AZRIELI GROUP

Azrieli Group Ltd.

Quarterly Report Q1/2019

Dated 31 March 2019

AZRIELIGROUP

Azrieli Group Ltd.

Quarterly Report Q1/2019

Dated 31 March 2019

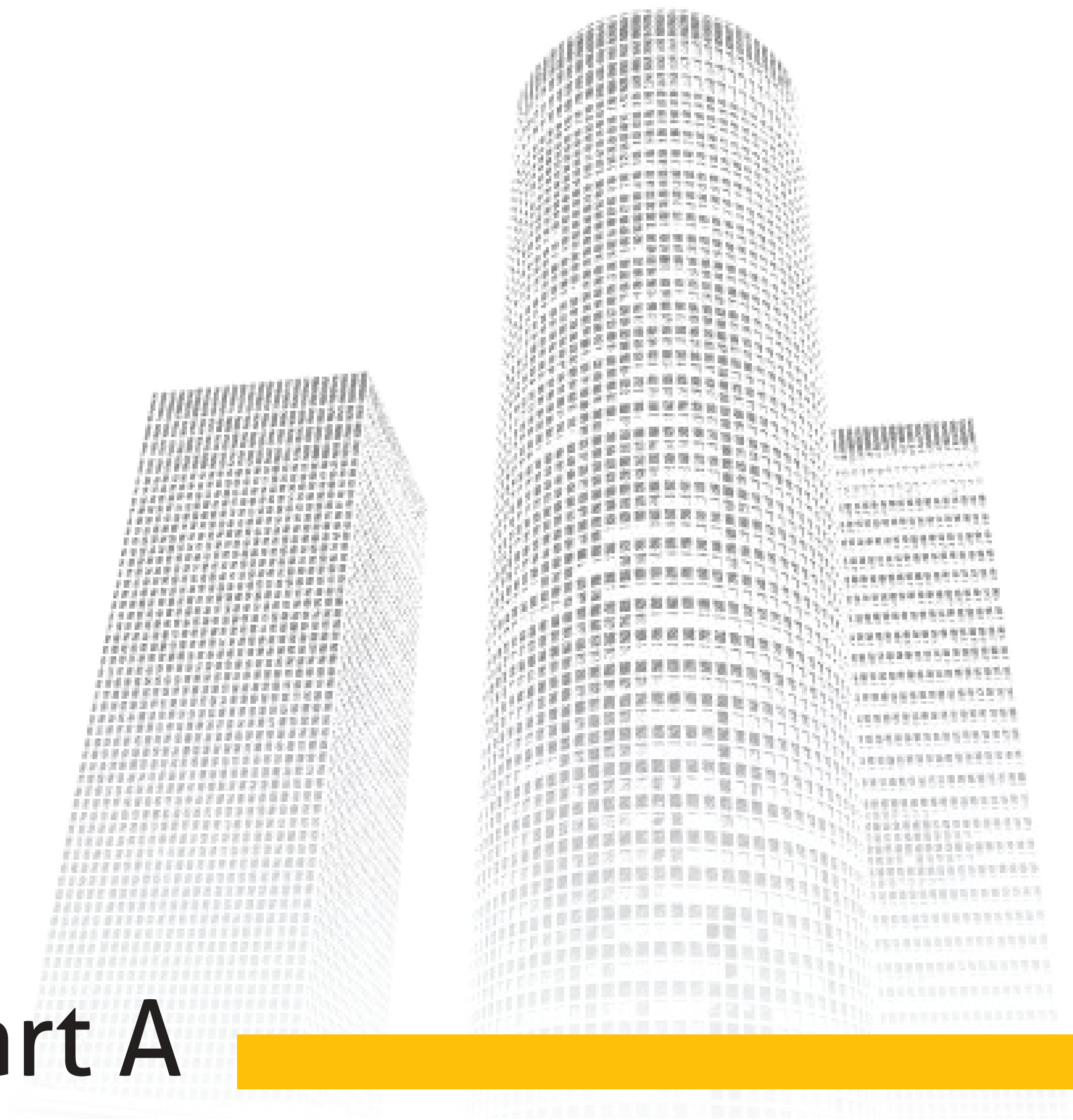
Part A | Board Report

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

Part C | Consolidated Financial Statements Dated 31 March 2019

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

Board Report



Part A

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 that dominates the Tel Aviv skyline and the recently completed 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.

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; Supergas gas company which markets alternative energy sources; and GES : water, wastewater treatment and chemicals company (through the wholly-owned subsidiary Granite Hacarmel). The Company also has a financial holding in Bank Leumi shares (approx. 3.1%). The holding in Leumi Card (20%) was sold during 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 operates at a net debt leverage ratio of a mere 25% to balance sheet. 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 real estate work, and lead the development and management of high-quality, modern and innovative income-producing properties in Israel and overseas.

We will act together in continuing to focus on the Group's core business ,while investing in new growth engines and application of advanced technologies.

Established in 1983

NIS 3.3 billion dividend
Since the IPO

More than 1.2 million sqm of leasable area
and close to 0.7 million sqm

The biggest real estate company in Israel
NIS 33.4 billion total balance sheet

99% occupancy rate*
on average in Israel

*Net of properties under lease-up

17 MALLS

336 thousand sqm | 98% Occupancy

14 OFFICE BUILDINGS

548 thousand sqm | 99% Occupancy

3 SENIOR HOMES

76 thousand sqm | 794 residential units
99% Occupancy*

8 OFFICE BUILDINGS OVERSEAS

246 thousand sqm | 83% Occupancy

DEVELOPMENT PIPELINE

10 properties | 680 thousand sqm

PERFORMANCE SUMMARY AND FINANCIAL HIGHLIGHTS FOR Q1/2019

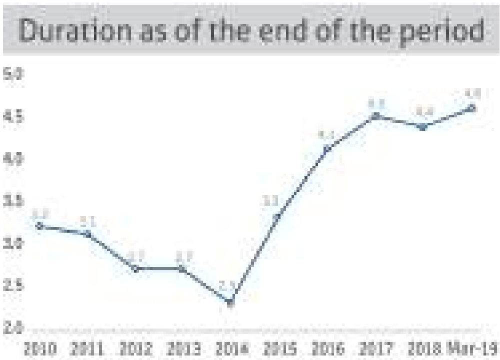
Rise of approx. 8% in NOI (approx. NIS 399 million), compared with the same period last year (approx. NIS 371 million)

Rise of approx. 6% in Same Property NOI (approx. NIS 393 million), compared with the same period last year (approx. NIS 371 million)

Increase of approx. 12% in the FFO attributed to the income-producing real estate business, excluding senior housing, **and increase of approx. 27%** in the FFO for the entire income-producing real estate business

Increase of approx. 42% in the net profit (approx. NIS 369 million) compared with the same period last year (approx. NIS 259 million)

Extension of the average duration of debt



In May 2019 the Company distributed **a dividend in the sum of NIS 560 million**

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

1.1. General

The board of directors of Azrieli Group Ltd. (the "Company"; the Company jointly with all corporations directly and/or indirectly held thereby shall be referred to as the "Group" or the "Azrieli Group") is proud to present this board of directors' report for the three months ended March 31, 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 March 31, 2019.

The information in the board of directors' report is based on the consolidated financial statements as of March 31, 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 March 31, 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.

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

1.2.1. Summary of Operating Segments for the Three Months Ended March 31, 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 mainly consists of the marketing of alternative energy sources and the treatment of water, wastewater, air, waste and industrial chemicals), as well as E-Commerce. In addition, the Company holds minority interests in a financial corporation. 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 ten projects in Israel in various development stages, the planned area of which is approx. 680 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 holds marketing activity in alternative energy sources; and activity in the treatment of water, wastewater and chemicals[3].

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 LeIsrael 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].

[3] The Group, through Granite Hacarmel Investments Ltd. ("Granite" or "Granite Hacarmel"), holds 100% of the rights in Supergas Israeli Gas Distribution Company Ltd. ("Supergas"), which markets alternative energy sources; and 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.

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

1.2.2. Breakdown of Asset Value by Operating Segment

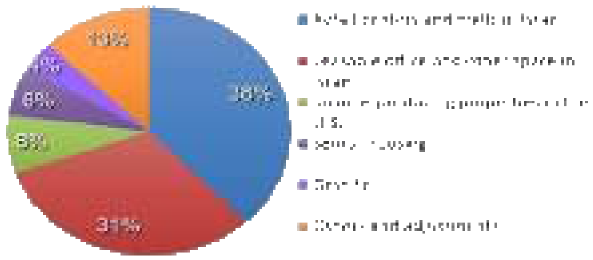
The following chart presents a breakdown of the total balance sheet assets by operating segment:[5]

Breakdown of Total Balance Sheet Assets by Operating Segment

As of	31.3.2019	31.12.2018
Retail centers and malls in Israel	12,704	12,682
Leasable office and other space in Israel	10,524	10,443
Income-producing properties in the U.S.	2,525	2,593
Senior housing	2,116	2,081
Granite	1,285	1,225
Others and adjustments	4,253	2,871
Total	33,407	31,895

Percentage of Segment Assets out of Total Assets

31.3.19



Figures are presented in millions of NIS.

The retail centers and malls segment constitutes approx. 38% of the total balance sheet assets. The other income-producing real estate segments, in the aggregate, constitute nearly 45% 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 (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. For further details, see Note 29B(7) to the financial statements as of December 31, 2018 and the Company's immediate report of April 11, 2018 (Ref: 2018-01-036841), which is 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

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

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, 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. Financing Transactions[6]

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).

1.2.3.4. Changes of Company Officers

In February 2019, Mr. Assaf Aviv was appointed as VP Innovation and Business Development at 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 at the Company.

1.2.3.5. The Shelf Prospectus

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

[6] According to a shelf offering report released on January 31, 2018 (Ref.: 2018-01-010993) released under the Company's shelf prospectus of May 11, 2016 (Ref.: 2016-01-063049). Such report is incorporated herein by reference.

1.2.4. Dividends

	Date of Approval	Date of Payment	Sum of Dividend
Azrieli Group	March 19, 2019	May 6, 2019	NIS 560 million[7]
Leumi Card	February 24, 2019	February 24, 2019	NIS 400 million[8]
Bank Leumi	March 6, 2019	April 3, 2019	NIS 275 million[9]

[7] As of March 31, 2019, the Company has retained earnings in the sum of approx. NIS 13.7 billion.
[8] The Company's share in the sum of such dividend is approx. NIS 80 million. 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.
[9] The Company's share in the sum of such dividend is approx. NIS 9 million.

2 | INCOME-PRODUCING REAL ESTATE

2 |

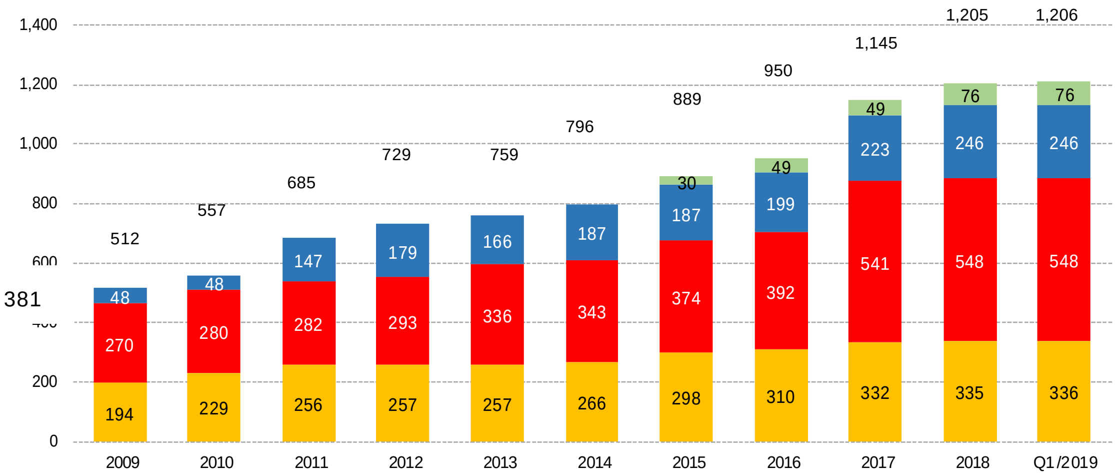
2.1. Business Environment

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, within the definition of this term in the Securities Law, 5728-1968 (the "Securities Law"). Actual results and effects may materially differ from the aforesaid estimations and what they imply, for various reasons, including the further intensification of competition, a decline in demand and a deterioration of the Israeli economy.

2.2. Consolidated GLA Data

As of March 31, 2019



▪ Malls and retail space – Israel ▪ Offices and others – Israel ▪ Income-producing real estate overseas (mainly the U.S.) ▪ Senior housing

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 March 31, 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. 83%;
- Senior housing in Israel – approx. 99%[10].

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 the 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.

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

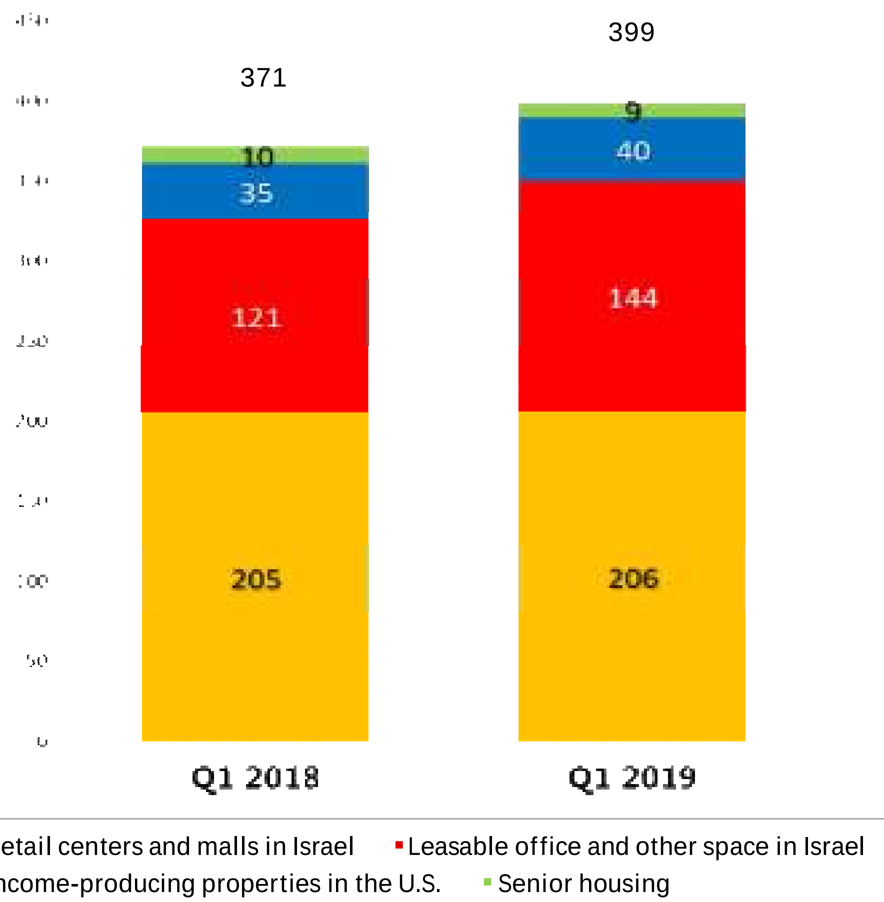
[11] Additional indications are, for example: The market value of similar properties in the same area and the sale prices of similar properties in recent transactions.

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]

NOI



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.

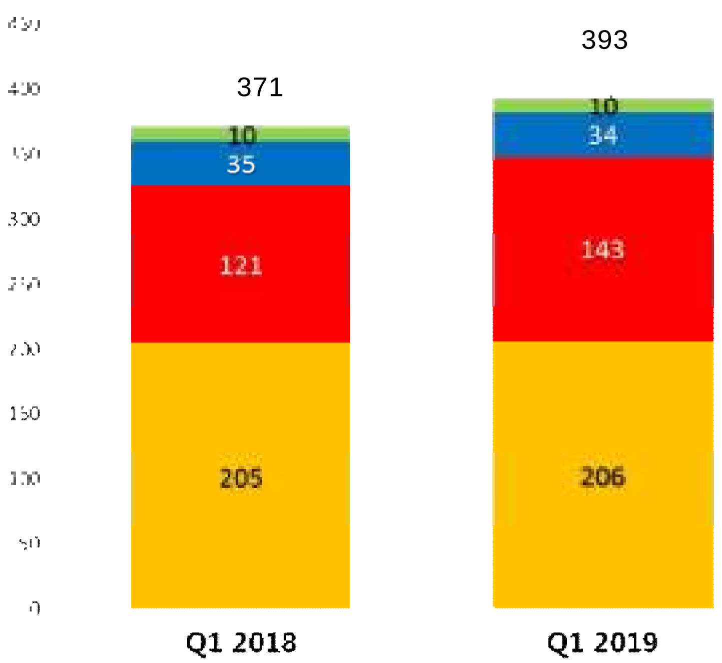
[12] The Group prepares its financial statements based on international standardization, and consequently, in the calculation of the cost of leasing and operating the properties classified as investment properties, depreciation was not taken into account. Furthermore, for the purpose of calculating the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

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

The Company's management acknowledges the importance of transparency to investors, shareholders, bondholders and analysts, and views all of them as its partners. The Company has thus decided to adopt a policy, whereby the board of directors' report will include disclosure of a summary of the Company's extended standalone financial statements, i.e., a summary of the Company's consolidated balance sheets and income statements presented according to the IFRS rules, excluding the Company's investments in Granite Hacarmel and Azrieli E-Commerce Ltd. ("Azrieli E-Commerce"), which are presented based on the equity method *in lieu* of consolidation of their statements with the Company's statements (the other investments are presented with no change to the statement presented according to the IFRS rules). The Company's management believes that this statement adds extensive information, which assists in the understanding of the real estate business's vast contribution to the Company's total profit, while discounting material items in the consolidated financial statements that stem from the consolidation of Granite Hacarmel and Azrieli E-Commerce, such as trade receivables, inventory, sales and more.

The extended standalone statement is attached hereto as Annex A. Such statement is neither audited nor reviewed by the Company's accountants.

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], as of March 31, 2019:

Calculation of the Weighted Cap Rate for the Report Period	
Total investment properties in the "Extended Standalone" statement (1)	27,667
Net of value attributed to investment properties under construction	(2,553)
Net of value attributed to land reserves	(503)
Net of value attributed to income-producing senior housing	(1,686)
Total value of income-producing investment properties (including the fair value of vacant space)	22,925
Actual NOI in the quarter ended March 31, 2019 (excluding senior housing)	390
Additional future quarterly NOI (2)	29
Total standardized NOI	419
Proforma annual NOI based on the standardized NOI (excluding senior housing)	1,675
Weighted cap rate derived from income-producing investment properties (including vacant space) (3)	7.3%

Financials are presented in millions of NIS.

(1) Extended Standalone Statement – See Annex A to this chapter. The figures are based on an update to the valuations as of December 31, 2018 (as of the Report date, the Company made no new evaluations of the income-producing properties that are included in this calculation). The figure includes receivables that appear under the balance sheet item "Loans and Receivables" for averaging attributed to real estate.

(2) The figure includes NOI adjustment as included in the valuations as of December 31, 2018 and therefore includes, *inter alia*, additional NOI for vacant space not yet occupied and space occupied during 2019 under a whole-year lease.

(3) 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 in this Section include forward-looking information, within the definition of this term in the Securities Law. This information is uncertain and it is based, inter alia, on information pertaining to contractual engagement with tenants as of the Report date, parameters in the calculation of fair value and the Company's estimations regarding space occupancy. Actual results may materially differ from the aforesaid estimations and what they imply, for various reasons, including immediate cancelation of lease agreements or a business crisis of any one of the tenants, or a change in the fair value parameters or failure to meet the development or occupancy goals.

[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%.

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 accountants.

FFO from the Income-Producing Real Estate Business

	For the three months ended 31.3.2019	For the three months ended 31.3.2018	For the year ended 31.12.2018
Net profit for the period attributable to shareholders	369	259	1,218
Discounting the net profit from Granite Hacarmel and Azrieli E-Commerce attributable to the shareholders (including a deduction of excess cost)	(18)	(17)	(19)
Profit adjustments:(1)			
Decrease (Increase) in the value of investment properties	2	38	(220)
Depreciation and amortizations	3	2	9
Net financing and other non-cash flow expenses (revenues)	(31)	(18)	66
Tax expenses	43	17	132(7)
Net of a dividend received from financial assets available for sale	(80)	(22)	(91)
Cash flow from the receipt of residents' deposits net of deposits returned to residents(2)	56	9	171
Net of revenues from the forfeiture of residents' deposits	(7)	(5)	(22)
Total profit adjustments	(14)	21	45
Plus interest paid for real investments(3)	2	3	10
Total FFO attributed to the income-producing real estate business(4)(5)	339	266	1,254
Total cash flow of financing of properties under development(6)	2	2	44
Total FFO attributed to the income-producing real estate business, excluding the cash flow of financing of properties under development	341	268	1,298

Financials are presented in millions of NIS.

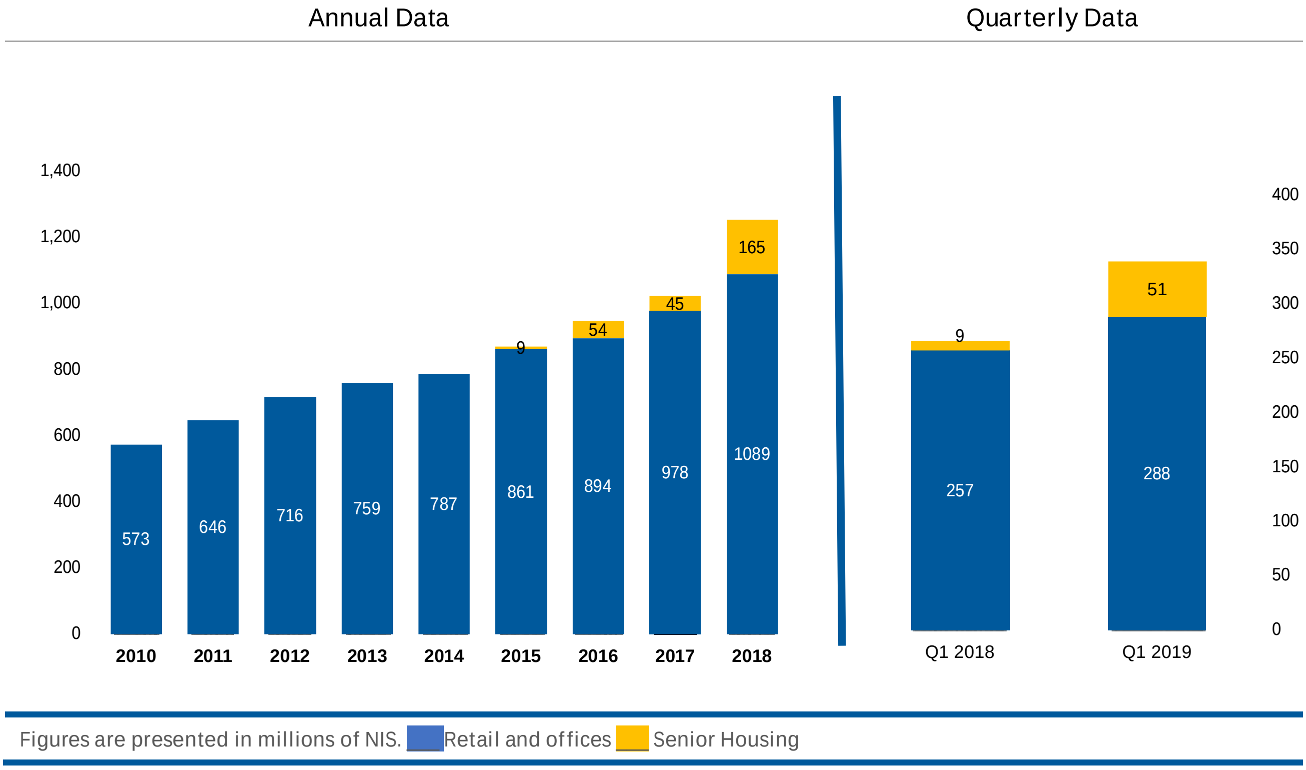
(1) The below profit adjustments do not include adjustments in respect of Granite Hacarmel and Azrieli E-Commerce, as their results have been fully discounted.
(2) Senior housing residents' deposits are deemed received or returned on the date on which the agreement is signed or terminated, as applicable.
(3) Calculated according to the Group's weighted interest for the real investments, which include: Granite Hacarmel, Azrieli E-Commerce, Bank Leumi and Leumi Card, for 65% of the cost of the investments.
(4) Attributable to shareholders only.
(5) Including FFO from the senior housing segment in the sum of approx. NIS 51 million in the three months ended March 31, 2019, and in the sum of approx. NIS 9 million in the three months ended March 31, 2018 and in the sum of approx. NIS 165 million in 2018.
(6) Calculated on the basis of credit costs which were capitalized to qualified assets and investment property under construction in the financial statements.
(7) Including approx. NIS 109 million one-time tax expenses for an assessment agreement.

The FFO calculation also includes cash flow financing costs with respect to projects under construction.

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

The 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



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. 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 accountants 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 properties 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		
	31.3.2019	31.3.2018
Equity attributable to the Company's shareholders in the financial statements	16,817	16,032
Plus a tax reserve in respect of the revaluation of investment properties to fair value (net of minority interests)	3,275	3,060
EPRA NAV	20,092	19,092
EPRA NAV per share (NIS)	166	157

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		
	31.3.2019	31.3.2018
EPRA NAV	20,092	19,092
Adjustment of assets to fair value (excluding minority interests)	16	18
Adjustment of financial liabilities to fair value (excluding minority interests)	(478)	(274)
Net of a tax reserve in respect of the revaluation of investment properties to fair value (net of minority interests)	(3,275)	(3,060)
EPRA NNNAV	16,355	15,776
EPRA NNNAV per share (NIS)	135	130

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

AZRIELI GROUP'S INCOME PRODUCING REAL ESTATE*

MALLS & SHOPPING CENTERS

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

OFFICES & OTHERS

Azrieli Towers
Azrieli Sarona
Azrieli Holon Center
Caesarea
Herzliya
Modi'in
Modi'in Residential
Petach Tikva
Jerusalem
Givatayim
Kiryat Ata
Hanegev
Rishonim
Azrieli Towers Building E

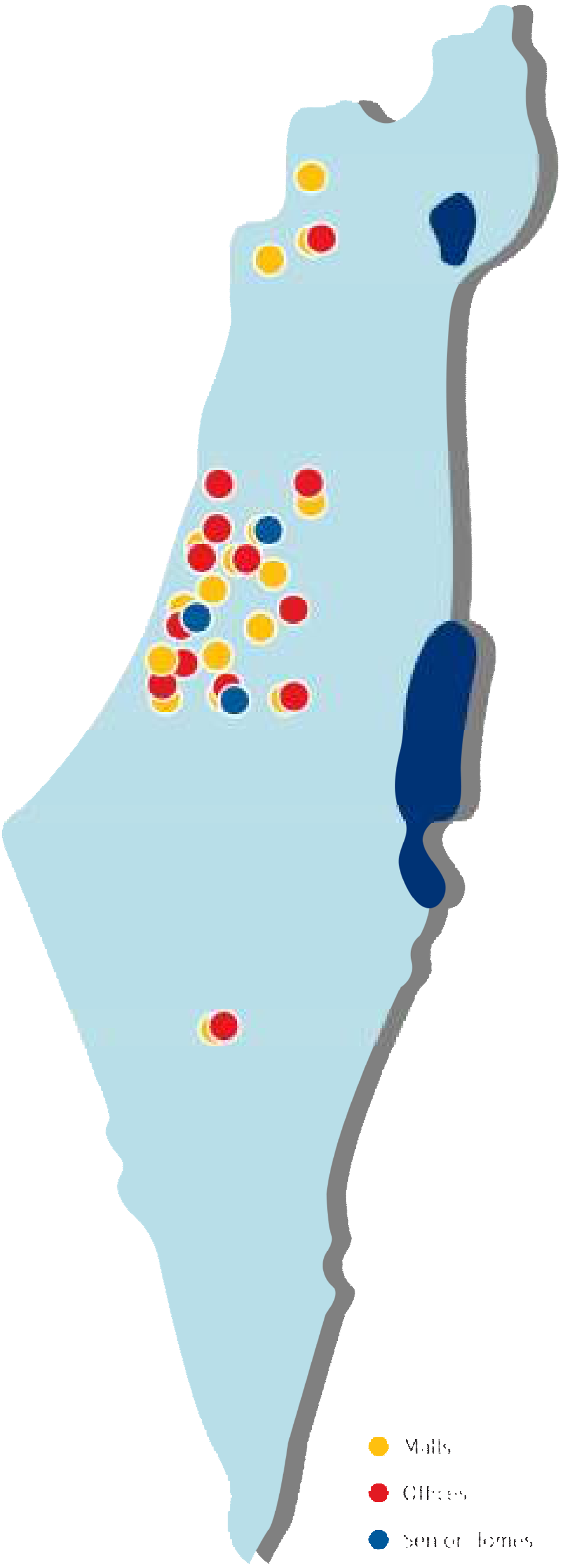
OVERSEAS

GALLERIA
PLAZA
8 WEST
3 Riverway
1 Riverway
LEEDS
Aspen Lake II
San Clemente

SENIOR HOMES

Palace Tel Aviv
Palace Ra'anana
Palace Modiin

17 malls	336000, sqm
14 office properties	548,000 sqm
3 senior homes	76,000 sqm 794 residential units
8 office properties overseas	246,000 sqm
Total	1,206,000 sqm



*As of March 31, 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 mall, through a selection of restaurants and cafés in the malls and renovation of the fast food courts, modern design and added crowd-attracting entertainment options such as the "Zappa" club. The Group further acts to create family entertainment spaces in its malls, including play areas, diaper changing and nursing rooms.
- Innovation – in recent years the Company has been implementing technological improvements into the shopping experience and striving for leadership and innovation in the mall segment, including by way of creating a unique application which grant exclusive discounts to mall attendants and enables direct marketing based on customer preferences. The goal of technological innovation is to enhance customer experience in the mall while combining both digital and physical worlds.

The retail 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 site 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.

<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. 336 thousand sqm,

Balance of the properties of the retail centers and malls in Israel segment – The balance totaled approx. NIS 12.7 billion as of March 31, 2019, similar to the balance on December 31, 2018.

Change due to adjustment of the fair value of the segment’s investment properties and investment properties under construction – No change has occurred in the fair value of the segment’s investment properties and investment properties under construction in the Report Period, compared with a loss of approx. NIS 22 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.

Below is a summary of the business results of the retail centers and malls in Israel segment:

Summary of the Business Results of the Retail Centers and Malls in Israel Segment				
		For the Three Months Ended		For the Year Ended
	Rate of change	31.3.2019	31.3.2018	31.12.2018
Revenues	2%	258	253	1,034
NOI	-	206	205	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	
	31.3.2019	31.3.2018
For segment properties owned by the Company as of the beginning of the period	206	205
For properties purchased or construction of which was finished in 2018	-	-
Total NOI from all properties	206	205

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. 548 thousand sqm.

Balance of the Group's investment properties in the leasable office and other space in Israel Segment – The balance totaled approx. NIS 10.5 billion as of March 31, 2019, compared with approx. NIS 10.4 billion as of 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 – The profit from such adjustment in the Report Period totaled approx. NIS 1 million, compared with a loss of approx. NIS 14 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.

Below is a summary of the business results of the leasable office and other space in Israel segment:

Summary of the Business Results of the Leasable office and other space in Israel Segment

		For the Three Months Ended		For the Year Ended
	Rate of change	31.3.2019	31.3.2018	31.12.2018
Revenues	19%	174	146	633
NOI	19%	144	121	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	
	31.3.2019	31.3.2018
NOI for segment properties owned by the Company as of the beginning of the period	143	121
NOI for properties purchased or construction of which was finished in 2018	1	-
Total NOI from all properties	144	121

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.

Balance of the Group's segment properties in the senior housing segment – This balance totaled approx. NIS 2.1 billion as of March 31, 2019, similar to the balance of December 31, 2018.

Change due to adjustment of the fair value of the segment's investment properties and investment properties under construction – No change has occurred in the fair value of the segment's investment property and investment property under construction in the Report Period similar to 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.

Below is a summary of the business results of the senior housing segment:

Summary of the Business Results of the Senior Housing Segment				
		For the Three Months Ended		For the Year Ended
	Rate of change	31.3.2019	31.3.2018	31.12.2018
Revenues	16%	36	31	130
NOI	(10%)	9	10	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, where due to the phased lease-up, there is an operating loss that will be balanced upon the lease-up 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	
	31.3.2019	31.3.2018
Company as of the beginning of the period	10	10
For properties purchased or construction of which was finished in 2018	(1)	-
Total NOI from all properties	9	10

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.[15]

Balance of the Group's investment properties in the segment – This balance totaled approx. NIS 2.5 billion as of March 31, 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 March 31, 2019 compared with December 31, 2018.

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 3 million, compared with a loss of approx. NIS 2 million in the same period last year.

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

Below is a summary of the business results of the income-producing properties in the U.S. segment:

Summary of the Business Results of the income-producing properties in the U.S. Segment				
		For the Three Months Ended		For the Year Ended
	Rate of change	31.3.2019	31.3.2018	31.12.2018
Revenues	16%	72	62	267
NOI	14%	40	35	149

Figures are presented in millions of NIS.

The increase in revenues and in NOI chiefly results from the fact that during 2018, the Group acquired an office building in Austin, Texas, U.S.A.

The following table presents the segment's NOI Development:

Development of the NOI of the income-producing properties in the U.S. Segment		
	For the Three Months Ended	
	31.3.2019	31.3.2018
NOI for segment properties owned by the Company as of the beginning of the period	34	35
NOI for properties purchased or construction of which was finished in 2018	6	-
Total NOI from all properties	40	35

Figures are presented in millions of NIS.

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

3 |

3.1. Granite Segment

The Azrieli Group, through Granite Hacarmel, holds 100% of the rights in Supergas and 100% of the rights in G.E.S., as detailed above.

A summary of the business results of the Granite segment follows:

Summary of the Business Results of the Granite Segment				
		For the Three Months Ended		For the Year Ended
	Rate of Change	31.3.2019	31.3.2018	31.12.2018
Net revenues	4%	216	208	720
Segment profit	(2%)	41	42	117

Figures are presented in millions of NIS.

The main increase in revenues in the Report Period derives from the results of Supergas, while the decrease in the segment's profit in the Report Period derives from the decrease in profit of GES offset by a decrease in the profit of Supergas.

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[16]. 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 March 31, 2019(3)	1,038	-	1,038
Fair value of the investment as presented in the financial statements as of March 31, 2019	1,106	-	1,106
Change in fair value during the Report Period	68	(80)	(12)
Dividend received in the Report Period	9	80	89

Figures are presented in millions of NIS.

(1) The fair value of the investment in Bank Leumi was determined according to the value of the share at the Tel Aviv Stock Exchange (TASE) as of March 31, 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 March 31, 2019.

(3) Before adjustment to changes in fair value during the Report Period.

[16] 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 |

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 10 projects at various development stages in Israel.

Summary of Information about Properties Under Development

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		308	331	335-345
Palace Lehavim Senior Home	Senior housing	Phase A: 32,000 Phase B: 12,000	Phase A: Q1/2020 Phase B: TBD	169	161	400-410
Azrieli Town Tel Aviv [5]	Retail, offices and residence	Offices 50,000 retail 4,000 residence 21,000 (210 residential units)	Retail and offices:2020 Residence: 2022	740	509	1,060-1,110
HaManor Holon	Retail and offices	28,000	2020	102	92	220-240
Total		157,500		1,319	1,093	2,015-2,105
Development Projects in the Medium-Term						
Expansion of Azrieli Tel Aviv Center (Spiral Tower)	Retail, offices, hotel and residence	150,000[6]	2025	758	445	2,300-2,500
Modi'in land (Lot 21)	Retail, offices, residence and hotel	20,000[7]	TBD	124	130	350-380
Senior housing land Rishon LeZion	Senior housing and retail	28,750[8]	TBD	59	57	310-320
Total		198,750		941	632	2,960-3,200
Total		356,250		2,260	1,725	4,975-5,305
Development Projects in Planning Stages						
Azrieli Town Building E	Offices	21,000	TBD	[9]	[9]	TBD
Holon 3 – Holon Industrial Zone [10]	Retail and offices	250,000	TBD	466	424	TBD
Petach Tikva land	Offices and retail	53,000[11]	TBD	92	97	TBD
Total		324,000		558	521	
Total		680,250				

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 March 31, 2019.
3. Without capitalizations and tenant fit-outs, as of March 31, 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).
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 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. The office tower was fully marketed.

Palace Lehavim Senior Home – The land, area of which is approx. 28,300 sqm, was purchased in December 2014 and construction commenced in August 2016. The plan is to build a retirement village to high and innovative standards. The project, 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. In May 2018, an aboveground permit was received for the project. As of the Report Release Date, the Group has signed lease contracts in respect of approx. 41,000 sqm of the project's office space, which represent approx. 82% of its leasable 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.

Expansion of Azrieli Tel Aviv Center (the 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. The Company 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. 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. The Company is acting to increase the building rights in the lot to 28,000 sqm and its connection with the existing project. For further details, see the Company's immediate report of January 11, 2018 (Ref.: 2018-01-004960), which is incorporated herein by reference.

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 approx. 250 residential units 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. As of the Report Release Date, the zoning plan was published for objections.

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 mainly 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 of an area of approx. 57,500 sqm was purchased in April 2016. Construction commenced in March 2018 and in June 2018 the excavation and shoring work began in the project. In October 2018, a building permit was received for the car park basements in 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. 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. 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.

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 per the definition thereof 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

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

AZRIELI HOLON 3

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

PALACE RISHON LEZION SENIOR HOME

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

MODI'IN LAND (LOT 21)

Use	Retail, offices, hotel and residences
Building rights	20,000 sqm
Estimated completion	TBD
Status	In planning

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 SARONA (RETAIL)

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

AZRIELI TOWN

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

AZRIELI HOLON HAMANOR

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

PETACH TIKVA LAND

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

AZRIELI TOWN BUILDING E

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

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, and in Section 4 of Chapter B hereof – updates to the Description of the Corporation's Business chapter as of March 31, 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.

5 |

5.1. Leverage Ratio of the Group

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

Summary of Balance Sheet Figures out of the Consolidated Statements			
	31.3.2019	31.3.2018	31.12.2018
Current assets	3,195	3,134	1,885
Non-current assets	30,212	28,552	30,010
Current liabilities	3,786	3,533	3,092
Non-current liabilities	12,756	12,080	11,682
Equity attributable to the Company's shareholders	16,817	16,032	17,077
Equity attributable to the Company's shareholders out of total assets (in %)	50%	51%	54%
Net debt to assets (in %)	26%	26%	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[17]. 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.

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

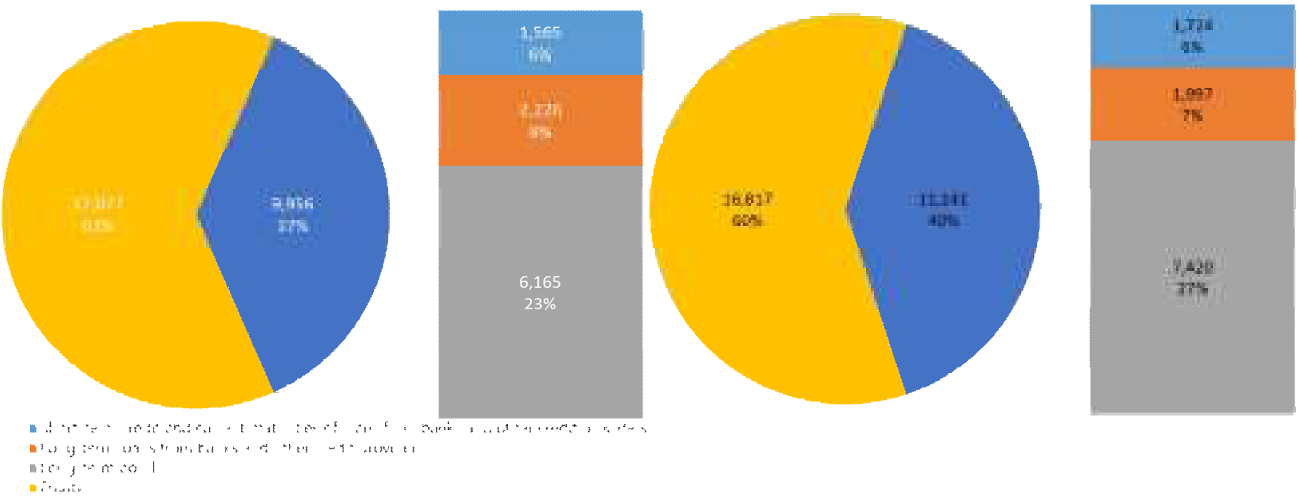
5.2. Composition of Financing Sources

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 | 31.3.2019



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 1,185 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 0.6 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 May 21, 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.

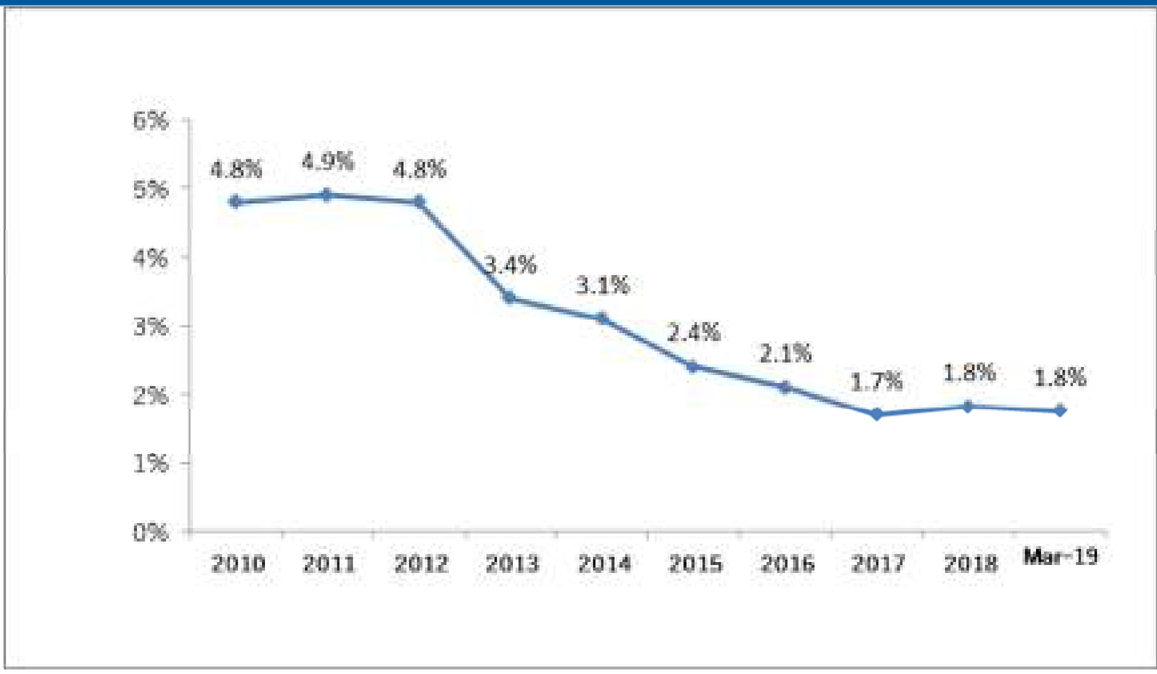
The Group's estimations mentioned in this Section 5.2 above of the board of directors' report in relation to its liquidity and the availability of its financing sources, particularly as pertains to the possibility of converting the short-term debt into long-term debt, are forward-looking information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

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.

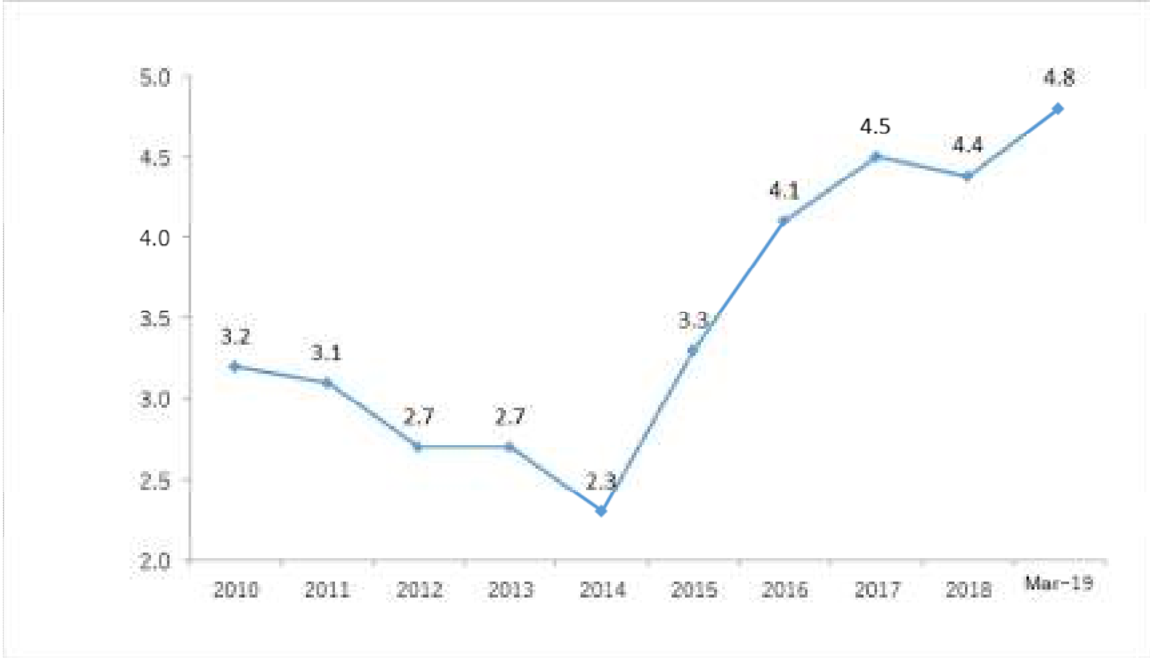
The Company acted during the Report Period, to raise debt through the issuance of Series E and F Bonds in the scope of approx. NIS 1.5 billion, with an average duration of approx. 7.5 years and weighted index-linked interest of approx. 1.9%. For details on the debt raising see Section 1.2.3.3 above and 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	-	-	-	20	477	-	497	497
Long-term loans	8,815	1,409	-	-	26	10,224	26	10,250
Total	8,815	1,409	-	20	503	10,224	523	10,747

Figures are presented in millions of NIS, as of March 31, 2019.

As of March 31, 2019, short-term loans represented approx. 5% 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 B 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	1,646	189	1,835
2	1,259	167	1,426
3	903	126	1,029
4	834	114	948
5 forth	6,105	474	6,579
Total	10,747	1,070	11,817

Figures are presented in millions of NIS, as of March 31, 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 383 million in the three months ended March 31, 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 March 31, 2019, the aggregate amount of liquid assets (cash and cash equivalents and short-term investments and deposits) held by the Group amounted to NIS 2,481 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 22 billion, in addition to approx. NIS 2.5 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.[18] 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.

[18] 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.

Unencumbered Assets Available to Serve as Collateral against the Receipt of Credit	
Assets	Value of Assets as of March 31, 2019
Real estate of the retail centers and malls in Israel segment	10,635
Real estate of the leasable office and other space in Israel segment	8,965
Other real estate (chiefly senior housing)	286
The Company's holdings in Azrieli E-Commerce	49
The Company's holdings in Granite Hacarmel	612
The Company's holdings in Bank Leumi	1,106
Total	21,653

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.

The Group's estimations mentioned in this Section 5.8 above of the board of directors' report 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	31.3.2019	31.12.2018
Total assets (1)	33,407	31,895
Current assets (2)	3,195	1,885
Investment properties (3)	27,524	27,452
Short-term credit(4)	1,724	1,565
Loans from banking corporations and other credit providers (5)	1,997	2,226
Net bonds (6)	7,420	6,165
Equity (7)	16,865	17,121

Figures are presented in millions of NIS.

(1) The increase chiefly results from growth in cash and cash equivalents as a result of bond raising in the Report Period.
(2) The increase chiefly results from the increase in cash and cash equivalents as a result of bond raising in the Report Period, net of 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 net of 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 a loan balance which was classified as long term in the past and was carried to current maturity.
(5) The decrease results mainly from a loan balance which was classified as long term in the past and was carried to current maturity.
(6) The increase chiefly results from the issue of bonds during Q1/2019, net of current maturities.
(7) Decrease chiefly results from a dividend distribution offset by the comprehensive income in the Report Period.

6 | BUSINESS RESULTS AT A GLANCE

6 |

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 Year Ended
	31.3.2019	31.3.2018	31.12.2018
Net profit for the period attributable to the shareholders	369	259	1,218
Net profit attributable to the shareholders and to non-controlling interests	369	259	1,219
Basic earnings per share (NIS)	3.04	2.14	10.04
Basic earnings per share from continued operations (NIS)	3.04	2.14	10.06
Comprehensive income to shareholders and non-controlling interests	301	277	1,325

Figures are presented in millions of NIS

Net profit in the Report Period totaled NIS 369 million, compared with NIS 259 million in the same period last year. The profit in the Report Period was affected mostly by an increase of NIS 67 million in other income, by an increase in NOI from the real estate activity of NIS 28 million and a decrease in loss from fair value adjustments of investment property of NIS 36 million offset by an increase in the tax expense, mainly due to the aforesaid in the sum of NIS 20 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, derives from loss from translation differences from foreign operations of NIS 40 million, in addition to a decrease in the fair value of financial assets net of tax of NIS 28 million.

6.3. Results of Operations

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

Results of Operations		
	For the Three Months Ended	
	31.3.2019	31.3.2018
Marketing, general and administrative expenses [(1)]	78	79
Net other revenues [(2)]	83	22
Net financing expenses [(3)]	17	23
Income taxes expenses [(4)]	88	68

Figures are presented in millions of NIS.

(1) The decrease in expenses in the Report Period, compared with the same period last year, mainly derives from a decrease in payroll expenses, due to a one-time provision for adjustment recorded in the name quarter last year and from a decrease in marketing expenses.

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

(3) The decrease in net financing expenses in the Report Period mainly stems from interest revenues received for the consideration from the sale of Leumi Card.

(4) The increase in tax expenses in the Repot Period compared with the same period last year is attributed mainly to a change in deferred tax expenses due to the decrease in loss from fair value adjustments of investment property in the present period compared with the corresponding period and the increase in current tax due to increase in NOI.

Cash Flows

The following table shows the cash flows generated by the Group for Q1/2019, compared with the same quarter in 2018:

Quarterly Cash Flows		
Quarter	Q1/2019	Q1/2018
Net cash flows generated by the Group from current operations (1)	383	274
Net cash flows generated (used) by the Group for investment activities (2)	149	(238)
Net cash flows derived to the Group for financing activities (3)	1,176	1,248

Figures are presented in millions of NIS.

(1) The cash flow in the quarter and in the same quarter last year chiefly resulted from the operating profit of the income-producing real estate in the sum of approx. NIS 399 million (approx. NIS 371 million in the corresponding period), plus net senior housing deposits and excluding paid income taxes.

(2) Most of the cash flow in the present quarter derived from the proceeds from the disposition of financial assets, net, and from interest and dividend received, offset by amounts used for acquisition of and investment in investment properties and investment properties under construction in the sum of NIS 180 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 370 million offset by a decrease in short-term deposits and proceeds from the disposition of investment properties.

(3) Most of the decrease relative to the same quarter last year derived from an increase in the current maturities of bonds net of the increase in bond offering in the present quarter.

7 | CORPORATE GOVERNANCE ASPECTS

7 |

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.

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

8 |

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

For events and developments during the Report Period, see Chapter B hereof – Updates to the Description of the Corporation's Business chapter as of March 31, 2019 and Note 3 to the financial statements as of March 31, 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 3E and 6 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 December 31, 2018 (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 6 to the financial statements as of March 31, 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 March 31, 2019.

Danna Azrieli, Chairman of the Board	Eyal Henkin, CEO

Date: May 21, 2019

Annex A

Financial Statements

(Extended Standalone)

March 31, 2019

Azrieli Group Ltd.

Extended Standalone Financial Statements

March 31, 2019

Annex A

Azrieli Group Ltd.

Extended Standalone Financial Statements

Annex A

The Company's extended standalone financial statements are the condensed Company's statements presented according to the IFRS rules, except for the investments in Granite and in Azrieli eCommerce which are presented based on the equity method *in lieu* of consolidation of their statements with the Company's statements (all other investments are presented with no change relative to the statement presented pursuant to the IFRS rules). These statements are not separate statements within the meaning thereof in IAS 27, nor separate financial statements pursuant to Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. The statements are not part of the information that is required to be published according to securities laws. However, the Company's management believes that analysts, investors, shareholders and bond holders may gain valuable information from the presentation of such figures.

The figures in this annex have not been audited or reviewed by the Company's auditors.

Balance sheet:

	As of March 31		As of Dec. 31
	2019	2018	2018
	NIS in millions	NIS in millions	NIS in millions
Assets			
Current Assets			
Cash and cash equivalents	2,349	2,310	639
Short-term deposits and investments	9	4	7
Trade accounts receivable	48	60	83
Other receivables	209	198	133
Current tax assets	77	24	100
	2,692	2,596	962
Asset held for sale	-	-	450
Total Current Assets	2,692	2,596	1,412
Non-Current Assets			
Investment in investee companies	747	807	734
Loans and receivables	570	305	334
Financial assets	1,115	1,691	1,227
Investment property and investment property under construction	27,524	25,526	27,452
Fixed assets	193	175	195
Intangible assets	84	85	84
Deferred tax assets	1	1	1
Total Non-Current Assets	30,234	28,590	30,027
Total Assets	32,926	31,186	31,439

Azrieli Group Ltd.

Extended Standalone Financial Statements

Annex A

Balance Sheet - Contd.

	As of March 31		As of Dec. 31
	2019	2018	2018
	NIS in millions	NIS in millions	NIS in millions
Liabilities and Capital			
Current Liabilities			
Credit and current maturities from financial corporations and bonds	1,646	1,655	1,492
Trade payables	200	171	253
Payables and other current liabilities	362	350	375
Deposits from senior housing tenants	877	687	839
Declared dividend	560	520	-
Current tax liabilities	2	8	2
Total Current Liabilities	3,647	3,391	2,961
Non-Current Liabilities			
Loans from financial corporations	1,947	2,201	2,191
Bonds	7,154	6,268	5,886
Other liabilities	63	56	63
Deferred tax liabilities	3,254	3,200	3,219
Total Non-Current Liabilities	12,418	11,725	11,359
Capital			
Ordinary share capital	18	18	18
Share premium	2,518	2,518	2,518
Capital reserves	565	548	634
Retained earnings	13,716	12,948	13,907
Total equity attributable to the shareholders of the Company	16,817	16,032	17,077
Non-controlling interests	44	38	42
Total Capital	16,861	16,070	17,119
Total Liabilities and Capital	32,926	31,186	31,439

Azrieli Group Ltd.

Extended Standalone Financial Statements

Annex A

Income Statement:

	For the three month period ended on March 31		For the year ended on Dec. 31
	2019	**2018**	**2018**
	NIS in millions	**NIS in millions**	**NIS in millions**
Revenues:			
From rent, management and maintenance fees	541	494	2,069
Net profit (loss) from adjustment of fair value of investment property and investment property under construction	(2)	(38)	218
Financing	11	3	6
Share in results of associates, net of tax	18	17	20
Other	89	22	93
Total Revenues	657	498	2,406
Costs and Expenses			
Cost of revenues from rent, management and maintenance fees	143	123	543
Sales and Marketing	11	12	49
General and Administrative	19	21	80
Financing	28	27	234
Others	6	-	4
Total Costs and Expenses	207	183	910
Income before income taxes	450	315	1,496
Taxes on income	(81)	(56)	(275)
Income from continuing operations per period, including the minority	369	259	1,221
Loss from discontinued operations per period, including the minority	-	-	(2)
Net Profit for the period, including the minority	369	259	1,219

Annex B

Designated Disclosure to the Bondholders

Annex B - 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	1,056.7	1,056.7	3.4	1,044.3	1,080.6	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	1,065.7	1,065.7	4.3	1,060.3	1,130.0	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	4,181.2	4,235.7	13.2	4,214.1	4,383.9	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	1,216.0	4.0	1,206.9	1,269.3	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	263.4	1.2	260.3	281.0	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**	**7,782.8**	**7,837.5**	**26.1**	**7,785.9**	**8,144.8**						

* 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.

<u>Further details regarding the bonds of the Company held by the public:</u>

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.

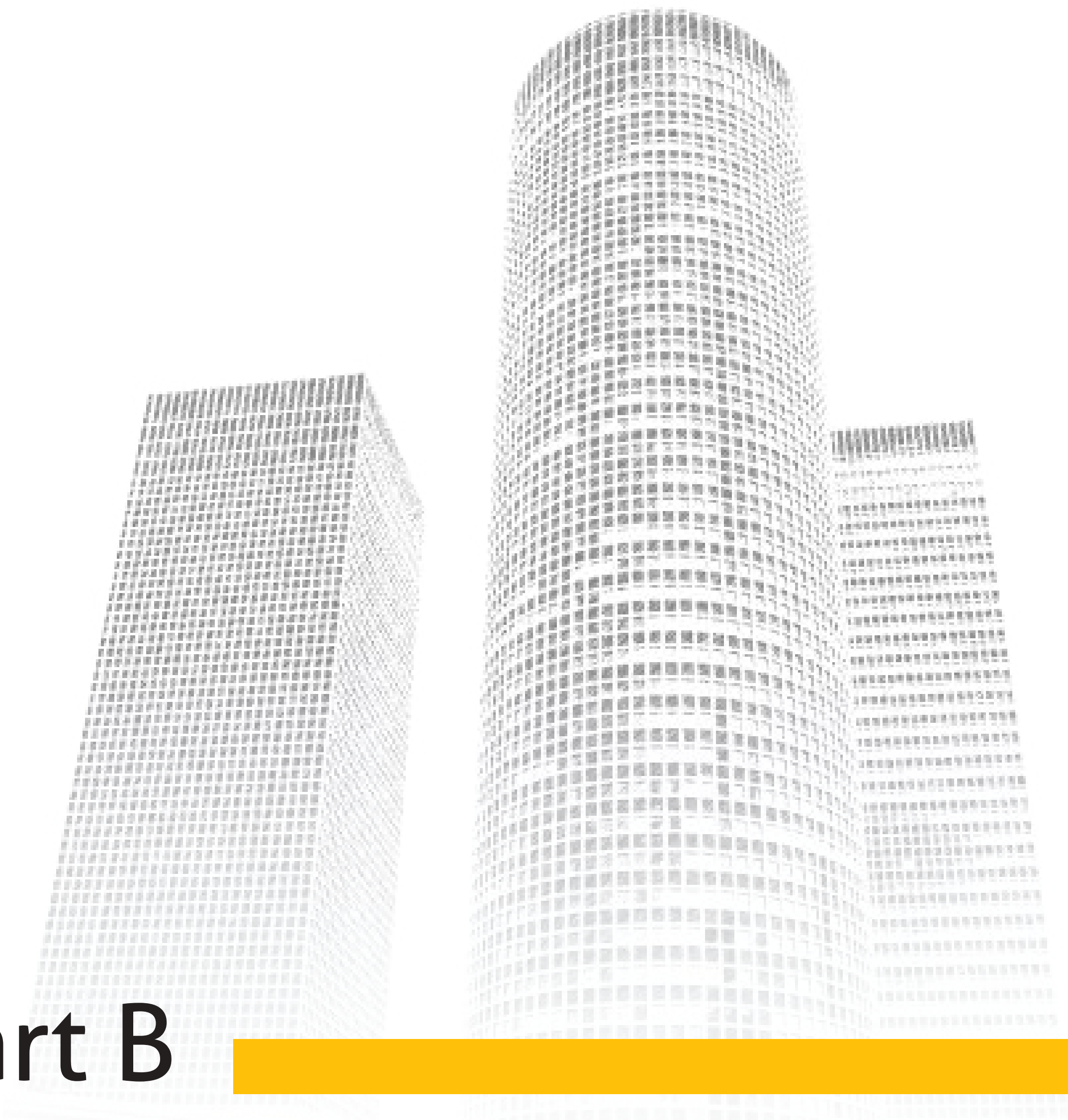
Rating of the bonds of the Company held by the public:

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

Update of the Description of the Corporation's Business



Part B

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 three months ended March 31, 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" – May 22, 2019; the "Date of the Statement of Financial Position" and the "Report Date" - March 31, 2019; "Board of Directors' Report" – the Board of Directors' Report on the State of the Company's Affairs for the three months ended March 31, 2019. The "Company's Shelf Prospectus" – a shelf prospectus which the Company published which bears the date May 11, 2016 (Ref.: 2016-01-063049).

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

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

For details with respect to: (1) 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) financing transactions; (4) changes in officer positions in the Company; (5) releasing a new shelf prospectus of the Company; see Section 1.2.3 of Chapter A of this Report.

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

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

For details regarding the holdings of interested parties in the Company, see the immediate report of the Company dated April 10, 2018 (Ref.: 2018-01-036073), 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 of this Report.

4. Properties under Development

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

During the Report Period, the Group continued to invest in the development and construction of new properties and in the expansion and renovation of existing properties. For further details, see Section 4 of Chapter A of this Report.

Set forth below are updates in connection with properties under development 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.

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.

Azrieli Tel Aviv – the Company has commenced renovation of the public areas in the project.

Azrieli Rishonim – in May 2019, a hearing was held by the District Committee in relation to addition of office space in the office tower.

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 of this Report.

Senior housing "Palace Rishon LeZion" – As of the Report Release Date, a zoning plan for additional rights was published for objections.

6. Granite Segment

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

As of the Report Release Date, Granite, together with a company from the Shikun & Binui group, engaged in an agreement for the sale of their entire rights and holdings in "Mini Israel" to an unrelated third party for an immaterial amount. The closing of the transaction is scheduled for shortly after the release hereof.

7. 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 in Chapter A of this report.

8. 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 337 million and an unrated series totaling approx. NIS 140 million. As of the Report Release Date and towards the expected expiration of the term of the CP of such rated series, the Company and the holders of the 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 15, 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 1,057 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 1,066 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 4,181 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 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 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.

9. 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.

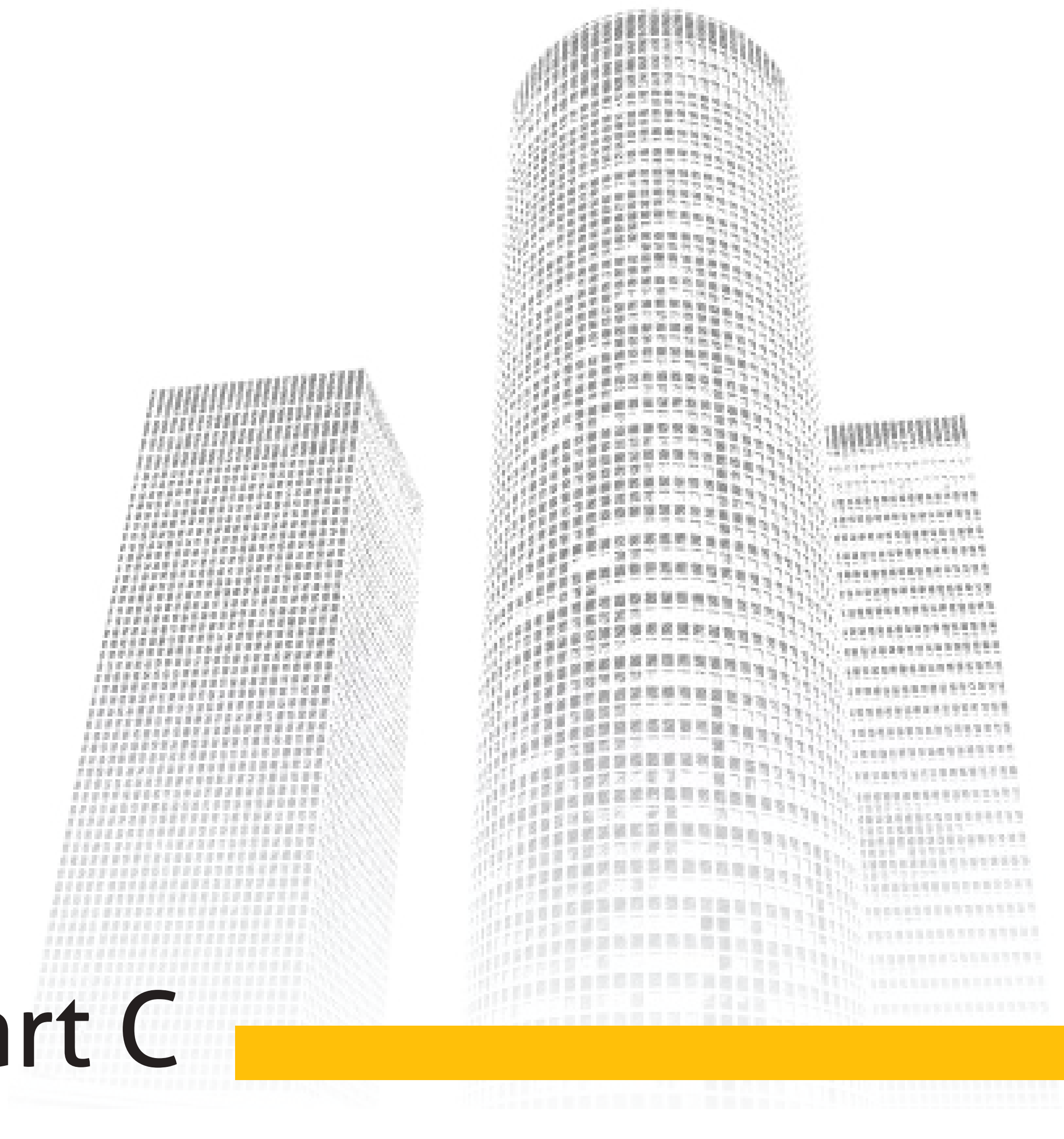
On January 20, 2019, Midroog rated the Company's new Series E-F bonds Aa1.il with a stable outlook. To inspect the full report by Midroog dated January 20, 2019, see the Company's immediate report of January 20, 2019 (Ref.: 2019-01-007728), which is included herein by way of reference.

10. Legal proceedings

For an update with respect to the legal proceedings to which the Group's companies are a party, see Notes 3E and 6 to the financial statements as of March 31, 2019.

AZRIELIGROUP

Consolidated Financial Statements
Dated 31 March 2019



Part C

Azrieli Group Ltd.

Condensed Consolidated Financial Statements
as of March 31, 2019

(Unaudited)

Azrieli Group Ltd.

C o n t e n t s

Auditors' review report to the shareholders of

Azrieli Group Ltd.

Introduction

We have reviewed the accompanying financial information of **Azrieli Group Ltd.**, the Company and subsidiaries (the "**Group**") which includes the Condensed Consolidated Statement of Financial Position as of March 31, 2019 and the Condensed Consolidated Statements of Profit or Loss and other Comprehensive Income, Changes in Capital and Cash Flows for the three-month period then ended. The board of directors and management are responsible for the preparation and presentation of the financial information for this interim period in accordance with IAS 34 "Interim Financial Reporting", and they are responsible for the preparation of information for this interim period under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express a conclusion on this interim financial information, based on our review.

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 March 31, 2019, and whose consolidated revenues constitute approx. 25% of the total consolidated revenues for the three-month period 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
Member of Deloitte Touche Tohmatsu Limited

Tel Aviv, May 21, 2019

Azrieli Group Ltd.

Condensed Consolidated Statements of Financial Position

	As of March 31		As of December 31
	2019	2018	2018
	NIS in millions		NIS in millions
	(Unaudited)		
ASSETS			
Current Assets			
Cash and cash equivalents	2,421	2,350	716
Short-term investments and deposits	60	49	47
Trade accounts receivable	336	328	342
Other receivables	237	325	159
Inventory	60	57	66
Current tax assets	81	25	105
	3,195	3,134	1,435
Asset held for sale	-	-	450
Total Current Assets	3,195	3,134	1,885
Non-current Assets			
Investments and loans of associates	99	89	100
Investments, loans and receivables	592	368	343
Financial assets	1,116	1,692	1,228
Long-term receivables in respect of franchise arrangements	45	50	46
Investment property and investment property under construction	27,524	25,526	27,452
Fixed assets	529	503	530
Intangible assets	291	304	296
Deferred tax assets	16	20	15
Total Non-current Assets	30,212	28,552	30,010
Total Assets	33,407	31,686	31,895

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Financial Position

(Continued)

	As of March 31		As of December 31
	2019	2018	2018
	NIS in millions		NIS in millions
	(Unaudited)		
LIABILITIES AND CAPITAL			
Current liabilities			
Credit and current maturities from financial corporations and bonds	1,724	1,747	1,565
Trade payables	280	240	342
Payables and other current liabilities	225	197	225
Deposits from customers	979	790	942
Provisions	11	13	12
Current tax liabilities	7	26	6
Declared dividend	560	520	-
Total Current liabilities	3,786	3,533	3,092
Non-current liabilities			
Loans from financial corporations	1,997	2,237	2,226
Bonds	7,420	6,577	6,165
Other liabilities	81	60	67
Deferred tax liabilities	3,258	3,206	3,224
Total Non-current liabilities	12,756	12,080	11,682
Capital			
Ordinary share capital	18	18	18
Share premium	2,518	2,518	2,518
Capital reserves	565	548	634
Retained earnings	13,716	12,948	13,907
Total equity attributable to the shareholders of the Company	16,817	16,032	17,077
Non-controlling interests	48	41	44
Total Capital	16,865	16,073	17,121
Total Liabilities and Capital	33,407	31,686	31,895

May 21, 2019			
Date of approval of the financial statements	**Danna Azrieli** **Chairman of the Board**	**Eyal Henkin** **CEO**	**Irit Sekler-Pilosof** **CFO**

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income

	For the three-month period ended March 31		For the year ended December 31
	2019	2018	2018
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
Revenues:			
From rent, management and maintenance fees	540	493	2,063
From sales, labor and services	226	215	758
Net profit (loss) from fair value adjustment of investment property and investment property under construction	(2)	(38)	218
Financing	15	8	17
Other	89	22	95
Total Revenues	868	700	3,151
Costs and Expenses:			
Cost of revenues from rent, management and maintenance fees	143	123	543
Cost of revenues from sales, labor and services	150	139	500
Sales and marketing	48	47	200
G&A	30	32	123
Share in results of associates, net of tax	2	1	6
Financing	32	31	258
Other	6	-	7
Total Costs and Expenses	411	373	1,637
Income before income taxes	457	327	1,514
Taxes on income	(88)	(68)	(293)
Income from continuing operations	369	259	1,221
Loss from discontinued operations (net of tax)	-	-	(2)
Net profit for the period	369	259	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	(28)	4	11
Amounts that were carried or will be carried in the future to the income statement, net of tax:			
Translation differences from foreign operations	(40)	14	95
	(68)	18	106
Total Comprehensive Income for the Period	301	277	1,325

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income

(Continued)

	For the three-month period ended March 31		For the year ended December 31
	2019	2018	2018
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
Net income for the year attributable to:			
Shareholders of the Company	369	259	1,218
Non-controlling interests	-	-	1
	369	259	1,219
Total comprehensive income for the year attributable to:			
Shareholders of the Company	302	276	1,321
Non-controlling interests	(1)	1	4
	301	277	1,325
	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	3.04	2.14	10.06
Discontinued operations	-	-	(0.02)
	3.04	2.14	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

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital

	For the three-month period ended March 31, 2019								
	Share capital	Share premium	Capital reserve for changes in the fair value of investments in equity instruments designated at fair value through other comprehensive income	Capital reserve for translation differences from foreign operations	Other capital reserves	Retained earnings	Total attributed to shareholders of the Company	Non-controlling interests	Total
	NIS in millions								
	(Unaudited)								
Balance as of January 1, 2019	18	2,518	640	1	(7)	13,907	17,077	44	17,121
Net profit for the period	-	-	-	-	-	369	369	-	369
Change in fair value of financial assets, net of tax	-	-	(28)	-	-	-	(28)	-	(28)
Translation differences from foreign operations	-	-	-	(39)	-	-	(39)	(1)	(40)
Total comprehensive income for the period	-	-	(28)	(39)	-	369	302	(1)	301
Declared 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)
Balance as of March 31, 2019	18	2,518	612	(38)	(9)	13,716	16,817	48	16,865

The notes 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 March 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								
	(Unaudited)								
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	-	-	-	-	-	259	259	-	259
Change in fair value of financial assets, net of tax	-	-	4	-	-	-	4	-	4
Translation differences from foreign operations	-	-	-	13	-	-	13	1	14
Total comprehensive income for the period	-	-	4	13	-	259	276	1	277
Declared dividend to shareholders of the Company	-	-	-	-	-	(520)	(520)	-	(520)
Total transactions with shareholders of the Company	-	-	-	-	-	(520)	(520)	-	(520)
Balance as of March 31, 2018	18	2,518	633	(78)	(7)	12,948	16,032	41	16,073

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Cash Flows

	For the three-month period ended March 31		For the year ended December 31
	2019	2018	2018
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
Cash Flows - Current Operations			
Net profit for the period	369	259	1,219
Depreciation and amortization	20	16	68
Forfeiture of senior housing tenants' deposits	(7)	(5)	(22)
Net loss (profit) from fair value adjustment of investment property and investment property under construction	2	38	(218)
Net financing and other expenses (income)	(71)	1	142
Share in losses of associates accounted for by the equity method	2	1	6
Tax expenses recognized in the income statement	88	68	293
Income taxes paid, net	(44)	(44)	(330)
Revaluation of financial assets designated at fair value through profit and loss	-	-	8
Change in inventory	6	(3)	(11)
Change in trade and other receivables	(31)	(52)	(49)
Change in receivables in respect of franchise arrangement	1	-	4
Change in trade and other payables	(27)	(10)	12
Receipt of deposits from senior housing tenants	96	14	184
Return of deposits from senior housing tenants	(21)	(11)	(42)
Change in employee provisions and benefits	-	2	2
Net cash - current operations	383	274	1,266

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Cash Flows

(Continued)

	For the three-month period ended March 31		For the year ended December 31
	2019	**2018**	**2018**
	NIS in millions	**NIS in millions**	**NIS in millions**
	(Unaudited)		
Cash flows - Investment Activity			
Proceeds from liquidation of fixed and intangible assets	-	-	1
Proceeds from liquidation of investment property	-	31	36
Purchase of and investment in investment property and investment property under construction	(180)	(366)	(1,729)
Purchase of and investment in fixed and intangible assets	(15)	(14)	(81)
Investment in and granting of loans to associates	(2)	(4)	(17)
Change in short-term deposits	(11)	96	97
Indemnification from insurance	-	-	50
Collection of long-term loans	-	-	23
Interest and dividend received	89	25	100
Investment in financial assets	(10)	-	-
Net proceeds from disposition of financial assets	278	-	87
Taxes paid for financial assets	-	(2)	(2)
Institutions for purchase of real estate	-	(4)	13
Net cash – investment activity	149	(238)	(1,422)

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Cash Flows

(Continued)

	For the three-month period ended March 31		For the year ended December 31
	2019	2018	2018
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
Cash flows - Financing Activity			
Dividend distribution to shareholders	-	-	(520)
Repayment of bonds	(196)	(10)	(492)
Bond offering net of issue expenses	1,467	1,399	1,399
Receipt of long-term loans from financial corporations	18	-	215
Repayment of long-term loans from financial corporations	(81)	(65)	(456)
Short-term credit from financial corporations, net	37	(18)	(147)
Acquisition of non-controlling interests in a subsidiary	(1)	-	-
Repayment of other long-term liabilities	(2)	-	-
Repayment of deposits from customers	(1)	(1)	(7)
Received deposits from customers	2	2	9
Interest paid	(67)	(59)	(206)
Net cash - financing activity	1,176	1,248	(205)
Increase (decrease) in cash and cash equivalents	1,708	1,284	(361)
Cash and cash equivalents at beginning of period	716	1,064	1,064
Effect of exchange rate changes on cash balances held in foreign currency	(3)	2	13
Cash and cash equivalents at end of period	2,421	2,350	716

(*) For the three-month periods ended March 31, 2019 and March 31, 2018, non-cash transactions include a change in other payables due to a dividend in the sum of NIS 560 million and NIS 520 million, respectively.

For the three-month period ended March 31, 2019, non-cash transactions included a change in other receivables due to the sale of investments in financial assets in the sum of approx. NIS 282 million (for the three months ended March 31, 2018 – approx. NIS 88 million) and a dividend receivable from financial assets in the sum of approx. NIS 9 million.

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

Cash flow from investment activity in 2018 included net cash deriving from the Sonol discontinued operations in the sum of NIS 25 million.

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

AZRIELI GROUP LTD.
Notes to the Condensed Consolidated Financial Statements
as of March 31, 2019

Note 1 – G e n e r a l

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 March 31, 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:

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.

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.

(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	**CPI in Israel**	
	$	**“For”**	**“Known”**
	(NIS to $1)	**Base 1993**	**Base 1993**
Date of financial statements:			
as of March 31, 2019	3.632	224.45	223.34
as of March 31, 2018	3.514	221.35	220.68
as of December 31, 2018	3.748	223.33	224.00
	%	**%**	**%**
Change rates:			
For the three-month period ended:			
March 31, 2019	(3.09)	0.50	(0.30)
March 31, 2018	1.36	(0.10)	(0.30)
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 further details with respect to the Company's holdings in Bank Leumi, see Note 11A to the annual financial statements.

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.

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

E. On February 14, 2019, the court issued a decision that denied the petition, with no award of costs, of a group that contended against Zero Waste Ltd. (an associate held in equal shares by GES Global Environmental Solutions Ltd., a consolidated company of the Company and Shikun & Binui Ltd.) 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 such petition by the other group, the other group moved for an order revoking the decision of the tenders committee to elect Zero Waste Ltd. as the winner of the tender. For further details, see Note 29B(7) to the annual financial statements.

Note 4 – 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 March 31, 2019		As of March 31, 2018		As of December 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	66	55	73	51	66
Non-current liabilities:						
Loans from financial corporations (*)	2,525	2,636	2,713	2,751	2,638	2,692
Bonds (*)	8,128	8,497	7,271	7,510	6,887	6,940
	10,653	11,133	9,984	10,261	9,525	9,632

(*) Book value includes current maturities and accrued interest.

Note 4 – Fair Value of Financial Instruments (Cont.)

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

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

	As of March 31		As of December 31
	2019	2018	2018
	%	%	%
Non-current assets:			
Receivables in respect of a franchise arrangement	0.75-2.23	1.42-1.92	1.91-2.48
Non-current liabilities:			
Loans from financial corporations	(0.80)-3.66	0.24-4.84	0.64-4.22
Bonds	(0.15)-1.88	0.55-1.01	0.64-1.59

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 4 – Fair Value of Financial Instruments (Cont.)

C. Fair value hierarchy (Cont.)

	As of March 31, 2019			
	Level 1	Level 2	Level 3	Total
	NIS in millions			
	(Unaudited)			
Financial assets at fair value through profit and loss:				
Securities	1	-	-	1
Non-marketable investments	-	9	-	9
Financial assets at fair value through other comprehensive income:				
Marketable shares	1,106	-	-	1,106
Total fair value of financial assets	1,107	9	-	1,116

	As of March 31, 2018			
	Level 1	Level 2	Level 3	Total
	NIS in millions			
	(Unaudited)			
Financial assets at fair value through profit and loss:				
Securities	1	-	-	1
Non-marketable investments	-	17	-	17
Financial assets at fair value through other comprehensive income:				
Marketable shares	1,138	-	-	1,138
Non-marketable shares	-	-	536	536
Total fair value of financial assets	1,139	17	536	1,692

Note 4 – Fair Value of Financial Instruments (Cont.)

C. Fair value hierarchy: (Cont.)

	As of December 31, 2018		
	Level 1	Level 2	Total
	NIS in millions		
Financial assets designated at fair value through profit and loss:			
Securities	1	-	1
Non-marketable investments	-	10	10
Financial assets at fair value through other comprehensive income:			
Marketable shares	1,218	-	1,218
Non-marketable shares – held for sale	-	450	450
Total fair value of financial assets	1,219	460	1,679

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

Note 5 – 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 three-month period ended March 31, 2019						
	Retail centers and malls in Israel	Leasable office and other space in Israel	Income-producing property in the U.S.	Senior housing	Granite	Other	Consolidated
				NIS in millions			
				(Unaudited)			
Revenues:							
Total external income	258	174	72	36	216	10	766
Total segment expenses	52	30	32	27	175	25	341
Segment profit (loss) (NOI)	206	144	40	9	41	(15)	425
Net profit (loss) from fair value adjustment of investment property and investment property under construction	-	1	(3)	-	-	-	(2)
Unallocated costs							(30)
Net financing expenses							(17)
Net other revenues							83
The Company's share in the results of associates, net of tax							(2)
Income before income taxes							457
Additional information:							
Segment assets	12,704	10,524	2,525	2,116	1,285		29,154
Unallocated assets (*)							4,253
Total consolidated assets							33,407

(*) Mainly financial assets in the sum of approx. NIS 1.1 billion and cash and short-term deposits in the sum of approx. NIS 2.4 billion.

Note 5 – Segment Reporting (Cont.)

B. Operating segments: (Cont.)

	Retail centers and malls in Israel	Leasable office and other space in Israel	Income-producing property in the U.S.	Senior housing	Granite	Other	Consolidated
	For the three-month period ended March 31, 2018						
	NIS in millions						
	(Unaudited)						
Revenues:							
Total external income	253	146	62	31	208	8	708
Total segment expenses	48	25	27	21	166	20	307
Segment profit (loss) (NOI)	205	121	35	10	42	(12)	401
Net loss from fair value adjustment of investment property and investment property under construction	(22)	(14)	(2)	-	-	-	(38)
Unallocated costs							(34)
Net financing expenses							(23)
Net other revenues							22
The Company's share in the results of associates, net of tax							(1)
Income before income taxes							327
Additional information:							
Segment assets	12,458	9,554	2,043	1,781	1,318		27,154
Unallocated assets (*)							4,532
Total consolidated assets							31,686

(*) Mainly financial assets in the sum of approx. NIS 1.7 billion and cash and short-term deposits in the sum of approx. NIS 2.4 billion.

Note 5 – Segment Reporting (Cont.)

B. Operating segments: (Cont.)

	For the year ended on 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**	**Consolidated**
	NIS in millions						
Revenues:							
Total external income	1,034	633	267	130	720	37	2,821
Total segment expenses	214	116	118	93	603	90	1,234
Segment profit (loss) (NOI)	820	517	149	37	117	(53)	1,587
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							(241)
Net other revenues							88
The Company's share in the results of associates, net of tax							(6)
Income before income taxes							1,514
Additional information as of December 31, 2018:							
Segment assets	12,682	10,443	2,593	2,081	1,225		29,024
Unallocated assets (*)							2,871
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.

Note 6 – Subsequent Events

A. Following Note 31B(1) to the annual financial statements in connection with an indictment against Supergas and directors thereof, after the date of the statement of financial position, on May 13, 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.

B. As of the report date, the Company has two series of commercial paper, a rated series totaling approx. NIS 337 million and an unrated series totaling approx. NIS 140 million. After the date of the statement of financial position and towards the expected expiration of the term of the commercial paper of such rated series, the Company and the holders of the commercial paper series agreed to extend the term of the commercial paper by five additional periods of 12 months each, with no change in the remaining conditions of the commercial paper series.

Annex to Consolidated Financial Statement

Separate Interim Financial Statement

as of March 31, 2019

(Unaudited)

Azrieli Group Ltd.

Separate Interim Financial Statement
as of March 31, 2019

(Unaudited)

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

Azrieli Group Ltd.

Separate Interim Financial Statement
as of March 31, 2019

(Unaudited)

Contents

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 March 31, 2019 and for the three-month period then ended. The separate interim financial statement is the responsibility of the Company's board of directors and management. Our responsibility is to express a conclusion on the separate interim financial statement for this interim period, 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 40.3 million as of March 31, 2019 and the profit from such Investee Companies amounted to approx. NIS 31 million for the three-month period then ended. 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
Member of Deloitte Touche Tohmatsu Limited

Tel Aviv, May 21, 2019

Azrieli Group Ltd.

Statement of Financial Position

	As of March 31		As of December 31
	2019	2018	2018
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
Assets			
Current assets			
Cash and cash equivalents	2,027	2,067	372
Short-term deposits and investments	1	1	1
Trade accounts receivable	6	8	13
Other receivables	219	113	136
Current tax assets	45	9	62
	2,298	2,198	584
Asset held for sale	-	-	450
Total current assets	2,298	2,198	1,034
Non-current assets			
Financial assets	1,115	1,691	1,227
Investment property and investment property under construction	11,477	10,458	11,401
Investments in Investee Companies	9,483	8,751	9,327
Loans to Investee Companies	3,662	3,885	3,755
Fixed assets	9	9	9
Other receivables	249	27	36
Total non-current assets	25,995	24,821	25,755
Total assets	28,293	27,019	26,789

The notes to the Condensed Separate Financial Statements form an integral part thereof.

Azrieli Group Ltd.

Statement of Financial Position
(Cont.)

	As of March 31		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	1,451	1,624	1,291
Trade payables	94	63	132
Payables and other current liabilities	63	68	68
Declared dividend	560	520	-
Total current liabilities	2,168	2,275	1,491
Non-current liabilities			
Loans from financial corporations	707	1,021	904
Bonds	7,154	6,268	5,886
Other liabilities	26	21	26
Deferred tax liabilities	1,421	1,402	1,405
Total non-current liabilities	9,308	8,712	8,221
Capital			
Ordinary share capital	18	18	18
Premium on shares	2,478	2,478	2,478
Capital reserves	605	588	674
Retained earnings	13,716	12,948	13,907
Total capital attributable to shareholders of the Company	16,817	16,032	17,077
Total liabilities and capital	28,293	27,019	26,789

May 21, 2019			
Date of Approval of Separate Financial Statement	**Danna Azrieli Chairman of the Board**	**Eyal Henkin CEO**	**Irit Sekler-Pilosof Chief Financial Officer**

The notes to the Condensed Separate Financial Statements form an integral part thereof.

Azrieli Group Ltd.

Statement of Profit or Loss and Other Comprehensive Income

	For the three-month period ended March 31		For the year ended December 31
	2019	2018	2018
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
Revenues			
From rent and management and maintenance fees	169	147	629
Net profit (loss) from adjustment to fair value of investment property and investment property under construction	1	(12)	176
Financing	38	34	147
Other	89	22	90
Total Revenues	297	191	1,042
Costs and Expenses			
Cost of revenues from rent and management and maintenance fees	7	6	27
Sales and marketing	7	7	29
G&A	16	16	59
Financing	10	11	159
Other	5	-	3
Total Costs and Expenses	45	40	277
Income before the Company's share in the profits of Investee Companies	252	151	765
Share in profits of Investee Companies, net of tax	157	126	574
Income before income taxes	409	277	1,339
Taxes on income	(40)	(18)	(119)
Profit for the period from continued operations	369	259	1,220
Loss from a discontinued operation (after tax)	-	-	(2)
Net profit for the period	369	259	1,218
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	(28)	4	11
Amounts that were carried or will be carried in the future to the income statement, net of tax:			
Translation differences from foreign operations	(28)	9	67
Share in the other comprehensive income (loss) of Investee Companies, net of tax	(11)	4	25
Total	(39)	13	92
Other comprehensive income for the period, net of tax	(67)	17	103
Total comprehensive income for the period	302	276	1,321

Azrieli Group Ltd.

Statement of Cash Flows

	For the three-month period ended March 31		For the year ended December 31
	2019	2018	2018
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
Cash flows - current operations			
Net profit for the period	369	259	1,218
Depreciation and amortization	-	-	2
Net loss (profit) from adjustment to fair value of investment property and investment property under construction	(1)	12	(176)
Financing and other income, net	(116)	(45)	(85)
Share in profits of Investee Companies, net of tax	(157)	(126)	(572)
Expenses for taxes recognized in the income statement	40	18	119
Income tax paid, net	(23)	(24)	(153)
Change in trade and other receivables	(9)	(20)	(69)
Change in trade and other payables	(5)	11	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	98	87	302
Cash flows - investment activities			
Purchase and investment in investment property and investment property under construction	(97)	(109)	(770)
Purchase of fixed assets	(1)	(1)	(2)
Investments in Investee Companies	(33)	-	(87)
Receipt (grant) of long-term loans to Investee Companies, net	127	(147)	101
Interest and dividend received	87	23	114
Return of investment in an Investee Company	-	-	14
Proceeds from disposition of financial assets, net	278	-	-
Change in short-term deposits	-	100	100
Taxes paid for financial assets	-	(2)	(2)
Proceeds from the disposition of investment property	-	31	31
Institutions for investment property	-	(1)	-
Investment in financial assets	(10)	-	-
Net cash - investment activities	351	(106)	(501)

Azrieli Group Ltd.

Statement of Cash Flows
(Cont.)

	For the three-month period ended March 31		For the year ended December 31
	2019	2018	2019
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
Cash flows - financing activities			
Bond offering net of offering expenses	1,467	1,399	1,399
Dividend distribution to shareholders	-	-	(520)
Repayment of bonds	(185)	-	(454)
Repayment of long-term loans from financial corporations	(72)	(58)	(422)
Short-term credit from financial corporations, net	42	(41)	(146)
Deposits from customers, net	(45)	(39)	(113)
Interest paid			
Net cash - financing activities	1,207	1,261	(256)
Increase (decrease) in cash and cash equivalents	1,656	1,242	(455)
Cash and cash equivalents at beginning of period	372	826	826
Effect of exchange rate changes on cash balances held in foreign currency	(1)	(1)	1
Cash and cash equivalents at end of period	2,027	2,067	372

(*) Non-cash transactions for the three-month period ended March 31, 2019 include a change in other payables due to a dividend in the sum of NIS 560 million (for the three-month period ended March 31, 2018 – NIS 520 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.

For the three-month period ended March 31, 2019, non-cash transactions included a change in other receivables due to the sale of investments in financial assets in the sum of approx. NIS 282 million (for the three-month period ended March 31, 2018 – approx. NIS 88 million) and a dividend receivable from financial assets in the sum of approx. NIS 9 million.

Azrieli Group Ltd.

Additional Information to the Separate Interim Financial Statement

As of March 31, 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 which are published with this separate financial statement.

May 21, 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 May 21, 2019 on condensed consolidated financial information of the Company as of March 31, 2019, and for the three-month period then ended.

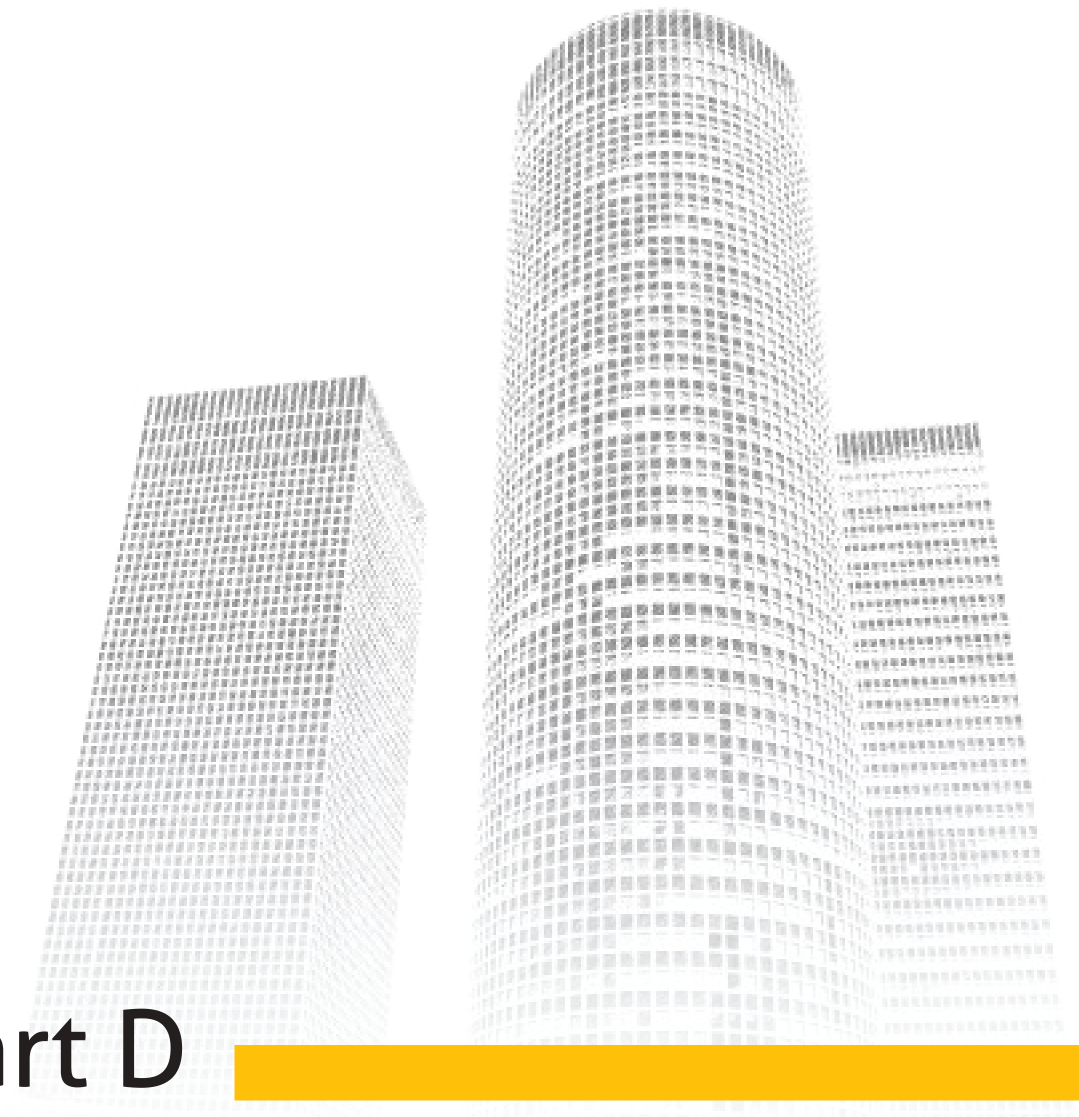
(2) Review report of May 21, 2019 on condensed separate financial information of the Company as of March 31, 2019, and for the three-month period then ended pursuant to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Sincerely,

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

AZRIELIGROUP

Effectiveness of Internal Control over the Financial Reporting and Disclosure



Part D

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 | Ran Tal, VP, General Counsel and Corporate Secretary

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

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

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

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

In the annual report regarding the effectiveness of internal control over financial reporting and disclosure, which was attached to the periodic report for the period ended on December 31, 2018 (the "Most Recent Annual Report on Internal Control"), the Board of Directors and management evaluated the internal control at the Corporation; based on such evaluation, the Board of Directors and management of the Corporation reached the conclusion that the said internal control, as of December 31, 2018, is 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 presented in the Most Recent Annual Report on Internal Control.

As of the Report Date, based on the evaluation of the effectiveness of internal control at the Most Recent Annual Report on Internal Control, and based on information which was brought to the knowledge of the management and the Board of Directors as aforesaid, the internal control is effective.

STATEMENT OF MANAGERS:

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

I, Eyal Henkin, represent that:

1. I have reviewed the quarterly report of Azrieli Group Ltd. (the "Corporation") for Q1/2019 (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 periodic 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: May 21, 2019

Eyal Henkin | CEO

STATEMENT OF MANAGERS:

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

I, Irit Sekler-Pilosof, represent that:

1. I have reviewed the Interim Financial Statements and other financial information included in the interim reports of Azrieli Group Ltd. (the “Corporation”) for Q1/2019 (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 periodic 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: May 21, 2019

Irit Sekler-Pilosof | CFO