some 650 different tenants. In each one of the Group's properties, there is a mix of tenants coming from various sectors. Some of the Company's office tenants are domestic or international mega-companies.

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

The Azrieli Group has 14 income-producing properties in this segment in Israel, with a total GLA of approx. 549 thousand sqm.

Balance of the Group's investment properties in the leasable office and other space in Israel Segment – The balance totaled approx. NIS 10.9 billion as of September 30, 2019, compared with approx. NIS 10.4 billion as of December 31, 2018. The change derives from both investments in the segment’s properties and from fair value adjustments.

Change due to adjustment of the fair value of the segment’s investment properties and investment properties under construction – The profit from such adjustment in the Report Period totaled approx. NIS 164 million, compared with a profit of approx. NIS 20 million in the same period last year. The properties are presented according to an update to the valuations prepared by an independent appraiser as of June 30, 2019.

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

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

	For the Three Months Ended			For the Nine Months Ended			For the Year Ended
	Rate of Change	30.9.2019	30.9.2018	Rate of Change	30.9.2019	30.9.2018	31.12.2018
Revenues	**13%**	**185**	163	**15%**	**535**	466	**633**
NOI	**15%**	**152**	132	**16%**	**442**	382	**517**

Figures are presented in millions of NIS.

The increase in revenues and in NOI chiefly results from the continued lease-up of the offices at Sarona and Rishonim.

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 Nine Months Ended	
	30.9.2019	**30.9.2018**	**30.9.2019**	**30.9.2018**
NOI for segment properties owned by the Company as of the beginning of the period	**152**	132	**438**	380
NOI for properties purchased in 2018	**-**	-	**4**	2
Total NOI from all properties	**152**	132	**442**	382

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 replacement and by changes in operating expenses.

2.11. Senior Housing Segment

The acquisition of land in Modi'in in 2014 marked the Group's entry into the senior housing segment, which was followed in 2015 by the purchase of an existing senior home – Palace Tel Aviv, one of the most luxurious homes in Israel. Since the purchase of Palace Tel Aviv, the Group has been operating under the brand "Palace" for the continued successful operation and betterment of the three active senior homes, Palace Tel Aviv, Palace Ra'anana and Palace Modi'in (the construction of which was completed in Q3/2018) as well as for the development of two additional projects, which are in various stages of development and construction in Lehavim and Rishon LeZion.

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

As of the Report Release Date, 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 in Rishon Lezion, in which approx. 600 residential units in a total area of approx. 60 thousand sqm (excluding areas which are attributed to the LTC unit and to retail areas) will be built. The Company is also promoting a zoning plan for additional rights, including for senior housing, in the Azrieli Jerusalem mall. For further details, see Section 4.1.2 of the board of directors' report in the periodic report of 2018, which is incorporated herein by reference, and Section 4 of Chapter B hereof – Updates to the Description of the Corporation's Business Chapter as of September 30, 2019.

Balance of the Group's segment properties in the senior housing segment – This balance totaled approx. NIS 2.2 billion as of September 30, 2019, compared with approx. NIS 2.1 billion as of December 31, 2018. The change mainly derives from investments in the segment properties.

Change due to adjustment of the fair value of the segment's investment properties and investment properties under construction – Profit from fair value adjustment of the segment's investment property and investment property under construction in the Report Period totaled approx. NIS 6 million compared with a profit of approx. NIS 15 million in the same period last year. The properties are presented according to an update to the valuations prepared by an independent appraiser as of December 31, 2018.

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

Summary of the Business Results of the Senior Housing Segment							
	For the Three Months Ended			For the Nine Months Ended			For the Year Ended
	Rate of Change	30.9.2019	30.9.2018	Rate of Change	30.9.2019	30.9.2018	31.12.2018
Revenues	**25%**	**40**	32	**21%**	**115**	**95**	**130**
NOI	**-**	**10**	10	**(7%)**	**28**	**30**	**37**

Figures are presented in millions of NIS.

The increase in revenues and decrease in NOI chiefly results from the opening of Palace Modi'in during 2018. Due to the gradual occupancy, there is an operating loss that will be balanced out as residents continue to move in to Palace Modi'in.

The Company's estimation referred to in this section includes forward-looking information as defined in the Securities Law. This information is uncertain, and is based, inter alia, on occupancy rates of other Palace projects. The actual results may vary materially from the foregoing estimation and the implications thereof, for various reasons, including non-meeting of the occupancy targets of Palace Modi'in.

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

Development of the NOI of the Senior Housing Segment				
	For the Three Months Ended		For the Nine Months Ended	
	30.9.2019	30.9.2018	30.9.2019	30.9.2018
NOI for segment properties owned by the Company as of the beginning of the period	**9**	10	**29**	30
NOI for properties, the construction of which was finished in 2018	**1**	-	**(1)**	-
Total NOI from all properties	**10**	10	**28**	30

Figures are presented in millions of NIS.

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

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

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

As of the Report date, Azrieli Group has 8 income-producing properties in this segment, mostly in the U.S. with a total GLA of approx. 246 thousand sqm (on a consolidated basis) and approx. 236 thousand sqm (the Company's share) leased to some 250 tenants.[16]

Balance of the Group's investment properties in the segment – This balance totaled approx. NIS 2.4 billion as of September 30, 2019, compared with approx. NIS 2.6 billion on December 31, 2018. The change mainly derives from the decrease in the exchange rate of the dollar as of September 30, 2019 compared with December 31, 2018.

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

Change due to adjustment of the fair value of the segment's investment properties – The loss from such adjustment in the Report Period totaled approx. NIS 9 million, compared with a loss of approx. NIS 13 million which was recorded in the same period last year.

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

Summary of the Business Results of the Income-Producing Properties in the U.S. Segment							
	For the Three Months Ended			For the Nine Months Ended			For the Year Ended
	Rate of Change	30.9.2019	30.9.2018	Rate of Change	30.9.2019	30.9.2018	31.12.2018
Revenues	**(7%)**	**67**	72	**6%**	**208**	196	267
NOI	**(21%)**	**31**	39	**-**	**107**	107	149

Figures are presented in millions of NIS.

The increase in revenues chiefly results from the fact that during 2018, the Group acquired an office building in Austin, Texas, U.S.A. The decrease in NOI derives from the effect of changes in occupancy in some of the properties, offset by an increase due to the acquisition of the property as aforesaid.

The following table presents the segment's NOI Development:

Development of the NOI of the Income-Producing Properties in the U.S. Segment				
	For the Three Months Ended		For the Nine Months Ended	
	30.9.2019	30.9.2018	30.9.2019	30.9.2018
NOI for segment properties owned by the Company as of the beginning of the period	**25**	35	**89**	103
NOI for properties purchased or construction of which was finished in 2018	**6**	4	**18**	4
Total NOI from all properties	**31**	39	**107**	107

Figures are presented in millions of NIS.

Same-Property NOI in the income-producing properties in the U.S. segment was affected by changes in occupancy in some of the properties.

3 | NON-REAL ESTATE BUSINESS

3.1. Granite Segment

Azrieli Group, through Granite Hacarmel, held 100% of the rights in Supergas and still holds 100% of the rights in GES, as detailed above. For details regarding the sale of the Company's holdings in Supergas through the sale of its holdings in Granite Hacarmel and regarding the engagement in a non-binding MOU for the sale of the Company's holdings in GES, see Sections 1.2.3.4 and 1.2.3.5, respectively above. In view of the aforesaid, Granite is presented in the statement as discontinued operations.

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

Summary of the Business Results of the Granite Segment

	For the Three Months Ended			For the Nine Months Ended			For the Year Ended
	Rate of Change	30.9.2019	30.9.2018	Rate of Change	30.9.2019	30.9.2018	31.12.2018
Revenues	**(1%)**	**152**	154	**3%**	**541**	524	720
Segment profit	-	**19**	19	**1%**	**85**	84	117

Figures are presented in millions of NIS.

3.2. Additional Activities

3.2.1. Investments in Financial Corporations

The Group has holdings in the financial sector, with an investment in Bank Leumi and an investment in Leumi Card which was sold in the Report Period[17]. A summary of changes in the investments in the Report Period 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	**1,218**	**450**	**1,668**
Sale proceeds	**(180)**	**(380)**	**(560)**
Investment	**-**	**10**	**10**
Total investment as of September 30, 2019(3)	**1,038**	**-**	**1,038**
Fair value of the investment as presented in the financial statements as of September 30, 2019	**1,149**	**-**	**1,149**
Change in fair value during the Report Period	**111**	**(80)**	**31**
Dividend received in the Report Period	**34**	**80**	**114**

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 September 30, 2019.
(2) For further details on the closing of the transaction for the sale of Leumi Card, see Note 3D to the financial statement as of September 30, 2019.
(3) Before adjustment to changes in fair value during the Report Period.

[17] 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 2018, which is incorporated herein by reference.

4 | BUSINESS DEVELOPMENT – GROWTH ENGINES

4.1. Review of the Business Development Operations

4.1.1. Development of Income-Producing Properties

The Group's primary growth engine is expertise in development and unique architectural design of income-producing property project: malls, offices and senior housing. As of the Report date, the Group has 11 projects at various development stages in Israel.

Summary of Information about Development Pipeline

Name of Property	Use	Marketable Sqm[1]	Estimated Completion	Book Value of Project [2]	Cost Invested [3]	Estimated Construction Cost including Land[3]
Development Projects under Construction in the Short-Term						
Azrieli Sarona Tel Aviv	Retail	10,500	2019[4]	**293**	**338**	**340-345**
Palace Lehavim Senior Home	Senior housing	Phase A: 32,000 Phase B: 12,000	Phase A: Q1/2020 Phase B: TBD	**209**	**197**	**400-410**
Azrieli Town Tel Aviv [5]	Retail, offices and residence	Offices 50,000 retail 4,000 residence 21,000 (210 residential units)	Offices:2020 Retail and Residence: 2022	**828**	**587**	**1,080-1,130**
HaManor Holon	Retail and offices	28,000	2020	**140**	**127**	**220-240**
Akko	Offices	10,000	2020	**14**	**13**	**70-75**
Total		**167,500**		**1,484**	**1,262**	**2,110-2,200**
Development Projects in the Medium-Term						
Expansion of Azrieli Tel Aviv Center (Spiral Tower)	Retail, offices, hotel and residence	150,000[6]	2025	**802**	**481**	**2,300-2,500**
Modi'in land (Lot 21)	Retail, offices, residence and hotel	20,000[7]	2023	**126**	**131**	**340-370**
Senior housing land Rishon LeZion	Senior housing and retail	28,750[8]	TBD	**64**	**62**	**310-320**
Total		**198,750**		**992**	**674**	**2,950-3,190**
Total		**366,250**		**2,476**	**1,936**	**5,060-5,390**
Development Projects in Planning Stages						
Azrieli Town Building E	Offices	21,000	TBD	**107**[9]	**116** [9]	**TBD**
Holon 3 – Holon Industrial Zone [10]	Retail and offices	250,000	TBD	**500**	**450**	**TBD**
Petach Tikva land	Offices and retail	53,000[11]	TBD	**93**	**97**	**TBD**
Total		**324,000**		**700**	**663**	
Total		**690,250**				

Cost and value figures are presented in millions of NIS.

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

1. With respect to uses of the senior housing and/or leasable apartments, the figure represents building rights in sqm.
2. As of September 30, 2019.
3. Without capitalizations and tenant fit-outs, as of September 30, 2019.
4. An Occupancy Form was received in January 2019 for part of the western wing of the mall.
5. The data presented relate to the existing zoning plan on the land.
6. In April 2018, a zoning plan was validated which increases the construction rights of the fourth tower and the expansion of the mall, in approx. 80,000 sqm, to a total building rights of approx. 150 thousand sqm.
7. The Group is in the process of increasing the building rights in the project to 28,000 sqm.
8. The data presented relate to the existing zoning plan on the land. The Company is in the process of increasing the building rights in the project by approx. 33,000 sqm (above and below ground) such that, *inter alia*, the number of residential units shall increase to up to 275 units.
9. The building rights were purchased in the context of acquisition of the income-producing property in May 2018.
10. Includes additional land (approx. 27,000 sqm of marketable space) originally purchased in the framework of an ILA tender, which was part of the Holon HaManor land.
11. 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 150,000 sqm.

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

<u>Description of Properties under Construction and Land Reserves</u>

Azrieli Sarona, Tel Aviv – The land, area of which is approx. 9,400 sqm, was purchased in May 2011 and construction commenced in May 2012. Construction of the office tower, with a GLA of approx. 119,000 sqm, was completed in Q2/2017. The office tower was fully marketed. The construction of the mall at the base of the office tower is scheduled to be completed in 2019. An Occupancy Form for part of the western wing of the mall, was received in January 2019.

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 project is in advanced stages of construction and will demonstrate high and innovative standards. The project, in a built-up area of approx. 44,000 sqm (main 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.

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 retail areas 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. The Group is promoting a change of the zoning plan to increase the building rights in the complex. In May 2019, a hearing was held in the Local Committee on objections to the zoning plan for the addition of office and hotel areas at a total scope of approx. 24,000 sqm (gross). The Committee discussed the objections and decided to approve the publication of the plan for validation. An administrative appeal against the plan was submitted in July 2019 and a hearing has been scheduled for December 2019. In May 2018, an aboveground permit was received for the project. As of the

Report Release Date, the Group has signed lease contracts for nearly 100% of the project's office space.

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 plan is to build approx. 28,000 sqm of office and retail. Completion of the project is scheduled for 2020. In September 2018, an above-ground permit was received for the project. The project is estimated to be completed in 2020. An agreement was signed with Bezeq The Israel Telecommunication Corp., Limited with respect to approx. 70% of the project's leasable space.

Azrieli Akko Offices – In June 2019, a permit was received to add two office floors above the mall and add parking spaces and the works have commenced.

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 is scheduled for discussion in the Local Committee in November 2019. As of the Report date, the Company is carrying out excavation and shoring work on the land.

Land in Modi'in (Lot 21) – On January 11, 2018, the Group won a tender held by the Israel Land Authority for the purchase of long-term lease rights in a lot located in the CBD of Modi'in-Maccabim-Re'ut (close to the Azrieli Modi'in Mall), in an area of approx. 5,300 sqm, designated for the construction of 80 residential units, 50 hotel rooms, offices and retail space, in consideration for approx. NIS 101.5 million. For further details see the Company's immediate report of January 11, 2018 (Ref.: 2018-01-004960), which is incorporated herein by reference. An excavation and shoring permit was received in July 2019 and the Company has commenced work at the site. As of the Report Release Date, the Company is acting for the fulfillment of the District Committee's requirements in relation to the deposit of a plan for increase of the above ground building rights in the lot to 28,000 sqm and connection thereof to the existing project, after the Local Committee stated that it sees the promotion of such plan favorably. An application for a basement permit was submitted in August 2019.

Palace Rishon LeZion Senior Home – The land, area of which is approx. 3,400 sqm, located 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 deposit of the zoning plan on conditions. In April 2019, the zoning plan was published for objections, and in September 2019, a hearing was held in the District Committee on the objections that were submitted and it was decided to validate the plan subject to comments by the Planning Office.

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

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

Land in Petach Tikva – The land, which was purchased in November 2017, of an area of 19,000 sqm, is situated in the eastern part of the Kiryat Aryeh Industrial Zone in Petach Tikva, near an existing office project owned by the Group. The land includes building rights for around 53,000 sqm as well as parking basements. For further details, see the Company's immediate reports of September 18, 2017 and November 9, 2017 (Ref.: 2017-01-093630 and 2017-01-098386, respectively) which are incorporated herein by reference As of the Report Release Date, the Company is promoting a zoning plan for additional rights, based on a zoning plan which is being promoted by the Municipality in the area, such that its total rights will amount to approx. 150 thousand sqm. The Group intends to build an office project on the land. In July 2019, an application has been submitted for a shoring, excavation and basements permit.

The Company's estimations in this Section 4.1.1 above, 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 expansion of the areas thereof are forward-looking information as defined in the Securities Law, which is based on the Company's subjective estimations as of the Report date, 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, the time that will take to have the zoning plans approved for execution, non-receipt of the approvals of the relevant regulatory authorities and the prices of construction input.

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	Retail and offices
GLA	28,000 sqm
Estimated completion	2020
Status	Under construction

PALACE LEHAVIM SENIOR HOME

Building rights	44,000 sqm
No. of residential units	350
Estimated completion	Phase A: 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 SARONA (RETAIL)

Use	Retail
GLA	10,500 sqm
Estimated completion	2019
Status	Under construction

DEVELOPMENT PIPELINE*

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

AZRIELI TOWN

Use	Retail, offices and residence	**Estimated completion**	Offices: 2020 | Residence and retail: 2022
GLA	75,000 sqm	**Status**	Under construction

MODI'IN LAND (LOT 21)

Use	Retail, offices, hotel and residence
Building rights	20,000 sqm
Estimated completion	2023
Status	Under construction

PALACE RISHON LEZION SENIOR

Building rights	28,750 sqm
No. of residential units	250
Estimated completion	TBD
Status	In planning

AZRIELI TOWN BUILDING E

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

PETACH TIKVA LAND

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

Betterment of income-producing properties

Another growth engine of the Company is the betterment of its existing properties. The Company also examines, from time to time, options to promote zoning plans for additional building rights in its properties. For details with respect to the Company's activities for the betterment of its existing properties, see Section 4.1.2 of the board of directors' report for the Periodic Report for 2018, which is incorporated herein by reference, and in Section 4 of Chapter B hereof – updates to the Description of the Corporation's Business chapter as of September 30, 2019.

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

For details with respect to the Company's activities for the identification of properties in the Company's operating segments, see Section 4.1.3 of the board of directors' report for the Periodic Report for 2018, which is incorporated herein by reference.

4.1.3. 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.

4.1.4. Investment in Compass

Azrieli Group made a decision to enter the global Data Centers industry, which is at the core of the Group's income-producing real estate business, seeing this industry as a growth engine with significant potential. For further details, see Section 1.2.3.3 above.

5 | FUNDING OF THE BUSINESS

5.1. Leverage Ratio of the Group

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

Summary of Balance Sheet Figures out of the Consolidated Statements			
	30.9.2019	**30.9.2018**	**31.12.2018**
Current assets	**2,453**	1,761	1,885
Non-current assets	**30,466**	29,494	30,010
Current liabilities	**3,486**	2,689	3,092
Non-current liabilities	**11,985**	11,878	11,682
Equity attributable to the Company's shareholders	**17,402**	16,646	17,077
Equity attributable to the Company's shareholders out of total assets (in %)	**53%**	53%	54%
Net debt to assets (in %)	**28%**	29%	29%

Figures are presented in millions of NIS, unless otherwise noted.

The Group funds its business operations primarily out of its equity, cash and cash equivalents and by means of non-bank credit (mainly bonds and loans from institutional bodies), bank credit (short-term and long-term) and commercial paper. In the Report Period the Company made a public offering of a new Series E-F bond issuance.

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[18]. The Group's leverage ratio is low, compared to many of its major competitors. The Group's low leverage ratio, joined with the Company's extensive initiatives in the real estate sector, provide flexibility also at times of crisis.

[18] For further details, see Section 19 of Chapter A of the Periodic Report for 2018, which is incorporated herein by reference.

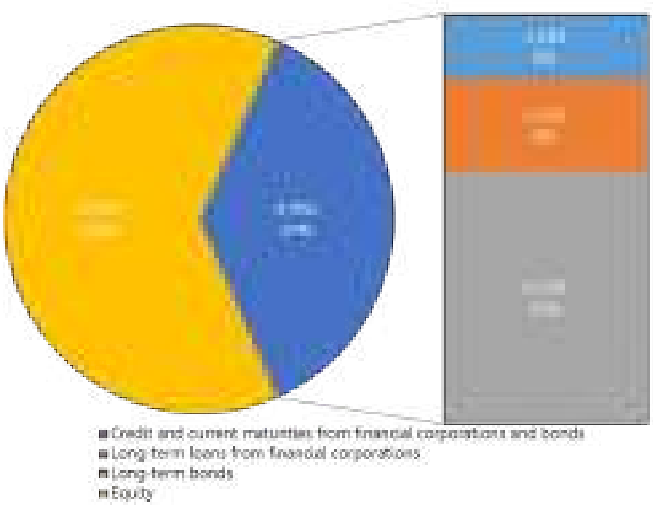
5.2. Composition of Financing Sources

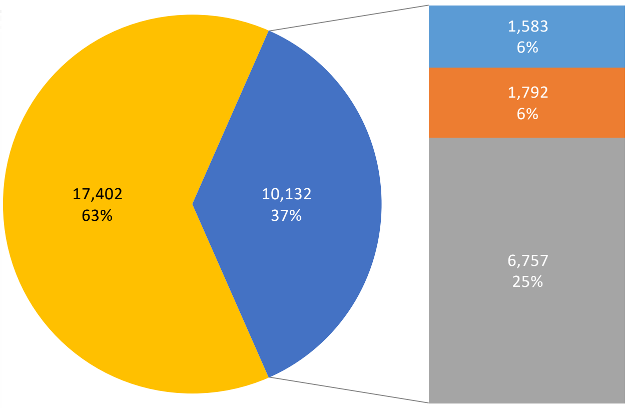
The Group has three principal debt channels: bank debt, private loans from institutional bodies or public bonds. The Group currently enjoys very high accessibility to each of these financing channels.

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

Composition of Capital and Breakdown of Debt of the Group

31.12.2018	30.9.2019





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

The increase in the total debt, in the sum of approx. NIS 176 million in the Report Period mainly stems from the issue of bonds in Q1/2019 net of current maturities of loans and bonds. As of the Report date, the Group, on a consolidated basis, has a working capital deficit of approx. NIS 1.0 billion (in the separate statement approx. NIS 0.7 billion), which derives, *inter alia*, from the Company's management's decision, at this stage, to fund its business also by means of short-term credit, in view of the business opportunity arising from the low interest rates on credit of this type.

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. Therefore, in its meeting of November 19, 2019, the Company's board of directors, having examined the Company's cash flow and financing sources, determined that such working capital deficit does not affect its ability to timely repay its liabilities.

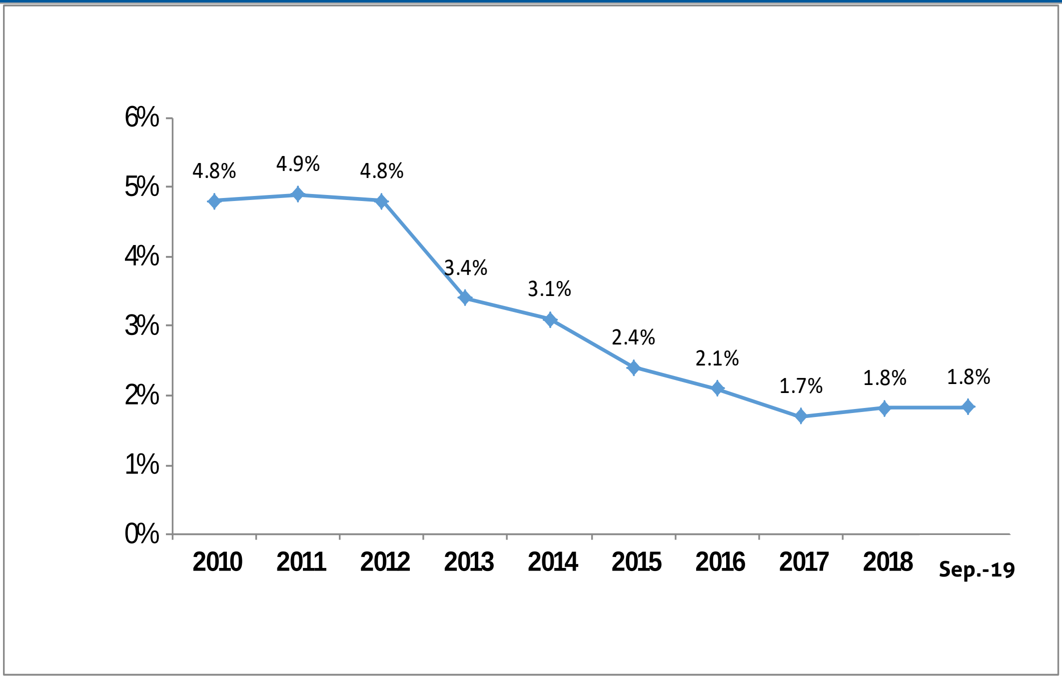
The Group's estimations mentioned in this Section 5.2 above in relation to its liquidity and the availability of its financing sources, particularly as pertains to the possibility of converting the short-term debt into long-term debt, are forward-looking information as defined in the Securities Law, which is based on the Company's assessments as to market developments, inflation levels and projected cash flows and on the conditions and possibilities of obtaining credit on the date of the Report. Such estimations may not materialize, in whole or in part, or may materialize in a manner that materially differs from the Company's estimations. The primary factors that may affect the above are: changes in the capital market affecting the conditions and possibilities of obtaining credit, changes in the Company's plans, including the use of future available liquid balances in order to seize business opportunities, changes in the advantageousness of the holding of various investment channels or the advantageousness of use of various financing channels, deterioration of the Israeli or U.S. economy and decline into severe recession, and the Company or any of the Group's companies encountering financing or other difficulties, in a manner affecting the Company's cash flow.

5.3. Financing Transactions 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.

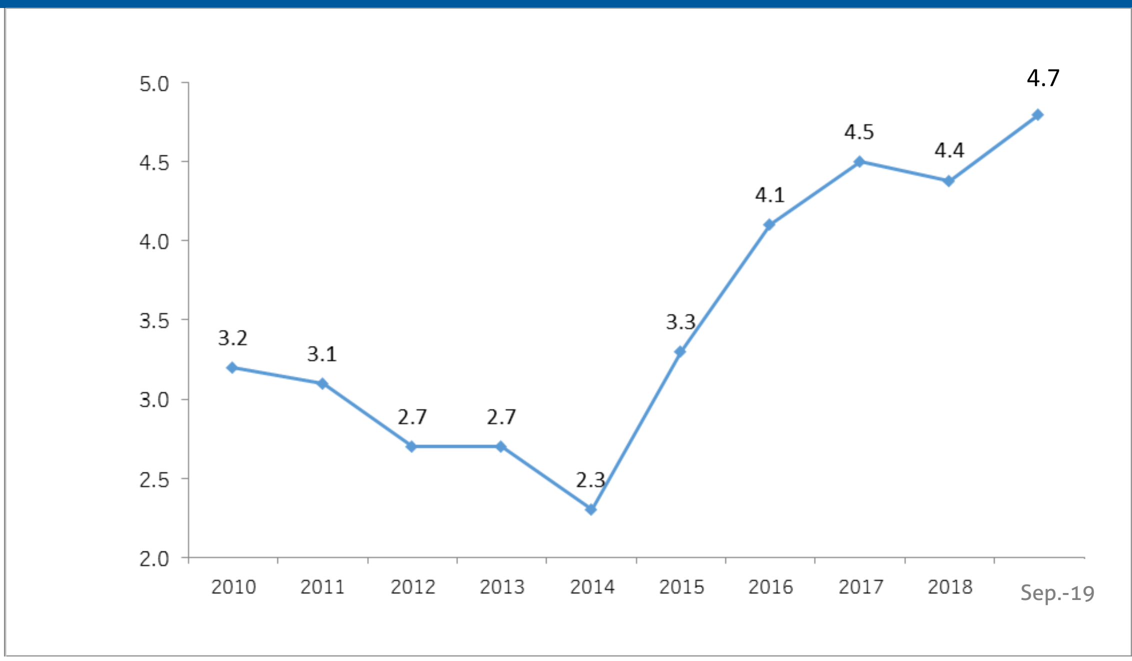
The Company acted during the Report Period, to raise debt through the issuance of Series E and F Bonds in the scope of approx. NIS 1.5 billion, with an average duration of approx. 7.5 years and weighted index-linked interest of approx. 1.9%. For details on the debt raising see Section 1.2.3.7 above and Section 19.5 of Chapter A of the Periodic Report for 2018, which is incorporated herein by reference.

Reduction of Average Interest over the Years



◆ Interest rate as of the end of the period

Extension of the Average Duration of Debt



◆ Duration as of the end of the period

5.4. Rating

As of the Report date, the Company’s credit rating is AA+/Stable/ilA-1+ by Ma’alot and Aa1 by Midroog. For details with respect to the rating of bonds, commercial paper and private loans of the Company, see Section 19.12 of Chapter A of the Periodic Report for 2018, which is incorporated herein by reference.

5.5. Liabilities and Financing

Below is a summary of the Group's financial liabilities (excluding Granite Hacarmel and Azrieli E-Commerce):

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	-	-	-	18	422	-	440	440
Long-term loans	8,331	1,336	-	-	22	9,667	22	9,689
Total	**8,331**	**1,336**	**-**	**18**	**444**	**9,667**	**462**	**10,129**

Figures are presented in millions of NIS, as of September 30, 2019.

As of September 30, 2019, short-term loans represented approx. 4% of the Group's total financial liabilities (excluding Granite Hacarmel and Azrieli E-Commerce). 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's have decided to finance its operations also by means of short-term loans as specified above.

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-F Bonds, see **Annex A** to this chapter.

5.7. Maturities of the Group's Financial Liabilities

The following table presents the maturity dates and amounts of financial liabilities (excluding Granite Hacarmel and Azrieli E-Commerce):

Forecast of Maturities of Financial Liabilities			
Year	**Principal**	**Interest**	**Total**
1	1,580	178	1,758
2	1,346	146	1,492
3	843	119	962
4	889	108	997
5 forth	5,471	417	5,888
Total	**10,129**	**968**	**11,097**

Figures are presented in millions of NIS, as of September 30, 2019.

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

- Positive cash flow from current operations, which totaled approx. NIS 1,263 million in the nine months ended September 30, 2019.
- 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 September 30, 2019, the aggregate amount of liquid assets (cash and cash equivalents and short-term investments and deposits) held by the Group amounted to NIS 1,022 million. The Company deems its liquid assets, the considerable cash flow from its current operations and its unencumbered assets (in the total value of approx. NIS 23 billion, in addition to approx. NIS 1.0 billion of liquid means stated above) essential to its financial soundness, its high financial flexibility due to its lack of dependence on the availability of external sources both in terms of debt repayment and in terms of the ability to seize investment opportunities at various times.[19] 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 September 30, 2019**
Real estate of the retail centers and malls in Israel segment	10,722
Real estate of the leasable office and other space in Israel segment	9,328
Other real estate (chiefly senior housing)	325
The Company's holdings in Azrieli E-Commerce	49
The Company's holdings in Granite Hacarmel[20]	625
The Company's holdings in Compass	480
The Company's holdings in Bank Leumi	1,149
Total	**22,678**

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

[19] For details with respect to additional matters related to the Group's financing activities, see Section 19 of Chapter A of the Periodic Report for 2018, which is incorporated herein by reference.
[20] With respect to the sale of Granite, see Section 3.1 above.

The Group's estimations mentioned in this Section 5.8 above in connection with the Company's ability to obtain financing on convenient terms in the currently prevailing economic conditions, are forward-looking information as defined in the Securities Law, which is based on the Company's estimations as to the economic conditions and the liquidity level as of the Report Release Date. Such estimations may not materialize, in whole or in part, or may materialize in a manner that materially differs from the Company's estimations. The primary factors that may affect the above are: changes in the capital market affecting the conditions and possibilities of obtaining financing, changes in the Company's plans, including use of future available liquid balances in order to seize business opportunities, changes in the advantageousness of the holding of various investment channels or the advantageousness of use of various financing channels, deterioration of the Israeli or U.S. economy and decline into severe recession, in a manner which affects the Company's ability to obtain financing on convenient terms.

5.9. Financial Position

Financial Position, Liquidity and Financing Sources		
Item	**30.9.2019**	**31.12.2018**
Total assets (1)	**32,919**	31,895
Current assets (2)	**2,453**	1,885
Investment properties (3)	**27,986**	27,452
Short-term credit(4)	**1,583**	1,565
Loans from banking corporations and other credit providers (5)	**1,792**	2,226
Net bonds (6)	**6,757**	6,165
Equity (7)	**17,448**	17,121

Figures are presented in millions of NIS.

(1) The increase chiefly results from growth in investment property and investment property under construction in the Report Period as a result of progress in investments in projects under construction and income-producing properties, and from the acquisition of Compass.
(2) The increase chiefly results from the classification of Granite's properties to properties of a disposal group which is held for sale, offset by the write-off of the investment in Leumi Card as a result of the sale thereof in the Report Period.
(3) The increase results from the progress of the investments in projects under construction and in income-producing properties and from an increase in the fair value of the properties, offset by a decrease in real estate property in the U.S.A. as a result of a decrease in the exchange rate of the U.S. Dollar in the Report Period.
(4) The increase results mainly from balances of loans which were classified as long term in the past and were carried to current maturity, offset by maturity repayments.
(5) The decrease results mainly from balances of loans which were classified as long term in the past and were carried to current maturity.
(6) The increase chiefly results from the issue of bonds during Q1/2019, net of current maturities.
(7) The increase chiefly results from the comprehensive income in the Report Period offset by the 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:

Analysis of the Consolidated Net Profit

	For the Three Months Ended		For the Nine Months Ended		For the Year Ended
	30.9.2019	**30.9.2018**	**30.9.2019**	**30.9.2018**	**31.12.2018**
Net profit for the period attributable to the shareholders	**289**	264	**990**	759	1,218
Net profit attributable to the shareholders and to non-controlling interests	**289**	264	**990**	759	1,219
Basic earnings per share (NIS)	**2.38**	2.18	**8.16**	6.24	10.04
Basic earnings per share from continued operations (NIS)	**2.26**	2.08	**7.74**	5.85	9.44
Comprehensive income to shareholders and non-controlling interests	**225**	347	**884**	892	1,325

Figures are presented in millions of NIS.

Net profit in the Report Period totaled NIS 990 million, compared with NIS 759 million in the same period last year. The profit in the Report Period was affected mostly by an increase of NIS 211 million compared with the same period last year, in profit from fair value adjustment, by an increase of NIS 70 million in NOI from the real estate activity and an increase of NIS 43 million from net other income offset by an increase in the tax expense, mainly due to the aforesaid in the sum of NIS 77 million.

6.2. Comprehensive Income

The Group's capital and comprehensive income are also affected by various capital reserves, chiefly by capital reserves in respect of changes in the fair value of investments in equity instruments designated at fair value through other comprehensive income and by reserves for translation differences from foreign operations. The difference between the comprehensive income and the net profit as presented in Section 6.1 above, for the nine-month period ended September 30, 2019, derives from loss from translation differences from foreign operations of NIS 112 million, offset by an increase in the fair value of financial assets net of tax of NIS 6 million, and with respect to the three-month period ended September 30, 2019, derives from loss from translation differences from foreign operations of NIS 43 million, as well as from change in the fair value of financial assets net of tax of NIS 21 million.

6.3. Results of Operations

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

Results of Operations				
	For the Three Months Ended		For the Nine Months Ended	
	30.9.2019	**30.9.2018**	**30.9.2019**	**30.9.2018**
Marketing, general and administrative expenses (1)	**43**	32	**121**	106
Net other revenues (2)	**12**	33	**108**	65
Net financing expenses (revenues) (3)	**(9)**	46	**161**	162
Income taxes expenses (4)	**96**	67	**240**	163

Figures are presented in millions of NIS.

(1) The increase in expenses in the Report Period and in Q3, compared with the same periods last year, mainly derives from an increase in marketing expenses, increase in consulting and legal expenses and increase in payroll expenses mainly due to the update of the management agreements as provided below.

(2) Net other revenues in the Report Period result mainly from dividends from Leumi Card and Bank Leumi similar to the same period last year.

Other net revenues in Q3/2019 mainly derive from a dividend from Bank Leumi (in the same quarter last year, mainly from dividends from Leumi Card and Bank Leumi).

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

The increase in tax expenses in the current quarter compared with the same quarter last year, is attributed mainly to an increase in current tax due to the decrease in the aforesaid financing expenses.

6.4. Cash Flows

The following table shows the cash flows generated by the Group for Q3/2019, compared with the same quarter in 2018:

Quarterly Cash Flows		
Quarter	**Q3/2019**	**Q3/2018**
Net cash flows generated by the Group from current operations (1)	**447**	393
Net cash flows (used by the Group) for investment activities (2)	**(701)**	(590)
Net cash flows used by the Group for financing activities (3)	**(479)**	(271)

Figures are presented in millions of NIS.

(1) The cash flow in Q3/2019 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 403 million (approx. NIS 386 million in the corresponding period), plus net senior housing deposits net of paid income taxes.
(2) Most of the cash flow in Q3/2019 was used for acquisition of Compass and acquisition of and investment in investment properties and investment properties under construction in the sum of NIS 201 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 638 million offset by interest and dividend received.
(3) Most of the increase relative to the same quarter last year derives from the receipt of a loan in the sum of NIS 215 million in the corresponding quarter.

The following table presents the cash flows generated by the Group for the nine-month period ended on September 30, 2019, compared with the same period last year:

Cash Flows for the Report Period		
Half-Year	**For the Nine-Month Period Ended September 30, 2019**	**For the Nine-Month Period Ended September 30, 2018**
Net cash flows generated by the Group from current operations (1)	**1,263**	1,012
Net cash flows generated (used) by the Group for investment activities (2)	**(746)**	(1,263)
Net cash flows used by the Group for financing activities (3)	**(172)**	(122)

Figures are presented in millions of NIS.

(1) The cash flow in the Report Period and in the same period last year chiefly resulted from the operating profit of the income-producing real estate in the sum of approx. NIS 1,199 million (approx. NIS 1,133 million in the corresponding period), plus net senior housing deposits net of paid income taxes.
(2) Most of the cash flow in the Report Period was used for acquisition of and investment in investment properties and investment properties under construction in the sum of approx. NIS 578 million, and for the acquisition of Compass, offset by proceeds from the disposition of Bank Leumi and Leumi Card shares net of tax and from dividends received. Most of the cash flow in the same period last year was used for the acquisition of and investment in investment properties and investment properties under construction in the sum of approx. NIS 1,507 million offset by a decrease in short-term deposits, interest and dividend received, proceeds from the disposition of investment properties and proceeds from the disposition of Pi Glilot shares.
(3) Most of the increase relative to the same period last year derives from an increase in the repayment of bonds, net and increase in the dividend paid, offset by a decrease in the repayment of short-term credit, net..

7 | CORPORATE GOVERNANCE ASPECTS

In the Report Period no material changes have occurred in the Company's corporate governance aspects, as specified in chapters D-E of the Periodic Report for 2018, which is incorporated herein by reference.

7.1. Approval of an Updated Compensation Policy, Approval of an Update to the Management Agreement with the Company's CEO, Approval of an Update to and Extension of the Management Agreement with the Company's Active Chairman of the Board

On August 11, 2019, the general meeting of the Company's shareholders approved an updated officer compensation policy effective for a three-year period, an update to the management agreement with the Company's CEO, and an update to and extension of the conditions of the management agreement with the Company's Active Chairman of the Board, Ms. Danna Azrieli. For further details, see the immediate report of July 4, 2019 on the meeting being called (Ref.: 2019-01-068701) and the immediate report of August 12, 2019 on the results of the meeting (Ref.: 2019-01-083266), which are incorporated herein by reference.

7.2. Approval of Compensation for Directors who are Controlling Shareholders of the Company

On July 4, 2019, the Compensation Committee and the Company's Board approved the compensation terms for Ms. Naomi Azrieli and Ms. Sharon Azrieli, who are controlling shareholders of the Company and serve as directors therein. For further details, see the immediate report of July 4, 2019 (Ref.: 2019-01-068692), which is incorporated herein by reference.

7.3. Changes of Company Officers

For details see Section 1.2.3.8 above.

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

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

For events and developments during the Report Period, see Chapter B hereof – Updates to the Description of the Corporation's Business chapter as of September 30, 2019 and Note 3 to the financial statements as of September 30, 2019.

8.2. Report on the Group's Liabilities

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

8.3. Legal Claims

For details on legal claims, see Notes 4A2 and 4B2 to the financial statements.

8.4. Disclosure of Highly Material Valuations

As of the Report date, there has been no change in the parameters for disclosure and attachment of valuations, as published in the Periodic Report for 2018. The Company has updated the valuations of its properties in Israel as of June 30, 2019 (for details with respect to the parameters for update of the valuations in the quarterly reports, see Note 3C1 of the financial statements as of December 31, 2018, which is included in the Periodic Report for 2018, and is incorporated herein by reference).

As specified in Section 9.3 of the board of directors' report, which is included in the Periodic Report for 2018, and is incorporated herein by reference, and after an examination of the relevant parameters according to ISA Staff Legal Position 105-23 on the parameters for examination of the materiality of valuations, it transpires that the Company has no highly material valuation that is required to be attached to the report.

8.5. Subsequent Events

See Note 7 to the financial statements as of September 30, 2019.

8.6. Financials attributable to the Company as a Parent Company

In accordance with Sections 38D and 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.

8.7. Note on Forward-Looking Information

The Company's intentions mentioned in the introduction to the board of directors' report and the highlights to the board of directors' report, inter alia, in relation to the use of business opportunities and expansion of the operations, liquidity, financing sources and net financing expenses, the pace of progress of projects under construction, the projected costs of their construction, the effects of the economic situation on the Company's operating segments and with respect to 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 Report date, the Company's estimations with respect to developments in the markets, inflation levels and projected cash flows and on the conditions and possibilities of obtaining credit on the date of the Report.

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

The Company's board of directors and management wish to express their high regard for the Company's officers, the managements of the various companies of the Group and their employees, for their welcome contribution to the Group's achievements in the quarter ended on September 30, 2019.

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

Date: November 19, 2019

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	February 10, 2015	623.3	905.8	912.9	3.0	901.5	942.2	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, 5210261 Tel: 03-5544553; Fax: 03-5271451; E-mail address: hermetic@hermetic.co.il Contact person at the trustee: Dan Avnon or Meirav Ofer.
	June 23, 2015	600.3											
	March 30, 2017	228.8											
Series C	Sept. 6, 2015	1,005.1	947.3	954.8	3.9	949.6	1,036.0	Fixed	1.64	July 1st in the years 2018 through 2027	From July 1, 2016, twice a year, on January 1st and July 1st in each of the years 2016 through 2027	Linkage (principal and interest) to the rise in the CPI for July 2015*	
	March 30, 2017	179.0											
Series D	July 7, 2016	2,194.1	3,999.4	4,083.9	13.2	4,063.3	4,404.5	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											
	February 1, 2018	1,367.0											

Series	Date of the Issue	Par Value on the Date of the Issue	Par Value on the Report Date	Par Value on the Report Date, including Linkage	Amount of Interest Accrued by the Report Date	Value in the Financial Statements	Market Cap	Type of Interest	Annual Interest Rate	Principal Payment Dates	Interest Payment Dates	Linkage Terms	Details regarding the Trustee
Series E	January 22, 2019	1,215.9	1,215.9	1,225.7	5.5	1,217.1	1,360.9	Fixed	1.77	On June 30 of each of the years 2022 through 2028	From June 30, 2019, twice a year On June 30 of each of the years 2019 through 2028 and December 31 of each of the years 2019 through 2027	Linkage (principal and interest) to the rise in the CPI for December 2018*	
Series F	January 22, 2019	263.3	263.3	265.5	1.7	262.5	313.2	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*	
Total		**8,660.4**	**7,331.7**	**7,442.8**	**27.3**	**7,394.0**	**8,056.8**						

* The Series B, Series C, Series D, Series E, Series F Bonds (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:

3. With respect to the Series B Bond indenture and the Series C Bond indenture, both of which were 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).

4. 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).

5. 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).

6. The reports mentioned in Sections 3-5 above are included (the aforesaid sections) herein by way of reference.

7. 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 of the Company’s Bond Series, and no conditions establishing grounds for acceleration of the Company’s Bond Series have been fulfilled.

8. 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 for the Company’s Bond Series.

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	March 28, 2017(*)	AA+ stable AA+ stable	June 21, 2015 March 27, 2017
Series C	Ma’alot	AA+ stable	AA+ stable	March 28, 2017(*)	AA+ stable	September 3, 2015 March 27, 2017
Series D	Midroog	Aa1/stable outlook	Aa1/stable outlook	January 31, 2018(**)	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
Series E	Midroog	Aa1/stable outlook	Aa1/stable outlook	January 20, 2019 (***)	Aa1/stable outlook	January 7, 2019
Series F	Midroog	Aa1/stable outlook	Aa1/stable outlook	January 20, 2019 (***)	Aa1/stable outlook	January 7, 2019

* For Ma'alot’s rating report on the Company’s Series B and C Bonds, see the Company’s immediate report of March 28, 2017 (Ref.: 2017-01-030966), which is included herein by way of reference.
** For Midroog’s rating report on the Company’s Series D Bonds, see the Company’s immediate report of January 31, 2018 (Ref.: 2018-01-010804), which is included herein by way of reference.
*** For Midroog’s rating report on the Company’s Series E and F Bonds, see the Company’s immediate report of January 7, 2019 (Ref.: 2019-01-003051), which is included herein by way of reference.

AZRIELI GROUP

PART B

Update of the Description of the Corporation's Business

AZRIELI GROUP LTD.

Update of the Description of the Corporation's Business Chapter in the Company's Periodic Report as of December 31, 2018 (the "**Periodic Report**")[1]

In accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, following is a description of material developments that have occurred in the Company's business during the nine months ended September 30, 2019 and until the Report Release Date, with respect to which disclosure has not yet been made in the Periodic Report, according to the order of the sections in the Description of the Corporation's Business chapter in the Periodic Report. It shall be noted that the terms in this chapter shall have the meaning ascribed thereto in the Periodic Report, unless otherwise expressly provided.

In this chapter: the "**Report Release Date**" – November 20, 2019; the "**Date of the Statement of Financial Position**" and the "**Report Date**" – September 30, 2019; the "**Board of Directors' Report**" – the Board of Directors' Report on the State of the Company's Affairs for the nine and three months ended September 30, 2019; the "**Company's Previous Shelf Prospectus**" – a shelf prospectus which the Company published which bears the date May 11, 2016 (Ref.: 2016-01-063049).

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

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

For details with respect to: (1) winning a tender for the construction of an energy production and waste sorting and recycling facility in the Rishon Lezion area; (2) sale of the Company's holdings in Leumi Card Ltd.; (3) investment in Compass; (4) the sale of Granite Hacarmel; (5) engagement in an unbinding MOU for the sale of GES Global Environmental Solutions; (6) winning a tender for the purchase of a land in Modi'in (Lot 10); (7) financing transactions; (8) changes in officer positions in the Company; (9) releasing a new shelf prospectus of the Company; see Section 1.2.3 of Chapter A hereof.

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

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

For details regarding the holdings of interested parties in the Company, see the Company's immediate report of July 7, 2019 (Ref.: 2019-01-069121), which is incorporated herein by reference, and an immediate report regarding a person who is no longer an interested party in the corporation, dated May 6, 2019, following the expiration of office of Mr. Joseph Ciechanover (Ref.: 2019-01-043606), which is incorporated herein by reference.

[1] As reported by the Company on March 20, 2019 (Ref.: 2019-01-024283) which is incorporated herein by reference.

3. Dividends

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

On May 6, 2019, the Company paid a dividend to its shareholders in the total amount of NIS 560 million. For details, see Section 1.2.4 of Chapter A hereof.

4. Development Pipeline

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

During the report period, the Group continued to invest in the development and construction of new properties and in the expansion and renovation of existing properties. For further details, see Section 4 of Chapter A hereof. Set forth below are updates in connection with development pipeline and improvement of existing properties:

Azrieli Town Tel Aviv – In May 2019, a hearing was held in the Local Committee on objections to the zoning plan for the addition of office and hotel areas at a total scope of approx. 24 thousand sqm (gross). The Committee discussed the objections and decided to approve the publication of the plan for validation. An administrative appeal against the plan was filed in July 2019 and a hearing is scheduled for December 2019.

Expansion of Azrieli Center Tel Aviv (Spiral Tower) – Under the zoning plan, the Company was required to obtain approval for an architectural design and development plan for the project, as a condition to an above-ground building permit. The design plan in connection with the project is expected to be deliberated by the local committee in November 2019. As of the Report Release Date, the Company is performing excavation and shoring work in the land.

Holon 3 – Holon Industrial Zone – A permit for additional underground parking levels was received in July 2019 and in May 2019 works for building the underground parking levels in the eastern part of the project have begun.

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

Azrieli Jerusalem Mall – As of the Report Release Date, the zoning plan for expansion of the areas of the Azrieli Jerusalem Mall by approx. 100,000 sqm gross above ground which include retail, office and senior housing areas and a building that will be built for the City of Jerusalem was deposited for objections. A date for the hearing on the objections has not yet been scheduled.

Azrieli Rishonim – In May 2019, a hearing was held by the District Committee in relation to addition of office space in the office tower. As of the Report Release Date, the Company is acting for fulfillment of the deposit conditions set by the District Committee.

Azrieli Tel Aviv – As of the Report Release Date, the Company is proceeding with the renovation of the public areas in the project.

Azrieli Holon Mall – in May 2019, the Company has commenced with the renovation of the public areas in the mall.

Azrieli Ra'anana – A permit application was submitted to the Local Committee in August 2019 in relation to the conversion of an upper retail floor at the project into an LTC unit for Palace Ra'anana.

5. Land Reserves (Additional Details)

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

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

Senior home "Palace Rishon LeZion" – In April 2019, the zoning plan was published for objections, and in September 2019 a hearing was held at the District Committee on the objections that were submitted, and a decision made to validate the plan, subject to comments of the Planning Office.

Land in Modi'in (Lot 21) – An excavation and shoring permit was received in July 2019 and the Company has commenced work at the site. As of the Report Release Date, the Company submitted for deposit the documents of the plan for increase of the building rights in the lot to 28,000 sqm and connection thereof to the existing project, after the Local Committee noted that it looks favorably on the promotion of such plan. In August 2019, an application was filed for a permit for basements.

Land in Petah Tikva – In July 2019, an application was filed for a permit for shoring, excavation and basements.

6. Income-Producing Properties in the U.S.

Update to Section 10.2 of the Description of the Corporation's Business chapter – Structure of the Operating Segment and Changes therein:

During the report period, the Company finished the repair of the damage in properties thereof that had suffered water damage due to flooding caused by Hurricane Harvey.

7. Income-Producing Properties – Additional Activities:

For details regarding an investment made by the Company during the report period in Compass, see Section 1.2.3.3 of Chapter A hereof.

8. Granite Segment

Update to Section 12.1 of the Description of the Corporation's Business chapter – Granite Segment – General information on the Granite segment:

For details regarding an engagement in a non-binding memorandum of understanding for the sale of GES Global Environmental Solutions Ltd., which in the estimation of the Company’s management, will be sold in the next 12 months, see Section 1.2.3.5. of Chapter A hereof.

On November 5, 2019, the transaction for the sale of the Group’s entire holdings in Granite, was closed.

The transaction excludes all of Granite’s holdings and assets that are not Supergas, its subsidiaries and assets related to any of them, and further excludes liabilities that are not attributed to Supergas and the subsidiaries of Supergas. For further details, see Section 1.2.3.4 of Chapter A hereof.

In view of all of the above, and in view of the Company's intention to focus on the core areas of the real estate business, Granite is presented in the financial statements as a discontinued operation.

Update to Section 12.29 of the Description of the Corporation's Business chapter – Granite Segment – Other Operations:

During the report period, Granite, together with a company from the Shikun & Binui group, closed a transaction for the sale of all of their rights and holdings in "Mini Israel" to an unrelated third party for an immaterial amount.

9. Additional Operations

Investments in financial assets in the banking and finance segment - Section 14.2 of the Description of the Corporation's Business Chapter

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

For details on the sale of Leumi Card, see Section 1.2.3.2 of Chapter A hereof.

10. Financing

Non-Bank Financing for the Company

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

- **Commercial Papers**

  As of the Report Date, the Company has two series of CP, a rated series totaling approx. NIS 281 million (as of the Report Release date, approx. NIS 278 million) and an unrated series totaling approx. NIS 140 million. During the report period, the Company and the holders of the rated CP series agreed to extend the term of the CP by five additional periods of 12 months each, with no change in the remaining conditions of the CP series. For details, see the Company's immediate report of May 16, 2019 (Ref. 2019-01-046966), which is incorporated herein by reference.

- **Series B Bonds of the Company**

  In the report period, principal and interest payments were made in accordance with the payment schedule below. As of the Report Date, the par value balance of the Company's Series B Bonds in circulation is approx. NIS 906 million.

- **Series C Bonds of the Company**

  In the report period, principal and interest payments were made in accordance with the payment schedule below. As of the Report Date, the par value balance of the Company's Series C Bonds in circulation is approx. NIS 947 million.

- **Series D Bonds of the Company**

  In the report period, principal and interest payments were made in accordance with the payment schedule below. As of the Report Date, the par value balance of the Company's Series D Bonds in circulation is approx. NIS 3,999 million.

- **Series E Bonds of the Company**

  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 the Company's Bond Series E, by virtue of the Company's Previous Shelf Prospectus. On January 22, 2019, the Company announced that according to the issue results, NIS 1,216 million par value of Series E Bonds have been allotted in consideration for approx. NIS 1,216 million (approx. NIS 1,207 million net of issue expenses).

  As of the Report Date, the par value balance of the Company's Series E Bonds in circulation is approx. NIS 1,216 million.

- **Series F Bonds of the Company**

  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 the Company's Bond Series F, by virtue of the Company's Previous Shelf Prospectus. On January 22, 2019, the Company announced that according to the issue results, NIS 263 million par value of Series F Bonds have been allotted in consideration for approx. NIS 263million (approx. NIS 260 million net of issue expenses).

  As of the Report Date, the par value balance of the Company's Series F Bonds in circulation is approx. NIS 263 million.

11. Credit rating

On January 24, 2019, Ma'alot confirmed the Company's AA+/Stable/ilA-1+ rating. To inspect the full report by Ma'alot, 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, Midroog rated the Company's new Series E-F bonds Aa1.il with a stable outlook. To inspect the full report by Midroog dated January 20, 2019, see the Company's immediate report of January 20, 2019 (Ref.: 2019-01-007728), which is included herein by way of reference.

12. Legal proceedings

For an update with respect to the legal proceedings to which the Group's companies are a party, see Notes 4A2, 4B2 to the financial statements as of September 30, 2019.

PART C

Consolidated Financial Statements

Dated 30 September 2019

Azrieli Group Ltd.

Condensed Consolidated Financial Statements
as of September 30, 2019

(Unaudited)

Azrieli Group Ltd.

Consolidated Interim Financial Statement
as of September 30, 2019

(Unaudited)

C o n t e n t s

Deloitte.

Auditors' review report to the shareholders of
Azrieli Group Ltd.

Introduction

We have reviewed the accompanying financial information of **Azrieli Group Ltd.**, the company and subsidiaries (the "**Group**") which includes the Condensed Consolidated Statement of Financial Position as of September 30, 2019 and the Condensed Consolidated Statements of Profit or Loss and other Comprehensive Income, Changes in Capital and Cash Flows for the nine- and three-month periods then ended. The board of directors and management are responsible for the preparation and presentation of the financial information for these interim periods in accordance with IAS 34 "Interim Financial Reporting", and they are responsible for the preparation of information for these interim periods under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express a conclusion on this interim financial information, based on our review.

We have not reviewed the condensed interim financial information of consolidated companies whose consolidated assets constitute approx. 3% of all the consolidated assets as of September 30, 2019, and whose share of the Company in their income is in the sum of NIS 51 and 15 million, respectively, is presented under profit from discontinued operations for the nine- and three-month periods then ended. The condensed interim financial information of such companies was reviewed by other accountants whose review reports were furnished to us and our conclusion, insofar as it relates to the financial information for such companies, is based on the review reports of the other accountants**.**

Scope of Review

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel – "Review of Interim Financial Statements by the Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Generally Accepted Auditing Standards in Israel, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

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

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

Tel Aviv, November 19, 2019

Azrieli Group Ltd.

Condensed Consolidated Statements of Financial Position

	As of September 30		As of Dec. 31
	2019	2018	2018
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
ASSETS			
Current Assets			
Cash and cash equivalents	1,014	699	716
Short-term investments and deposits	8	44	47
Trade accounts receivable	58	295	342
Other receivables	208	165	159
Inventory	6	62	66
Current tax assets	68	33	105
	1,362	1,298	1,435
Asset held for sale and assets of a disposal group held for sale	1,091	463	450
Total Current Assets	2,453	1,761	1,885
Non-current Assets			
Investments and loans in companies accounted for by the equity method	480	95	100
Investments, loans and receivables	501	328	343
Financial assets	1,158	1,311	1,228
Long-term receivables in respect of franchise arrangements	-	60	46
Investment property and investment property under construction	27,986	26,863	27,452
Fixed assets	211	522	530
Intangible assets	129	298	296
Deferred tax assets	1	17	15
Total Non-current Assets	30,466	29,494	30,010
Total Assets	32,919	31,255	31,895

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Financial Position

(Continued)

	As of September 30		As of Dec. 31
	2019	2018	2018
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
LIABILITIES AND CAPITAL			
Current liabilities			
Credit and current maturities from financial corporations and bonds	1,583	1,385	1,565
Trade payables	224	250	342
Payables and other current liabilities	152	218	225
Deposits from customers	938	808	942
Provisions	-	12	12
Current tax liabilities	2	16	6
	2,899	2,689	3,092
Liabilities of a disposal group held for sale	587	-	-
Total Current liabilities	3,486	2,689	3,092
Non-current liabilities			
Loans from financial corporations	1,792	2,380	2,226
Bonds	6,757	6,169	6,165
Other liabilities	68	66	67
Deferred tax liabilities	3,368	3,263	3,224
Total Non-current liabilities	11,985	11,878	11,682
Capital			
Ordinary share capital	18	18	18
Share premium	2,518	2,518	2,518
Capital reserves	439	662	634
Retained earnings	14,427	13,448	13,907
Total equity attributable to the shareholders of the Company	17,402	16,646	17,077
Non-controlling interests	46	42	44
Total Capital	17,448	16,688	17,121
Total Liabilities and Capital	32,919	31,255	31,895

November 19, 2019			
Date of approval of the financial statements	**Danna Azrieli** **Chairman of the Board**	**Eyal Henkin** **CEO**	**Irit Sekler-Pilosof** **CFO**

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income

	For the nine-month period ended September 30		For the three-month period ended September 30		For the year ended December 31
	2019	2018(*)	2019	2018(*)	2018(*)
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		(Unaudited)		
Revenues:					
From rent, management, maintenance and sales fees	1,675	1,555	572	539	2,101
Net profit (loss) from fair value adjustment of investment property and investment property under construction	175	(36)	(3)	(13)	218
Financing	15	3	3	1	3
Other	114	68	12	33	93
Total Revenues	1,979	1,590	584	560	2,415
Costs and Expenses:					
Cost of revenues from rent, management, maintenance and sales fees	494	443	174	161	607
Sales and marketing	54	46	18	15	69
G&A	67	60	25	17	87
Share in results of companies accounted for by the equity method, net of tax	3	-	3	-	-
Financing	176	165	(6)	47	228
Other	6	3	-	-	5
Total Costs and Expenses	800	717	214	240	996
Income before income taxes	1,179	873	370	320	1,419
Taxes on income	(240)	(163)	(96)	(67)	(273)
Income from continuing operations for the period	939	710	274	253	1,146
Income from discontinued operations for the period (net of tax)	51	49	15	11	73
Net profit for the period	990	759	289	264	1,219
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	6	82	(21)	90	11
Amounts that were carried or will be carried in the future to the income statement, net of tax:					
Translation differences from held companies	(2)	-	(2)	-	-
Translation differences from foreign operations	(110)	51	(41)	(7)	95
Total other comprehensive income	(106)	133	(64)	83	106
Total Comprehensive Income for the Period	884	892	225	347	1,325

(*) Restated due to discontinued operations, see Note 4.

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income

(Continued)

	For the nine-month period ended September 30		For the three-month period ended September 30		For the year ended December 31
	2019	2018	2019	2018	2018
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		(Unaudited)		
Net income for the period attributable to:					
Shareholders of the Company	990	759	289	264	1,218
Non-controlling interests	-	-	-	-	1
	990	759	289	264	1,219
Total comprehensive income for the period attributable to:					
Shareholders of the Company	887	890	226	347	1,321
Non-controlling interests	(3)	2	(1)	-	4
	884	892	225	347	1,325
	NIS	NIS	NIS	NIS	NIS
Basic and diluted earnings (in NIS) per one ordinary share of par value NIS 0.1 attributable to shareholders of the Company:					
Continuing operations	7.74	5.85	2.26	2.08	9.44
Discontinued operations	0.42	0.39	0.12	0.10	0.60
	8.16	6.24	2.38	2.18	10.04
Average weighted number of shares used for calculating the basic and diluted earnings per share	121,272,760	121,272,760	121,272,760	121,272,760	121,272,760

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital

	For the nine-month period ended September 30, 2019 (unaudited)								
	Share capital	Share premium	Capital reserve for changes in the fair value of investments in equity instruments designated at fair value through other comprehensive income	Capital reserve for translation differences from foreign operations	Other capital reserves	Retained earnings	Total attributed to shareholders of the Company	Non-controlling interests	Total
	NIS in millions								
Balance as of January 1, 2019	18	2,518	640	1	(7)	13,907	17,077	44	17,121
Net profit for the period	-	-	-	-	-	990	990	-	990
Change in fair value of financial assets, net of tax	-	-	6	-	-	-	6	-	6
Translation differences from foreign operations	-	-	-	(107)	-	-	(107)	-	(110)
Translation differences from held companies	-	-	-	(2)	-	-	(2)	(3)	(2)
Total comprehensive income for the period	-	-	6	(109)	-	990	887	(3)	884
Dividend to shareholders of the Company	-	-	-	-	-	(560)	(560)	-	(560)
Investment of non-controlling interests in a subsidiary	-	-	-	-	-	-	-	4	4
Acquisition of non-controlling interests in a subsidiary	-	-	-	-	(2)	-	(2)	1	(1)
Total transactions with shareholders of the Company	-	-	-	-	(2)	(560)	(562)	5	(557)
Carried to retained earnings as a result of disposition of financial assets	-	-	(90)	-	-	90	-	-	-
Balance as of September 30, 2019	18	2,518	556	(108)	(9)	14,427	17,402	46	17,448

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital

(Continued)

	For the nine-month period ended September 30, 2018 (unaudited)								
	Share capital	**Share premium**	**Capital reserve for changes in the fair value of investments in equity instruments designated at fair value through other comprehensive income**	**Capital reserve for translation differences from foreign operations**	**Other capital reserves**	**Retained earnings**	**Total attributed to shareholders of the Company**	**Non-controlling interests**	**Total**
	NIS in millions								
Balance as of January 1, 2018	18	2,518	629	(91)	(7)	13,214	16,281	40	16,321
Effect of initial 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 the period	-	-	-	-	-	759	759	-	759
Change in fair value of financial assets, net of tax	-	-	82	-	-	-	82	-	82
Translation differences from foreign operations	-	-	-	49	-	-	49	2	51
Total comprehensive income for the period	-	-	82	49	-	759	890	2	892
Dividend to shareholders of the Company	-	-	-	-	-	(520)	(520)	-	(520)
Total transactions with shareholders of the Company	-	-	-	-	-	(520)	(520)	-	(520)
Balance as of September 30, 2018	18	2,518	711	(42)	(7)	13,448	16,646	42	16,688

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital

(Continued)

	For the three-month period ended September 30, 2019 (unaudited)								
	Share capital	Share premium	Capital reserve for changes in the fair value of investments in equity instruments designated at fair value through other comprehensive income	Capital reserve for translation differences from foreign operations	Other capital reserves	Retained earnings	Total attributed to shareholders of the Company	Non-controlling interests	Total
	NIS in millions								
Balance as of July 1, 2019	18	2,518	577	(66)	(9)	14,138	17,176	47	17,223
Net profit for the period	-	-	-	-	-	289	289	-	289
Change in fair value of financial assets, net of tax	-	-	(21)	-	-	-	(21)	-	(21)
Translation differences from foreign operations	-	-	-	(40)	-	-	(40)	(1)	(41)
Translation differences from held companies	-	-	-	(2)	-	-	(2)	-	(2)
Total comprehensive income for the period	-	-	(21)	(42)	-	289	226	(1)	225
Balance as of September 30, 2019	18	2,518	556	(108)	(9)	14,427	17,402	46	17,448

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital

(Continued)

	For the three-month period ended September 30, 2018 (unaudited)								
	Share capital	**Share premium**	**Capital reserve for changes in the fair value of investments in equity instruments designated at fair value through other comprehensive income**	**Capital reserve for translation differences from foreign operations**	**Other capital reserves**	**Retained earnings**	**Total attributed to shareholders of the Company**	**Non-controlling interests**	**Total**
	NIS in millions								
Balance as of July 1, 2018	18	2,518	621	(35)	(7)	13,184	16,299	42	16,341
Net profit for the period	-	-	-	-	-	264	264	-	264
Change in fair value of financial assets, net of tax	-	-	90	-	-	-	90	-	90
Translation differences from foreign operations	-	-	-	(7)	-	-	(7)	-	(7)
Total comprehensive income for the period	-	-	90	(7)	-	264	347	-	347
Balance as of September 30, 2018	18	2,518	711	(42)	(7)	13,448	16,646	42	16,688

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital

(Continued)

	For the year ended December 31, 2018								
	Share capital	Share premium	Capital reserve for changes in the fair value of investments in equity instruments designated at fair value through other comprehensive income	Capital reserve for translation differences from foreign operations	Other capital reserves	Retained earnings	Total attributed to shareholders of the Company	Non-controlling interests	Total
	NIS in millions								
Balance as of January 1, 2018	18	2,518	629	(91)	(7)	13,214	16,281	40	16,321
Effect of initial 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 the 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 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 attached to the Condensed Consolidated Financial Statements form an integral part hereof.

Azrieli Group Ltd.

Condensed Consolidated Statements of Cash Flows

	For the nine-month period ended September 30		For the three-month period ended September 30		For the year ended December 31
	2019	2018	2019	2018	2018
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		(Unaudited)		
Cash Flows - Current Operations					
Net profit for the period	990	759	289	264	1,219
Depreciation and amortization	60	51	20	17	68
Forfeiture of senior housing tenants' deposits	(21)	(16)	(7)	(6)	(22)
Net loss (profit) from fair value adjustment of investment property and investment property under construction	(175)	36	3	13	(218)
Net financing and other expenses (income)	69	110	(19)	17	142
Share in losses of associates accounted for by the equity method	7	5	3	3	6
Tax expenses recognized in the income statement	254	178	100	68	293
Income taxes paid, net	(80)	(123)	(3)	(29)	(330)
Revaluation of financial assets designated at fair value through profit and loss	-	-	-	-	8
Change in inventory	9	(8)	1	(6)	(11)
Change in trade and other receivables	8	2	11	(2)	(49)
Change in receivables in respect of franchise arrangement	2	3	1	1	4
Change in trade and other payables	(14)	(17)	18	34	12
Receipt of deposits from senior housing tenants	197	58	45	28	184
Return of deposits from senior housing tenants	(43)	(27)	(15)	(10)	(42)
Change in employee provisions and benefits	-	1	-	1	2
Net cash - current operations	1,263	1,012	447	393	1,266
Cash flows - Investment Activity					
Proceeds from liquidation of fixed assets	1	1	-	1	1
Proceeds from liquidation of investment property	-	31	-	-	36
Purchase of and investment in investment property and investment property under construction	(578)	(1,520)	(201)	(638)	(1,729)
Purchase of and investment in fixed and intangible assets	(41)	(60)	(16)	(23)	(81)
Investment in and granting of loans to companies accounted for by the equity method	(503)	(10)	(500)	-	(17)
Change in short-term deposits	(16)	100	9	4	97
Indemnification from insurance	-	38	-	23	50
Collection of long-term loans	14	8	7	7	23
Interest and dividend received	130	73	16	36	100
Investment in financial assets	(10)	-	-	-	-
Net proceeds from disposition of financial assets	273	65	-	-	87
Taxes paid for financial assets	(16)	(2)	(16)	-	(2)
Institutions for purchase of real estate	-	13	-	-	13
Net cash – investment activity	(746)	(1,263)	(701)	(590)	(1,422)

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

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

	For the nine-month period ended September 30		For the three-month period ended September 30		For the year ended December 31
	2019	2018	2019	2018	2018
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		(Unaudited)		
Cash flows - Financing Activity					
Dividend distribution to shareholders	(560)	(520)	-	-	(520)
Repayment of bonds	(679)	(483)	(321)	(313)	(492)
Bond offering net of issue expenses	1,467	1,399	-	-	1,399
Receipt of long-term loans from financial corporations	18	215	-	215	215
Repayment of long-term loans from financial corporations	(201)	(417)	(82)	(80)	(456)
Short-term credit from financial corporations, net	(41)	(159)	(10)	(26)	(147)
Acquisition of non-controlling interests in a subsidiary	(1)	-	-	-	-
Repayment of other long-term liabilities	(6)	-	(2)	-	-
Repayment of deposits from customers	(4)	(6)	(1)	(1)	(7)
Received deposits from customers	9	7	1	3	9
Interest paid	(174)	(158)	(64)	(69)	(206)
Net cash - financing activity	(172)	(122)	(479)	(271)	(205)
Increase (decrease) in cash and cash equivalents	345	(373)	(733)	(468)	(361)
Cash and cash equivalents at beginning of period	716	1,064	1,784	1,167	1,064
Change in net cash classified for a disposal group held for sale	(28)	-	(28)	-	
Effect of exchange rate changes on cash balances held in foreign currency	(19)	8	(9)	-	13
Cash and cash equivalents at end of period	1,014	699	1,014	699	716

(*) For the nine-month period ended September 30, 2019, non-cash transactions included an increase in other receivables due to the sale of investments in financial assets in the sum of approx. NIS 282 million.

Cash flow from investment activity for the nine- and three-month periods ended September 30, 2019, included net cash deriving from the Sonol discontinued operations in the sum of approx. NIS 13 million and NIS 6 million, respectively (in 2018 – approx. NIS 25 million).

For 2018, non-cash transactions included an increase in other payables in respect of acquisitions on credit of non-current assets in the sum of NIS 34 million.

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

AZRIELI GROUP LTD.
Notes to the Condensed Consolidated Financial Statements
as of September 30, 2019

Note 1 – General

A. Azrieli Group Ltd. (the "**Company**") is a company domiciled and incorporated in Israel and whose registered address is 1 Azrieli Center, Tel Aviv. The Company is traded on the TASE and is included in the "Tel Aviv 35" Index and in the "Tel Aviv Real Estate 15" Index. The Company has series of bonds (Series B-F) that have been issued to the public. The Group's Consolidated Financial Statements as of September 30, 2019 include those of the Company and of its subsidiaries (jointly, the "**Group**"), as well as the Group's rights in associates and in jointly-controlled entities.

As of the report release date, Azrieli Holdings Inc., the controlling shareholder of the Company ("**Azrieli Holdings**"), directly and/or indirectly holds (through its holding of the entire share capital of Nadav Investments Inc. ("**Nadav Investments**") (both private companies registered in Canada), approx. 55.62% of the Company's share capital and approx. 61.31% of the Company's voting rights.

As the Company has been informed, on April 13, 2015, shares of Mr. David Azrieli OBM in Azrieli Holdings and in a Canadian holding corporation controlled by him ("**David Holding Corporation**") were distributed from his estate. Following such distribution, each one of Sharon Azrieli, Naomi Azrieli and Danna Azrieli, holds, directly and through David Holding Corporation, approx. 27.24% of the capital rights in Azrieli Holdings and approx. 33.13% of the voting rights in Azrieli Holdings, and they jointly hold approx. 81.73% of the capital rights in Azrieli Holdings and approx. 99.39% of the voting rights therein. The remainder of Azrieli Holdings' shares are mainly held by the Azrieli Foundation of Canada (an interested party of the Company), which following the distribution of the estate holds (indirectly, through a holding of shares of David Holding Corporation) approx. 15.93% of Azrieli Holdings' shares, with no voting rights (which constitutes, indirectly, a holding of approx. 8.86% of the capital rights of the Company), in addition to and separately from its direct holding of approx. 8.55% of the capital and voting rights in the Company.

As of the report date, Sharon Azrieli, Naomi Azrieli and Danna Azrieli are the Company's controlling shareholders.

B. These Condensed Consolidated Statements should be reviewed in the context of the Group's annual financial statements as of December 31, 2018, and for the year then ended, and the notes attached thereto.

Note 2 – Significant Accounting Policies

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

The Group's condensed consolidated financial statements ("**Interim Consolidated Statements**") were prepared in accordance with IAS 34 – Interim Financial Reporting ("**IAS 34**").

In the preparation of these Interim Financial Statements the Group has applied the accounting policy, rules of presentation and methods of calculation identical to those used in the preparation of its financial statements as of December 31, 2018 and for the year then ended, except as stated in Note 2B.

The condensed consolidated financial statements were prepared in accordance with the disclosure provisions in Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

B. Changes in accounting policy:

IFRS 16 "Leases":
The new standard has superseded IAS17 "Leases" and the commentaries related thereto and provided the rules for recognition, measurement, presentation, and disclosure of leases with regards to both of the parties to the transaction, i.e. the customer ("**Lessee**") and the supplier ("**Lessor**"). The standard has not changed the currently existing accounting treatment in the Lessor's books.

The new standard has cancelled the distinction that existed relating to a Lessee, between finance leases and operating leases and determined a uniform accounting model with regards to all types of leases. In accordance with the new model, for any leased asset, the Lessee is required on the one hand to recognize an asset for the right of use and on the other hand, a financial liability for the lease payment.

The directives on the recognition of an asset and liability, as aforesaid, shall not apply to assets which are leased for a term of up to only 12 months, and with regards to leases of low value assets (such as personal computers).

In view thereof, leases of the Group that were previously treated as operating leases in which the Company is the Lessee will be recognized from January 1, 2019, upon the application of the standard as assets and liabilities in the Group's statement of financial position.

The standard has taken binding effect for annual reporting periods as of January 1, 2019.

The Group does not apply the requirements of recognition of a right-of-use asset and a liability for leases whose term of lease ends within 12 months as of the date of initial application.

Note 2 – Significant Accounting Policies (Cont.)

C. Use of estimates and discretion:

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

The evaluations and discretion used by management to apply the accounting policy and prepare the Consolidated Interim Financial Statements were identical to those used in the preparation of the financial statements as of December 31, 2018.

(2) Further to Note 3(c)(1) to the annual financial statements, as of June 30, 2019, the Group has updated the valuations for some of its investment properties in Israel (attributed to the retail centers and malls segment and to the office and other space for lease segment).

The valuations were prepared by an independent outside valuator having relevant professional skills.

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

The cap rates that were used by the appraiser mainly range between 6.75%-8%. The cap rates were determined in consideration of the type, designation and location of the property, the rent prices versus market price and the quality of the tenants.

To the Company's estimation no material changes occurred in the value of the real estate relative to the previous valuation performed.

D. Rates of exchange and linkage basis:

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

Note 2 – Significant Accounting Policies (Cont.)

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

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

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

	Representative Exchange Rate of the $ (NIS to $1)	CPI in Israel "For" Base 1993	CPI in Israel "Known" Base 1993
As of the date of financial statements:			
September 30, 2019	3.482	224.67	225.12
September 30, 2018	3.627	224.00	223.77
December 31, 2018	3.748	223.33	224.00
	%	%	%
Change rates:			
for the nine-month period ended			
September 30, 2019	(7.10)	0.60	0.50
September 30, 2018	4.61	1.10	1.10
for the three-month period ended			
September 30, 2019	(2.36)	(0.30)	(0.70)
September 30, 2018	(0.63)	0.20	0.20
for the year ended:			
December 31, 2018	8.10	0.80	1.20

Note 3 – Material Events During the Report Period

A. On March 19, 2019, the Company's board of directors decided upon the distribution of a dividend to the shareholders of the Company in the sum of NIS 560 million (reflecting an amount of NIS 4.62 per share), which was paid on May 6, 2019.

B. 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 the Company's shelf prospectus of May 11, 2016. The bonds are linked (principal and interest) to the CPI and bear interest at a fixed rate of 1.77% per annum.

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 the Company's shelf prospectus of May 11, 2016. The bonds are linked (principal and interest) to the CPI and bear interest at a fixed rate of 2.48% per annum.

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.

For further details, see Note 19B(4) to the annual financial statements.

C. During the report period, the Company sold approx. 7.5 million shares of Bank Leumi Le-Israel Ltd. ("**Bank Leumi**") (approx. 0.5% of the shares of Bank Leumi) in consideration for a sum of approx. NIS 180 million. After such sales and as of the report date, the Company holds approx. 3.1% of the shares of Bank Leumi. For details with respect to the accounting policy in relation to capital instruments designated at fair value through other comprehensive income, see Note 2N(4) to the annual financial statements.

For details on the sale of additional shares of Bank Leumi by the Company after the date of the statement of financial position, see Note 7B below.

For further details with respect to the Company's holdings in Bank Leumi, see Note 11A to the annual financial statements.

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

D. On February 25, 2019, the transaction for the sale of the Company's holdings in the shares of Leumi Card Ltd. ("**Leumi Card**") was closed and the consideration therefor, at this stage, was received in accordance with the provisions of the agreement.

In February 2019, prior to the closing of such transaction, the Company received a dividend in connection with its holdings in Leumi Card in the sum of NIS 80 million, which was deducted from the total consideration in accordance with the provisions of the agreement.

For further details with respect to the transaction of the sale of the Company's holdings in Leumi Card, see Note 11B to the annual financial statements.

E. As of the report date, the Company has two series of commercial paper, a rated series totaling approx. NIS 281 million and an unrated series totaling approx. NIS 140 million. In the report period the Company and the holders of the commercial paper series agreed to extend the term of the commercial paper by 5 additional periods of 12 months each, with no change in the remaining conditions of the commercial paper series.

F. Pursuant to the resolutions of the Company's compensation committee and the board of directors of July 4, 2019, Ms. Naomi Azrieli ("**Naomi**") and Ms. Sharon Azrieli ("**Sharon**"), who are controlling shareholders of the Company, serving as directors therein, and who do not receive management fees, shall be the entitled, for a period of three years starting from June 3, 2019, to the remuneration to which all of the other directors of the Company (who do not receive a salary or management fees) are entitled, i.e. – the maximum remuneration as will be determined under the Companies Regulations (Rules regarding Remuneration and Expenses for an Outside Director), 5760-2000 (the "**Remuneration Regulations**"), as the same will be updated from time to time and in accordance with the Company's rank, as being from time to time (in which context, the question of whether the director is an expert, in accordance with the definition of an expert outside director in the Remuneration Regulations, shall be taken into account).

In addition, the provisions of Section 5(b) of the Remuneration Regulations regarding their participation in a meeting via means of communication and regarding the adoption of a resolution without convening and Section 6(a) of the Remuneration Regulations with regard to reimbursement of expenses, shall also apply with regard to Naomi and Sharon. Accordingly, Naomi and Sharon shall be entitled to reimbursement of expenses in accordance with the provisions of Section 6(a) of the Remuneration Regulations (including reimbursement for flights, *per diems* and hospitality) and in accordance with the standards which shall have been approved by the audit committee (as being from time to time) with regard to all of the directors and subject to any and all laws.

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

G. On August 11, 2019, the Company's general meeting, after approval by the board of directors and the compensation committee's recommendation, approved the update to the conditions of the management agreements with the Company's CEO and Chairman of the Board, as follows:

(1) Update to the annual bonus of the Company's CEO, Mr. Eyal Henkin:

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 will be approved by the compensation committee and the board of directors, according to criteria that will be determined in advance for each year (the "**Discretionary Bonus**").

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 of directors 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 directors 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.

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

G. (Cont.)

(1) Update to the annual bonus of the Company's CEO, Mr. Eyal Henkin: (Cont.)

b. Meeting the NOI target: (Cont.)

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.

According to the current compensation policy, 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 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.

For further details on the management agreement of the Company's CEO (prior to the update to the annual bonus as aforesaid) – see Note 35C(6) to the annual financial statements.

(2) Update to the management agreement of the Chairman of the Board, Ms. Danna Azrieli:

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), 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.

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

G. (Cont.)

(2) Update to the management agreement of the Chairman of the Board, Ms. Danna Azrieli: (Cont.)

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 the 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 the 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.

Other than the foregoing updates, no further changes were made to the management agreement of the Company's Chairman of the Board.

The management agreement will be effective for three years from the date of approval by the general meeting.

For further details on the management agreement of the Chairman of the Board (prior to the update to the fixed component and the annual bonus) – see Note 35C(1) to the annual financial statements.

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

H. In July 2019, Azrieli Data Centers LLC., an (indirectly) wholly-owned subsidiary of the Company (the "**Buyer**") entered into an investment agreement (the "**Agreement**") with Compass Holdco, LLC, a Delaware corporation ("**Compass**"), and in an operating agreement with the unit holders in Compass (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 had invested in Compass' equity and is holding 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. The Agreement includes standard representations and indemnity clauses for agreements of this type.

At the closing of the transaction and in accordance with the provisions of the Agreement, 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 internal sources.

Compass, the Buyer and the Unit Holders entered into a joint-control 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 is treating the acquisition as an investment in a joint transaction accounted for by the equity method. Compass' business is included in the segment reporting note under other segments.

Note 4 – Discontinued Operation

A.

(1) On July 25, 2019, Canit Hashalom Investments Ltd., a wholly-owned subsidiary of the Company (the "**Seller**"), together with Granite, who holds Supergas' entire issued and paid-up share capital, entered into an agreement (the "**Agreement**") with Elco Ltd. (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 (the "**Transaction**").

On November 5, 2019, the Transaction, contemplated in the agreement, was closed (the "**Closing Date**").

Note 4 – Discontinued Operation (cont.)

A. (Cont.)

(1) (Cont.)

The consideration amounted to the sum of 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) and is in the sum of approx. NIS 817.5 million (the "**Consideration**").

On or about the Closing Date, the Buyer paid the sum of NIS 567.5 million, out of the Consideration. The balance of the Consideration in the sum of NIS 250 million (the "**Deferred Consideration**") will be paid by the Buyer to the Seller in 7 unequal annual installments, starting 12 months after the closing of the Transaction contemplated in the Agreement.

The Transaction excludes all of Granite's holdings and assets that are not Supergas, its subsidiaries and assets related to any of them, and further excludes liabilities that are not attributed to Supergas and the subsidiaries of Supergas (the "**Excluded Assets**"). Such assets and liabilities were delivered 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 Company will record an estimated (after tax) profit of approx. NIS 380 million.

(2) Further to Note 31B(1) to the annual financial statements in connection with an indictment against Supergas and directors thereof, in May 2019 the court entered a judgment on a plea bargain reached by the parties to the proceeding, cancelling the indictment against Supergas and the directors thereof. In the plea bargain the Municipality of Kiryat Ata undertook to approve the existing construction in the area of the gas farm and issue to Supergas the local committee's approval for the provision of a business license. Conversely, Supergas undertook to apply for a business license, and after receipt of such license to pay an immaterial amount in favor of a project for the welfare of the residents of Kiryat Ata.

Note 4 – Discontinued Operation (cont.)

B.

(1) On September 12, 2019, Granite Hacarmel Investments Ltd. ("**Granite**"), a wholly-owned subsidiary of the Company, engaged with Generation Capital Ltd. (the "**Buyer**") in a non-binding memorandum of understanding for the sale of its entire holdings (100%) in GES Global Environmental Solutions Ltd. ("**GES**"), in consideration for NIS 110 million, subject to adjustments for changes in working capital and GES's net financial debt, if any, up to the Closing Date, in accordance with the provisions of the memorandum of understanding (the "**MOU**").

As part of the MOU, Granit undertook a 60-day No Shop period, during which the parties shall negotiate an engagement in a binding detailed agreement (the "**Binding Agreement**").

It is clarified that that closing of the transaction is subject to the completion of the parties' negotiations and the signing of the Binding Agreement and the closing conditions to be determined therein (if signed). At this stage, there is no certainty that such negotiations will mature into the signing of the Binding Agreement and/or that the transaction shall be consummated.

The Company intends to focus on the core real estate business, and in the estimation of the Company's management, the Company's holdings in GES will be sold over the next 12 months.

(2) On February 14, 2019, the Court's decision was given, denying the petition with no order for costs, of a group that contended with Zero Waste Ltd. (an associated company held by GES Global Environmental Solutions Ltd., a consolidated company of the Company, in equal shares with Shikun & Binui Ltd.)("**Zero Waste**") in a BOT tender for the planning, financing, construction and operation of a facility for municipal waste sorting and recycling and energy production, published by the Ministry of Finance (the Accountant General) and the Ministry of Environmental Protection. In the framework of the petition of the other group, as aforesaid, the other group moved to revoke the Tender Committee's decision to choose Zero Waste as the winner of the tender. For further details – see Note 29B(7) to the annual financial statements.

Further to Note 29B(7) to the annual statements and to the time tables listed therein, "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. According to the report, an agreement was reached with the State to postpone the binding date for financial closing to April 30, 2020 adding a grace of 60 additional days and actions are taken to establish the agreement with the State in writing.

Note 4 – Discontinued Operation (cont.)

C. Set forth below are the results attributed to the discontinued operations:

	For the nine-month period ended September 30		For the three-month period ended September 30		For the year ended Dec. 31
	2019	2018	2019	2018	2018
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		(Unaudited)		
Results of the discontinued operations:					
Revenues	554	537	156	157	737
Expenses	489	470	137	142	644
Income before income taxes	65	67	19	15	93
Income taxes	14	18	4	4	20
Income for the period	51	49	15	11	73
Cash flows from discontinued operations:					
Net cash which derived from operating activities	123	52	25	52	43
Net cash (used for activities) which derived from investment activity	(36)	34	(18)	5	52
Net cash used for financing activity	(65)	(59)	(4)	(35)	(65)
Effect of the changes in exchange rates on balances of cash and cash equivalents	-	-	1	-	(1)
Net cash which derived from discontinued operations	22	27	4	22	29

Note 4 – Discontinued Operation (cont.)

D. Effect of the disposal on the Group's statements of financial position:

	As of September 30 2019 NIS in millions (Unaudited)
Cash and cash equivalents	28
Short-term deposits and investments	57
Trade accounts receivable	210
Other receivables	24
Inventory	51
Current tax assets	1
Investments and loans in associated companies	96
Investments, loans and receivables	76
Long-term receivables in respect of franchise arrangements	45
Fixed assets	335
Intangible assets	152
Deferred tax assets	16
Credit and current maturities from financial corporations and bonds	(57)
Trade payables	(42)
Payables and other current liabilities	(65)
Deposits from customers	(102)
Current tax liabilities	(4)
Provisions	(9)
Loans from financial corporations	(49)
Bonds	(244)
Other liabilities	(12)
Deferred tax liabilities	(3)
Assets and liabilities classified for a disposal group held for sale, net	504

(*) Inter-company transactions (between the Group and Granite) 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 5 – Fair Value of Financial Instruments

A. Fair value vs. Book value:

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

	As of Sep. 30, 2019		As of Sep. 30, 2018		As of Dec. 31, 2018	
	Book Value	Fair Value	Book Value	Fair Value	Book Value	Fair Value
	NIS in millions		NIS in millions		NIS in millions	
	(unaudited)		(unaudited)			
Non-current assets:						
Receivables in respect of a franchise arrangement (*)(***)	50	68	52	69	51	66
Non-current liabilities:						
Loans from financial corporations (*)	2,355	2,499	2,626	2,698	2,638	2,692
Bonds (*)(**)	7,717	8,379	6,875	7,055	6,887	6,940
	10,072	10,878	9,501	9,753	9,525	9,632

(*) Book value includes current maturities and accrued interest.
(**) The calculation of the fair value of the bonds is according to fair value level 1.
(***) Presented under assets of a disposal group held for sale.

Note 5 – Fair Value of Financial Instruments (Cont.)

B. Interest rates used in the determination of the fair value:

The interest rates used in the discounting of the expected cash flows, where relevant, are based on the government yield curve for each individual type of loan, as of the report date, plus an appropriate fixed credit margin, and were as follows:

	As of September 30		As of December 31
	2019	2018	2018
	%	%	%
Non-current assets:			
Receivables in respect of a franchise arrangement (*)	0.37-1.60	1.31-2.07	1.91-2.48
Non-current liabilities:			
Loans from financial corporations	0.23-3.63	0.33-4.19	0.64-4.22

(*) Presented under assets of a disposal group held for sale.

C. Fair value hierarchy:

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

The various levels were defined as follows:

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

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

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

Note 5 – Fair Value of Financial Instruments (Cont.)

C. Fair value hierarchy (Cont.)

	As of September 30, 2019		
	Level 1	Level 2	Total
	NIS in millions		
Financial assets at fair value through profit and loss:			
Securities held for trading	1	-	1
Non-marketable investments	-	9	9
Financial assets at fair value through other comprehensive income:			
Marketable shares	1,149	-	1,149
Total fair value of financial assets	1,150	9	1,159

	As of September 30, 2018		
	Level 1	Level 2	Total
	NIS in millions		
Financial assets at fair value through profit and loss:			
Securities held for trading	1	-	1
Non-marketable investments	-	17	17
Financial assets at fair value through other comprehensive income:			
Marketable shares	1,293	-	1,293
Non-marketable shares	-	463	463
Total fair value of financial assets	1,294	480	1,774

	As of December 31, 2018		
	Level 1	Level 2	Total
	NIS in millions		
Financial assets designated at fair value through profit and loss:			
Securities held for trading	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 5 – Fair Value of Financial Instruments (Cont.)

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

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

	For the nine-month period ended September 30		For the year ended December 31
	2019	2018	2018
	NIS in millions (Unaudited)		NIS in millions
Financial assets:			
Balance as of year start	-	536	536
Carried to level 2 - assets held for sale	-	(463)	(450)
Total loss recognized in other comprehensive income	-	(73)	(86)
	-	-	-

Note 6 – Segment Reporting

A. General:

For a description of the Company's operating segments, see Note 36 to the annual financial statements.

B. Operating segments:

	For the nine-month period ended September 30, 2019 (Unaudited)							
	Retail centers and malls in Israel	Leasable office and other space in Israel	Income-producing property in the U.S.	Senior housing	Granite (**)	Other	Adjustments	Consolidated
	NIS in million							
Revenues:								
Total external income	786	535	208	115	541	36	(546)	1,675
Total segment expenses	164	93	101	87	456	71	(457)	515
Segment profit (loss) (NOI)	622	442	107	28	85	(35)	(89)	1,160
Net profit (loss) from fair value adjustment of investment property and investment property under construction	14	164	(9)	6	-	-	-	175
Unallocated costs								(100)
Net financing expenses								(161)
Net other revenues								108
The Company's share in the results of companies accounted for by the equity method, net of tax								(3)
Income before income taxes								1,179
Additional information:								
Segment assets	12,800	10,932	2,431	2,163	1,091	508	(28)	29,897
Unallocated assets (*)								3,022
Total consolidated assets								32,919

(*) Mainly financial assets in the sum of approx. NIS 1.2 billion and cash and short-term deposits in the sum of approx. NIS 1.0 billion.

(**) Granite – a segment whose operation is classified as discontinued operations (for details – see Note 4).

Note 6 – Segment Reporting (Cont.)

B. Operating segments: (Cont.)

	For the nine-month period ended September 30, 2018 (Unaudited)							
	Retail centers and malls in Israel	Leasable office and other space in Israel	Income-producing property in the U.S.	Senior housing	Granite (**)	Other	Adjustments	Consolidated
	NIS in million							
Revenues:								
Total external income	772	466	196	95	524	26	(524)	1,555
Total segment expenses	158	84	89	65	440	62	(440)	458
Segment profit (loss) (NOI)	614	382	107	30	84	(36)	(84)	1,097
Net profit (loss) from fair value adjustment of investment property and investment property under construction	(58)	20	(13)	15	-	-	-	(36)
Unallocated costs								(91)
Net financing expenses								(162)
Net other revenues								65
Income before income taxes								873
Additional information:								
Segment assets	12,580	10,145	2,531	1,949	1,067	-	-	28,272
Unallocated assets (*)								2,983
Total consolidated assets								31,255

(*) Including financial assets in the sum of approx. NIS 1.8 billion and cash and short-term deposits in the sum of approx. NIS 0.6 billion.

(**) Granite – a segment whose operation is classified as discontinued operations (for details – see Note 4).

Note 6 – Segment Reporting (Cont.)

B. Operating segments: (Cont.)

	For the three-month period ended September 30, 2019 (Unaudited)							
	Retail centers and malls in Israel	**Leasable office and other space in Israel**	**Income-producing property in the U.S.**	**Senior housing**	**Granite (**)**	**Other**	**Adjustments**	**Consolidated**
	NIS in million							
Revenues:								
Total external income	269	185	67	40	152	16	(157)	572
Total segment expenses	59	33	36	30	133	22	(134)	179
Segment profit (loss) (NOI)	210	152	31	10	19	(6)	(23)	393
Net loss from fair value adjustment of investment property and investment property under construction	(1)	-	(2)	-	-	-	-	(3)
Unallocated costs								(38)
Net financing expenses								9
Net other revenues								12
The Company's share in the results of companies accounted for by the equity method, net of tax								(3)
Income before income taxes								370

(*) Granite – a segment whose operation is classified as discontinued operations (for details – see Note 4).

Note 6 – Segment Reporting (Cont.)

B. Operating segments: (Cont.)

	For the three-month period ended September 30, 2018 (Unaudited)							
	Retail centers and malls in Israel	Leasable office and other space in Israel	Income-producing property in the U.S.	Senior housing	Granite (**)	Other	Adjustments	Consolidated
	NIS in million							
Revenues:								
Total external income	262	163	72	32	154	10	(154)	539
Total segment expenses	57	31	33	22	135	21	(135)	164
Segment profit (loss) (NOI)	205	132	39	10	19	(11)	(19)	375
Net profit (loss) from fair value adjustment of investment property and investment property under construction	(17)	(5)	(6)	15	-	-	-	(13)
Unallocated costs								(29)
Net financing expenses								(46)
Net other revenues								33
Income before income taxes								320

(*) Granite – a segment whose operation is classified as discontinued operations (for details – see Note 4).

Note 6 – 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	Granite (**)	Other	Adjustments	Consolidated
	NIS in millions							
Revenues:								
Total external income	1,034	633	267	130	720	37	(720)	2,101
Total segment expenses	214	116	118	93	603	90	(603)	631
Segment profit (loss) (NOI)	820	517	149	37	117	(53)	(117)	1,470
Net profit (loss) from fair value adjustment of investment property and investment property under construction	(4)	167	(48)	103	-	-	-	218
Unallocated costs								(132)
Net financing expenses								(225)
Net other revenues								88
Income before income taxes								1,419
Additional information as of December 31, 2018:								
Segment assets	12,682	10,443	2,593	2,081	1,099			28,898
Unallocated assets (*)								2,997
Total consolidated assets								31,895
Capital investments	318	836	474	236	47			

(*) Mainly financial assets (including held for sale) in the sum of approx. NIS 1.7 billion and cash and short-term deposits in the sum of approx. NIS 0.7 billion.

(**) Granite – a segment whose operation is classified as discontinued operations (for details – see Note 4).

Note 7 – Subsequent Events

After the date of the statement of financial position, on October 6, 2019, the Company won a tender held by the Israel Land Authority 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 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 shall pay, in addition to the cost of the land, approx. NIS 37 million due to development costs.

Annex to Consolidated Financial Statement

Separate Interim Financial Statement

as of September 30, 2019

(Unaudited)

Azrieli Group Ltd.

Separate Interim Financial Statement
as of September 30, 2019

(Unaudited)

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

Azrieli Group Ltd.

Separate Interim Financial Statement
as of September 30, 2019

(Unaudited)

C o n t e n t s

Deloitte.

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

Dear Sir/Madam,

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

We have reviewed the separate interim financial statement, which is presented according to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, of **Azrieli Group Ltd.** (the "**Company**") as of September 30, 2019 and for the nine- and three-month periods then ended. The separate interim financial statement is the responsibility of the Company's board of directors and management. Our responsibility is to express a conclusion on the separate interim financial statement, based on our review.

We have not reviewed the separate interim financial statement from the financial statements of Investee Companies, the total investments in which amounted to approx. NIS 426 million as of September 30, 2019 and the profit from such Investee Companies amounted to approx. NIS 51 million and approx. NIS 15 million for the nine- and three-month periods then ended, respectively. The financial statements of these companies were reviewed by other accountants whose reports were furnished to us and our conclusion, in so far as it relates to the financial statements for such companies, is based upon the review reports of the other accountants.

Scope of Review

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel – "Review of Interim Financial Statements by the Auditor of the Entity". A review of separate interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Generally Accepted Auditing Standards in Israel, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

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

Tel Aviv, November 19, 2019

Azrieli Group Ltd.

Statement of Financial Position

	As of September 30		As of December 31
	2019	2018	2018
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
Assets			
Current assets			
Cash and cash equivalents	651	375	372
Short-term deposits and investments	1	1	1
Trade accounts receivable	9	12	13
Other receivables	214	126	136
Current tax assets	26	7	62
	901	521	584
Asset held for sale	-	463	450
Total current assets	901	984	1,034
Non-current assets			
Financial assets	1,158	1,311	1,227
Investment property and investment property under construction	11,794	11,105	11,401
Investments in Investee Companies	10,266	9,139	9,327
Loans to Investee Companies	3,473	3,757	3,755
Fixed assets	9	9	9
Other receivables	251	39	36
Total non-current assets	26,951	25,360	25,755
Total assets	27,852	26,344	26,789

Azrieli Group Ltd.

Statement of Financial Position
(Cont.)

	As of September 30		As of December 31
	2019	2018	2018
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
Liabilities and capital			
Current liabilities			
Credit and current maturities from financial corporations and bonds	1,395	1,290	1,291
Trade payables	93	66	132
Payables and other current liabilities	85	63	68
Total current liabilities	1,573	1,419	1,491
Non-current liabilities			
Loans from financial corporations	619	931	904
Bonds	6,757	5,879	5,886
Other liabilities	28	26	26
Deferred tax liabilities	1,473	1,443	1,405
Total non-current liabilities	8,877	8,279	8,221
Capital			
Ordinary share capital	18	18	18
Premium on shares	2,478	2,478	2,478
Capital reserves	479	702	674
Retained earnings	14,427	13,448	13,907
Total capital attributable to shareholders of the Company	17,402	16,646	17,077
Total liabilities and capital	27,852	26,344	26,789

November 19, 2019			
Date of Approval of 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 nine-month period ended September 30		For the three-month period ended September 30		For the year ended December 31
	2019	2018	2019	2018	2018
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		(Unaudited)		
Revenues					
From rent and management and maintenance fees	514	466	175	163	629
Net profit (loss) from adjustment to fair value of investment property and investment property under construction	59	49	(1)	(7)	176
Financing	112	113	26	34	147
Other	114	65	12	33	90
Total Revenues	799	693	212	223	1,042
Costs and Expenses					
Cost of revenues from rent and management and maintenance fees	20	19	6	9	27
Sales and marketing	25	20	9	6	29
G&A	49	41	17	11	59
Financing	119	115	(21)	29	159
Other	5	3	-	-	3
Total Costs and Expenses	218	198	11	55	277
Income before the Company's share in the profits of Investee Companies	581	495	201	168	765
Share in profits of Investee Companies, net of tax (*)	455	285	121	114	499
Income before income taxes	1,036	780	322	282	1,264
Taxes on income	(97)	(70)	(48)	(29)	(119)
Profit for the period from continued operations	939	710	274	253	1,145
Profit from discontinued operations (after tax)(*)	51	49	15	11	73
Net profit for the period	990	759	289	264	1,218
Other comprehensive income:					
Amounts that will not be carried in the future to the income statement, net of tax:					
Change in the fair value of financial assets, net of tax	6	82	(21)	90	11
Amounts that were carried or will be carried in the future to the income statement, net of tax:					
Translation differences from foreign operations	(80)	35	(34)	(5)	67
Share in the other comprehensive income (loss) of Investee Companies, net of tax	(29)	14	(8)	(2)	25
Total	(109)	49	(42)	(7)	92
Other comprehensive income (loss) for the period, net of tax	(103)	131	(63)	83	103
Total comprehensive income for the period	887	890	226	347	1,321

(*) Restated due to discontinued operations, see Note 4 to the consolidated financial statements.

Azrieli Group Ltd.

Statement of Cash Flows

	For the nine-month period ended September 30		For the three-month period ended September 30		For the year ended December 31
	2019	2018	2019	2018	2018
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		(Unaudited)		
Cash flows - current operations					
Net profit for the period	990	759	289	264	1,218
Depreciation and amortization	1	1	-	-	2
Net loss (profit) from adjustment to fair value of investment property and investment property under construction	(59)	(49)	1	7	(176)
Financing and other income, net	(101)	(65)	(56)	(39)	(85)
Share in profits of Investee Companies, net of tax	(506)	(334)	(136)	(125)	(572)
Tax expenses recognized in the income statement	97	70	48	29	119
Income tax received (paid), net	(2)	(34)	27	4	(153)
Change in trade and other receivables	(61)	(59)	(18)	7	(69)
Change in trade and other payables	13	13	12	12	8
Change in employee provisions and benefits	-	2	-	-	2
Erosion of financial assets designated at fair value through profit and loss	-	-	-	-	8
Net cash – current operations	372	304	167	159	302
Cash flows - investment activities					
Purchase and investment in investment property and investment property under construction	(324)	(660)	(129)	(178)	(770)
Purchase of fixed assets	(2)	(1)	-	-	(2)
Investments in Investee Companies	(528)	(141)	(495)	(141)	(87)
Receipt of long-term loans from Investee Companies, net	421	58	156	74	101
Interest and dividend received	125	69	15	35	114
Recovery of investment in an Investee Company	-	-	-	-	14
Change in short-term deposits	-	100	-	-	100
Proceeds from the disposition of financial assets, net	273	-	-	-	-
Taxes paid for financial assets	(16)	(2)	(16)	-	(2)
Proceeds from the disposition of investment property	-	31	-	-	31
Investment in financial assets	(10)	-	-	-	-
Net cash - investment activities	(61)	(546)	(469)	(210)	(501)

Azrieli Group Ltd.

Statement of Cash Flows
(Cont.)

	For the nine-month period ended September 30		For the three-month period ended September 30		For the year ended December 31
	2019	2018	2019	2018	2018
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		(Unaudited)		
Cash flows - financing activities					
Bond offering net of offering expenses	1,467	1,399	-	-	1,399
Dividend distribution to shareholders	(560)	(520)	-	-	(520)
Repayment of bonds	(643)	(454)	(307)	(303)	(454)
Repayment of long-term loans from financial corporations	(173)	(394)	(74)	(72)	(422)
Short-term credit from financial corporations, net	(16)	(146)	(2)	(3)	(146)
Deposits from customers, net	3	(1)	-	(1)	-
Interest paid	(108)	(95)	(43)	(47)	(113)
Net cash - financing activities	(30)	(211)	(426)	(426)	(256)
Increase (decrease) in cash and cash equivalents	281	(453)	(728)	(477)	(455)
Cash and cash equivalents at beginning of period	372	826	1,380	850	826
Effect of exchange rate changes on cash balances held in foreign currency	(2)	2	(1)	2	1
Cash and cash equivalents at end of period	651	375	651	375	372

(*) For the nine-month period ended on September 30, 2019, non-cash transactions include an increase in other receivables due to the sale of investments in financial assets in the sum of approx. NIS 282 million.

For the year ended December 31, 2018, non-cash transactions included an increase in other payables in respect of acquisitions on credit of non-current assets in the sum of NIS 14 million.

Azrieli Group Ltd.

Additional Information on the Separate Interim Financial Statement

As of September 30, 2019

A. General:

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

This separate financial statement is to be inspected with respect to the Company’s separate financial statement as of December 31, 2018, and for the year then ended, and the additional figures that were attached thereto.

B. Definitions:

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

C. Accounting Policy:

The separate financial statement is prepared in accordance with the accounting policy specified in Note B to the Company's separate financial statement as of December 31, 2018 and the year then ended, with the exception of the provisions of Note 2B to the condensed consolidated financial statements which are published with this separate financial statement.

D. Material Events during the Reporting Period:

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

E. Subsequent Events

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

Deloitte.

November 19, 2019

To:

The Board of Directors of Azrieli Group Ltd.

Azrieli Center 1

Tel Aviv

Dear Sir/Madam,

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

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

(1) Review report of November 19, 2019 on condensed consolidated financial information of the Company as of September 30, 2019, and for the nine- and three-month periods then ended.

(2) Special auditors' report of November 19, 2019 on condensed separate financial information of the Company as of September 30, 2019, and for the nine- and three-month periods then ended according to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Sincerely,

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

PART D

Effectiveness of Internal Control over the Financial Reporting and Disclosure

ATTACHED HERETO IS A QUARTERLY REPORT ON THE EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE PURSUANT TO REGULATION 38C(A):

The management, under the supervision of the Board of Directors of Azrieli Group Ltd. (the "**Corporation**"), is responsible for setting and maintaining proper internal control over financial reporting and disclosure at the Corporation.

For this purpose, the members of management are:

1 | **Eyal Henkin**, CEO

2 | **Irit Sekler-Pilosof**, CFO

3 | **Nirit Zeevi**, VP, General Counsel and Corporate Secretary

4 | **Yair Horesh**, Chief Comptroller for Accounting and Financial Statements

Internal control over financial reporting and disclosure consists of controls and procedures existing at the Corporation, designed by, or under the supervision of, the CEO and the most senior financial officer, or by anyone actually performing such functions, under supervision of the Board of Directors of the Corporation, and which are designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of the reports according to the provisions of the law, and to ensure that information which the Corporation is required to disclose in reports released thereby according to the law is gathered, processed, summarized and reported within the time frames and in the format set forth by the law.

Internal control includes, *inter alia*, controls and procedures designed to ensure that information which the Corporation is thus required to disclose, is gathered and transferred to the management of the Corporation, including the CEO and the most senior financial officer, or anyone actually performing such functions, in order to enable the timely decision making in reference to the disclosure requirements.

Due to its inherent limitations, internal control over financial reporting and disclosure is not designed to provide absolute assurance that misrepresentation or omission of information in the reports is avoided or discovered.

In the quarterly report regarding the effectiveness of internal control over financial reporting and disclosure, which was attached to the quarterly report for the period ended on June 30, 2019 (the "**Most Recent Quarterly Report on Internal Control**"), the internal control was found to be effective.

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

As of the report date, based on the Most Recent Quarterly Report on Internal Control, and based on information which was brought to the knowledge of the management and the Board of Directors as aforesaid: the internal control is effective.

STATEMENT OF MANAGERS:

STATEMENT OF CEO PURSUANT TO REGULATION 38C(D)(1):

I, Eyal Henkin, represent that:

1. I have reviewed the quarterly report of Azrieli Group Ltd. (the "**Corporation**") for Q3/2019 (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. No occurrence or issue have been brought to my attention, that occurred during the period between the date of the most recent quarterly report and the report date herein, which may change the conclusion of the Board of Directors and management with regard to the effectiveness of internal control over the Corporation's financial reporting and disclosure.

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

Date: November 19, 2019

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Eyal Henkin | CEO

STATEMENT OF MANAGERS:

STATEMENT OF THE MOST SENIOR FINANCIAL OFFICER PURSUANT TO REGULATION 38C(D)(2):

I, Irit Sekler-Pilosof, represent that:

1. I have reviewed the Interim Financial Statements and other financial information included in the interim reports of Azrieli Group Ltd. (the "**Corporation**") for Q3/2019 (the "**Reports**" or the "**Interim Reports**");

2. To my knowledge, the Interim Financial Statements and the other financial information included in the Interim Reports do not contain any misrepresentation nor omission of a material fact required for the representations included therein, given the circumstances under which such representations were included, not to be misleading with regard to the period of the Reports.

3. To my knowledge, the Interim Financial Statements and other financial information included in the Interim Reports adequately reflect, in all material respects, the financial position, operating results and cash flows of the Corporation for the periods and as of the dates covered by the Reports;

4. I have disclosed to the Corporation's auditor and to the Corporation's Board of Directors and the Audit Committee and Financial Statement Committee, based on my most current evaluation of internal control over financial reporting and disclosure:

    a. Any and all significant flaws and material weaknesses in the setting or maintaining internal control over financial reporting and disclosure, insofar as it relates to the Interim Financial Statements and the other information included in the Interim Reports, which may reasonably adversely affect the Corporation's ability to gather, process, summarize or report financial information in a manner which casts doubt on the reliability of financial reporting and preparation of the Financial Statements in conformity with the provisions of the law; and -

    b. Any fraud, either material or immaterial, which involves the CEO or anyone reporting to him directly or which involves other employees who play a significant role in internal control over financial reporting and disclosure;

5. I, myself or jointly with others at the Corporation-

    a. Have set controls and procedures, or confirmed, under my supervision, the setting and maintaining of controls and procedures which are designed to ensure that material information in reference to the Corporation, including consolidated companies thereof as defined in the Securities Regulations (Annual Financial Statements), 5770-2010, is brought to my knowledge by others at the Corporation and the consolidated companies, particularly during the preparation of the Reports; and -

    b. Have set controls and procedures, or confirmed, under my supervision, the setting and maintaining of controls and procedures which are designed to reasonably ensure reliability of financial reporting and preparation of the Financial Statements in conformity with the provisions of the law, including in conformity with GAAP;

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

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

Date: November 19, 2019

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Irit Sekler-Pilosof | CFO