AZRIELI GROUP

Azrieli Group Ltd.

Quarterly Report Q3/2018

Dated 30 September 2018

AZRIELIGROUP

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Quarterly Report Q3/2018

Dated 30 September 2018

Part A | Board Report

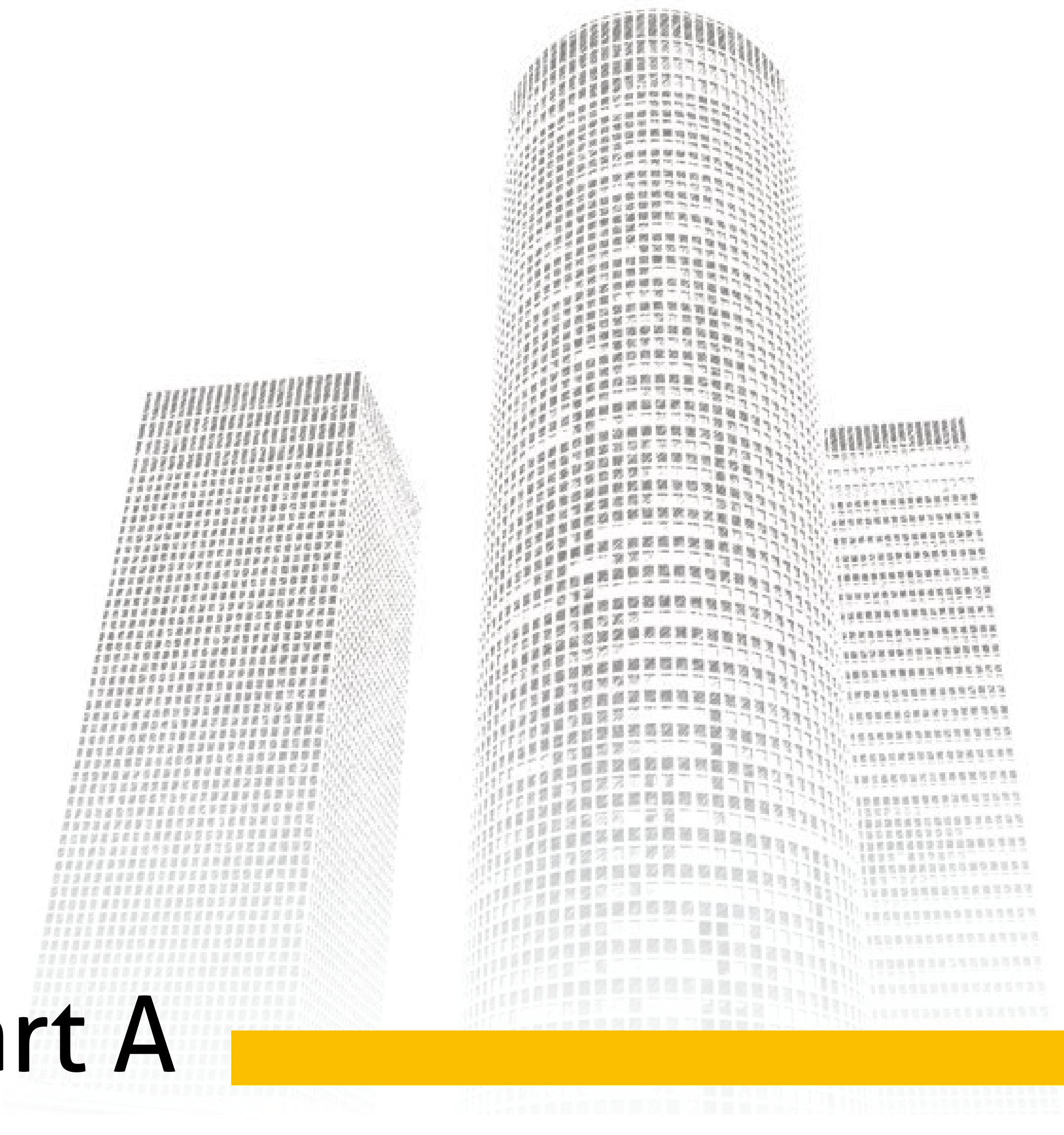
Part B | Update of the Description of the Corporation's Business

Part C | Consolidated Financial Statements Dated 30 September 2018

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

AZRIELIGROUP

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 and the Azrieli Sarona tower. The Company also operates in the senior housing sector and manages three active senior homes. Palace Modi'in senior home was inaugurated, and tenants began moving in, in October 2018. In the United States, the Company holds several office buildings, mainly in Texas, U.S.

Azrieli Group has an extraordinary pipeline of hundreds of thousands of square meters of office, retail and senior housing space, 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; and the holding (through Granite Hacarmel, a wholly-owned subsidiary) of Supergas gas company, which markets alternative energy sources; and GES, a company engaged in the treatment of water, wastewater, air, waste and industrial chemicals. The Company also has financial holdings in Bank Leumi (3.6% equity interest) and Leumi Card (20% equity interest). The Group recently entered into an agreement for the sale of its holdings in Leumi Card.

Azrieli Group's financial strength puts it in a class of its own among real estate companies. The Company operates at a leverage ratio of net debt to assets of a mere 29%. 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.

The Group will continue to focus on its core business, while investing in new growth engines and applying advanced technologies.

Established in 1983

NIS 2.7 billion dividend
Since the IPO in 2010

More than 1.2 million sqm of leasable area, and over 0.6 million sqm of development pipeline

The biggest real estate company in Israel
NIS 31.3 billion total assets

99% occupancy rate*
on average in Israel

*Excluding properties under lease-up

17 MALLS

334 thousand sqm | 98% occupancy

14 OFFICE BUILDINGS

548 thousand sqm | 99% occupancy*

3 SENIOR HOMES

76 thousand sqm | 799 residential units
99% Occupancy*

8 OFFICE BUILDINGS OVERSEAS

246 thousand sqm | 84% occupancy

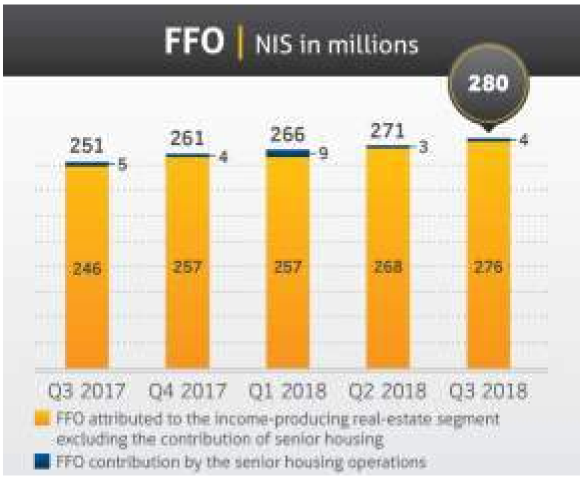
DEVELOPMENT PIPELINE

10 properties | 650 thousand sqm

PERFORMANCE SUMMARY AND FINANCIAL HIGHLIGHTS FOR Q3/2018

Rise of approx. 11% in NOI (approx. NIS 386 million), compared with the same quarter last year (approx. NIS 349 million)

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



Increase of approx. 8% in the adjusted* net profit (which totaled approx. NIS 241 million in Q3/2018, compared with approx. NIS 224 million in the same quarter last year)

* Net profit, net of the effect of property revaluations, profit from the sale of Bank Leumi stock and income from dividends net of tax.

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

1.1. General

The board of directors of Azrieli Group Ltd. (the "Company"; the Company jointly with all corporations directly and/or indirectly held thereby shall hereinafter be referred to as the "Group" or the "Azrieli Group") is proud to present this board of directors' report for the nine and three months ended September 30, 2018 (the nine months ended September 30, 2018 shall be referred to as the "Report Period" and the three months ended September 30, 2018 shall be referred to as 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, 2017, 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 2017"), and the update to the Corporation's Business chapter and the financial statements as of September 30, 2018.

The information in the board of directors' report is based on the consolidated financial statements as of September 30, 2018.[2] The Company's financials and results of operations are affected by the financials and results of operations of the companies held thereby. In some cases, we present details of events that occurred subsequently to the date of the financial statements as of September 30, 2018 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 21, 2018 (Ref.: 2018-01-027244), 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 Nine and Three Months Ended September 30, 2018

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 financial corporations. The Group's primary growth engine is the development of income-producing real estate projects: malls, offices and senior housing. 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, 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.

Additional activities – The Group holds an E-Commerce business through the Azrieli.com website, as well as interests in financial corporations: approx. 3.6% of the shares of Bank Leumi LeIsrael Ltd. ("Bank Leumi") and 20% of the shares of Leumi Card Ltd. ("Leumi Card"). For details regarding the Group's engagement, in July 2018, in an agreement for the sale of its holdings in Leumi Card, see Section 1.2.3.6 below.

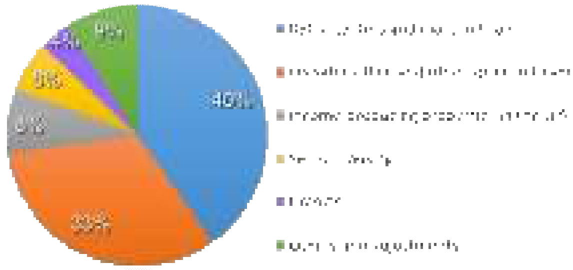
Development – The Group has 10 income-producing real estate projects in Israel at development stages in the malls, offices and senior housing segments, the planned area of which is approx. 650 thousand sqm, as well as land for development.

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:[3]

Breakdown of Total Balance Sheet Assets by Operating Segment

			Percentage of Segment Assets out of Total Assets
As of	30.9.2018	31.12.2017	30.9.18
Retail centers and malls in Israel	12,580	12,368	
Leasable office and other space in Israel	10,145	9,462	
Income-producing properties in the U.S.	2,531	1,983	
Senior housing	1,949	1,725	
Granite	1,195	1,265	
Others and adjustments	2,855	3,340	
Total	31,255	30,143	



Figures are presented in millions of NIS.

The retail centers and malls segment constitutes approx. 40% of the total balance sheet assets. The other income-producing real estate segments, in the aggregate, also constitute approx. 47% 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. Closing the Acquisition of an Office Building in Austin, Texas, U.S.

On July 12, 2018, the Company, through an (indirectly) wholly-owned American corporation, closed the acquisition of an office building in Austin, Texas, U.S. (the "Property"), in consideration for approx. U.S. $100.4 million (including transaction costs), from a third party, in accordance with agreements for acquisition of the Property. The purchased Property is a 5-floor office building with a total area of approx. 23,214 sqm (approx. 249,870 sq ft) and an occupancy rate of approx. 100%. The Property also includes approx. 970 parking spaces, most of which are situated in a nearby 7-floor car park. For further details, see the Company's immediate report of July 15, 2018 (Ref.: 2018-01-063621), which is incorporated herein by reference.

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

1.2.3.2. Engagement in an Agreement for the Purchase of Rights to Land on Menachem Begin Road, Tel Aviv

On April 22, 2018, the Company entered into an agreement with unrelated third parties (the "Sellers") for the purchase of rights to land located on Menachem Begin Road, Tel Aviv, holding a 4-floor building over a commercial ground floor, in the total area of approx. 5,500 sqm and underground floors mostly leased for office purposes. The property includes 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. In consideration for the purchase of rights to the land, the Company paid the Sellers NIS 260 million (exclusive of V.A.T.). The transaction was closed on May 14, 2018. For further details, see the Company's immediate reports of April 23, 2018 and May 14, 2018 (Ref.: 2018-01-040060 and 2018-01-038517, respectively), which are incorporated herein by reference.

1.2.3.3. Winning of a Tender for the Construction of a Facility for Waste Sorting and Recycling and Energy Production in the Rishon LeZion Area

On April 10, 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 3H to the financial statements as of September 30, 2018 and the Company's immediate report of April 11, 2018 (Ref: 2018-01-036841), which is incorporated herein by reference.

On July 2, 2018, the Company updated that Zero Waste received a petition of another group that contended in the same tender, in which the Jerusalem District Court is moved, *inter alia*, to reverse the Tender Committee's decision to choose Zero Waste as the winner of the tender, and determine that the other group is the winner of the tender, or alternatively remand the case to the Tender Committee to review Zero Waste's compliance with the tender's requirements. For further details, see the Company's immediate report of July 2, 2018 (Ref: 2018-01-058617), which is incorporated herein by reference.

1.2.3.4. Winning of a Tender for the Purchase of 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, on an area of approx. 5,300 sqm, designated for the construction of 80 residential units, 50 hotel rooms, offices and retail space, in consideration for approx. NIS 101.5 million. For further details, see the Company's immediate report of January 11, 2018 (Ref: 2018-01-004960), which is incorporated herein by reference.

1.2.3.5. Sale of Pi Glilot Land

On May 10, 2016, the Company and Granite, including through Sonol, sold all of their holdings in Pi Glilot land and in the shares of Pi Glilot (which holds a leasehold with respect to land in the Pi Glilot site) to third parties for total consideration of approx. NIS 130 million. In the Report Period, the transactions were closed and the consideration in respect thereof was paid in accordance with the provisions of the sale agreements.

1.2.3.6. Sale of the Company's Holdings in Leumi Card

In July 2018, the Company entered into an agreement (in this section: the "Agreement") together with Bank Leumi (in this section: the "Bank", and collectively: the "Sellers") for the sale of all of the Sellers' holdings in Leumi Card to Warburg Pincus Financial Holdings (Israel) Ltd., a corporation controlled by the investment fund Warburg Pincus (in this section: the "Buyer"). For the purchase of all of the Sellers' shares in Leumi Card, the Buyer will pay the Sellers NIS 2,500 million (subject to adjustments) in three installments in different amounts, according to the dates set forth in the Agreement. The Company's share in the proceeds is NIS 500 million (subject to adjustments). The Agreement includes clauses regarding collateral, which the Buyer is obligated to provide to the Sellers, as well as representations and indemnification clauses which are specified in the Agreement. The Agreement also includes several conditions precedent, including receipt of the regulatory approvals for the transaction which are required by law. In view of the conditions precedent, there is no certainty regarding the closing of the transaction. On October 29, 2018, the transaction's closing date was extended by another three months, subject to the mechanism determined by the Agreement, which allows for the shortening of the period and cancellation of the Agreement, in circumstances whereunder certain necessary approvals are not obtained on earlier dates. For further details, see the Company's immediate reports of July 28, 2018 and October 29, 2018 (ref.: 2018-01-069771 and 2018-01-101721, respectively), which are incorporated herein by reference.

1.2.3.7. Financing Transactions[4]

During the Report Period and during Q1/2018, the Company expanded the Series D Bonds, such that approx. NIS 1,367 million of additional par value of Series D Bonds were allocated in consideration for approx. NIS 1,409 million (approx. NIS 1,400 million after attribution of the issue expenses). For details with respect to such expansion of the Series D Bonds, see Section 19.5 of Chapter A of the Periodic Report for 2017, which is incorporated herein by reference.

1.2.3.8. Changes of Company Officers

Mr. Eyal Henkin was appointed as the Company's CEO and his office commenced on January 1, 2018.[5] Prior to his appointment to this office, he had served as the CEO of Supergas for some eight years.

In August 2018, the Company appointed Ms. Rachel Mittelman as Chief Information Officer at the Group, from September 2018.

1.2.3.9. Tax Assessments

See Section 1.3.5 of Chapter A of the Periodic Report for 2017, which is incorporated herein by reference, and Note 3C to the financial statements.

[4] 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) (the "Shelf Prospectus"). Such report is incorporated herein by reference. For details with respect to the extension of the term of the Shelf Prospectus, see Section 1.2.3.10 below.

[5] For the detailed terms of Mr. Henkin's office and employment, as approved by the general meeting of the Company's shareholders on April 30, 2018, see Part B of the notice of meeting report of March 21, 2018 (Ref.: 2018-01-027295), and the immediate report of May 1, 2018 on the results of the meeting (Ref.: 2018-01-043000), and Note 36C(6) to the financial statements for 2017, which are attached as Part C to the Periodic Report for 2017. All of the said information in the said reports is incorporated herein by reference.

1.2.3.10. Extension of the term of the Shelf Prospectus

On March 21, 2018, the Israel Securities Authority (ISA) extended the term of the Shelf Prospectus by 12 additional months, i.e., until May 11, 2019.

1.2.3.11. Engagement of Supergas Natural in an Agreement with a Third Party for the Purchase of Natural Gas

For details regarding the engagement of Supergas Natural in an agreement with a third party for the purchase of natural gas, see Note 3E to the financial statements.

1.2.4. Dividends

	Date of Approval	Date of Payment	Sum of Dividend
Azrieli Group	March 20, 2018	May 2, 2018	NIS 520 million[6]
Leumi Card	February 19, 2018	March 4, 2018	NIS 50 million[7]
Leumi Card	August 9, 2018	August 16, 2018	NIS 100 million[8]
Leumi Card	November 11, 2018	November 14, 2018	NIS 58 million[9]
Bank Leumi	March 5, 2018	March 28, 2018	NIS 342 million[10]
Bank Leumi	May 23, 2018	June 19, 2018	NIS 292 million[11]
Bank Leumi	August 13, 2018	September 6, 2018	NIS 361 million[12]
Bank Leumi	November 12, 2018	December 10, 2018	NIS 375 million[13]

[6] As of September 30, 2018, the Company has retained earnings in the sum of approx. NIS 14.2 billion (including a capital reserve for changes in the fair value of investments in equity instruments designated at fair value through other comprehensive income).

[7] The Company's share in the sum of such dividend is approx. NIS 10 million.

[8] The Company's share in the sum of the said dividend is approx NIS 20 million. In accordance with the agreement for the sale of the Company's holdings in Leumi Card, as stated in Section 1.2.3.6 above, the proceeds from the sale are expected to decrease by the amount of the dividend that was paid.

[9] The Company's share in the sum of the said dividend is approx NIS 12 million. In accordance with the agreement for the sale of the Company's holdings in Leumi Card, as stated in Section 1.2.3.6 above, the proceeds from the sale are expected to decrease by the amount of the dividend that was paid.

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

[11] The Company's share in the sum of such dividend is approx. NIS 10 million.

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

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

2 | INCOME-PRODUCING REAL ESTATE

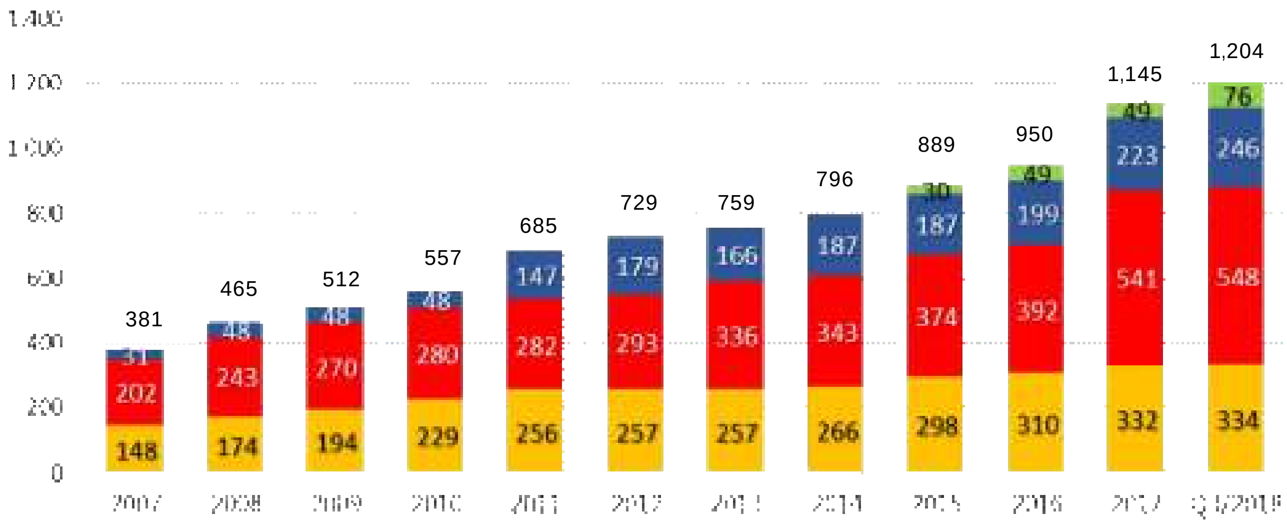
2.1. Business Environment

In the estimation of the Company's management, there has been no material change in the business environment in which it operates, as described in Section 2.1 of the board of directors' report for the Periodic Report for 2017.

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 September 30, 2018



▪ 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 segment as of September 30, 2018:

- Retail centers and malls in Israel – approx. 98%;
- Leasable office and other space in Israel – approx. 99%[14];
- Income-producing properties in the U.S. – approx. 84%;
- Senior housing in Israel – approx. 99%[15].

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[16]. 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.

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

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

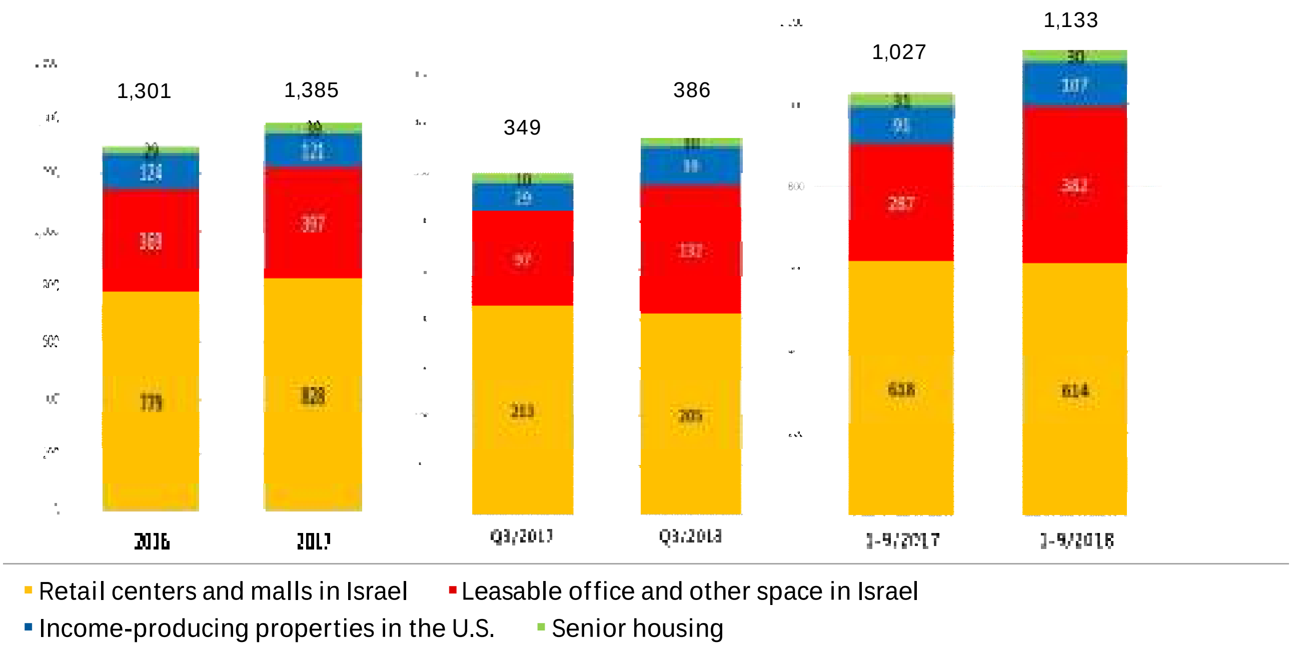
[16] Additional indications are, for example: The market value of similar properties in the same area and the sale prices of similar properties in recent transactions.

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).[17]

The NOI figures for the income-producing real estate portfolio are as follows:[18]

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.

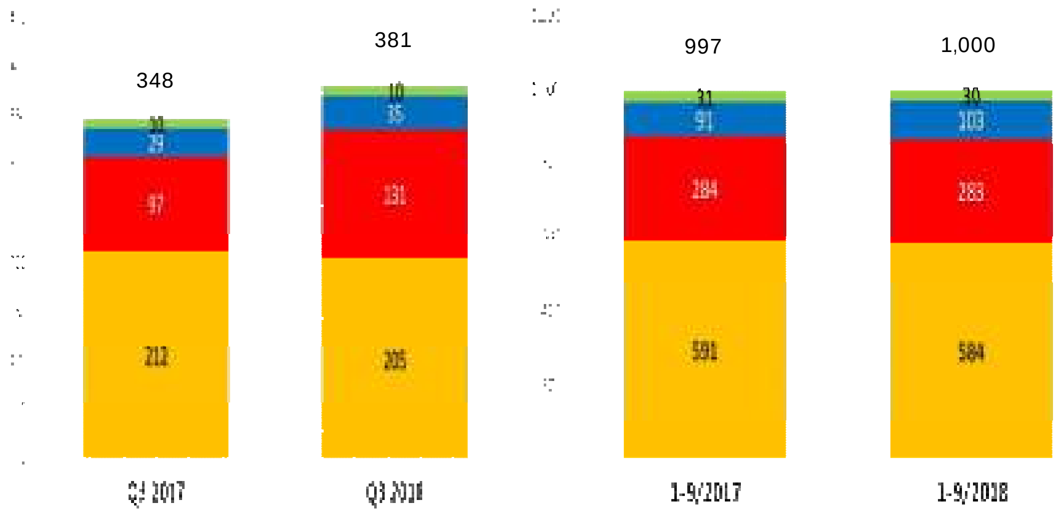
[17] The Group prepares its financial statements based on international standardization, and consequently, in the calculation of the cost of leasing and operating the properties classified as investment properties, depreciation was not taken into account. Furthermore, for the purpose of calculating the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

[18] 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.
Same-property NOI includes the data of the office buildings in Houston, Texas, U.S., in which the Company's holding rate has increased (see Section 2.12 below).

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 B. 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[19], as of September 30, 2018:

Calculation of the Weighted Cap Rate for the Report Period	
Total investment properties in the "Extended Standalone" statement (1)	27,007
Net of value attributed to investment properties under construction	(2,268)
Net of value attributed to land reserves	(500)
Net of value attributed to income-producing senior housing	(1,582)
Total value of income-producing investment properties (including the fair value of vacant space)	22,657
Actual NOI in the quarter ended September 30, 2018 (excluding senior housing)	376
Additional future quarterly NOI (2)	39
Total standardized NOI	415
Proforma annual NOI based on the standardized NOI (excluding senior housing)	1,660
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 June 30, 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 "Investments, Loans and Receivables" for averaging attributed to real estate.

(2) The figure includes mainly estimates for additional NOI for vacant space not yet occupied, space occupied and to be occupied during 2018 under a whole-year lease, for which value was recorded in the valuation updated as of June 30, 2018 (the main amounts in this item are for the lease-up of the offices in Azrieli Sarona Center in Tel Aviv, in Azrieli Holon center and in Rishonim and for the Company's properties overseas).

(3) Standardized annual NOI rate out of total income-producing investment properties (including vacant space).

(4) This figure does not constitute the Company's NOI forecast for 2018 and its entire purpose is to reflect the NOI assuming full occupancy for a whole year of all income-producing properties.

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

[19] 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		For the nine months ended	
	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017
Net profit for the period attributable to shareholders	264	263	759	1,144
Discounting the net profit (loss) from Granite Hacarmel and Azrieli E-Commerce attributable to the shareholders (including a deduction of excess cost)	2	1	(10)	(23)
Profit adjustments:(1)				
Decrease (Increase) in the value of investment properties	12	32	35	(485)
Depreciation and amortizations	2	2	6	6
Net financing and other non-cash flow expenses (revenues)	4	(99)	39	(112)
Tax expenses	27	56	45	217
Net of a dividend received from financial assets available for sale	(33)	(7)	(65)	(21)
Cash flow from the receipt of residents' deposits net of deposits returned to residents(2)	5	6	16	42
Net of revenues from the forfeiture of residents' deposits	(6)	(6)	(16)	(16)
Total profit adjustments	11	(16)	60	(370)
Plus interest paid for real investments(3)	3	3	8	10
Total FFO attributed to the income-producing real estate business(4)(5)	280	251	817	762
Total cash flow of financing of properties under development(6)	15	3	38	33
Total FFO attributed to the income-producing real estate business, excluding the cash flow of financing of properties under development	295	254	855	795

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 4 million and in the sum of approx. NIS 15 million in the three and nine months ended September 30, 2018, respectively (approx. NIS 5 million and approx. NIS 41 million in the three and nine months ended September 30, 2017, respectively).

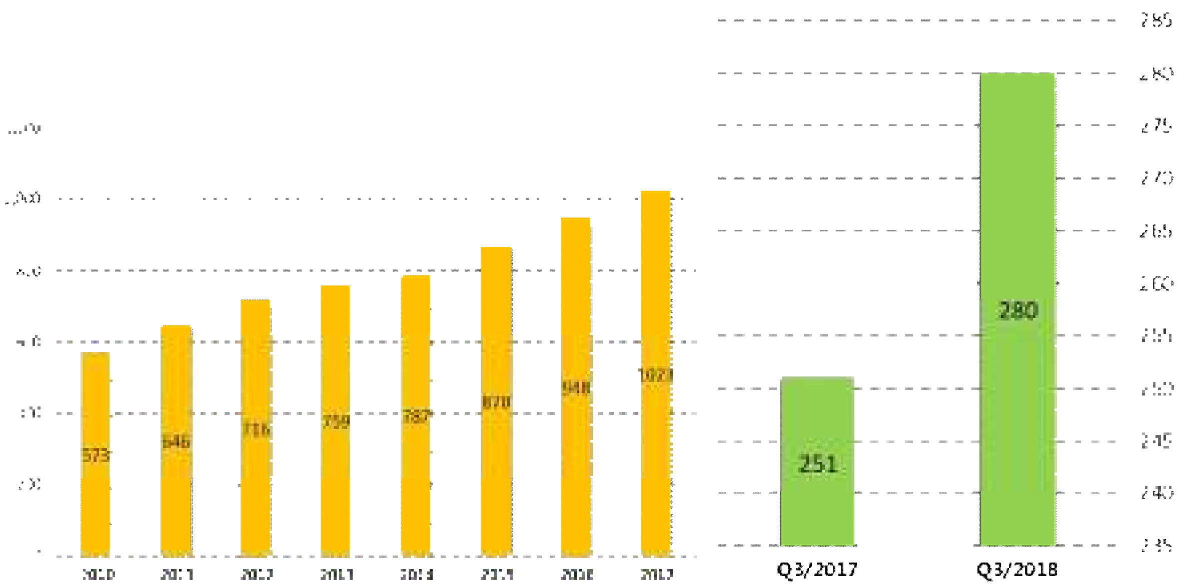
(6) Calculated on the basis of credit costs which were capitalized to qualified assets and investment property under construction in the financial statements.

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

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

Annual Data | Quarterly Data



Figures are presented in millions of NIS.

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		
	30.9.2018	30.9.2017
Equity attributable to the Company's shareholders in the financial statements	16,646	15,916
Plus a tax reserve in respect of the revaluation of investment properties to fair value (net of minority interests)	3,120	3,010
EPRA NAV	19,766	18,926
EPRA NAV per share (NIS)	163	156

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

2.8.2. EPRA NNNAV

The EPRA NNNAV is a measure that reflects the Company's net asset value assuming the immediate disposal ("Spot") of the real estate business, and thus requires certain adjustments, such as: presentation according to the fair value of assets and liabilities that are not so presented in the financial statements and adjustments to deferred taxes.

EPRA NNNAV		
	30.9.2018	30.9.2017
EPRA NAV	19,766	18,926
Adjustment of assets to fair value (excluding minority interests)	17	17
Adjustment of financial liabilities to fair value (excluding minority interests)	(250)	(251)
Net of a tax reserve in respect of the revaluation of investment properties to fair value (net of minority interests)	(3,120)	(3,010)
EPRA NNNAV	16,413	15,682
EPRA NNNAV per share (NIS)	135	129

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

AZRIELI GROUP'S INCOME PRODUCING REAL ESTATE*

MALLS & Retail CENTERS

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

OFFICES & OTHERS in Israel

Azrieli Towers
Azrieli Sarona
Azrieli Holon Business Center
Azrieli Caesarea
Azrieli Herzliya Center
Azrieli Modi'in
Azrieli Modi'in Residence
Azrieli Petach Tikva
Azrieli Jerusalem
Azrieli Givatayim
Azrieli Kiryat Ata
Azrieli HaNegev
Azrieli Rishonim Center
Azrieli Town Building E

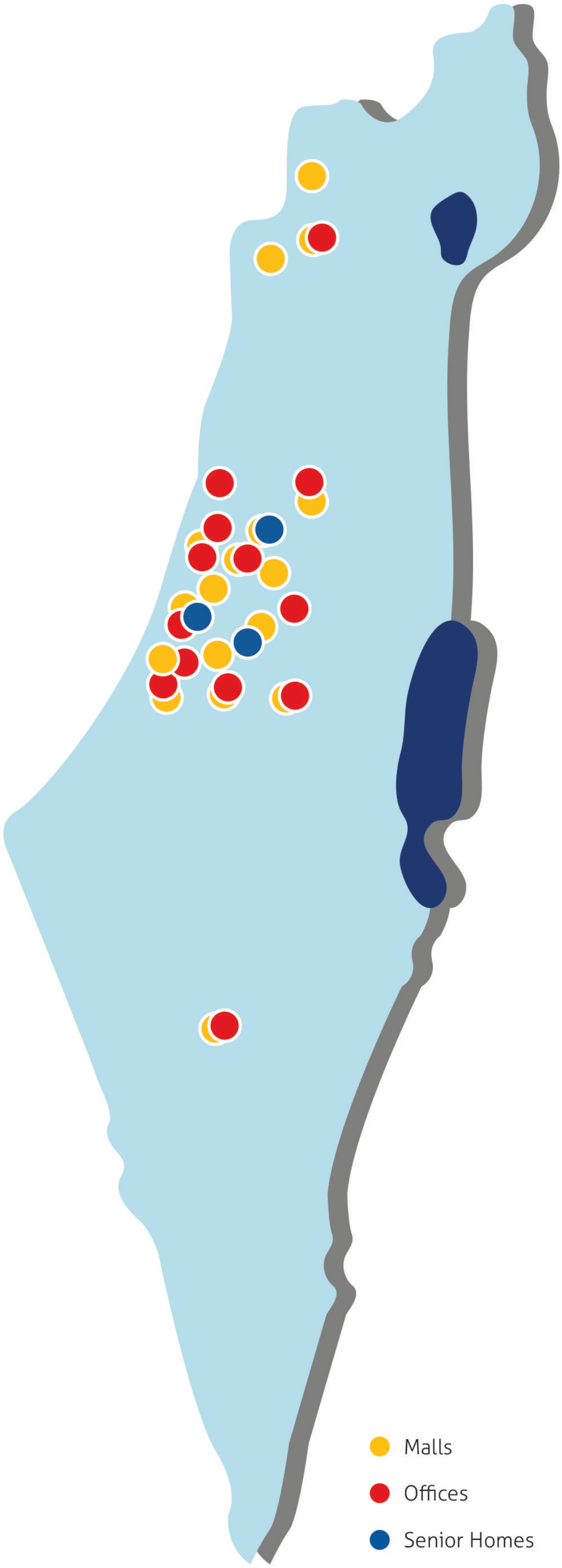
OVERSEAS

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

SENIOR HOMES

Palace Tel Aviv
Palace Ra'anana
Palace Modi'in

17 malls	334,000 sqm
14 office properties	548,000 sqm
3 senior homes	76,000 sqm 799 residential units
8 office properties overseas	246,000 sqm
Total	1,204,000 sqm



*As of September 30, 2018

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 Azrieli Group has 17 malls and retail centers in Israel with a total GLA of approx. 334 thousand sqm.

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.

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

Balance of the properties of the retail centers and malls in Israel segment – The balance totaled approx. NIS 12.6 billion as of September 30, 2018, compared with approx. NIS 12.4 billion on December 31, 2017. The change mainly derives from investments in the segment’s properties.

Change due to adjustment of the fair value of the segment’s investment properties and investment properties under construction – The loss from such adjustment in the Report Period totaled approx. NIS 58 million, compared with a loss of approx. NIS 3 million in the same period last year. The properties are presented according to an update to the valuations prepared by an independent appraiser as of June 30, 2018, and the loss in the period mainly derived from a betterment levy charge.

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 Nine Months Ended		For the Year Ended
	Rate of change	30.9.2018	30.9.2017	Rate of change	30.9.2018	30.9.2017	31.12.2017
Revenues	(3%)	262	269	-	772	773	1,032
NOI	(4%)	205	213	(1%)	614	618	828

Figures are presented in millions of NIS.

The NOI decrease in the Report Period chiefly results from the vacation of an income-producing area as part of the preparations for the excavation work at the Lodzia site.

The table below presents the segment's NOI development:

Development of the NOI of the Retail Centers and Malls in Israel Segment				
	For the Three Months Ended		For the Nine Months Ended	
	30.9.2018	30.9.2017	30.9.2018	30.9.2017
For segment properties owned by the Company as of the beginning of the period	205	212	584	591
For properties purchased or construction of which was finished in 2017	-	-	30	21
For properties operation of which was discontinued in 2017*	-	1	-	6
Total NOI from all properties	205	213	614	618

* Including the effect of vacation of an income-producing area as part of the preparations for the excavation work at the Lodzia site.

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 Azrieli Group has 14 income-producing properties in this segment in Israel, with a total GLA of approx. 548 thousand sqm. 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 600 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

Balance of the Group's investment properties in the leasable office and other space in Israel Segment – The balance totaled approx. NIS 10.1 billion as of September 30, 2018, compared with approx. NIS 9.5 billion as of December 31, 2017. 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 20 million, compared with a profit of approx. NIS 449 million in the same period last year. The profit last year mainly derived from revaluation of the office tower in Sarona upon completion of construction. The properties are presented according to an update to the valuations prepared by an independent appraiser as of June 30, 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 Nine Months Ended			For the Year Ended
	Rate of change	30.9.2018	30.9.2017	Rate of change	30.9.2018	30.9.2017	31.12.2017
Revenues	30%	163	125	31%	466	355	489
NOI	36%	132	97	33%	382	287	397

Figures are presented in millions of NIS.

The increase in revenues and in NOI chiefly results from the opening of the offices at Sarona and Rishonim in 2017.

The following table presents the segment's NOI development:

Development of the NOI of the Leasable Office and Other Space in Israel Segment				
	For the Three Months Ended		For the Nine Months Ended	
	30.9.2018	30.9.2017	30.9.2018	30.9.2017
NOI for segment properties owned by the Company as of the beginning of the period	131	97	283	284
NOI for properties purchased or construction of which was finished in 2017	-	-	97	3
NOI for properties purchased in 2018	1	-	2	-
Total NOI from all properties	132	97	382	287

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 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 by the continued lease-up of Azrieli Holon center (in the current quarter also from the continued lease-up of the offices in Sarona and in Rishonim), 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 by the purchase of an existing senior home – Palace Tel Aviv, one of the most luxurious homes in Israel. In 2016, the Company closed the purchase of the senior home Palace Ra'anana (formerly "Ahuzat Bait"). As of the Report Release Date, the Company has completed the construction of the senior home in Modi'in and resident move-ins began in October 2018.

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. 799 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.

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

Balance of the Group's segment properties in the senior housing segment – This balance totaled approx. NIS 1.9 billion as of September 30, 2018, compared with approx. NIS 1.7 billion as of December 31, 2017. The change mainly derives from investments in properties under construction.

Change due to adjustment of the fair value of the segment's investment properties and investment properties under construction – The profit from adjustment of the fair value of the segment's investment property and investment property under construction totaled approx. NIS 15 million in the Report Period compared with a profit of approx. NIS 58 million in the same period last year. The properties are presented according to an update to the valuations prepared by an independent appraiser as of June 30, 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 Nine Months Ended			For the Year Ended
	Rate of change	30.9.2018	30.9.2017	Rate of change	30.9.2018	30.9.2017	31.12.2017
Revenues	-	32	32	-	95	95	126
NOI	-	10	10	(3%)	30	31	39

Figures are presented in millions of NIS.

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

Development of the NOI of the Senior Housing Segment				
	For the Three Months Ended		For the Nine Months Ended	
	30.9.2018	30.9.2017	30.9.2018	30.9.2017
For segment properties owned by the Company as of the beginning of the period	10	10	30	31
For properties purchased or construction of which was finished in 2017	-	-	-	-
Total NOI from all properties	10	10	30	31

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.

As of the date of the report, 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 180 tenants.[20]

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

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

Balance of the Group's investment properties in the segment – This balance totaled approx. NIS 2.5 billion as of September 30, 2018, compared with approx. NIS 2.0 billion on December 31, 2017. The change mainly derives from the purchase of the office building in Austin, Texas, U.S.A. as aforesaid, and from the rise in the exchange rate of the dollar as of September 30, 2018 compared with December 31, 2017.

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 13 million, compared with a loss of approx. NIS 19 million in the same period last year.

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 Nine Months Ended			For the Year Ended
	Rate of change	30.9.2018	30.9.2017	Rate of change	30.9.2018	30.9.2017	31.12.2017
Revenues	33%	72	54	17%	196	168	221
NOI	34%	39	29	18%	107	91	121

Figures are presented in millions of NIS.

The increase in revenues and in NOI chiefly results from the fact that, at the end of 2017, the Company acquired the share of one of the partners in the projects One Riverway (33.33%) and Three Riverway (25%), such that its share in the ownership of such properties increased to 66.66% and 70%, respectively, from the purchase of the office building in Austin, Texas, U.S.A. during the quarter and also from the lease-up of areas in existing properties. The aforesaid increase was offset in the Report Period by the effect of the U.S. dollar exchange rate.

The following table presents the segment's NOI Development:

Development of the NOI of the income-producing properties in the U.S. Segment				
	For the Three Months Ended		For the Nine Months Ended	
	30.9.2018	30.9.2017	30.9.2018	30.9.2017
NOI for segment properties owned by the Company as of the beginning of the period	35	29	103	91
NOI for properties purchased or construction of which was finished in 2018	4	-	4	-
Total NOI from all properties	39	29	107	91

Figures are presented in millions of NIS.

Same-Property NOI in the income-producing properties in the U.S. segment was affected by the aforesaid increase of the holding rate in One Riverway and Three Riverway (which increased the NOI by approx. NIS 3 million in the present quarter compared with the same quarter last year and by approx. NIS 9 million in the Report Period compared with the same period last year), and by changes in occupancy in some of the properties and by changes in the average exchange rate of the U.S. dollar.

3 | NON-REAL ESTATE BUSINESS

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 Nine Months Ended		For the Year Ended
	Rate of Change	30.9.2018	30.9.2017	Rate of Change	30.9.2018	30.9.2017	31.12.2017
Net revenues	6%	154	45	(2%)	524	535	705
Segment profit	12%	19	17	4%	84	81	104

Figures are presented in millions of NIS.

3.2. Additional Activities

3.2.1. Investments in Financial Corporations

The Group has holdings in the financial sector, with investments in Bank Leumi and in Leumi Card[21]. 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, 2017	1,132	536	1,668
Divestment proceeds	-	-	-
Total investment as of September 30, 2018(3)	1,132	536	1,668
Fair value of the investment as presented in the financial statements as of September 30, 2018	1,293	463	1,756
Change in fair value during the Report Period	161	(73)	88
Dividend received in the Report Period	35	30	65

Figures are presented in millions of NIS.

(1) The fair value of the investment in Bank Leumi was determined according to the value of the share at the Tel Aviv Stock Exchange (TASE) as of September 30, 2018.
(2) The fair value of the investment in Leumi Card was determined according to the Company's share (20%) in the consideration set forth in the agreement for the sale of Leumi Card as stated in Section 1.2.3.6 above.
(3) Before adjustment to changes in fair value during the Report Period.

[21] 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 2017, which is incorporated herein by reference.

4 | BUSINESS DEVELOPMENT – GROWTH ENGINES

4.1. Review of the Business Development Operations

4.1.1. Development of Income-Producing Properties

The Group's primary growth engine is expertise in development and unique architectural design of income-producing property project: malls, offices and senior housing. As of the date of the Report, the Group has 10 projects at various development stages in Israel.

Summary of Information about Properties Under Development

Name of Property	Use	Marketable Sqm	Estimated Completion	Book Value of Project [1]	Cost Invested [2]	Estimated Construction Cost including Land[2]
Development Projects under Construction in the Short-Term						
Palace Lehavim Senior Home	Senior housing	Phase A: 32,000[3] Phase B: 12,000[3]	Phase A: Q1/2020 Phase B: TBD	115	111	380-390
Azrieli Town Tel Aviv [4]	Retail, offices and residence	Offices 50,000 retail 4,000 residence 21,000 (210 residential units)	Retail and offices:2020 Residence: TBD	631	433	1,060-1,110
Azrieli Sarona Tel Aviv	Retail	10,500	2019[11]	301	318	330-340
HaManor Holon	Retail and offices	28,000	2020	69	68	220-240
Total		157,500		1,116	930	1,990-2,080
Development Projects in the Medium-Term						
Expansion of Azrieli Tel Aviv Center	Retail, offices and residence	150,000[5]	TBD	752	442	2,300-2,500
Modi'in land (Lot 21)	Retail, offices, residence and hotel	20,000[3][8]	TBD	122	129	350-380
Senior housing land Rishon LeZion	Senior housing and retail	28,750[3][7]	TBD	54	53	310-320
Total		198,750		928	624	2,960-3,200
Total		356,250		2,044	1,554	4,950-5,280
Development Projects in Planning Stages						
Azrieli Town Building E	Offices	21,000	TBD	[9]	[9]	TBD
Holon 3 – Holon Industrial Zone [6]	Retail and offices	220,000	TBD	391	400	TBD
Petach Tikva land	Offices	53,000[10]	TBD	91	97	TBD
Total		294,000		482	497	
Total		650,250				

Cost figures are presented in millions of NIS.

Holding rate is 100% for all properties.

1. As of September 30, 2018.
2. Without capitalizations and tenant fit-outs, as of September 30, 2018.
3. The figure represents building rights in sqm.

4. The figures presented refer to the current zoning plan in respect of the land. As of the Report Release Date, the Group is promoting a zoning plan for additional office and residential rights. In May 2018, the Local Committee approved the deposit of a zoning plan for additional employment and hotel areas in the total scope of approx. 24 thousand sqm (gross), and an aboveground permit has been received.
5. In October 2017, the District Committee's approval was received for the publication of a plan to validate an increase of rights for the construction of the fourth tower and the expansion of the mall, in a total area of approx. 150,000 sqm, which represents an increase of approx. 80,000 sqm in building rights, and as of the Report Release Date, the zoning plan has been published and validated.
6. 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. The Company is acting for consolidation of the parcels which will increase the building rights by approx. 30 thousand sqm.
7. 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).
8. The Group is in the process of increasing the building rights in the project to 28,000 sqm.
9. The building rights were purchased in the framework of the purchase of the income-producing property in May 2018.
10. 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.
11. Completion of the western façade in the project in Q4/2018 and completion of the construction in 2019.

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 on the lease of areas under construction. For further details, see below.

Description of Properties under Construction and Land Reserves

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 Azrieli Sarona Mall, which is in construction stages, stretches over a leasable area of approx. 10,500 sqm, and is located at the base of the Sarona office tower. The location of the mall in proximity to the Sarona preservation complex will integrate an indoor air-conditioned shopping experience with an experience of the venue's restaurants and cafés. The western façade in the project will be completed in Q4/2018 and the construction of the mall is scheduled to be completed in 2019. The office tower is in final marketing stages. Contracts, some of which include options for the lease of additional space, have been signed and/or advanced-stage drafts have been exchanged in respect of approx. 98% of the leasable office space (there are signed contracts including options for approx. 96%).

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 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 May 2018, an application for a changes permit for the project was approved, for the addition of another LTC unit, and the permit was received in October 2018.

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 November 2018, a zoning plan was published for deposit for the addition of commercial and hotel areas in the total scope of approx. 24,000 sqm (gross). 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.

Expansion of Azrieli Tel Aviv Center – 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 intends to construct retail space that will serve to expand the existing mall and a multi-story tower.

Holon 3 - Holon Industrial Zone – The land is of an area of approx. 59,200 sqm. Construction commenced in March 2018 and in June 2018 the excavation and shoring work began 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. 220,000 sqm of leasable office space and a family-friendly entertainment and shopping complex. The project is in proximity to central traffic arteries.

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 and 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 aboveground building rights and was referred for a discussion at the District Committee. The discussion was scheduled for November 2018. In addition, a zoning plan for additional underground areas which was consolidated with the said plan has been published for deposit.

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.

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.

Azrieli Jerusalem mall – The zoning plan for expansion of the mall, senior housing and office space was discussed at the Local Planning and Building Committee and its recommendation was received for deposit to the district committee. In July 2018, the Jerusalem District Planning and Building Committee approved the Company’s application for the deposit of a plan for expansion of the areas of Azrieli Jerusalem mall by approx. 100 thousand sqm gross, above-ground, which include retail, commercial and senior housing areas as well as a building to be built for the City of Jerusalem.

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 date of the Report, and there is no certainty regarding their materialization, in whole or in part, or they may materialize in ways which may differ significantly, inter alia for reasons which are beyond the Company's control, including changes in the market conditions, 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 and residence
GLA	150,000 sqm
Estimated completion	TBD
Status	Under Construction

AZRIELI HOLON 3

Use	Retail and offices
GLA	220,000 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

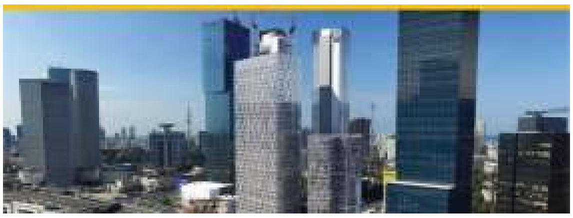
MODI'IN LAND (LOT 21)

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

AZRIELI SARONA (RETAIL)

Use	Retail
GLA	10,500 sqm
Estimated completion	Q4/2018: partial
Status	Under Construction

AZRIELI TOWN



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

AZRIELI HOLON HAMANOR

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

PALACE LEHAVIM SENIOR HOME

Building rights	44,000 sqm
No. of residential units	350
Estimated completion	Phase A: 2020 | Phase B: TBD
Status	Under Construction

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 2017, and in Section 4 of Chapter B hereof – updates to the Description of the Corporation's Business chapter as of September 30, 2018.

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 2017, 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 becoming part of the world of digital commerce, which has been gathering momentum in Israel and throughout the world and creating an additional growth engine, and aiming to create consumption experience, alongside the development of its core business in traditional retail, the Company has acquired E-Commerce operations from Buy2 Networks Ltd. The Azrieli.com website provides an e-commerce platform which will integrate into and boost the malls and retail centers business through online activity by way of combined sales.

5 | FUNDING OF THE BUSINESS

5.1. Leverage Ratio of the Group

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

Summary of Balance Sheet Figures out of the Consolidated Statements			
	30.9.2018	30.9.2017	31.12.2017
Current assets	1,761	2,025	1,940
Non-current assets	29,494	27,692	28,203
Current liabilities	2,689	2,901	2,829
Non-current liabilities	11,878	10,859	10,993
Equity attributable to the Company's shareholders	16,646	15,916	16,281
Equity attributable to the Company's shareholders out of total assets (in %)	53%	54%	54%
Net debt to assets (in %)	29%	26%	27%

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.

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[22]. 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.

[22] For further details, see Section 19 of Chapter A of the Periodic Report for 2017, which is incorporated herein by reference.

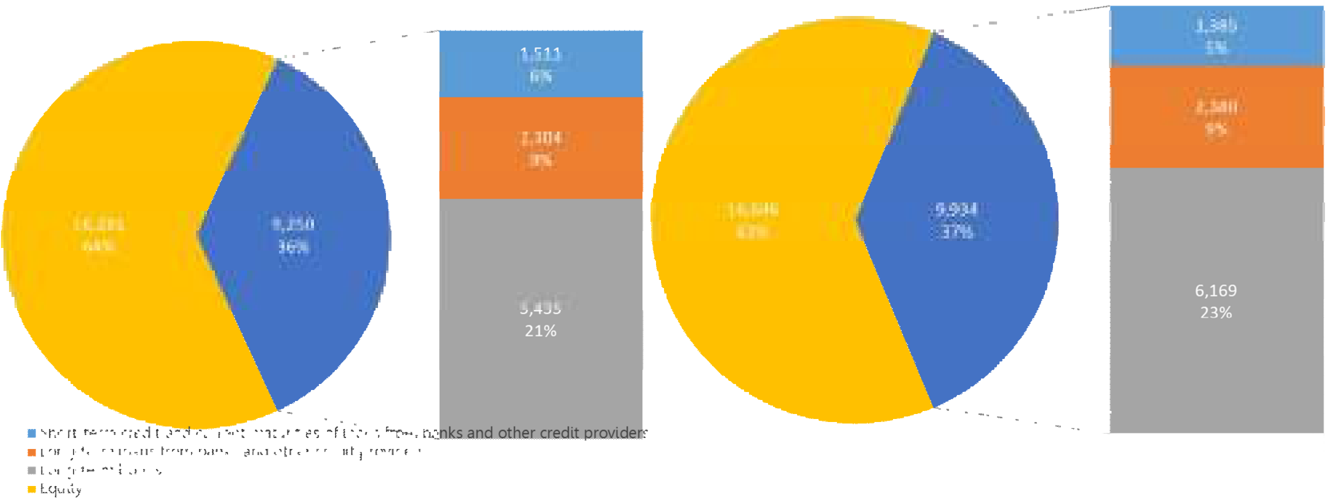
5.2. Composition of Financing Sources

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

31.12.2017 | 30.**9**.2018



Figures are presented in millions of NIS and as a percentage out of all financing sources.

The increase in the total debt, in the sum of approx. NIS 684 million in the Report Period mainly stems from the issue of bonds in Q1/2018 net of current maturities of loans and bonds. As of the date of the Report, the Group, on a consolidated basis, has a working capital deficit of approx. NIS 0.9 billion (approx. NIS 0.4 billion in the separate statement), 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 Company estimates that if it decides at any time to convert such credit into long-term credit, it will be able to do so in view of its financial soundness and/or the scope of its unencumbered assets. Therefore, in its meeting of November 20, 2018, 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.

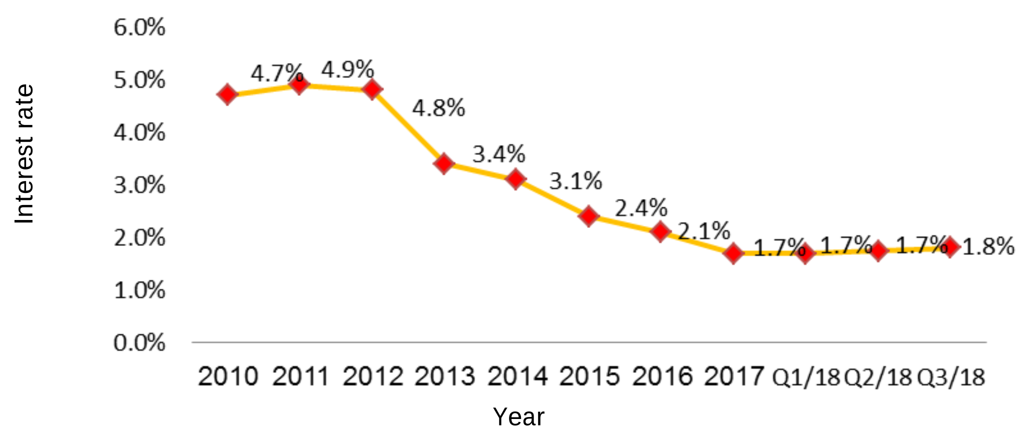
The Group's estimations mentioned in this Section 5.2 above of the board of directors' report in relation to its liquidity and the availability of its financing sources, particularly as pertains to the possibility of converting the short-term debt into long-term debt, are forward-looking information 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.

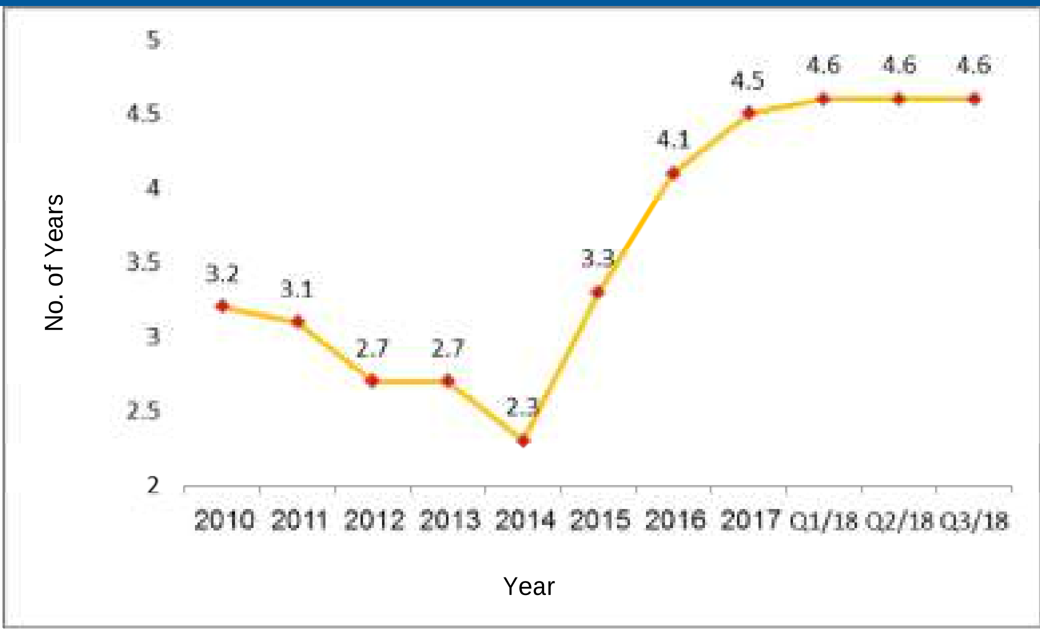
The Company acted during the Report Period, to raise debt through the expansion of its Series D Bonds in the scope of approx. NIS 1.4 billion, with a duration of approx. 6 years and weighted index-linked interest of approx. 0.94%. For details on the debt raising see Section 1.2.3.7 above and Section 19.5 of Chapter A of the Periodic Report for 2017, 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 date of the Report, the Company's credit rating is AA+/Stable/ilA-1+ by Ma'alot[23] 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 the Periodic Report for 2017, 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	436	-	456	456
Long-term loans	7,644	1,421	-	-	29	9,065	29	9,094
Total	7,644	1,421	-	20	465	9,065	485	9,550

Figures are presented in millions of NIS, as of September 30, 2018.

As of September 30, 2018, 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, Series C and Series D)

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

23 It is noted that during the Report Period, on January 11, 2018, Ma'alot ratified the Company's AA+/Stable/ilA-1+ rating, which had been issued to the Company thereby on January 19, 2017 (Ref.: 2017-01-008085). To review Ma'alot's full report, see the Company's immediate report of January 11, 2018 (Ref.: 2018-01-005065), which is incorporated herein by reference.

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	1,326	170	1,496
2	1,144	149	1,293
3	1,364	119	1,483
4	748	92	840
5 forth	4,968	388	5,356
Total	9,550	918	10,468

Figures are presented in millions of NIS, as of September 30, 2018.

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

- Positive cash flow from current operations, which totaled approx. NIS 1,012 million in the nine months ended September 30, 2018.
- Liquid assets and unencumbered assets.
- The Group has mortgaged income-producing properties, the fair value of which significantly exceeds the loan undertaken therefor.
- Refinancing of debts in the capital market and/or institutional bodies and/or banks.

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

As of September 30, 2018, the aggregate amount of liquid assets (cash and cash equivalents and short-term investments and deposits) held by the Group amounted to approx. NIS 743 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 22.2 billion, in addition to approx. NIS 0.7 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.[24] 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.

[24] For details with respect to additional matters related to the Group's financing activities, see Section 19 of Chapter A - the Description of the Corporation's Business of the Periodic Report for 2017, which is incorporated herein by reference.

Unencumbered Assets Available to Serve as Collateral against the Receipt of Credit	
Assets	Value of Assets as of 30.9.2018
Real estate of the retail centers and malls in Israel segment	10,517
Real estate of the leasable office and other space in Israel segment	8,590
Other real estate (chiefly senior housing)	687
The Company's holdings in Azrieli E-Commerce	54
The Company's holdings in Leumi Card	463
The Company's holdings in Granite Hacarmel	562
The Company's holdings in Bank Leumi	1,293
Total	22,166

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 date of release of this report. Such estimations may not materialize, in whole or in part, or may materialize in a manner that materially differs from the Company's estimations. The primary factors that may affect the above are: changes in the capital market affecting the conditions and possibilities of obtaining financing, changes in the Company's plans, including use of future available liquid balances in order to seize business opportunities, changes in the advantageousness of the holding of various investment channels or the advantageousness of use of various financing channels, deterioration of the Israeli or U.S. economy and decline into severe recession, in a manner which affects the Company's ability to obtain financing on convenient terms.

5.9. Financial Position

Financial Position, Liquidity and Financing Sources		
Item	30.9.2018	31.12.2017
Total assets (1)	31,255	30,143
Current assets (2)	1,761	1,940
Investment properties (3)	26,863	25,206
Short-term credit(4)	1,385	1,511
Loans from banks and other credit providers (5)	2,380	2,304
Net bonds (6)	6,169	5,435
Equity (7)	16,688	16,321

Figures are presented in millions of NIS.

(1) Increase chiefly results from growth in investment property and investment property under construction as a result of the progress of the investments in projects under construction and in the income-producing properties and from purchases of new properties.
(2) Decrease chiefly results from the decrease in the cash balances.
(3) Increase results from the progress of the investments in projects under construction and in income-producing properties and from the acquisitions of the office building in Texas U.S.A, the land in Modi'in and rights in the land on Menachem Begin Road in Tel Aviv.
(4) Decrease chiefly results from repayment of short-term credit.
(5) Increase results mainly form taking a loan for the purchase of the office building in Texas, U.S.A. during the current quarter, net of current maturities.
(6) Increase results from the issue of bonds during Q1/2018, net of current maturities.
(7) Increase chiefly results from the comprehensive income in the Report Period, offset by a decrease due to a dividend distribution.

6 | BUSINESS RESULTS AT A GLANCE

6.1. Summary of Business Results

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

Analysis of the Consolidated Net Profit					
	For the Three Months Ended		For the Nine Months Ended		
As of	30.9.2018	30.9.2017	30.9.2018	30.9.2017	31.12.2017
Net profit for the period attributable to the shareholders	264	263	759	1,144	1,456
Net profit attributable to the shareholders and to non-controlling interests	264	263	759	1,144	1,448
Basic earnings per share from continued operations (NIS)	2.18	2.17	6.26	9.44	12.01
Comprehensive income to shareholders and non-controlling interests	347	291	892	1,120	1,476

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

Net profit in the Report Period totaled NIS 759 million, compared with NIS 1,144 million in the same period last year. The profit in the Report Period was affected mostly by a loss from fair value adjustments of investment property which is lower than the profit recorded in the same period last year in the sum of NIS 521 million (the profit in the same period last year included revaluation after completion of the construction of the office tower in Sarona) and from increase in the net financing expenses in the sum of NIS 129 million, offset by an increase in NOI from the real estate activity of NIS 105 million and a decrease in the tax expense, mainly due to the aforesaid in the sum of NIS 161 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, with respect to the nine months ended on September 30, 2018, derives from profit from translation differences from foreign operations of NIS 51 million, in addition to an increase in the fair value of financial assets net of tax of approx. NIS 82 million. With respect to the three months ended on September 30, 2018, the difference derives from an increase in the fair value of financial assets net of tax in the sum of approx. NIS 90 million, offset by a loss from translation differences from foreign operations of NIS 7 million.

6.3. Results of Operations

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

Results of Operations				
	For the Three Months Ended		For the Nine Months Ended	
	30.9.2018	30.9.2017	30.9.2018	30.9.2017
Marketing, general and administrative expenses (1)	73	78	231	219
Net other revenues (2)	32	8	66	53
Net financing expenses (revenues) (3)	49	(57)	175	46
Income taxes expenses (4)	68	90	178	339

Figures are presented in millions of NIS.

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

The decrease in expenses in Q3/2018 compared with the same quarter last year mainly derives from a decrease in marketing expenses.

(2) Net other revenues in the Report Period result mainly from dividends from Bank Leumi and Leumi Card (in the same period last year, chiefly from dividends from Bank Leumi and from Leumi Card and from profit from the sale of Visa Europe).

Net other revenues in the present quarter derive mostly from dividends from Bank Leumi and Leumi Card (in the same quarter last year mostly from a dividend from Bank Leumi).

(3) The increase in net financing expenses in the Report Period mainly stems from profit from the sale of Bank Leumi stock, which was recorded in the parallel period last year and did not occur during the Report Period, and from an increase in linkage expenses on loans, bonds and senior housing residents' deposits, as a result of a rise of approx. 1.1% in the rate of the known index during the Report Period, compared with a rise of approx. 0.2% in the same period last year.

The increase in the net financing expenses in the present quarter mainly derives from the profit from the sale of Bank Leumi stock, which was recorded in the same quarter last year and did not occur in the current quarter and from an increase in linkage expenses on loans, bonds and senior housing residents' deposits as a result of a rise of approx. 0.2% in the rate of the known index in the Report Period compared with a decrease of approx. 0.5% in the same quarter last year.

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

The decrease in tax expenses in the current quarter compared with the same quarter last year is mostly attributed to the fact that in the corresponding quarter the financing income included profit from the sale of Bank Leumi stock, which increased the tax expenses last year.

Cash Flows

The following table shows the cash flows generated by the Group for the three-month period ended on September 30, 2018, compared with the same period last year:

Quarterly Cash Flows		
Quarter	Q3/2018	Q3/2017
Net cash flows generated by the Group from current operations (1)	393	313
Net cash flows generated (used) by the Group for investment activities (2)	(590)	88
Net cash flows used by the Group for financing activities (3)	(271)	(227)

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 386 million (approx. NIS 349 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 was used for acquisition of and investment in investment properties and investment properties under construction in the sum of approx. NIS 638 million, net of interest and dividend received. Most of the cash flow in the same quarter last year derived from the proceeds from the disposition of financial assets available for sale, net of tax, and from a decrease in short-term deposits, offset by amounts used for acquisition of and investment in investment properties and investment properties under construction in the sum of approx. NIS 232 million and for the acquisition of fixed assets.

(3) Most of the increase relative to the same quarter last year derived from an increase in the repayment of long-term loans, bonds and short-term credit (net) in the sum of NIS 248 million, net of the receipt of a loan of NIS 215 million in the present quarter.

The following table shows the cash flows generated by the Group for the nine-month period ended on September 30, 2018, compared with the same period last year:

Cash Flows for the Report Period		
	For the nine-month period ended 30.9.2018	For the nine-month period ended 30.9.2017
Net cash flows generated by the Group from current operations (1)	1,012	946
Net cash flows used by the Group for investment activities (2)	(1,263)	(121)
Net cash flows used by the Group for financing activities (3)	(122)	(419)

Figures are presented in millions of NIS.

(1) The cash flow in the Report Period and in the same period last year chiefly resulted from the operating profit of the income-producing real estate in the sum of approx. NIS 1,133 million (approx. NIS 1,027 million in the corresponding period), plus net senior housing deposits and excluding paid income taxes.

(2) Most of the cash flow in the Report Period was used for acquisition of and investment in investment properties and investment properties under construction in the sum of approx. NIS 1,507 million, net of a decrease in short-term deposits, interest and dividend received, proceeds from the disposition of investment properties and proceeds from the disposition of shares of Pi Glilot. Most of the cash flow in the same period last year was used for acquisition of and investment in investment properties and investment properties under construction in the sum of approx. NIS 687 million, and for the acquisition of fixed assets, net of a decrease in short-term deposits and proceeds from the disposition of financial assets available for sale net of tax, and interest and dividend received.

(3) Most of the decrease relative to the same period last year derived from a decrease in the repayment of long-term loans, bonds and short-term credit (net) in the sum of NIS 332 million, offset by an increase in the sum of the dividend that was distributed.

7 | CORPORATE GOVERNANCE ASPECTS

Approval of the terms of office of the Company's CEO

On April 30, 2018, the general meeting of the Company's shareholders approved the terms of Mr. Eyal Henkin's office and employment as the Company's CEO (through a private company wholly owned by him). For further details, see Part B of the notice of meeting report of March 21, 2018 (Ref.: 2018-01-027295) and the immediate report of May 1, 2018 on the results of the meeting (Ref.: 2018-01-043000), which are incorporated herein by reference.

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

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

For events and developments during the Report Period, see Chapter B hereof – Updates to the Description of the Corporation's Business chapter as of September 30, 2018 and Note 3 to the financial statements as of September 30, 2018.

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 Note 3L to the financial statements.

8.4. Disclosure of Highly Material Valuations

As of the date of the Report, there has been no change in the parameters for disclosure and attachment of valuations, as published in the Periodic Report for 2017. The Company has updated the valuations of its properties in Israel as of June 30, 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, 2017, which is included in the Periodic Report for 2017, 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 2017, 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 September 30, 2018.

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 date of the Report, the Company's estimations with respect to developments in the markets, inflation levels and projected cash flows and on the conditions and possibilities of obtaining credit on the date of the Report.

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

The Company's board of directors and management wish to express their high regard for the Company's officers, the managements of the various companies of the Group and their employees, for their welcome contribution to the Group's achievements in the quarter ended on September 30, 2018.

Danna Azrieli, Chairman of the Board	Eyal Henkin, CEO

Date: November 20, 2018

Azrieli Group Ltd.

Annex A

Extended Standalone Financial Statements

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.

Statement of Financial Position:

	As of September 30		As of December 31
	2018	2017	2017
	NIS in millions	NIS in millions	NIS in millions
Assets			
Current Assets			
Cash and cash equivalents	632	1,080	1,022
Short-term deposits and investments	4	254	105
Trade accounts receivable	72	62	59
Other receivables	140	90	195
Current tax assets	28	13	20
	876	1,499	1,401
Assets held for sale	463	40	40
Total Current Assets	1,339	1,539	1,441
Non-Current Assets			
Investment in investee companies	721	795	792
Loans and receivables	306	255	283
Financial assets	1,311	1,590	1,685
Investment property and investment property under construction	26,863	24,814	25,206
Fixed assets	190	165	171
Other assets	85	87	86
Total Non-Current Assets	29,476	27,706	28,223
Total Assets	30,815	29,245	29,664

Azrieli Group Ltd.

Annex A

Extended Standalone Financial Statements

Statement of Financial Position: (Cont.)

	As of September 30		As of December 31
	2018	**2017**	**2017**
	NIS in millions	**NIS in millions**	**NIS in millions**
Liabilities and Capital			
Current Liabilities			
Credit and current maturities from financial corporations and bonds	1,326	1,465	1,443
Trade payables	185	297	218
Payables and other current liabilities	365	340	364
Deposits from senior housing customers	704	686	689
Current tax liabilities	6	17	4
Total Current Liabilities	2,586	2,805	2,718
Non-Current Liabilities			
Loans from financial corporations	2,345	2,189	2,268
Bonds	5,879	5,118	5,122
Other liabilities	61	54	52
Deferred tax liabilities	3,258	3,123	3,187
Total Non-Current Liabilities	11,543	10,484	10,629
Capital			
Ordinary share capital	18	18	18
Share premium	2,518	2,518	2,518
Capital reserves	662	478	531
Retained earnings	13,448	12,902	13,214
Total equity attributable to shareholders of the company	16,646	15,916	16,281
Not-controlling interests	40	40	36
Total Capital	16,686	15,956	16,317
Total Liabilities and Capital	30,815	29,245	29,664

Azrieli Group Ltd.

Annex A

Extended Standalone Financial Statements

Statement of Profit or Loss:

	For the nine-month period ended on September 30		For the three-month period ended on September 30		For the year ended on December 31
	2018	2017	2018	2017	2017
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Revenues:					
From rent, management and maintenance fees	1,535	1,396	532	482	1,875
Net gain (loss) from fair value adjustment of investment property and investment property under construction	(36)	485	(13)	(32)	500
Financing	5	84	2	76	81
Share in results of investee companies, net of tax	12	23	(2)	(1)	21
Other	68	51	33	6	127
Total Revenues	1,584	2,039	552	531	2,604
Costs and Expenses:					
Cost of revenues from rent, management and maintenance fees	399	365	147	133	484
Sales and Marketing	34	32	10	14	44
General and Administrative	55	48	15	17	70
Financing	169	124	48	17	161
Other	3	-	-	-	4
Total Costs and Expenses	660	569	220	181	763
Income before income taxes	924	1,470	332	350	1,841
Taxes on income	(163)	(326)	(68)	(87)	(393)
Net profit for the period from continuing operations, including the minority	761	1,144	264	263	1,448
Loss from discontinued operations, net of tax, including the minority	(2)	-	-	-	-
Net profit for the period, including the minority	759	1,144	264	263	1,448

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	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**	**1,058.7**	**3.4**	**1,045.2**	**1,076.7**	Fixed	0.65	April 1 in the years 2016 through 2025	From October 1, 2015, twice a year, on April 1 and October 1, in each one of the years 2015 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 Hayamim Rd, Bnei Brak. Tel: -035274867; Fax: 03-5271039; E-mail address: hermetic@hermetic.co.il Contact person at the trustee: Dan Avnon or Merav Offer.
	June 23, 2015	600.3											
	March 30, 2017	228.8											
Series C	Sept. 6, 2015	1,005.1	**1,065.7**	**1,067.7**	**4.4**	**1,061.9**	**1,116.7**	Fixed	1.64	July 1 in the years 2018 through 2027	From July 1, 2016, twice a year, on January 1 and July 1 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	**4,362.9**	**4,428.5**	**14.1**	**4,405.9**	**4,471.6**	Fixed	1.34	From July 5, 2018 twice a year on January 5 and July 5 of each of the years 2018 through 2030	From January 2017 twice a year on January 5 and July 5 of each of the years 2017 through 2030	Linkage (principal and interest) to the rise in the CPI for May 2016*	
	March 30, 2017	983.6											
	February 1, 2018	1,367.0											
Total		7,181.2	**6,485.3**	**6,554.9**	**21.9**	**6,513.0**	**6,665.0**						

* The Series B, Series C and Series D Bonds are protected, such that if the known index on the relevant payment due date is lower than the base index (stated in the table), the payment index will be the base index.

Further details regarding the bonds of the Company held by the public:

1. The Series B Bonds, the Series C Bonds and the Series D Bond of the Company are material to the Company and are not secured by any collateral.

2. The Company will be entitled, at its sole discretion, to perform (partial or full) early redemption of the Series B Bonds, the Series C Bonds and the Series D Bonds. For details, see Section 9.2 of the terms and conditions overleaf in the indenture for the **Series B** Bonds (the "**Indenture for the Series B Bonds**"), which was attached to the shelf offering report that was published by the Company on February 8, 2015 (ref.: 2015-01-027136) and Section 9.2 of the terms and conditions overleaf in the indenture for the **Series C** Bonds (the "**Indenture for the Series C Bonds**"), which was attached to the shelf offering report that was published by the Company on September 3, 2015 (ref.: 2015-01-112788), and Section 9.2 of the Terms and Conditions Overleaf of the indenture for the **Series D** Bonds (the "**Indenture for the Series D Bonds**"), which was attached to the shelf offering report released by the Company on July 5, 2016 (ref.: 2016-01-075079), which are included (the aforesaid sections) herein by way of reference.

3. At the end of and during the Reporting Period, the Company has fulfilled all of the terms and conditions and undertakings according to the Indenture for the Series B Bonds, the Indenture for the Series C Bonds and the Indenture for the Series D Bonds, and no conditions establishing grounds for acceleration of the Series B, Series C Bonds and Series D Bonds have been fulfilled.

4. For details regarding an undertaking that the Company assumed in the framework of the Series B Bonds, the Series C Bonds and the Series D Bonds of the Company, see Sections 5.2-5.6 of the Indenture for the Series B Bonds, the Indenture for the Series C Bonds and the Indenture for the Series D Bonds.

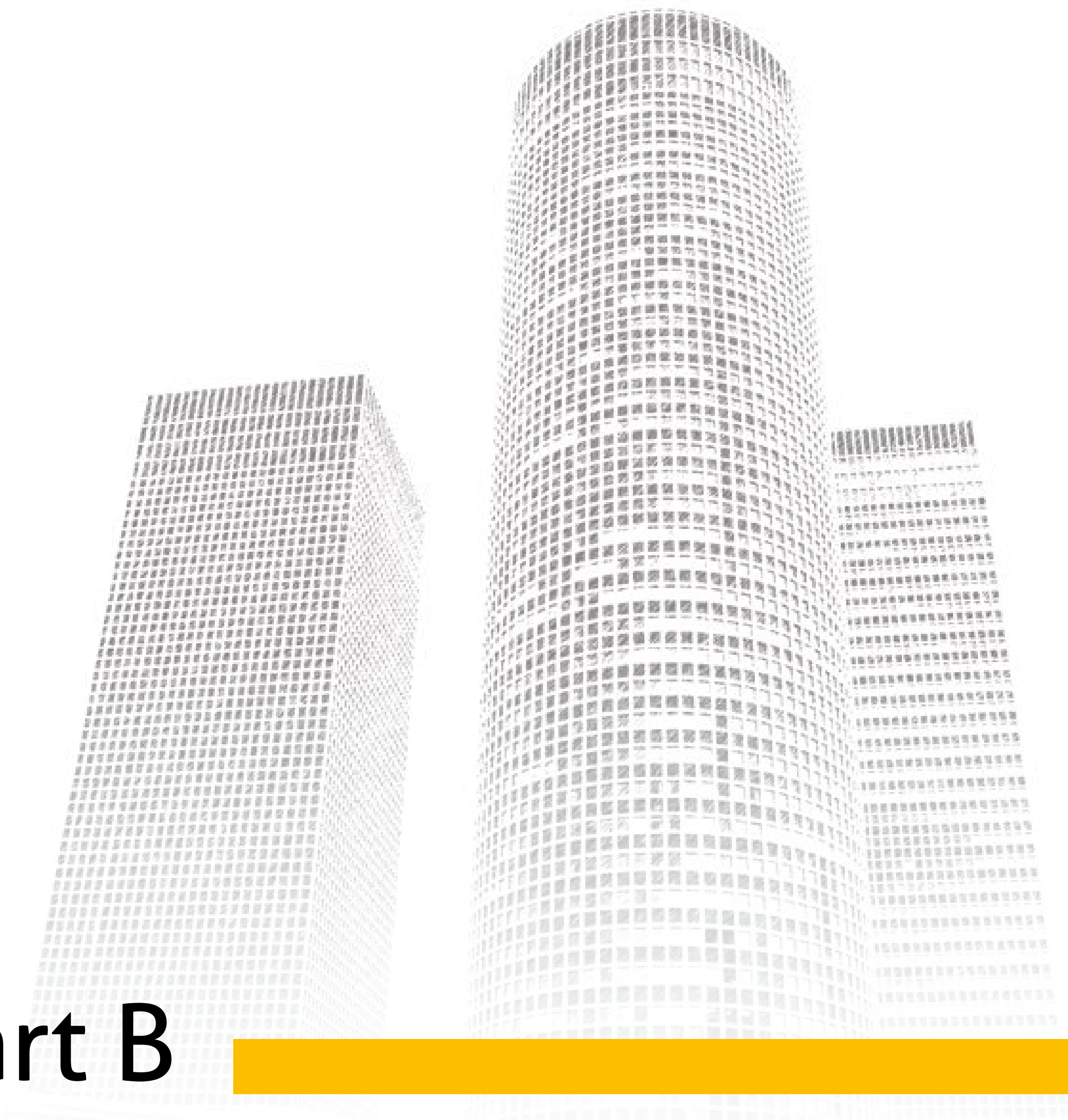
<u>Rating of the bonds of the Company held by the public</u>:

Series	Name of Rating Company	Rating Set on the Date of the Issue	Rating Set as of the Report Release Date	Date of Issuance of the Current Rating	Additional Ratings Set between the Date of the Issue and the Report Date	
					Rating	Date of Rating
Series B	Ma'alot	AA+ stable	AA+ stable	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
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

* 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.: 2018-15-010795), which is included herein by way of reference.

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, 2017 (the "Periodic Report")[1]

In accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, following is a description of material developments that have occurred in the Company's business during the nine months ended September 30, 2018 and until the Report Release Date, with respect to which disclosure has not yet been made in the Periodic Report, according to the order of the sections in the Description of the Corporation's Business chapter in the Periodic Report. It shall be noted that the terms in this chapter shall have the meaning ascribed thereto in the Periodic Report, unless otherwise expressly provided.

In this chapter: the "Report Release Date" – November 21, 2018; the "Date of the Statement of Financial Position" and the "Report Date" - September 30, 2018; "Board of Directors' Report" – the Board of Directors' Report on the State of the Company's Affairs for the nine and three months ended September 30, 2018. 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 1.2 of the Description of the Corporation's Business chapter:

For details with respect to: (1) closing of the purchase of an office building in Austin, Texas, U.S.; (2) engagement in an agreement for the purchase of rights in land on Menachem Begin Road in Tel Aviv; (3) winning a tender for the construction of an energy production and waste sorting and recycling facility in the Rishon Lezion area; (4) winning a tender for the purchase of land in Modi'in (lot 21); (5) sale of Pi Glilot land; (6) sale of the Company's holdings in Leumi Card Ltd.; (7) financing transactions; (8) changes in officer positions in the Company; (9) income tax assessments; (10) extension of a shelf prospectus of the Company; (11) engagement of Supergas Natural in an agreement with a third party for the purchase of natural gas; 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.

[1] As reported by the Company on March 21, 2018 (Ref.: 2018-01-027244) and incorporated herein by reference.

3. Dividends

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

On May 2, 2018, the Company paid a dividend to its shareholders in the total amount of NIS 520 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:

- Expansion of Azrieli Tel Aviv Center – In April 2018, a zoning plan for expansion has been published and validated.

- Azrieli Town Tel Aviv – In May 2018, the Local Committee approved for deposit a zoning plan for the addition of commerce and hotel areas at a total scope of approx. 24 thousand sqm (gross) and an above-ground permit has been received. In November 2018, the plan has been published for deposit. After the Report Date, an agreement was signed for the lease of an area of approx. 14 thousand sqm, such that as of the Report Release Date, the Group has signed agreements for the lease of approx. 41 thousand sqm, which constitute approx. 82% of the leasable office space in the project.

- Palace Modi'in Senior Housing – In July 2018, a certificate of completion was received for the project and the Company began habitation thereof in October 2018. In August 2018, a permit was received to set up a dialysis unit at the project.

- Palace Lehavim Senior Housing – In May 2018, a changes permit application was approved for the project, for the addition of another unit to the LTC Wing and the permit was received in October 2018.

- Holon 3 – Holon Industrial Zone – In June 2018, the Company launched the shoring and excavation work at the project. In October 2018, a building permit was received for parking basements in the project.

- HaManor, Holon – In September 2018, an above-ground permit was received for the project.

- Azrieli Jerusalem mall – The zoning plan for expansion of the mall, senior housing and office space was discussed by the Local Planning & Building Committee and its recommendation to deposit the plan with the District Committee was accepted. In July 2018, the District Planning & Building Committee in Jerusalem approved the Company's application to deposit a plan for expansion of the areas of the Azrieli Jerusalem Mall by approx. 100 thousand sqm above ground, which include retail, commerce and senior housing areas, additional parking areas, as well as a structure to be built for the Municipality of Jerusalem.

- Herzliya Business Park – In June 2018, the Local Committee approved for deposit a plan for the addition of two office floors and additional retail space at the project. The deposit is subject to approval by the District Committee.

- Palace Ra'anana Senior Housing – In June 2018, the Local Committee discussed the objections submitted in respect of the plan and approved the plan for validation, subject to various amendments.

- Azrieli Akko mall – An additional discussion at the local committee in the application, to re-approve the permit for the addition of office floors and parking, was held in September 2018, the application was approved, and the Company is acting for fulfillment of the terms and conditions for receipt of the permit.

- Azrieli Rishonim – a zoning plan for the addition of office space in the office tower in the project was recommended for deposit by the Local Committee and will be referred for discussion at the District Committee.

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.

- Land for senior housing in Rishon LeZion – A plan for expansion of areas in the said project was discussed by the Local Committee and its recommendation for the deposit of the said plan was accepted and was referred for discussion at the District Committee. The discussion was scheduled for November 2018. In addition, a zoning plan for additional basement areas, which was consolidated with the said plan, was published for deposit.

- Land in Petach Tikva – The Company is acting to submit an application for a building permit for underground parking on the land and is acting for approval of a zoning plan for additional rights in the project.

6. Income-Producing Real Estate in the U.S.

Update to Section 10.9 of the Description of the Corporation's Business chapter:

On July 12, 2018, the Company, through an (indirectly) wholly-owned American corporation, closed the acquisition of an office building in Austin, Texas, U.S. (the "Property"), in consideration for approx. U.S. $100.4 million (including transaction costs), from a third party, in accordance with agreements for acquisition of the Property. The purchased Property is a 5-floor office building with a total area of approx. 23,214 sqm (approx. 249,870 sq ft) and an occupancy rate of approx. 100%. The Property also includes approx. 970 parking spaces, most of which are situated in a nearby 7-floor car park. For further details, see an immediate report of the Company of July 15, 2018 (Ref.: 2018-01-063621), which is incorporated herein by reference.

7. Azrieli Tel Aviv Towers

Update to Section 9.2.1 of the Description of the Corporation's Business chapter:

In view of the growth in the Company's total assets on a consolidated basis, from Q1/2018 Azrieli Tel Aviv Towers no longer constitute a very material asset in accordance with the draft amendment to the Securities Regulations (Prospectus and Draft Prospectus Details - Structure and Form) (Amendment) 5774-2013, as published by the ISA in December 2013.

8. Granite segment

Update to Section 12.13 of the Description of the Corporation's Business chapter – raw materials and suppliers:

For details regarding the engagement of Supergas Natural in an agreement with a third party for the purchase of natural gas, see Note 3E to the financial statements as of September 30, 2018.

9. Additional Operations

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

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

The Concentration Law

In accordance with the provisions of the Promotion of Competition and Reduction of Concentration Law, 5774-2013 (the "Concentration Law"), and since the Group has been defined as a significant real corporation and Leumi Card has been defined as a significant financial entity (as these terms are defined in the Concentration Law), the Group is required to reduce its holdings in Leumi Card to a holding rate lower than 10% by December 11, 2019. Consequently, and after considering several options, the Company, together with Bank Leumi LeIsrael Ltd., entered into an agreement for the sale of the Company and the Bank's full holdings in Leumi Card to a corporation controlled by the Warburg Pincus Fund. For details on the agreement, see Section 1.2.3.6 in Chapter A of this report.

The Law to Increase Competition and Reduce Concentration in the Banking Market in Israel

Further to a draft released on May 6, 2018, on July 2, 2018 the Banking Supervision Department released several amendments to the proper conduct of banking business directives, whose purpose is to provide relaxations for credit card companies that shall be separated from the banks as part of the reform to increase banking competition (the "Relaxations") in addition to previous relaxations that were granted regarding the capital ratios that the credit card companies are required to maintain compared to banks.

The Relaxations include, *inter alia*, the following directives: (a) Requiring the banks to transfer to the credit card companies the monies for activity of the banks' customers in cards, on the date on which the credit card companies are required to pass them on and not on the date on which the banks charge their customers, effective as of February 1, 2019; (b) Update of directives pertaining to the single borrower restriction – the bank credit provided to the credit card companies shall be limited to 15% of the bank's equity, similarly to the directive applicable to the liability of one bank to another. However, the directive will take effect after a 5-year transition period; (c) The credit card companies' liquidity risk shall be managed according to an internal model and will not be subject to liquidity ratios determined in the Bank of Israel directives.

In addition, in accordance with the provisions of the Law to Increase Competition and Reduce Concentration in the Banking Market in Israel, 5777-2017, the credit card companies, which are an issuer with extensive activity, are required to transfer for approval by the Banking Supervision Department, the new operating agreements to be signed until January 31, 2022. This directive shall also apply to the renewal of operating agreements in which a material change was made.

Concurrently, on April 25, 2018, the Antitrust Commissioner (the "Commissioner") approved the exemption application for the cross-clearing arrangement between the credit card companies, until December 31, 2023. In the context of approval of the exemption, the Commissioner determined that from July 1, 2021, a transition shall be made to daily clearing in transactions made in a single payment (immediate charge or deferred charge). No change shall be made to transactions in installments. In addition, a series of directives was laid down, prohibiting an issuer with extensive activity from harming or discriminating against new players or business owners in connection with clearing arrangements.

Further to the provisions of Section 36L of the Banking Law (Licensing), on June 17, 2018, the Supervisor of Banks published the Banking Rules (Licensing) (Conditions for Hosting Acquirers), which are intended to regulate the conditions with which the hosted acquirer is required to comply and set provisions in respect of the hosting agreement.

On June 3, 2018 the Bank of Israel published a policy that regulates, simplifies and clarifies the procedure for the receipt of a new bank license in Israel.

On May 16, 2018 the exemption from approval of a restrictive arrangement for clearance of the "Isracard" brand was extended, subject to several conditions set forth in the exemption decision, until December 31, 2023.

10. Financing

Non-Bank Financing for the Company

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

- Commercial Papers

  As of the Report Date, the Company has two CP series, a rated series in the sum of approx. NIS 295 million and an unrated series in the sum of NIS 140 million.

- 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. In addition, in the Report Period, the series was expanded. For further details see Section 1.2.3.7 of Chapter A of this Report. As of the Report Date, the par value balance of the Company's Series D Bonds in circulation is approx. NIS 4,363 million.

11. Legal proceedings

For an update with respect to the legal proceedings to which the Group's companies are a party, see Note 3L to the financial statements as of September 30, 2018.

12. Restrictions and Supervision over the Corporation

Senior Housing

Update to Section 23.1.3 of the Description of the Corporation's Business Chapter – Senior Housing:

<u>Bill for the amendment of the Senior Housing Law (Amendment) (Securing the Funds of the Deposit), 5777-2017</u>

On July 16, 2018, the Senior Housing Law (Amendment), 5778-2018 (the "Amendment to the Law") passed second and third readings at the Knesset. The Amendment to the Law concerns the amendment of the provisions pertaining to the collateral used to secure the funds of the residents' deposits. The principal amendments to the Senior Housing Law are as follows: (1) Imposition of a duty on the operator to provide collateral to secure the full amount of the deposit deposited by the resident (i.e. "from the first Shekel"), such that the operator may not receive from a resident a sum exceeding 7% of the deposit or NIS 70,000, whichever is lower, other than subject to the registration of a first-ranking mortgage in favor of the resident or the depositor, on the operator's right in the land that holds the senior home in which the resident resides (barring parts of the land that serve as retail space or as part of the senior home's LTC unit), which mortgage shall be registered in the name of a trustee who shall be appointed by the residents (according to the proportionate share of each one of them in the sum of the deposits) or, if the senior home is registered as a condominium, in the name of the resident or the maker of the deposit, or alternatively, subject to the provision of a bank guarantee or the deposit of 40% of the deposit with a trustee with the resident as the beneficiary; (2) The operator will bear all of the costs involved in the provision of the aforesaid collateral (as distinguished from the duty to bear 20% of such costs under the provisions of the Senior Housing Law prior to the date on which the Amendment to the Law takes effect, as specified below); (3) Denial of a resident's right to waive such collateral, such that the provision of collateral will be mandatory; (4) Determination of collateral of the type of a cautionary caveat as an undertaking to register a mortgage as temporary collateral for a period of up to two years in favor of a trustee to be appointed by the residents, or in favor of the resident, or, if a condominium has not yet been registered – in the name of the resident or the depositor).

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

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

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

The Amendment to the Law includes transitional provisions whereby the provisions of the Amendment to the Law shall apply retroactively, such that they will also apply to agreements that were made prior to the amendment. The Amendment to the Law will take effect 18 months after the publication thereof, with the exception of the sections concerning the aforesaid irregularities committee, the examination of financial stability, the fund for the financing of medical expenses under circumstances of insolvency and the fund for the financing of expenses in a case of insolvency, which will take effect after the lapse of 6 months.

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

The Senior Housing Regulations (Disclosure Document Form), 5778-2018

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

Draft Senior Housing Regulations (Examination of Financial Stability), 5778-2018

These regulations were published for public comment on March 27, 2018. The regulations determine the financial conditions required of a license applicant, *inter alia*, to prove its financial stability, as a condition to receipt of an operating license. In accordance with the provisions of these regulations, the license applicant is required to deliver to the Commissioner of Senior Homes, *inter alia*, financial statements and other documents certified by a CPA on its behalf. The regulations also set forth the tests for examination of the license applicant's compliance with the regulations, as well as an appeal mechanism. To Palace management's best knowledge, these regulations have not yet been placed on the agenda of the relevant Knesset committee, and considering that the draft is merely preliminary (and subject, *inter alia*, to public comment), the language of the said regulations, if approved, may be different to that presented for public comment.

AZRIELIGROUP

Consolidated Financial Statements
Dated 30 September 2018

Part C

Azrieli Group Ltd.

Condensed Consolidated Financial Statements
as of September 30, 2018

(Unaudited)

Azrieli Group Ltd.

C o n t e n t s

Deloitte.

Review report of the Auditors to the shareholders of
<u>Azrieli Group Ltd.</u>

Introduction

We reviewed the attached financial information of **Azrieli Group Ltd.**, the Company and consolidated companies (the "**Company**") which includes the Condensed Consolidated Statement of Financial Position as of September 30, 2018 and the Condensed Consolidated Statements of Profit or Loss and other Comprehensive Income, Changes in Capital and Cash Flows for the nine- and three-month periods then ended. The Board of Directors and management are responsible for the preparation and presentation of the financial information for these interim periods in accordance with IAS 34 "Interim Financial Reporting", and they are responsible for the preparation of information for these interim periods under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express a conclusion on the financial information for these interim periods, based on our review.

We did not review the condensed interim financial information of consolidated companies whose consolidated assets constitute approx. 3% of all the consolidated assets as of September 30, 2018, and whose consolidated revenues constitute approx. 21% and 25% of the total consolidated revenues for the nine- and three-month periods then ended, respectively. The condensed interim financial information of such companies was reviewed by other auditors whose review reports were furnished to us and our conclusion, insofar as it relates to the financial information for such companies, is based on the review reports of the other auditors.

Scope of the review

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

Conclusion

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

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

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

Tel Aviv, November 20, 2018

Azrieli Group Ltd.

Condensed Consolidated Statements of Financial Position

	As of September 30		As of December 31
	2018	2017	2017
	NIS in millions		NIS in millions
	(Unaudited)		
ASSETS			
Current Assets			
Cash and cash equivalents	699	1,111	1,064
Short-term investments and deposits	44	298	145
Trade accounts receivable	295	271	285
Other receivables	165	128	226
Inventory	62	65	64
Current tax assets	33	25	29
	1,298	1,898	1,813
Assets held for sale and assets of disposal group held for sale	463	127	127
Total Current Assets	1,761	2,025	1,940
Non-current Assets			
Investments and loans of associates	95	86	86
Investments, loans and receivables	328	326	346
Financial assets	1,311	1,590	1,685
Long-term receivables	60	52	50
Investment property and investment property under construction	26,863	24,814	25,206
Fixed assets	522	490	500
Intangible assets	298	315	310
Deferred tax assets	17	19	20
Total Non-current Assets	29,494	27,692	28,203
Total Assets	31,255	29,717	30,143

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Financial Position

(Continued)

	As of September 30		As of December 31
	2018	2017	2017
	NIS in millions		NIS in millions
	(Unaudited)		
LIABILITIES AND CAPITAL			
Current liabilities			
Credit and current maturities from financial corporations and bonds	1,385	1,526	1,511
Trade payables	250	360	296
Payables and other current liabilities	218	183	201
Deposits from customers	808	790	792
Provisions	12	13	13
Current tax liabilities	16	29	16
Total Current liabilities	2,689	2,901	2,829
Non-current liabilities			
Loans from financial corporations	2,380	2,225	2,304
Bonds	6,169	5,439	5,435
Other liabilities	66	57	55
Deferred tax liabilities	3,263	3,138	3,199
Total Non-current liabilities	11,878	10,859	10,993
Capital			
Ordinary share capital	18	18	18
Share premium	2,518	2,518	2,518
Capital reserves	662	478	531
Retained earnings	13,448	12,902	13,214
Total equity attributable to the shareholders of the Company	16,646	15,916	16,281
Non-controlling interests	42	41	40
Total Capital	16,688	15,957	16,321
Total Liabilities and Capital	31,255	29,717	30,143

November 20, 2018			
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 thereof.

Azrieli Group Ltd.

Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income

	For the nine-month period ended September 30		For the three-month period ended September 30		For the year ended December 31
	2018	2017	2018	2017	2017
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		(Unaudited)		
Revenues:					
From rent, management and maintenance fees	1,530	1,390	530	480	1,868
From sales, labor and services	548	546	162	150	724
Net profit (loss) from fair value adjustment of investment property and investment property under construction	(36)	485	(13)	(32)	500
Financing	14	94	4	77	94
Other	70	53	33	8	129
Total Revenues	2,126	2,568	716	683	3,315
Costs and Expenses:					
Cost of revenues from rent, management and maintenance fees	399	365	147	133	484
Cost of revenues from sales, labor and services	359	357	107	98	474
Sales and marketing	144	140	47	52	192
G&A	87	79	26	26	114
Share in results of associates, net of tax	5	4	3	1	6
Financing	189	140	53	20	184
Other	4	-	1	-	5
Total Costs and Expenses	1,187	1,085	384	330	1,459
Income before income taxes	939	1,483	332	353	1,856
Taxes on income	(178)	(339)	(68)	(90)	(408)
Net income for the period from continuing operations	761	1,144	264	263	1,448
Loss from discontinued operations (net of tax)	(2)	-	-	-	-
Net profit for the period	759	1,144	264	263	1,448
Other comprehensive income:					
Amounts that will not be carried in the future to the income statement, net of tax:					
Amounts that were carried to the income statement from the disposition of financial assets, net of tax	-	(62)	-	(57)	(62)
Change in fair value of financial assets, net of tax	82	129	90	73	204
	82	67	90	16	142
Amounts that will be carried in the future to the income statement, net of tax:					
Translation differences from foreign operations	51	(91)	(7)	12	(114)
Other comprehensive income (loss) for the period, net of tax	133	(24)	83	28	28
Total Comprehensive Income for the Period	892	1,120	347	291	1,476

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income

(Continued)

	For the nine-month period ended September 30		For the three-month period ended September 30		For the year ended December 31
	2018	2017	2018	2017	2017
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		(Unaudited)		
Net income for the period attributable to:					
Shareholders of the Company	759	1,144	264	263	1,456
Non-controlling interests	-	-	-	-	(8)
	759	1,144	264	263	1,448
Total comprehensive income for the period attributable to:					
Shareholders of the Company	890	1,123	347	291	1,488
Non-controlling interests	2	(3)	-	-	(12)
	892	1,120	347	291	1,476
	NIS	NIS	NIS	NIS	NIS
Basic and diluted earnings (in NIS) per one ordinary share of par value NIS 0.1 attributable to shareholders of the Company:					
continuing operations	6.26	9.44	2.18	2.17	12.01
discontinued operations	(0.02)	-	-	-	-
	6.24	9.44	2.18	2.17	12.01
Average weighted number of shares used for calculating the basic and diluted earnings per share	121,272,760	121,272,760	121,272,760	121,272,760	121,272,760

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital

	For the nine-month period ended September 30, 2018 (Unaudited)								
	Share capital	Share premium	Capital reserve for changes in fair value of investments in equity instruments designated at fair value through other comprehensive income	Capital reserve for translation differences from foreign operations	Other capital reserves	Retained earnings	Total 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 first application of IFRS 9	-	-	-	-	-	(5)	(5)	-	(5)
Balance as of January 1, 2018, after retroactive adjustments and restatement	18	2,518	629	(91)	(7)	13,209	16,276	40	16,316
Net profit for the period	-	-	-	-	-	759	759	-	759
Change in fair value of financial assets, net of tax	-	-	82	-	-	-	82	-	82
Translation differences from foreign operations	-	-	-	49	-	-	49	2	51
Total comprehensive income for the period	-	-	82	49	-	759	890	2	892
Dividend to shareholders of the Company	-	-	-	-	-	(520)	(520)	-	(520)
Total transactions with shareholders of the Company	-	-	-	-	-	(520)	(520)	-	(520)
Balance as of September 30, 2018	18	2,518	711	(42)	(7)	13,448	16,646	42	16,688

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital

(Continued)

	For the nine-month period ended September 30, 2017 (Unaudited)								
	Share capital	Share premium	Revaluation fund for financial assets	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, 2017	18	2,518	487	19	(7)	12,238	15,273	43	15,316
Net profit for the period	-	-	-	-	-	1,144	1,144	-	1,144
Change in fair value of financial assets, net of tax	-	-	129	-	-	-	129	-	129
Amounts that were carried to the income statement from the disposition of financial assets, net of tax	-	-	(62)	-	-	-	(62)	-	(62)
Translation differences from foreign operations	-	-	-	(88)	-	-	(88)	(3)	(91)
Total comprehensive income for the period	-	-	67	(88)	-	1,144	1,123	(3)	1,120
Dividend to shareholders of the Company	-	-	-	-	-	(480)	(480)	-	(480)
Dividend to holders of non-controlling interests	-	-	-	-	-	-	-	(1)	(1)
Investment of non-controlling interests in a subsidiary	-	-	-	-	-	-	-	2	2
Total transactions with shareholders of the Company	-	-	-	-	-	(480)	(480)	1	(479)
Balance as of September 30, 2017	18	2,518	554	(69)	(7)	12,902	15,916	41	15,957

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital
(Continued)

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

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital
(Continued)

	For the three-month period ended September 30, 2017 (Unaudited)								
	Share capital	Share premium	Revaluation fund for financial assets	Capital reserve for translation differences from foreign operations	Other capital reserves	Retained earnings	Total attributed to shareholders of the Company	Non-controlling interests	Total
	NIS in millions								
Balance as of July 1, 2017	18	2,518	538	(81)	(7)	12,639	15,625	42	15,667
Net profit for the period	-	-	-	-	-	263	263	-	263
Change in fair value of financial assets, net of tax	-	-	73	-	-	-	73	-	73
Amounts that were carried to the income statement from the disposition of financial assets, net of tax	-	-	(57)	-	-	-	(57)	-	(57)
Translation differences from foreign operations	-	-	-	12	-	-	12	-	12
Total comprehensive income for the period	-	-	16	12	-	263	291	-	291
Dividend for holders of non-controlling interests	-	-	-	-	-	-	-	(1)	(1)
Total transactions with shareholders of the Company	-	-	-	-	-	-	-	(1)	(1)
Balance as of September 30, 2017	18	2,518	554	(69)	(7)	12,902	15,916	41	15,957

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital
(Continued)

	For the Year ended December 31, 2017								
	Share capital	Share premium	Revaluation fund for financial assets	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, 2017	18	2,518	487	19	(7)	12,238	15,273	43	15,316
Net profit for the year	-	-	-	-	-	1,456	1,456	(8)	1,448
Change in fair value of financial assets, net of tax	-	-	204	-	-	-	204	-	204
Amounts that were carried to the income statement from the disposition of financial assets, net of tax	-	-	(62)	-	-	-	(62)	-	(62)
Translation differences from foreign operations	-	-	-	(110)	-	-	(110)	(4)	(114)
Total comprehensive income for the year	-	-	142	(110)	-	1,456	1,488	(12)	1,476
Dividend to shareholders of the Company	-	-	-	-	-	(480)	(480)	-	(480)
Investment of non-controlling interests in a subsidiary	-	-	-	-	-	-	-	9	9
Total transactions with shareholders of the Company	-	-	-	-	-	(480)	(480)	9	(471)
Balance as of December 31, 2017	18	2,518	629	(91)	(7)	13,214	16,281	40	16,321

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

Azrieli Group Ltd.
Condensed Consolidated Statements of Cash Flows

	For the nine-month period ended September 30		For the three-month period ended September 30		For the year ended December 31
	2018	2017	2018	2017	2017
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		(Unaudited)		
Cash Flows - Current Operations					
Net profit for the period	759	1,144	264	263	1,448
Depreciation and amortization	51	50	17	17	64
Forfeiture of senior housing tenants' deposits	(16)	(16)	(6)	(6)	(21)
Net loss (profit) from fair value adjustment of investment property and investment property under construction	36	(485)	13	32	(500)
Net financing and other (income) expenses	110	(13)	17	(65)	(46)
Profit from liquidation of fixed assets, investment property and intangible assets, net	-	(1)	-	(1)	-
Share in losses of associates accounted for by the equity method	5	4	3	1	6
Tax expenses recognized in the income statement	178	339	68	90	408
Income taxes paid, net	(123)	(140)	(29)	(45)	(186)
Erosion of financial assets designated at fair value through profit and loss	-	4	-	-	4
Change in inventory	(8)	(4)	(6)	(10)	(3)
Change in trade and other receivables	2	1	(2)	23	(48)
Change in receivables in respect of franchise arrangement	3	1	1	1	2
Change in trade and other payables	(17)	-	34	(3)	24
Receipt of deposits from senior housing tenants	58	95	28	22	112
Return of deposits from senior housing tenants	(27)	(33)	(10)	(6)	(45)
Change in employee provisions and benefits	1	-	1	-	-
Net cash - current operations	1,012	946	393	313	1,219

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Cash Flows

(Continued)

	For the nine-month period ended September 30		For the three-month period ended September 30		For the year ended December 31
	2018	2017	2018	2017	2017
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		(Unaudited)		
Cash flows - Investment Activity					
Proceeds from liquidation of fixed and intangible assets	1	1	1	-	2
Proceeds from liquidation of investment property	31	8	-	8	8
Down payments on account of investment property	-	(15)	-	(15)	-
Purchase of and investment in investment property and investment property under construction	(1,520)	(669)	(638)	(214)	(1,052)
Purchase of fixed and intangible assets	(60)	(63)	(23)	(20)	(86)
Investment in and granting of loans to associates	(10)	(12)	-	(2)	(15)
Change in short-term deposits	100	361	4	152	514
Change in restricted investments	-	3	-	-	3
Indemnification from insurance	38	-	23	-	-
Change in financial assets designated at fair value through profit and loss, net	-	2	-	-	3
Granting of long-term loans	-	(1)	-	-	(1)
Collection of long-term loans	8	6	7	-	6
Interest and dividend received	73	26	36	11	38
Proceeds from disposition of financial assets, net	65	233	-	186	233
Net proceeds from disposition of investments in investee companies	-	17	-	-	22
Taxes paid for financial assets	(2)	(15)	-	(15)	(17)
Institutions for purchase of real estate	13	(3)	-	(3)	(13)
Increase of our share in the partnerships in the USA	-	-	-	-	6
Net cash – investment activity	(1,263)	(121)	(590)	88	(349)

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

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

	For the nine-month period ended September 30		For the three-month period ended September 30		For the year ended December 31
	2018	2017	2018	2017	2017
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		(Unaudited)		
Cash flows - Financing Activity					
Dividend distribution to shareholders	(520)	(480)	-	-	(480)
Repayment of bonds	(483)	(636)	(313)	(10)	(645)
Bond offering net of issue expenses	1,399	1,354	-	-	1,354
Receipt of long-term loans from financial corporations	215	244	215	-	244
Repayment of long-term loans from financial corporations	(417)	(721)	(80)	(124)	(742)
Short-term credit from financial corporations, net	(159)	(34)	(26)	(37)	(66)
Repayment of deposits from customers	(6)	(5)	(1)	(1)	(7)
Received deposits from customers	7	8	3	4	10
Investment of non-controlling interests in a subsidiary	-	2	-	-	5
Interest paid	(158)	(151)	(69)	(59)	(179)
Net cash - financing activity	(122)	(419)	(271)	(227)	(506)
Increase (decrease) in cash and cash equivalents	(373)	406	(468)	174	364
Cash and cash equivalents at beginning of period	1,064	715	1,167	936	715
Effect of exchange rate changes on cash balances held in foreign currency	8	(10)	-	1	(15)
Cash and cash equivalents at end of period	699	1,111	699	1,111	1,064

(*) For the nine-month period ended on September 30, 2017, non-cash transactions included a change in payables due to purchases on credit of non-current assets in the sum of approx. NIS 122 million.

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

Note 1 – General

A. Azrieli Group Ltd. (the "**Company**") is a company domiciled and incorporated in Israel and whose registered address is 1 Azrieli Center, Tel Aviv. The Company is traded on the TASE and is included in the "Tel Aviv 35" Index. The Company has bonds (Series B, Series C and Series D) that were issued to the public. The Group's Consolidated Financial Statements as of September 30, 2018 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, 2017, and for the year then ended, and the notes attached thereto (the "**Annual Financial Statements**").

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, 2017 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:

(1) Accounting policy on recognition of income with respect to sales, works and services:

IFRS 15 "Revenue from Contracts with Customers" took effect on January 1, 2018.

Revenues from contracts with customers are recognized in the statement of profit or loss when control of the asset passes to the customer. Control of the asset passes to the customer over time if one of the following criteria is fulfilled:

(a) The customer simultaneously receives and consumes the benefits provided by the Group's performance, insofar as the Group performs; or

(b) The Group's performance creates or improves an asset (for example, work in progress) which is controlled by the customer during the creation or improvement thereof; or

(c) The Group's performance does not create an asset with alternative use to the Group, and the Group has an enforceable right to payment for performance completed until such time.

Note 2 – Significant Accounting Policies (Cont.)

B. Changes in accounting policy: (Cont.)

(1) Accounting policy on recognition of income with respect to sales, works and services: (Cont.)

When none of the above criteria is fulfilled, control of the asset passes to the customer at a point in time. In order to determine the point in time at which the customer gains control of an asset promised and the Group fulfills a performance commitment, the Group takes into account indications of transfer of control, which include mainly the following:

- The Group has a right to payment for the asset in the present;
- The customer has legal ownership of the asset;
- The Group has transferred physical possession of the asset;
- The customer holds the significant benefits and risks from ownership of the asset;
- The customer has confirmed receipt of the asset;

Revenues are measured and recognized at the fair value of the consideration expected to be received in accordance with the terms of the contract, net of amounts collected for third parties (such as taxes). Revenues are recognized in the consolidated statements of profit or loss to the extent the Group expects to receive the economic benefits, and insofar as the revenues and costs, if relevant, may be reliably measured.
The application of the standard had no material effect on the financial statements.

(2) Accounting policy on financial instruments:

IFRS 9 “Financial Instruments” took effect on January 1, 2018.

Financial assets:

1) General:

Financial assets are recognized in the Statement of Financial Position on the trade date on which the Group becomes a party to the contractual terms of the instrument.
Investments in financial assets are recognized for the first time at their fair value, plus transaction costs, with the exception of such financial assets that are classified at fair value through profit and loss, which are recognized for the first time at their fair value. Transaction costs for financial assets at fair value through profit or loss are carried to profit or loss as an immediate expense.
After first-time recognition, financial assets are measured at depreciated cost or fair value, according to their classification.

Note 2 – Significant Accounting Policies (Cont.)

B. Changes in accounting policy: (Cont.)

(2) Accounting policy on financial instruments: (Cont.)
Financial assets: (Cont.)

2) Classification of financial assets

Debt instruments are measured at depreciated cost when the following two conditions are met:

- The Group's business model is to hold the assets with the aim of collecting contractual cash flows, and
- The contractual terms of the asset determine precise dates for receipt of the contractual cash flows that constitute principal and interest payments only.

All other financial assets are measured at fair value through profit and loss.

3) Financial assets measured at depreciated cost and the effective interest method:

The depreciated cost of a financial asset is the amount at which the financial asset is measured upon first-time recognition, net of principal payments, plus or net of the aggregate depreciation, while using the effective interest method, of any difference between the initial amount and the payment amount, adjusted for any provision for loss.
The effective interest method is a method used to calculate the depreciated cost of a debt instrument and to allocate and recognize the interest income in profit or loss over the relevant period.
Interest income is calculated using the effective interest method. The calculation is made by applying the effective interest rate to the gross book value of a financial asset, other than:

- For defective financial assets due to credit risk, which were acquired or created, from the date of first-time recognition, the Group applies the effective interest rate adjusted to the credit risk to the depreciated cost of the financial asset.
- For financial assets that are not defective financial assets due to credit risk, that were acquired or created but thereafter became defective financial assets due to credit risk, the Group applies the effective interest rate to the depreciated cost of the financial asset (net of a provision for projected credit losses) in subsequent reporting periods. If, in subsequent reporting periods, the credit risk of the financial instrument improves, such that the financial asset is no longer defective due to credit risk, the Group will calculate the interest income in subsequent reporting periods by applying the effective interest rate to the gross book value.

Note 2 – Significant Accounting Policies (Cont.)

B. Changes in accounting policy: (Cont.)

(2) Accounting policy on financial instruments: (Cont.)

Financial assets: (Cont.)

4) Equity instruments designated at fair value through other comprehensive income:

On the date of first-time recognition, the Group may designate investments in equity instruments, that are not held for trade and do not constitute contingent consideration in a business combination, at fair value through other comprehensive income. This designation cannot be revoked in subsequent periods and can be made for each investment separately, irrespective of the designation or non-designation of other investments at fair value through other comprehensive income.

The Group has investments which were designated thereby on the date of first-time recognition at fair value through other comprehensive income.

On the date of first-time recognition, the investment in equity instruments that were designated at fair value through other comprehensive income is measured at fair value, plus transaction costs. In subsequent periods, the investment is measured at fair value when profits or losses arising from changes in the fair value, including such that derive from changes in exchange rates, are carried to other comprehensive income to a capital reserve for changes in fair value of investments in equity instruments designated at fair value through other comprehensive income and are never reclassified as profit or loss.

Income from dividends in respect of investment in equity instruments designated at fair value through other comprehensive income are recognized in profit or loss when the Group derives the right to receive payments therefor, unless the dividend clearly represents recovery of part of the cost of the investment.

5) Financial assets at fair value through profit or loss:

Financial assets at fair value through profit or loss are measured at fair value at the end of each reporting period. Any profit or loss arising from changes in the fair value, including such that derive from changes in exchange rates, is recognized in profit or loss in the period in which the change occurred. The net profit or loss that is recognized in profit or loss incorporates any dividend or interest accrued in respect of the financial asset.

Note 2 – Significant Accounting Policies (Cont.)

B. Changes in accounting policy: (Cont.)

(2) Accounting policy on financial instruments: (Cont.)

Financial assets: (Cont.)

6) Impairment of financial assets:

With respect to trade accounts and other receivables, the expected credit losses in respect of such financial assets are assessed based on the Group's past experience of credit losses and are adjusted for borrower-specific factors, general economic conditions and an estimation of both the current trend of the conditions and the projected trend of the conditions as of the report date, including the time value of money, as needed.

With respect to all other financial instruments, the Group recognizes a provision for impairment according to the projected credit losses throughout the life of the instrument, when there is a significant increase in the credit risk from their date of first-time recognition. If, on the other hand, the credit risk of the financial instrument has not significantly risen from the date of first-time recognition, the Group measures the provision for impairment according to the probability of insolvency in the coming 12 months. The test of whether to recognize a provision for impairment according to the projected credit losses throughout the life of the instrument is based on the risk of default from the date of first-time recognition, and not only when there is objective evidence of impairment on the report date or when the default has actually occurred.

The projected credit losses throughout the life of the instrument are the projected credit losses arising from all possible default events throughout the projected life of a financial instrument. Conversely, projected credit losses in a 12-month period are that part of the projected credit losses throughout the life of the instrument, representing the projected credit losses arising from defaults in a financial instrument that are possible within 12 months after the report date.

In the estimation of the management of the Company, the projected credit losses for customers and contract assets are immaterial.

Note 2 – Significant Accounting Policies (Cont.)

B. Changes in accounting policy: (Cont.)

(2) Accounting policy on financial instruments: (Cont.)

Financial assets: (Cont.)

6) Impairment of financial assets:

Financial asset write-off policy:

The Group writes off a financial asset when there is information indicating that the borrower is facing severe financial difficulties and there is no realistic chance of recovery of the asset. For example, when the borrower enters dissolution or bankruptcy proceedings. Financial assets that were written off may be subject to enforcement activities in the context of the Group's collection proceedings, while obtaining legal advice as needed. Any recovery of a financial asset that was written off is carried to profit or loss.

Measurement and recognition of projected credit losses:

The measurement of projected credit losses is a function of the probability of occurrence of a default, the amount of the loss in the event of occurrence of a default and the maximum exposure to loss in a default event. The estimation of the probability of occurrence of a default and the amount of the loss are based on historic data, adjusted by forward-looking information as described above.

With respect to financial assets, the maximum exposure to a loss in a default event is the gross book value of the financial asset on the report date. With respect to a commitment to give loans and financial guarantee contracts, the maximum exposure to loss in a default event includes the amount taken as of the report date, plus additional amounts that may be incurred in the future until the occurrence of the default based on past data, the Group's knowledge of the specific future financing needs of the borrowers, and other relevant forward-looking information.

With respect to financial assets, projected credit losses are the difference between all the contractual cash flows to which the Group is entitled under the contract, and all the cash flows the Group expects to receive, discounted at the original effective interest rate. With respect to accounts receivable for a lease, the cash flows used to determine the projected credit losses are consistent with the cash flows used to measure the receivable for the lease, in accordance with IAS 17 – Leases.

Note 2 – Significant Accounting Policies (Cont.)

B. Changes in accounting policy: (Cont.)

(2) Accounting policy on financial instruments: (Cont.)

Financial assets: (Cont.)

7) Write-off of financial assets:

The group writes off a financial asset only when the contractual rights to cash flows from the financial asset have expired.

When writing off a financial asset that is measured at depreciated cost, the difference between the book value of the asset and the consideration received or due to be received is recognized in profit or loss.

Financial liabilities and equity instruments issued by the Group:

1) Classification as a financial liability or equity instrument:

Equity instruments and liabilities issued by the Group are classified as financial liabilities or an equity instrument in accordance with the nature of the contractual arrangements and the definition of financial liability and equity instrument.

2) Equity instruments:

An equity instrument is any contract attesting to a residual right in the Group's assets after deduction of all its liabilities. Equity instruments issued by the Group are recorded according to their issue proceeds net of expenses directly related to the issue of such instruments.

3) Financial liabilities:

Financial liabilities are stated and measured at depreciated cost.

Financial liabilities at depreciated cost

The remaining financial liabilities that are not measured at fair value through profit or loss are recognized for the first time at fair value net of the transaction costs. After the date of first-time recognition, such financial liabilities are measured at depreciated cost while using the effective interest method.

The effective interest method is a method for calculation of the depreciated cost of a financial liability and the allocation of interest expenses over the relevant credit period. The effective interest rate is the rate that accurately deducts the projected future cash flows over the expected life time of the financial liability to its book value or, where applicable, over a shorter period of time.

Note 2 – Significant Accounting Policies (Cont.)

B. Changes in accounting policy: (Cont.)

(2) Accounting policy on financial instruments: (Cont.)
Financial liabilities and equity instruments issued by the Group: (Cont.)

4) Write-off of financial liabilities:

The Group writes off a financial liability when, and only when the financial liability is paid up, cancelled or expires. The difference between the book value of the settled financial liability and the consideration paid is recognized in profit or loss.

The application of the standard had no material effect on the financial statements.

C. Standards, interpretation and amendments to standards that were released and are not invalid, and were not pre-adopted by the Group, that have or may have an effect on future periods:

IFRS 16 “Leases”:

The new standard cancels IAS17 “Leases” and the commentaries related thereto, and sets forth 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 does not change the currently existing accounting treatment in the Lessor’s books.

The new standard cancels the currently existing distinction relating to a Lessee, between finance leases and operating leases and determines 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 are currently treated as operating leases will be recognized upon the implementation of the standard as assets and liabilities in the Group’s statement of financial position.

The standard takes binding effect for the annual reporting periods which commence on January 1, 2019, or thereafter.

The Group has studied the implications of the standard’s application, and in the Group’s estimation no material effect on its financial statements is expected from the standard’s application.

Note 2 – Significant Accounting Policies (Cont.)

D. Use of estimates and discretion:

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

The evaluations and discretion used by management to apply the accounting policy and prepare the Consolidated Interim Financial Statements were identical to those used in the preparation of the financial statements as of December 31, 2017.

(2) Further to Note 3(C)1 to the Annual Financial Statements, as of June 30, 2018, the Group updated the valuations for some of its investment property in Israel (which are attributed to the retail centers and malls segment and to the office and other space for lease segment).

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

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

The cap rates used by the appraiser are mainly between 6.75% - 8%. The cap rates were determined considering the type, designation and location of the property, the amount of the rent versus the market price and the nature of the tenants.

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

Note 2 – Significant Accounting Policies (Cont.)

E. 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 CPI are presented according to the last known index at the end of the reporting period (the index for the month preceding the month of the date of the financial statements) or according to the index for the last month of the period of report.

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

	Representative exchange rate of the USD (NIS to 1 Dollar)	Index in Israel "For" 1993 Basis	Index in Israel "Known" 1993 Basis
Date of the financial statements:			
As of September 30, 2018	3.627	224.00	223.77
As of September 30, 2017	3.529	221.35	221.13
As of December 31, 2017	3.467	221.57	221.35
Change rates:	%	%	%
For the nine-month period ended:			
on September 30, 2018	4.61	1.10	1.10
on September 30, 2017	(8.22)	0.30	0.20
For the three-month period ended:			
on September 30, 2018	(0.63)	0.20	0.20
on September 30, 2017	0.94	0.30	(0.50)
For the year ended			
on December 31, 2017	(9.83)	0.40	0.30

Note 3 – Material Events during the Report Period

A. On March 20, 2018, the Company's Board of Directors decided upon the distribution of a dividend in the sum of NIS 520 million (reflecting an amount of approx. NIS 4.29 per share), which was paid on May 2, 2018.

B. In February 2018, the Company issued to the public NIS 1,367 million par value of additional Series D bonds of the Company at a price of 103.1 *agorot* per NIS 1 par value (a premium of approx. 2.5% relative to their adjusted value) by way of expansion of the bond series, based on a shelf prospectus of the Company. The gross issue proceeds totaled approx. NIS 1,409 million, and net of the issue expenses, net proceeds totaled approx. NIS 1,400 million.

C. On January 1, 2018, the Company and Canit Hashalom Investments Ltd., a subsidiary wholly-owned by the Company, received orders pursuant to Section 152(B) of the Income Tax Ordinance in the sum total of approx. NIS 170 million (including interest and linkage differentials) for the years 2011-2014 (inclusive) in addition to the tax paid due to these years. It is noted that with respect to parts of the amount of the assessment, the Company's financial statements include a liability for taxes.

The Company disputes the Israel Tax Authority's positions and is of the opinion, *inter alia* in reliance on its professional advisors, that it has good arguments against such positions. Therefore, in January 2018, the Company filed an appeal from the issued orders with the District Court. In the Company's estimation, in reliance on its professional advisors, even if the Company's appeal is denied, the assessment received is not expected to have a material effect on the Company's financial results.

D. On January 11, 2018, a wholly-owned consolidated company had won a tender held by the ILA for the purchase of a leasehold in a lot located in Modi'in-Maccabim-Re'ut CBD, on an area of approx. 5,300 sqm, designated for the construction of 80 residential units, 50 hotel rooms, offices and commerce, in consideration for approx. NIS 101.5 million. The transaction was closed during the report period.

E. Following Note 30B(2) to the Annual Financial Statements, in Q1/2018, Supergas Natural Ltd., a wholly-owned consolidated company, signed an agreement with a third party for the purchase of natural gas at a scope of approx. $100 million for the purpose of marketing thereof to its customers. The supply is expected to begin in mid-2020 for a period of approx. 7 years. The agreement includes mechanisms for a minimal purchase commitment and compensation, as is accepted in similar transactions.

F. Following Note 11(3) to the Annual Financial Statements with respect to the sale of all of the Group's holdings in the Pi Glilot lands and the shares of Pi Glilot Oil and Pipe Terminals Co. Ltd, the sale transactions were closed during the report period.

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

G. On April 22, 2018, the Company entered into an agreement with unrelated third parties (the "**Sellers**") for the purchase of rights to land located on Menachem Begin Road, Tel Aviv, holding a 4-floor building over a commercial ground floor, in the total area of approx. 5,500 sqm and underground floors mostly leased for office purposes. The property includes unused building rights under the zoning plan that applies to the land, in the total scope of approx. 21,000 sqm above-ground, as well as the Sellers' rights to lease underground areas in an adjacent plot, which are intended for the expansion of the building's parking basements. In consideration for the purchase of rights to the land, the Company paid the Sellers NIS 260 million (exclusive of V.A.T.). The transaction was closed on May 14, 2018.

H. On April 10, 2018, notice was received at Zero Waste Ltd. ("**Zero Waste**"), a corporation held by GES Global Environmental Solutions Ltd., a wholly-owned consolidated company ("**GES**"), in equal shares with Shikun & Binui Ltd., whereby Zero Waste was elected as the winner in a BOT tender for the planning, financing, construction and operation of a municipal waste sorting and recycling and energy production facility (the "**Project**"), published by the Ministry of Finance (the Accountant General) and the Ministry of Environment Protection. The Project will be built in the area of the Dan Region Wastewater Treatment Plant (the "*Shafdan*") in Rishon LeZion, and its cost during the construction period is estimated at approx. NIS 750 million. The performance of the Project is subject to completion of a financial closing of the Project. The Project's total franchise period is up to 29.5 years.

On July 2, 2018, Zero Waste received petitions of another group that contended in the same tender (the "**Other Group**"), moving the District Court in Jerusalem, *inter alia*, to revoke the Tender Committee's decision to elect Zero Waste as the winner of the tender and determine that the Other Group is the winner in the tender, or alternatively remand the deliberation to the Tender Committee to examine Zero Waste's compliance with the tender's requirements. It is noted that Zero Waste rejects the claims of the Other Group. In view of the preliminary stage of the petitions, the Company, based on GES's assessment, based on its legal advisors, is unable to assess, at this stage, the prospects of the petitions.

I. Further to Note 36C(6) to the Annual Financial Statements regarding the appointment of Mr. Eyal Henkin as CEO of the Company, on April 30, 2018 the general meeting of the Company's shareholders approved the terms of office and employment of Mr. Eyal Henkin (through a private company wholly-owned by him) as the Company's CEO.

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

J. On July 12, 2018, the Company, through an (indirectly) wholly-owned American corporation, closed the acquisition of an office building in Austin, Texas, U.S. (the "**Property**"), in consideration for the sum of approx. U.S. $100.4 million. The purchased Property is a 5-floor office building with a total area of approx. 23,214 sqm (approx. 249,870 sq. ft) and an occupancy rate of approx. 100%. The Property also includes approx. 970 parking spaces, most of which are situated in a nearby 7-floor car park.

K. In July 2018, the Company engaged, together with Bank Leumi LeIsrael Ltd. (the "**Bank**" and jointly the "**Sellers**"), in an agreement (the "**Agreement**") for the sale of all of the Sellers' holdings in Leumi Card Ltd. ("**Leumi Card**") to Warburg Pincus Financial Holdings (Israel) Ltd., a corporation controlled by the Warburg Pincus investment fund (the "**Buyer**").

In consideration for the purchase of all of the Seller's shares in Leumi Card, the Buyer shall pay the Sellers a sum of NIS 2,500 million (apart from an adjustment to a dividend distribution and other adjustments according to the Agreement, if and insofar as Leumi Card distributes a dividend to its shareholders in the period up to the transaction closing date) in three installments at different rates, according to the dates fixed in the Agreement. The Company's share in the consideration before adjustments is NIS 500 million. The Agreement includes provisions regarding collateral, which the Buyer is obligated to provide to the Sellers as well as representations and indemnity provisions, specified in the Agreement. The Agreement also includes several conditions precedent, including the receipt of the regulatory approvals for the transaction that are required by law. In view of the conditions precedent there is no certainty that the transaction will be closed. A 3-month period was determined for fulfillment of the conditions precedent, with an option for extension by an additional three months at the request of each one of the parties, after which the bank will be able to extend the period by another three months. A mechanism was also determined for shortening the period and terminating the agreement in the event that it transpires that it will likely not be possible to obtain the regulatory approvals. If the transaction is not closed by December 31, 2018, the consideration will bear, from January 1, 2019, annual interest of 8% until the closing of the transaction. Accordingly, on October 28, 2018, the timeframe for the closing of the transaction was extended by an additional three months.

Subject to the closing thereof, the transaction is not expected to have a material effect on the Company's net profit and comprehensive income.

On August 16, 2018, Leumi Card distributed dividends in the sum of NIS 100 million (the Company's share is NIS 20 million), which were adjusted from the sale value.

For details regarding the distribution of a dividend after the balance sheet date, see Note 6B.

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

L. Legal claims:

(1) In May 2018, a class certification motion was filed with the Central-Lod District Court in the sum of NIS 57.5 million (estimate) against the Company, concerning claims pertaining to an ostensible breach of the provisions of the Equal Rights for Persons with Disabilities Law, 5758-1998 and the regulations promulgated thereunder.

At this initial and preliminary stage, in reliance on its legal counsel, the Company is unable to assess the motion's chances of being granted. However, it is noted in this regard that: (a) from other class certification motions which concern these issues, which were filed in the past against the Company, it emerges that the Group strictly fulfills the provisions of the law in this context; and (b) past experience reveals that the certification motion’s chances of being granted in full are lower than 50%, and are certainly much lower than the chances of the certification motion ultimately being granted in amounts lower than those claimed.

(2) Further to Note 32A(1) to the Annual Financial Statements regarding a claim and a motion for class certification against Supergas in a sum total of approx. NIS 40 million of March 2014, in the report period a mediation between the parties ended and a motion for approval of a settlement was filed with the court. Supergas’ financial statements included a provision accordingly.

To the Company’s estimation, based on the estimation of Supergas’ management, based on its legal counsel, insofar as the motion for approval of the settlement is not granted then, for most of Supergas’ customers, Supergas’ chances of having the financial remedy in the claim dismissed are higher than 50%. For a minority of the customers, according to Supergas’ calculations, Supergas’ management is of the opinion that the exposure to a financial remedy, if any, is immaterial.

(3) Further to Note 32B(3) to the Annual Financial Statements regarding a claim filed by an agency operator against Supergas in the sum of approx. NIS 16.4 million from October 2012, in June 2018 a settlement was signed between the parties to the case for a sum that has no material effect on the Company’s 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 September 30, 2018		As of September 30, 2017		As of December 31, 2017	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
	NIS in millions		NIS in millions		NIS in millions	
Non-current assets:						
Receivables in respect of franchise arrangement (*)	52	69	57	73	55	74
Non-current liabilities:						
Loans from financial institutions (*)	2,626	2,698	2,669	2,725	2,765	2,823
Bonds (*)	6,875	7,055	5,892	6,091	5,901	6,170
	9,501	9,753	8,561	8,816	8,666	8,993

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

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

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

	As of September 30		As of December 31
	2018	2017	2017
	%	%	%
Non-current assets:			
Receivables in respect of franchise arrangement	1.31-2.07	1.44-2.63	1.11-1.88
Non-current liabilities:			
Loans from financial institutions	0.33-4.19	0.7-4.34	0.76-4.36

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

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.

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

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

C. Fair value hierarchy: (Cont.)

	As of September 30, 2017			
	Level 1	Level 2	Level 3	Total
	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Financial assets designated at fair value through profit and loss				
Securities held for trade	1	-	-	1
Non-marketable investments	-	17	-	17
Financial assets at fair value through other comprehensive income				
Marketable shares	1,011	-	-	1,011
Non-marketable shares	-	88	562	650
Total fair value of financial assets	1,012	105	562	1,679

	As of December 31, 2017			
	Level 1	Level 2	Level 3	Total
	NIS in millions	NIS in millions	NIS in millions	NIS in millions
Financial assets designated at fair value through profit and loss:				
Securities held for trade	1	-	-	1
Non-marketable investments	-	17	-	17
Financial assets at fair value through other comprehensive income:				
Marketable shares	1,132	-	-	1,132
Non-marketable shares	-	87	536	623
Total fair value of financial assets	1,133	104	536	1,773

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

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

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

	For the nine-month period ended on September 30		For the year ended on December 31
	2018	2017	2017
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
Financial assets:			
Balance as of year start	536	562	562
Total loss recognized in other comprehensive income	(73)	-	(26)
Transfer to Level 2 – assets held for sale	(463)	-	-
	-	562	536

Note 5 – Segment Reporting

A. General:

For a description of the Company's operating segments, see Note 37 to the Annual Financial statements.

B. Operating segments:

	For the nine-month period ended on September 30, 2018 (Unaudited)						
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Senior housing	Granite	Other	Consolidated
				NIS in millions			
Revenues:							
Total external income	772	466	196	95	524	25	2,078
Total segment expenses	158	84	89	65	440	62	898
Segment profit (loss) (NOI)	614	382	107	30	84	(37)	1,180
Net profit (loss) from fair value adjustment of investment property and investment property under construction	(58)	20	(13)	15	-	-	(36)
Unallocated costs							(91)
Financing expenses, net							(175)
Other revenues, net							66
The Company's share in results of associates, net of tax							(5)
Income before income taxes							939
Additional information:							
Segment assets	12,580	10,145	2,531	1,949	1,195		28,400
Unallocated assets (*)							2,855
Total consolidated assets							31,255

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

Note 5 – Segment Reporting (Cont.)

B. Operating segments: (Cont.)

	For the nine-month period ended on September 30, 2017 (Unaudited)						
	Retail centers and malls in Israel	**Office and other space for lease in Israel**	**Income-producing property in the USA**	**Senior housing**	**Granite**	**Other**	**Consolidated**
	NIS in millions						
Revenues:							
Total external income	773	355	168	95	535	10	1,936
Total segment expenses	155	68	77	64	454	40	858
Segment profit (loss) (NOI)	618	287	91	31	81	(30)	1,078
Net profit (loss) from fair value adjustment of investment property and investment property under construction	(3)	449	(19)	58	-	-	485
Unallocated costs							(83)
Financing expenses, net							(46)
Other revenues, net							53
The Company's share in results of associates, net of tax							(4)
Income before income taxes							1,483
Segment assets	12,347	9,124	2,004	1,653	1,257		26,385
Unallocated assets (*)							3,332
							29,717

(*) Includes financial assets in the sum of NIS 1.6 billion and cash and short-term deposits in the sum of NIS 1.3 billion.

Note 5 – Segment Reporting (Cont.)

B. Operating segments: (Cont.)

	For the three-month period ended on September 30, 2018 (Unaudited)						
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Senior housing	Granite	Other	Consolidated
	NIS in millions						
Revenues:							
Total external income	262	163	72	32	154	9	692
Total segment expenses	57	31	33	22	135	21	299
Segment profit (loss) (NOI)	205	132	39	10	19	(12)	393
Net profit (loss) from fair value adjustment of investment property and investment property under construction	(17)	(5)	(6)	15	-	-	(13)
Unallocated costs							(28)
Financing expenses, net							(49)
Other revenues, net							32
The Company's share in results of associates, net of tax							(3)
Income before income taxes							332

Note 5 – Segment Reporting (Cont.)

B. Operating segments: (Cont.)

	For the three-month period ended on September 30, 2017 (Unaudited)						
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Senior housing	Granite	Other	Consolidated
	NIS in millions						
Revenues:							
Total external income	269	125	54	32	145	5	630
Total segment expenses	56	28	25	22	128	17	276
Segment profit (loss) (NOI)	213	97	29	10	17	(12)	354
Net loss from fair value adjustment of investment property and investment property under construction	(11)	(6)	(15)	-	-	-	(32)
Unallocated costs							(33)
Financial income, net							57
Other revenues, net							8
The Company's share in results of associates, net of tax							(1)
Income before income taxes							353

Note 5 – Segment Reporting (Cont.)

B. Operating segments: (Cont.)

	For the year ended December 31, 2017						
	Retail centers and malls in Israel	Office and other space for lease in Israel	Income-producing property in the USA	Senior housing	Granite	Other	Consolidated
	NIS in millions						
Revenues:							
Total external income	1,032	489	221	126	705	19	2,592
Total segment expenses	204	92	100	87	601	65	1,149
Segment profit (loss) (NOI)	828	397	121	39	104	(46)	1,443
Net profit (loss) from fair value adjustment of investment property and investment property under construction	(25)	630	(186)	81	-	-	500
Unallocated costs							(115)
Financing expenses, net							(90)
Other revenues, net							124
The Company's share in results of associates, net of tax							(6)
Income before income taxes							1,856
Additional information as of December 31, 2017:							
Segment assets	12,368	9,462	1,983	1,725	1,265		26,803
Unallocated assets (*)							3,340
Total consolidated assets							30,143
Capital investments	321	598	191	138	51		

(*) Mainly financial assets in the sum of approx. NIS 1.7 billion and cash and short-term deposits in the sum of approx. NIS 1.1 billion.

Note 6 – Material Subsequent Events

A. Dividend from Bank Leumi:

After the balance sheet date, on November 12, 2018, Bank Leumi Le'Israel Ltd. decided on a dividend distribution in the sum of approx. NIS 375 million (the Company's share – approx. NIS 13.5 million). The distribution date was scheduled for December 10, 2018.

B. Dividend from Leumi Card:

After the balance sheet date, on November 11, 2018, the board of directors of Leumi Card Ltd. decided on a dividend distribution in the sum of NIS 58 million (the Company's share – NIS 11.6 million), which will be adjusted from the sale value (for details regarding the sale of Leumi Card, see Section 3K). The distribution date was scheduled for November 14, 2018.

C. Update on lawsuits:

Further to Note 32B(4) to the Annual Financial Statements regarding payment demands that were sent to Supergas by the Local Committee of the City of Kiryat Ata in 2011-2012 in the sum total of approx. NIS 117.2 million, after the date of the Statement of Financial Position, on November 1, 2018, the decision of the Supreme Court in the appeal and in the counterappeal was issued, in which it was ruled that in operative terms, the betterment levy claimed by the City from the gas companies and the compensation charge pursuant to Section 197 of the Planning and Building Law, 5725-1965, which was claimed by the gas companies, cancel out one another, such that no financial charge will be imposed on any party against the other.

Annex to Consolidated Financial Statement

Separate Interim Financial Statement

As of September 30, 2018

(Unaudited)

Azrieli Group Ltd.

Separate Interim Financial Statement

As of September 30, 2018

(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 September 30, 2018

(Unaudited)

C o n t e n t s

Deloitte.

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

Dear Sir/Madam,

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

We have reviewed the separate interim financial statement, which is presented according to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, of **Azrieli Group Ltd.** (the "**Company**") as of September 30, 2018 and for the nine- and three-month periods then ended. The separate interim financial statement is the responsibility of the Company's Board of Directors and Management. Our responsibility is to express a conclusion on the separate interim financial statement for these interim periods, based on our review.

We did not review the separate interim financial statement from the financial statements of investee companies, the total investments in which amounted to approx. NIS 353 million as of September 30, 2018 and the profit from such investee companies amounted to approx. NIS 53 million and NIS 10 million for the nine- and three-month periods then ended, respectively. The financial statements of these companies were reviewed by other auditors whose reports were furnished to us, and our conclusion, in so far as it is related to the financial statements in respect of those companies, is based upon the review reports of the other auditors.

The Scope of the Review

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

Conclusion

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

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

Tel Aviv, November 20, 2018

Azrieli Group Ltd.

Statement of Financial Position

	As of September 30		As of December 31
	2018	2017	2017
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
Assets			
Current assets			
Cash and cash equivalents	375	849	826
Short-term deposits and investments	1	251	101
Trade accounts receivable	12	9	14
Trade and other receivables	126	120	96
Current tax assets	7	-	5
	521	1,229	1,042
Assets held for sale	463	40	40
Total current assets	984	1,269	1,082
Non-current assets			
Financial assets	1,311	1,590	1,685
Investment property and investment property under construction	11,105	10,186	10,397
Investments in investee companies	9,139	8,426	8,610
Loans to investee companies	3,757	3,718	3,711
Fixed assets	9	9	9
Other receivables	39	9	18
Total non-current assets	25,360	23,938	24,430
Total assets	26,344	25,207	25,512

Azrieli Group Ltd.

Statement of Financial Position
(Cont.)

	As of September 30		As of December 31
	2018	2017	2017
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
Liabilities and capital			
Current liabilities			
Credit and current maturities from financial corporations and bonds	1,290	1,438	1,413
Trade payables	66	163	88
Payables and other current liabilities	63	76	89
Current tax liabilities	-	12	-
Total current liabilities	1,419	1,689	1,590
Non-current liabilities			
Loans from financial corporations	931	1,121	1,095
Bonds	5,879	5,118	5,122
Other liabilities	26	21	18
Deferred tax liabilities	1,443	1,342	1,406
Total non-current liabilities	8,279	7,602	7,641
Capital			
Ordinary share capital	18	18	18
Premium on shares	2,478	2,478	2,478
Capital reserves	702	518	571
Retained earnings	13,448	12,902	13,214
Total capital attributable to shareholders of the Company	16,646	15,916	16,281
Total liabilities and capital	26,344	25,207	25,512

November 20, 2018			
Date of Approval of Separate Financial Statement	**Danna Azrieli Chairman of the Board**	**Eyal Henkin CEO**	**Irit Sekler-Pilosof Chief Financial Officer**

Azrieli Group Ltd.

Statement of Profit and Loss and Other Comprehensive Income

	For the nine-month period ended on September 30		For the three-month period ended on September 30		For the year ended on December 31
	2018	2017	2018	2017	2017
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		(Unaudited)		
Revenues:					
From rent and management and maintenance fees	466	384	163	135	514
Net profit (loss) from adjustment to fair value of investment property and investment property under construction	49	335	(7)	(14)	455
Financing	113	182	34	104	215
Other	65	52	33	7	63
Total Revenues	693	953	223	232	1,247
Costs and Expenses:					
Cost of revenues from rent and management and maintenance fees	19	15	9	8	21
Sales and marketing	20	19	6	8	26
G&A	41	38	11	10	53
Financing	115	78	29	8	104
Other	3	-	-	-	-
Total Costs and Expenses	198	150	55	34	204
Income before the Company's share in the profits of investee companies	495	803	168	198	1,043
Share in profits of investee companies, net of tax	336	515	125	111	642
Income before income taxes	831	1,318	293	309	1,685
Taxes on income	(70)	(174)	(29)	(46)	(229)
Net profit for the period from continued operations	761	1,144	264	263	1,456
Loss from a discontinued operation (after tax)	(2)	-	-	-	-
Net profit for the period	759	1,144	264	263	1,456
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	82	129	90	73	204
Amounts that were carried to the income statement from the disposition of financial assets, net of tax	-	(62)	-	(57)	(62)
Amounts that will be carried in the future to the income statement, net of tax:					
Translation differences from foreign operations	35	(66)	(5)	7	(81)
Share in the other comprehensive income (loss) of investee companies, net of tax	14	(22)	(2)	5	(29)
Other comprehensive income (loss) for the period, net of tax	131	(21)	83	28	32
Total comprehensive income for the period	890	1,123	347	291	1,488

Azrieli Group Ltd.

Statement of Cash Flows

	For the nine-month period ended on September 30		For the three-month period ended on September 30		For the year ended on December 31
	2018	2017	2018	2017	2017
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		(Unaudited)		
Cash flows - current operations					
Net profit for the period	759	1,144	264	263	1,456
Depreciation and amortization	1	1	-	-	1
Net loss (profit) from adjustment to fair value of investment property and investment property under construction	(49)	(335)	7	14	(455)
Financing and other income, net	(65)	(162)	(39)	(105)	(180)
Share in profits of investee companies, net of tax	(334)	(515)	(125)	(111)	(642)
Expenses for taxes recognized in the income statement	70	174	29	46	229
Income tax paid (received), net	(34)	(43)	4	(13)	(68)
Change in trade and other receivables	(59)	6	7	(18)	1
Change in trade and other payables	13	14	12	24	(7)
Change in employee provisions and benefits	2	-	-	-	-
Erosion of financial assets designated at fair value through profit and loss	-	4	-	-	4
Net cash – current operations	304	288	159	100	339
Cash flows - investment activities					
Purchase and investment in investment property and investment property under construction	(660)	(339)	(178)	(130)	(486)
Purchase of fixed assets	(1)	(2)	-	(1)	(3)
Investments in investee companies	(141)	(17)	(141)	-	(80)
Proceeds from financial assets designated at fair value through profit and loss, net	-	3	-	1	3
Receipt of long-term loans from investee companies, net	58	157	74	41	183
Interest and dividend received	69	33	35	15	57
Return of investment in an investee company	-	12	-	5	12
Proceeds from disposition of financial assets, net	-	233	-	187	233
Change in short-term deposits	100	360	-	150	511
Taxes paid for financial assets	(2)	(15)	-	(15)	(17)
Proceeds from the disposition of investment property	31	8	-	8	8
Net cash - investment activities	(546)	433	(210)	261	421

Azrieli Group Ltd.

Statement of Cash Flows (Cont.)

	For the nine-month period ended on September 30		For the three-month period ended on September 30		For the year ended on December 31
	2018	2017	2018	2017	2017
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		(Unaudited)		
Cash flows - financing activities					
Bond offering net of offering expenses	1,399	1,354	-	-	1,354
Dividend distribution to shareholders	(520)	(480)	-	-	(480)
Repayment of bonds	(454)	(609)	(303)	-	(609)
Repayment of long-term loans from financial corporations	(394)	(459)	(72)	(117)	(473)
Short-term credit from financial corporations, net	(146)	(35)	(3)	(18)	(74)
Deposits from customers, net	(1)	-	(1)	-	1
Interest paid	(95)	(92)	(47)	(39)	(102)
Net cash - financing activities	(211)	(321)	(426)	(174)	(383)
Increase (decrease) in cash and cash equivalents	(453)	400	(477)	187	377
Cash and cash equivalents at beginning of period	826	454	850	663	454
Effect of exchange rate changes on cash balances held in foreign currency	2	(5)	2	(1)	(5)
Cash and cash equivalents at end of period	375	849	375	849	826

(*) Non-cash transactions include an increase in other payables for acquisitions on credit of non-current assets for the nine-month period ended on September 30, 2017 in the sum of NIS 92 million. For the year ended December 31, 2017, non-cash transactions included an increase in other payables in respect of acquisitions on credit of non-current assets in the sum of NIS 32 million.

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, 2017, and for the year then ended, and the additional figures that were attached thereto.

B. Definitions:

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

C. Accounting Policy:

The Separate Financial Statement is prepared in accordance with the accounting policy specified in Note B to the Company's separate financial statement as of December 31, 2017 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.

E. Material Subsequent Events:

See Note 6 to the Condensed Consolidated Financial Statements which are published with this Separate Financial Statement.

[On letterhead of Deloitte]

November 20, 2018

The Board of Directors of Azrieli Group Ltd.
1 Azrieli
Tel Aviv

Dear Sir/Madam,

Re: Consent in Connection with the Shelf Prospectus of Azrieli Group Ltd. of May 2016

We hereby notify you that we agree to the inclusion (including by way of reference) of our reports that are specified below in connection with the shelf prospectus of May 2016:

(1) Review report of November 20, 2018 on consolidated condensed financial information of the Company as of September 30, 2018, and for the nine- and three-month periods then ended.

(2) Review report of November 20, 2018 on separate condensed financial information of the Company as of September 30, 2018, and for the nine- and three-month periods then ended pursuant to Section 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

AZRIELI GROUP

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 quarterly report regarding the effectiveness of internal control over financial reporting and disclosure, which was attached to the quarterly report for the period ended on June 30, 2018 (the "Most Recent Quarterly Report on Internal Control"), the internal control was found to be effective.

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

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

STATEMENT OF MANAGERS:

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

I, Eyal Henkin, represent that:

1. I have reviewed the quarterly report of Azrieli Group Ltd. (the "Corporation") for Q3/2018 (the "Reports").
2. To my knowledge, the Reports do not contain any misrepresentation nor omission of a material fact required for the representations included therein, given the circumstances under which such representations were included, not to be misleading with regard to the period of the Reports.
3. To my knowledge, the Financial Statements and other financial information included in the Reports adequately reflect, in all material respects, the financial position, operating results and cash flows of the Corporation for the periods and as of the dates covered by the Reports.
4. I have disclosed to the Corporation's auditor and to the Corporation's Board of Directors and the Audit Committee and Financial Statement Committee, based on my most current evaluation of internal control over financial reporting and disclosure:
   a. Any and all significant flaws and material weaknesses in the setting or maintaining internal control over financial reporting and disclosure which may reasonably adversely affect the Corporation's ability to gather, process, summarize or report financial information in a manner which casts doubt on the reliability of the financial reporting and preparation of the Financial Statements in conformity with the provisions of the law; and –
   b. Any fraud, either material or immaterial, which involves the CEO or anyone reporting to him directly or which involves other employees who play a significant role in internal control over financial reporting and disclosure;
5. I, myself or jointly with others at the Corporation:
   a. Have set controls and procedures, or confirmed, under my supervision, the setting and maintaining of controls and procedures which are designed to ensure that material information in reference to the Corporation, including consolidated companies thereof as defined in the Securities Regulations (Annual Financial Statements), 5770-2010, is brought to my knowledge by others at the Corporation and the consolidated companies, particularly during the preparation of the Reports; and –
   b. Have set controls and procedures, or confirmed, under my supervision, the setting and maintaining of controls and procedures which are designed to reasonably ensure reliability of financial reporting and preparation of the Financial Statements in conformity with the provisions of the law, including in conformity with GAAP.
   c. No occurrence or issue have been brought to my attention, that occurred during the period between the date of the most recent quarterly report and the Report Date herein, which may change the conclusion of the Board of Directors and management with regard to the effectiveness of internal control over the Corporation's financial reporting and disclosure.

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

Date: November 20, 2018

Eyal Henkin | CEO

STATEMENT OF MANAGERS:

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

I, Irit Sekler-Pilosof, represent that:

1. I have reviewed the Interim Financial Statements and other financial information included in the interim reports of Azrieli Group Ltd. (the "Corporation") for Q3/2018 (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 our supervision, the setting and maintaining of controls and procedures which are designed to ensure that material information in reference to the Corporation, including consolidated companies thereof as defined in the Securities Regulations (Annual Financial Statements), 5770-2010, is brought to my knowledge by others at the Corporation and the consolidated companies, particularly during the preparation of the Reports; and -

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

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

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

Date: November 20, 2018

Irit Sekler-Pilosof | CFO