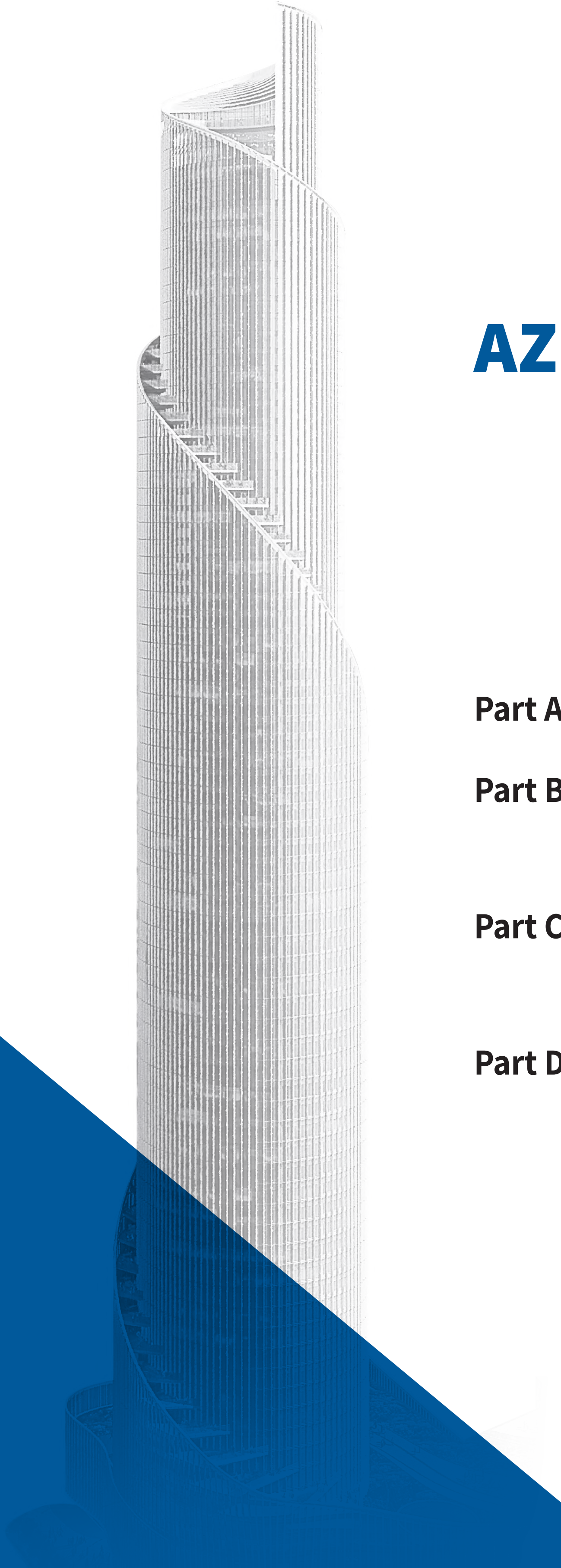
AZRIELI GROUP LTD.

Quarterly Report Q2/2021

Dated 30 June 2021



AZRIELIGROUP

AZRIELI GROUP LTD.

Quarterly Report Q2/2021
Dated 30 June 2021

PART A

Board Report

Azrieli Group

BUSINESS CARD

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

Established in 1983

NIS 4.2 billion distributed in dividends since the IPO

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

Israel's largest real estate company with total assets of NIS 35.1 billion

98% occupancy rate* on average in Israel

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

19 MALLS

343 thousand sqm | 98% Occupancy*

16 OFFICE BUILDINGS

638 thousand sqm | 98% Occupancy*

4 SENIOR HOMES

105 thousand sqm | 99% Occupancy*

8 OFFICE BUILDINGS OVERSEAS

248 thousand sqm | 75% Occupancy

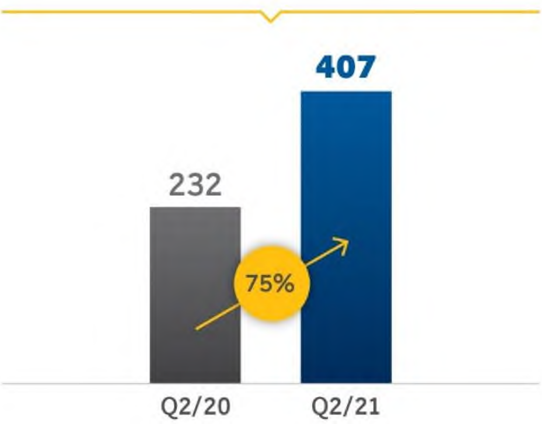
DEVELOPMENT PIPELINE

12 properties | 669 thousand sqm

PERFORMANCE SUMMARY AND FINANCIAL HIGHLIGHTS FOR Q2/2021 AND THE REPORT PERIOD

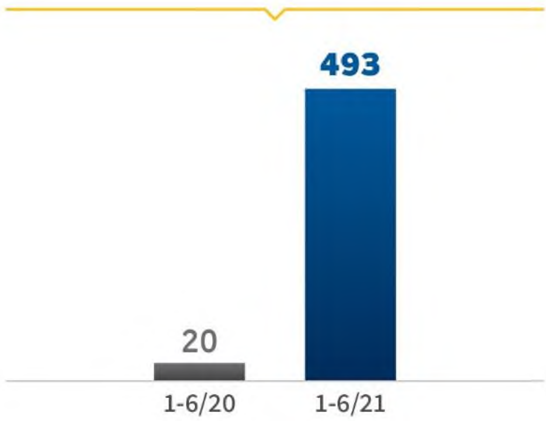
Increase of approx. 75% in Q2/2021 NOI to NIS 407 million compared with NIS 232 million in Q2/2020

NOI



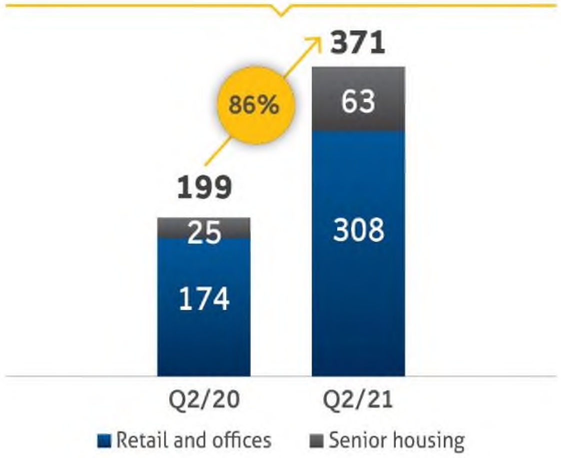
Net Profit NIS 493 million in the report period compared with NIS 20 million in the same period last year

Net Profit



Increase of approx. 86% in Q2/2021 FFO to NIS 371 million compared with NIS 199 million in Q2/2020

FFO from income-producing real estate business



Average debt duration extended while reducing the interest rate

Average interest vs. average duration

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

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

This is a translation of Azrieli Group's Hebrew-language Quarterly Report and Financial Statements as of June 30, 2021. It is prepared solely for convenience purposes. Please note that the Hebrew version constitutes the binding version, and in any event of discrepancy, the Hebrew version shall prevail.

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

1.1. General

The board of directors of Azrieli Group Ltd. (the "**Company**"; the Company jointly with all corporations directly and/or indirectly held thereby shall be referred to as the "**Group**" or the "**Azrieli Group**") is proud to present this board of directors' report for the six and three months ended June 30, 2021 (the "**Report Period**" and the "**Quarter**", respectively), in accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "**Regulations**").

The review presented below is limited in scope and refers to events and changes in the state of the Company's affairs that occurred during the Report Period and have a material effect (for details on the ramifications of the spread of Covid-19, see Section 2.2 below). The review should be read in conjunction with the Description of the Corporation's Business chapter in the periodic report for December 31, 2020, the financial statements and the board of directors' report on the state of the Company's affairs for the year ended on the same date[1] (the "**Periodic Report for 2020**"), and with the update to the Corporation's Business chapter and the financial statements as of June 30, 2021.

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

The information in the board of directors' report is based on the consolidated financial statements as of June 30, 2021.[2] The Company's financials and results of operations are affected by the financials and results of operations of the companies held thereby. In some cases, we present details of events that occurred subsequently to the date of the financial statements as of June 30, 2021 and until the date of release of the report (the "Report Release Date"), while indicating the same, or additional figures and details that are strictly at Company-level. The materiality of the information included in this report has been examined from the Company's perspective. In some cases, an additional and detailed description is provided in order to provide a comprehensive picture of the described issue, which the Company believes to be material for the purposes of this report.

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

[2] The attached financial statements are prepared according to the International Financial Reporting Standards ("**IFRS**"). For further details, see Note 2 to the financial statements as of June 30, 2021.

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

1.2.1. Summary of Operating Segments for the Six and Three Months Ended June 30, 2021

During the Report Period and as of the Report Release Date, Azrieli Group continued to focus its business operations on various real estate sectors, primarily on the retail centers and malls in Israel segment, the leasable office (and other) space in Israel segment, as well as on the income-producing property overseas segment (mostly in the U.S.). The Company also operates in the senior housing segment. In addition, the Company (indirectly) holds approx. 24% in Compass, a company operating in the data center industry in North America and EMEA. In addition, on July 16, 2021 the Company entered into an agreement for the acquisition of Green Mountains, AS ("**GM**"), a company operating in the data center industry in Norway. Furthermore, in February 2020 the Company closed the purchase of the Mount Zion Hotel in Jerusalem. The Company is also active in the e-commerce business through its holding in Azrieli.com website and has holdings of minority interests in Bank Leumi LeIsrael Ltd. ("**Bank Leumi**").

The Group's primary growth engine is the development of income-producing real estate projects: malls, offices and senior housing. As of the report date, the Company has twelve projects in Israel in various development stages, the planned area of which is approx. 669 thousand sqm, as well as land for development. A brief description of the Group's four reported operating segments, as well as its additional activities ("**Others**") follows.

1. **Retail centers and malls in Israel** – The Group has 19 malls and retail centers in Israel;[3]

2. **Leasable office and other space in Israel** – The Group has 16 income-producing office properties in Israel;[3]

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

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

Additional activities – As of the Report Release Date, the Group has an e-commerce business through Azrieli E-Commerce that holds and operates the Azrieli.com website, and also the Group holds approx. 3% of the shares of Bank Leumi.

In July 2019, the Group invested in Compass and in July 2021 it entered into an agreement for the acquisition of GM, both of which operate in the data center industry. For further details, see Section 2.13.1 below. In addition, the Company owns the Mount Zion Hotel in Jerusalem. For further details, see Section 2.13.2 below.

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

[3] During the Report Period, the Group closed the sale of the "Azrieli Kiryat Ata" mall and office building. For further details, see Section 1.2.3.2 below.

1.2.2. Breakdown of Asset Value by Operating Segment

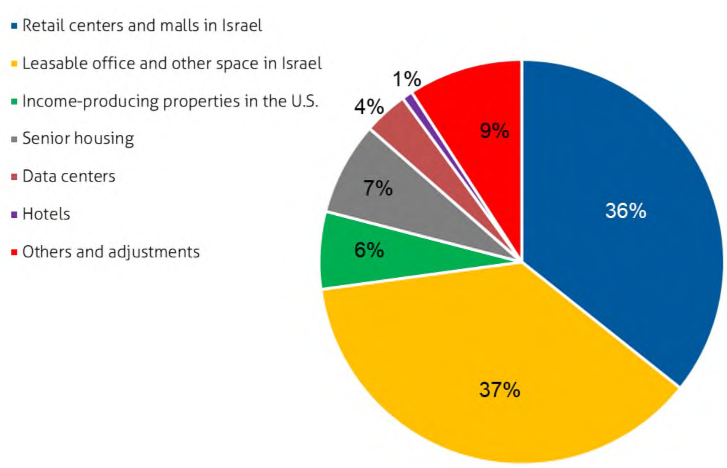
The following chart presents a breakdown of the total balance sheet assets by operating segment:[4]

Breakdown of Total Balance Sheet Assets by Operating Segment

As of	30.6.2021	31.12.2020
Retail centers and malls in Israel	**12,520**	12,431
Leasable office and other space in Israel	**13,020**	12,463
Income-producing properties in the U.S.	**2,173**	2,126
Senior housing	**2,607**	2,597
Data centers	**1,239**	1,101
Hospitality	**297**	292
Others and adjustments	**3,209**	4,114
Total	**35,065**	35,124

Percentage of Segment Assets out of Total Assets

30.6.2021



Figures are presented in millions of NIS.

The Company's assets in the leasable office and other space segment constitute approx. 37% of the total balance sheet assets. The other income-producing real estate segments, in the aggregate, constitute approx. 54% of the total balance sheet assets.

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

1.2.3.1. Development Pipeline

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

1.2.3.2. Sale of the "Azrieli Kiryat Ata" Mall and Office Building

On February 23, 2021, an (indirectly) wholly-owned subsidiary of the Company (in this section: the "**Seller**") entered into two sale agreements with an unrelated third party (in this section: the "**Buyer**"), for sale to the Buyer of all of the Seller's rights and obligations in respect of the mall and office building known as "Azrieli Kiryat Ata", for a total consideration of NIS 90 million, plus V.A.T. as required by law. On June 30, 2021, after the Buyer had fully paid the Seller the consideration under the agreements, the transactions were closed and

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

possession of the properties was handed over to the Buyer with part of the consideration paid by means of a 36-month loan provided to the Buyer by the Seller and secured by a first-ranking mortgage on the mall.

For further details, see the Company's immediate reports of February 23, 2021 and July 1, 2021 (Ref.: 2021-01-021555 and 2021-01-110127, respectively), which are included herein by reference.

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

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

1.2.3.4. Changes in the Service of Officers of the Company

On February 1, 2021, Mr. Uri Kilstein assumed the office of Head of Malls and Deputy CEO of the Company.

On April 4, 2021, Mr. Israel Keren assumed the office of COO of the Company, *in lieu* of his former position in the Company.

On August 1, 2021, Mr. Ofer Yarom assumed the office of CMO of the Company, *in lieu* of his former position as CEO of Azrieli E-Commerce.

1.2.3.5. Extension of a Shelf Prospectus

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

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

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

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

1.2.3.7. Negotiations for acquisition of ownership of "Mall HaYam" in Eilat

The Company is negotiating the acquisition of ownership (directly and/or indirectly) of "Mall HaYam" in Eilat, for consideration reflecting a total value of approx. NIS 1.3 billion. As of the date of the report, negotiations between the parties are still ongoing, and a binding and detailed agreement will only be signed if the negotiations are concluded successfully.

For further details, see the Company's immediate report of July 11, 2021 (Ref.: 2021-01-114954), which is included herein by reference.

1.2.3.8. Entry into an agreement for acquisition of a Norwegian company in the data center industry

On July 16, 2021, the Company, through a wholly-owned special-purpose subsidiary incorporated under Norwegian law, entered into an agreement for acquisition of 100% of the issued and paid-up share capital of Green Mountain AS, which operates in the data center industry in Norway, in consideration for a sum total of approx. NOK 7.6 billion, and in Israeli currency approx. NIS 2.825 billion (according to the representative NOK exchange rate as of July 19, 2021). For further details about the engagement in the agreement, see the Company's immediate report of July 19, 2021 (Ref.: 2021-01-118377), which is included herein by reference.

1.2.3.9. Financing transactions

In July 2021, the Company issued two new bond series (Series G and H) of the Company[5], issuing Series G Bonds of approx. NIS 1,904 million par value in consideration for approx. NIS 1,904 million (approx. NIS 1,883 million net of issue expenses), and Series H Bonds of approx. NIS 1,751 million par value in consideration for approx. NIS 1,751 million (approx. NIS 1,729 million net of issue expenses).

1.2.3.10. Covid-19 pandemic

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

1.2.4. Dividends distributed by the Company

	Date of Approval	Date of Payment	Sum of Dividend
Azrieli Group	March 24, 2021	May 12,2021	NIS 450 million
Azrieli Group	May 25, 2021	July 6, 2021	NIS 150 million

On March 24, 2021, the Company's board of directors examined the distribution of a dividend in the sum of NIS 600 million and reached a unanimous opinion that the said distribution meets all of the distribution tests. However, for reasons of conservatism, and *inter alia*, in view of the uncertainty regarding the continued impact of Covid-19, the Company's board of directors resolved to approve a dividend distribution of only NIS 450 million. On May 25, 2021, the Company's board of directors resolved to approve an additional distribution of NIS 150 million. For further details see the Company's immediate report of May 26, 2021 (Ref.: 2021-01-090690), which is included herein by reference.

1.2.5. Dividends distributed to the Company

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

[5] Under a shelf offering report released on July 19, 2021 (Ref.: 2021-01-118986), released under Shelf Prospectus 2019, which is included herein by reference.

2 | INCOME-PRODUCING REAL ESTATE

2.1. Business Environment

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

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

2.2. Covid-19 Pandemic and its Implications

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

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

From March 2021 and during the quarter, in view of the extensive campaign for vaccination against Covid-19, resumption of normal operations was evident in the Israeli economy. However, towards the end of Q2 and during July 2021 until the report release date, there has been a renewed rise in morbidity in Israel and worldwide due to the spread of the Delta variant, such that it is difficult to assess the risk reflected by the continuing pandemic.

According to macroeconomic forecasts published by the Research Department of the Bank of Israel in July 2021 (which were given under the assumption of no lockdowns or significant restrictions on activities due to Covid-19), GDP is expected to increase at a rate of 5.5% and 6% in 2021 and 2022, respectively. Furthermore, according to additional forecasts by the Research Department of the Bank of Israel as of the same date, unemployment rate is expected to be approx. 5.5% at the end of 2022, and the inflation rate in the 12 months ending in Q2/2022 is expected to be 1% and approx. 1.2% in 2022.

In view of the low and stable morbidity figures in the period following the third lockdown, the Green Pass requirement and the Purple Badge restrictions were revoked starting from June 1, 2021. However, on June 25, 2021, and in view of the renewed increase in morbidity, the Ministry of Health announced a requirement for mask-wearing at any indoor venue, and, as described below, in view of further increase in morbidity, starting from July 29, 2021, the Green Pass regulations were reinstated, further restrictions were imposed to cope with the pandemic, and a decision was made to vaccinate certain sectors of the population with a third dose. Starting from August 18, 2021, the Green Pass regulations will be expanded, the Purple Badge regulations will be instated and various gathering restrictions will be updated in an effort to stop the increasing morbidity. In addition, the obligation to wear masks will also apply to outdoor gatherings of over 100 people.

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

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

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

Establishment of a special financial aid fund for the Group's mall tenants

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

Relief plan for tenants of the Company's malls

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

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

During H2/2020 too and during Q1/2021 until the end of the Third Lockdown, the Company granted reliefs to the Tenants due to the Second and Third Lockdown, and also granted reliefs to Tenants whose activity was limited by law also during periods in which the malls were open, such as movie theaters, restaurants and cafés and to Tenants who experienced diminished store revenues. The Company estimates that the total reliefs granted by the Company to the Tenants during Q1/2021, where most of the Third Lockdown took place, are approx. NIS 115 million. In Q2/2021 specific reliefs were granted in an immaterial amount to the Company and mainly to movie theaters which, as described below, were opened to the entire population during this quarter.

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

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

The strategy for return to normalcy in the Israeli economy

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

Despite the reopening of the malls after the three lockdowns, resumption of the activity of movie theaters was not immediately permitted (towards the end of March 2021, they were permitted to be reopened exclusively to Green Pass holders, and from June 2021, upon revocation of the Green Pass, they were reopened to the general public until July 29, 2021, as noted below). In addition to these restrictions, every store on the malls' premises was required to operate in accordance with the guidelines relevant thereto, including restaurants, cafés and gyms, and restrictions on dining in fast food courts, cafés and restaurants in the malls. As noted above, these restrictions were revoked from June 1, 2021.

Despite the aforesaid, in view of the renewed rise in morbidity, on July 29, 2021, the Green Pass was reinstated, according to which entry to indoor and outdoor venues, from the age of 12, where there are more than 100 people, such as gyms, restaurants, cafés, movie theatres etc., **excluding malls and stores**, is subject to presentation of a vaccination/recovery certificate or a negative test. From August 8, 2021, the Green Pass was expanded to any number of participants, and from August 18, 2021, the Green Pass will apply also to children from the age of 3. In addition, starting from August 18, 2021, the Purple Badge will be instated (an occupation of 1 person for every 7 sqm) in malls, retail centers, stores bigger than 100 sqm and complexes open to the public. Unlike the preliminary estimations, the reopening of the malls to the general public after the First Lockdown has been characterized by the quick return of consumers to the Group's malls. Accordingly, the reopening of the malls after the Second Lockdown and the Third Lockdown demonstrated a similar trend.

Store revenues reported by the tenants in the Group's malls from the date of the reopening thereof on February 21, 2021 until June 30, 2021 were approx. 5.2% higher (despite the emergency security situation in Israel during May 2021) and compared with the same period in 2019 (with February adjusted to a full month of activity),[6] excluding store revenues of tenants that had not resumed normal operations or operated on a partial basis during the period, including the revenues of movie theaters, restaurants and cafés, food courts, gyms, schools, conference centers, etc..

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

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

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

The Company's revenues from the segment of leasable office space in Israel have not been materially affected since the outbreak of the Covid-19 crisis, other than due to a response to specific requests of tenants in the Company's office properties for relief (mainly tenants the reopening of which has been banned or significantly restricted such as: gyms, colleges, etc.) as well as the spreading out of rent payments due to the Covid-19 crisis. Further to the aforesaid, during the report period, the Company witnessed high demand for leasable office areas, particularly in the area of Tel Aviv.

Furthermore, in view of the reduced use, during the Report Period, of the Company's car parks which serve both the retail centers and malls segment and the office segment, the Company's revenues from operation of the car parks have decreased. At the same time, the Company took cost-saving measures. The total adverse effect on the results of operations of the car parks in the Report Period amounted to approx. NIS 6 million.

[6] Examined against the relevant periods in 2019, in order to compare with months with full store revenues (as noted above, the first lockdown commenced on March 15, 2020).

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

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

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

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

Mount Zion Hotel – See Section 2.13.2 below.

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

The Company examined the value of the Company's properties in Israel as of June 30, 2021, using an outside appraiser. In the appraiser's estimation, as of the date of the report, it is too early to estimate the effect of the Covid-19 crisis on the long-term valuations. In view of the reasonable assumption, as of the date of the report, that considering the vaccination rate, no further lockdown is expected, it was assumed that no material discounts are expected to be given to tenants.

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

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

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

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

- As of the report date, the Company has low leverage with a net debt to assets ratio of approx. 27%. The leverage ratio is low relative to competitors in the market and provides flexibility also in times of crisis. For further details see Section 5.1 below.

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

- The cash balance available to the Company, as of the report date, is approx. NIS 1.9 billion, in addition to which the Company holds marketable shares of Bank Leumi worth approx. NIS 1.1 billion. For details on the dates of payment of financial liabilities, see Section 5.7 below.

- In April 2020, at the height of the Covid-19 crisis, the Company raised debt through the issue of Series E and F bonds, by way of expansion of such series, in the sum of approx. NIS 1.7 billion, at an interest rate lower than the nominal interest rate of the bonds (premium). For further details, see Section 19.5 of Chapter A of the Periodic Report for 2020, which is included herein by reference. Furthermore, in July 2021, the Company raised debt by means of issuing new bond series (Series G and H) in the amount of approx. NIS 3.6 billion. For further details, see Section 1.2.3.9 above.

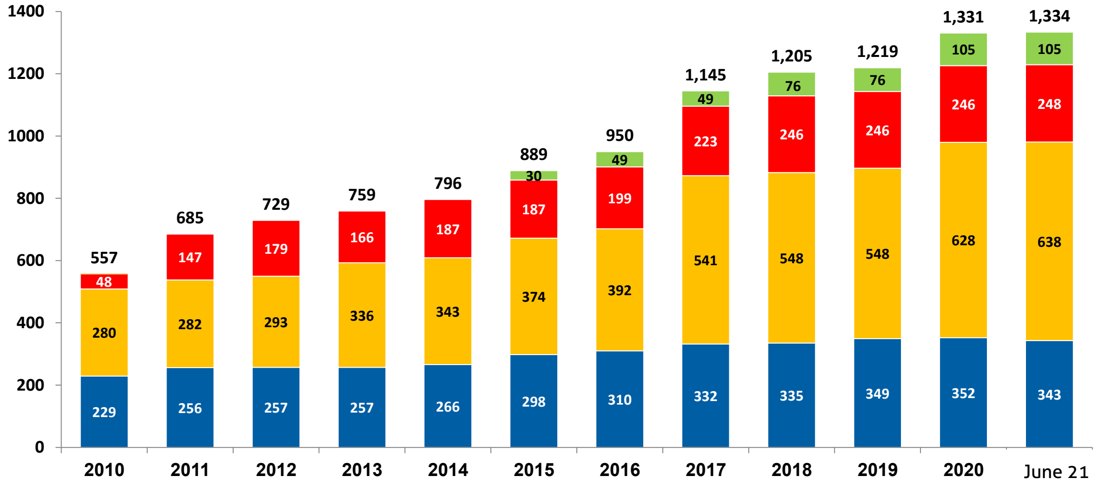
- The Company's credit rating is the highest given to real estate companies, AA+ by Maalot and Aa1 by Midroog. For further details, see Section 5.4 below.

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

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

2.3. Consolidated GLA Data

As of June 30, 2021



▪ Retail centers and malls in Israel ▪ Offices and others in Israel ▪ Income-producing real estate overseas (mainly the U.S.) ▪ Senior housing

Figures represent thousands of sqm.

2.4. Average Occupancy Rates in the Income-Producing Properties

Following are the average occupancy rates in the Group's income-producing properties by operating segments as of June 30, 2021:

- Retail centers and malls in Israel – approx. 98%;[7]
- Leasable office and other space in Israel – approx. 98%;[7]
- Income-producing properties in the U.S. – approx. 75%;
- Senior housing in Israel – approx. 99%.[7]

2.5. NOI of the Properties

Net Operating Income (NOI) is a measure that presents the net operating income of the properties: income after the deduction of the property's operating expenses and prior to the deduction of taxes and interest. It serves as one of the important parameters in the valuation of income-producing real estate companies, as its division by the appropriate cap rate for the properties provides an indication for the determination of the value of income-producing properties[8]. 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.

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

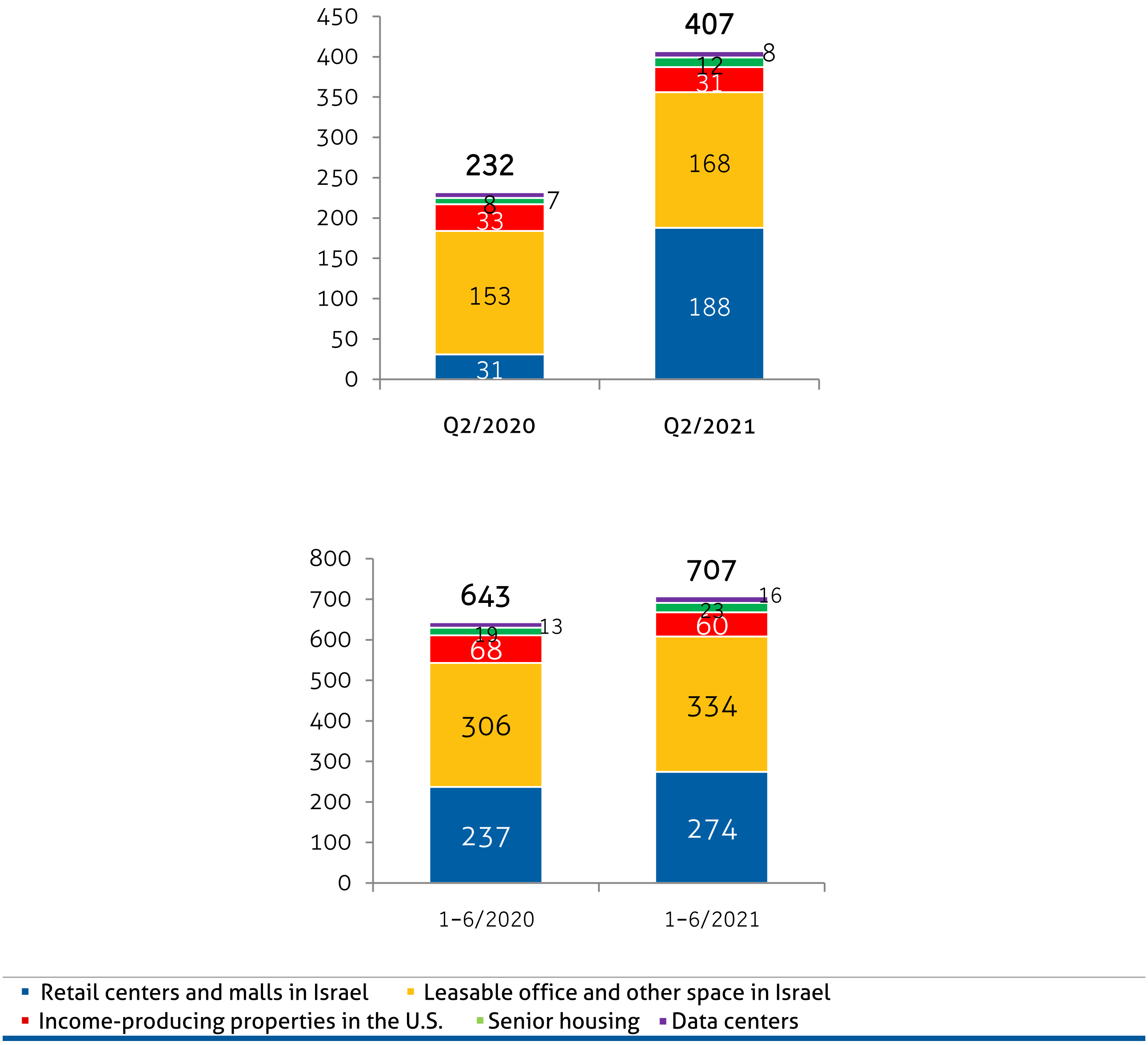
[8] Additional indications are, for example: The market value of similar properties in the same area and the sale prices of similar properties in recent transactions.

2.5.1. NOI Data

For the purpose of calculating the NOI, on the revenues side – all proceeds from tenants are taken into account (including rent, management fees and other payments), and for the purpose of calculating the costs – all operating expenses in respect of the properties are taken into account, including management, maintenance and other costs.[9]

The NOI figures for the income-producing real estate portfolio are as follows:[10]

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.

---

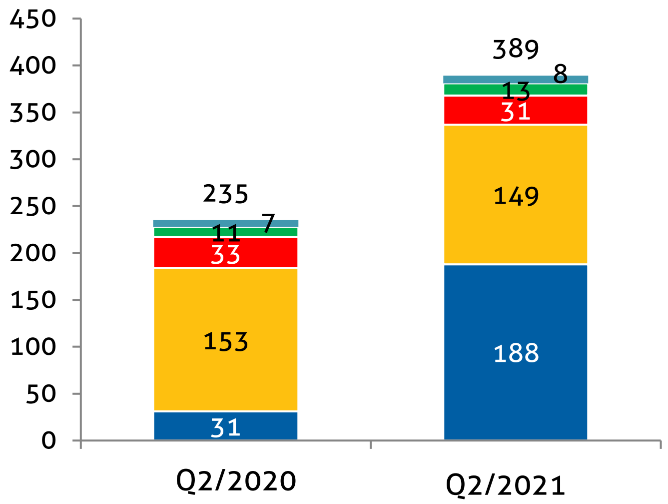
[9] The Group prepares its financial statements based on international standardization, and consequently, in the calculation of the cost of leasing and operating the properties classified as investment properties, depreciation was not taken into account. Furthermore, for the purpose of calculating the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

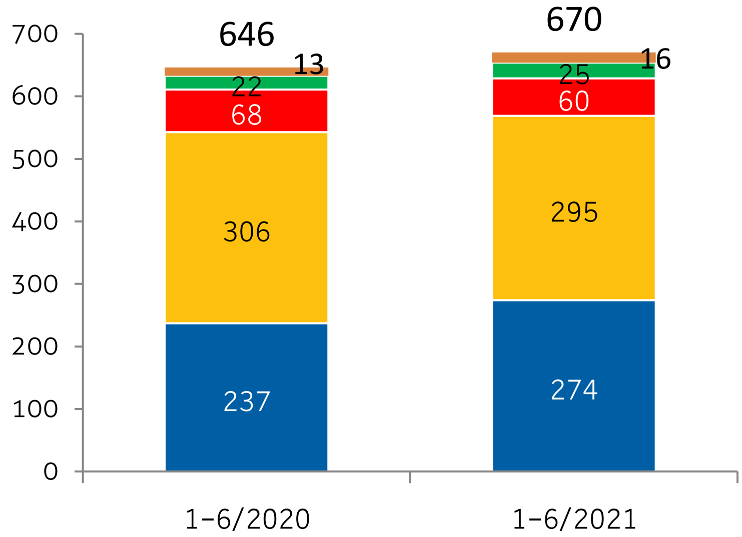
[10] Including properties from the segments: retail centers and malls in Israel; leasable office and other space in Israel; income-producing properties in the U.S.; senior housing and data centers.

2.5.2. Same-Property NOI Data

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

Same-Property NOI





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

Figures are presented in millions of NIS.

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

2.6. Weighted Cap Rate

The following table shows the calculation of the weighted cap rate derived from all of the Group's income-producing real estate, excluding senior housing[11], excluding the data centers[12] and excluding the Mount Zion Hotel[13] of the Group as of June 30, 2021:

Calculation of the Weighted Cap Rate for the Report Period	
Total investment properties in the statement	**30,098**
Net of value attributed to investment properties under construction	**(2,345)**
Net of value attributed to land reserves	**(640)**
Net of value attributed to income-producing senior housing	**(2,193)**
Total value of income-producing investment properties (including the fair value of vacant space)	**24,920**
Actual NOI in the quarter ended June 30, 2021 (excluding senior housing, data centers)	**387**
Additional future quarterly NOI (1)	**59**
Total standardized NOI	**446**
Proforma annual NOI based on the standardized NOI (excluding senior housing, data centers)	**1,784**
Weighted cap rate derived from income-producing investment properties (including vacant space) (2)	**7.2%**

Financials are presented in millions of NIS.

(1) The figure mainly includes estimates of additional NOI for vacant space not yet fully occupied and space occupied and to be occupied during 2021 under a whole-year lease in respect of which value was recorded in the update of the valuations as of June 30, 2021 (the main amounts in this item are due to the Group's overseas properties and due to the areas vacated by Bezeq in the Azrieli towers).
(2) Standardized annual NOI rate out of total income-producing investment properties (including vacant space).
This figure does not constitute the Company's NOI forecast for 2021 and its entire purpose is to reflect the NOI assuming full occupancy for a whole year of all income-producing properties.

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

[11] Since the value of senior housing properties is derived from the FFO indicator, rather than the NOI indicator, such properties were not included in this calculation. The weighted senior housing cap rate as of the Report Release Date is 8.25%.
[12] Included in investments in a company accounted for using the equity method and therefore excluded from income-producing real estate.
[13] Presented as fixed assets and is not measured at fair value since it is not included in the definition of income-producing real estate.

2.7. Real Estate Business FFO

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

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

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

FFO from the Income-Producing Real Estate Business

	For the three months ended		For the six months ended	
	June 30, 2021	**June 30, 2020**	**June 30, 2021**	**June 30, 2020**
Net profit (loss) for the period attributable to shareholders	382	(66)	492	27
Discounting the net loss from Azrieli E-Commerce and from GES (until the sale thereof) attributable to shareholders (including a deduction of excess cost)	16	13	28	33
Profit adjustments:(1)				
Decrease (increase) in the value of investment properties and fixed assets, net	(290)	230	(253)	458
Depreciation and amortizations	4	4	7	7
Net non-cash flow financing and other expenses (revenues)	130	(23)	139	(76)
Tax expenses (revenues)	71	(13)	97	(9)
Net of a dividend received from financial assets available for sale	-	-	-	(9)
Effect of profits of an associate	(6)	22	(1)	22
Cash flow from the receipt of residents' deposits net of deposits returned to residents (2)	66	31	92	46
Net of revenues from the forfeiture of residents' deposits	(10)	(8)	(19)	(16)
Total profit adjustments	(35)	243	62	423
Plus interest paid for real investments (3)	-	-	1	1
Total FFO attributed to the income-producing real estate business (4) (5)	363	190	583	484
Total cash flow of financing of development pipeline (6)	8	9	16	20
Total FFO attributed to the income-producing real estate business, excluding the cash flow of financing of development pipeline	371	199	599	504

Financials are presented in millions of NIS.

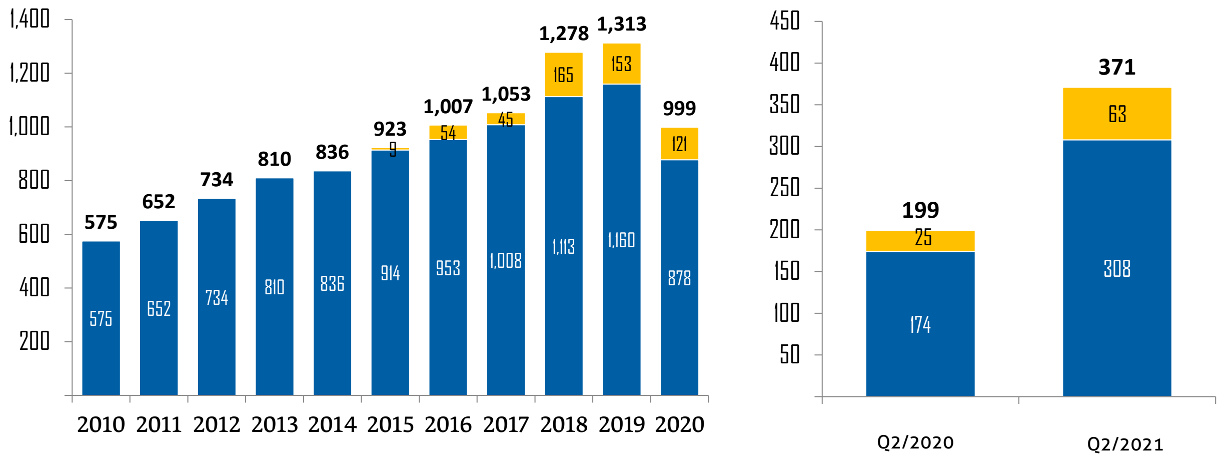
(1) The below profit adjustments do not include adjustments in respect of GES and Azrieli E-Commerce, as their results have been fully discounted.
(2) Senior housing residents' deposits are deemed received or returned on the date on which the agreement is signed or terminated, as applicable.
(3) Calculated according to the Group's weighted interest for the real investments, mainly Azrieli E-Commerce, for 65% of the cost of the investments.
(4) Attributable to shareholders only.
(5) Including FFO from the senior housing segment in the sum of approx. NIS 85 million and approx. NIS 63 million, in the six and three months ended June 30, 2021, (approx. NIS 38 million and approx. NIS 25 million in the six and three months ended June 30, 2020) and approx. NIS 121 million in 2020.
(6) Calculated based on real credit costs due to development pipeline.

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

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

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

Annual Data | **Quarterly Data**



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

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

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

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

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

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

2.8.1. EPRA NRV

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

EPRA NRV		
	30.6.2021	**30.6.2020**
Equity attributable to the Company's shareholders in the financial statements	**18,235**	17,979
Goodwill created against a reserve for deferred taxes	**(64)**	(64)
Plus a tax reserve in respect of the revaluation of investment properties to fair value (net of minority interests)	3,693	3,569
EPRA NRV	**21,864**	**21,484**
EPRA NRV per share (NIS)	**180**	**177**

Figures are presented in millions of NIS.

2.8.2. EPRA NTA

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

EPRA NTA		
	30.6.2021	**30.6.2020**
Equity attributable to the Company's shareholders in the financial statements	**18,235**	17,979
Goodwill created against a reserve for deferred taxes	**(64)**	(64)
The balance of goodwill which is not against a reserve for deferred taxes as stated in the Company's balance sheet	**(38)**	(39)
Other intangible assets	**(14)**	(19)
Plus 50% of the tax reserve in respect of the revaluation of investment properties to fair value (net of minority interests)	**1,847**	1,784
EPRA NTA	**19,966**	**19,641**
EPRA NTA per share (NIS)	**165**	**162**

Figures are presented in millions of NIS.

2.8.3. EPRA NDV

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

EPRA NDV		
	30.6.2021	**30.6.2020**
Equity attributable to the Company's shareholders in the financial statements	**18,235**	17,979
Goodwill created against reserve for deferred tax	**(64)**	(64)
Balance of goodwill that is not against a reserve for deferred tax as appearing in the Company's balance sheet	**(38)**	(39)
Adjustment of the value of financial liabilities to fair value	**(773)**	(113)
EPRA NDV	**17,360**	**17,763**
EPRA NDV per share (NIS)	**143**	**146**

Figures are in NIS in millions.

AZRIELI GROUP'S INCOME PRODUCING REAL ESTATE*

MALLS & SHOPPING CENTERS

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

OFFICES & OTHERS in Israel

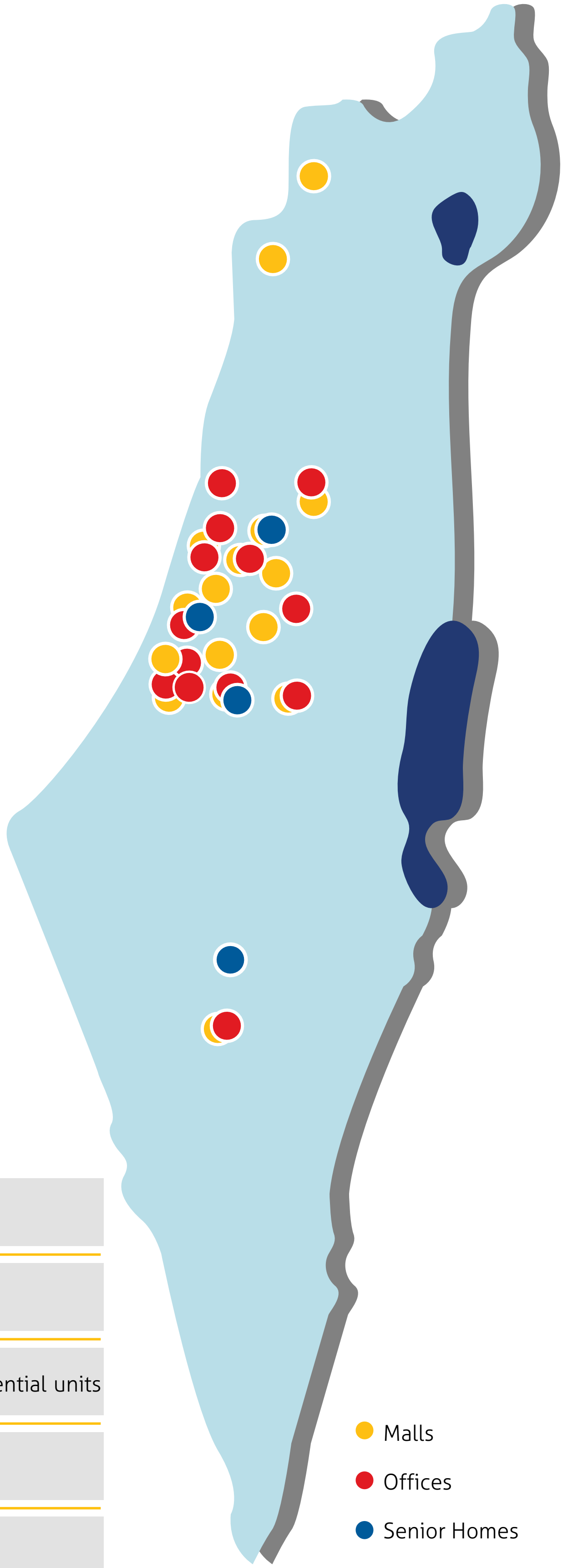
Azrieli Towers
Azrieli Sarona
Azrieli Holon Business Center
Azrieli Caesarea
Azrieli Herzliya Center
Azrieli Modi'in
Azrieli Modi'in Residential
Azrieli Petach Tikva
Azrieli Jerusalem
Azrieli Givatayim
Azrieli Hanegev
Azrieli Rishonim Center
Azrieli TOWN Building E
Azrieli TOWN
Azrieli Holon Hamanor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

OVERSEAS

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

SENIOR HOMES

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



19 malls	343 thousand sqm
16 office buildings	638 thousand sqm
4 senior homes	105 thousand sqm 1,033 residential units
8 office buildings overseas	248 thousand sqm
Total	**1,334 thousand sqm**

* As of June 30, 2021.

2.9. Retail Centers and Malls in Israel Segment

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.

Starting from the end of December 2020 and until February 21, 2021, the Group's malls were closed (with the exception of essential businesses) due to the Covid-19 pandemic. Since that date, throughout Q2/2021 and until the Report Release Date, the Group's malls have been open.

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

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

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

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

- **Diverse and changing mix** – the malls segment has a dynamic retail mix that changes according to 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** – in recent years, increased retail space is demanded by international brands, followed by domestic ones, which seek to combine complementing brands in one store in order to expand the product mix and create an improved customer experience, while increasing the sales.
- **Malls as entertainment venues** – the Company acts to improve the entertainment and dining experience in the malls, through a selection of restaurants and cafés and renovation of the fast food courts, modern design and added crowd-attracting entertainment options such as the "Zappa" club and cinemas. The Group further acts to create family entertainment and service spaces in its malls, including play areas, diaper changing and nursing rooms.
- **Innovation** – in recent years the Company has been implementing technological improvements into the shopping experience and striving for leadership and innovation in the mall segment, including by way of creating a unique application which grant exclusive discounts to mall attendants and enables direct marketing based on customer preferences. The goal of technological innovation is to enhance customer experience in the mall while combining both digital and physical worlds.

The retail areas in Azrieli Group's malls and retail centers are leased to some 1,790 tenants.

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

Performance of the retail centers and malls in Israel segment and changes in value[14]

Azrieli Group has 19 malls and retail centers in Israel with a total GLA of approx. 343 thousand sqm.

Balance of the properties of the retail centers and malls in Israel segment – The balance totaled approx. NIS 12.5 billion on June 30, 2021, compared with approx. NIS 12.4 billion on December 31, 2020. The change mainly derives from investments in the segment's properties and from revaluation profits net of the write-off of the Kiryat Ata mall due to the closing of the transaction for the sale thereof in the Report Period.

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 88 million, compared with a loss of approx. NIS 305 million in the same period last year. The profit in the Report Period mainly derives from reversal of the decrease in the projected income in the short-term as a result of the repercussions of the Covid-19 crisis and a rise in the index. The decrease last year resulted from the relief plan with respect to rent and management fees that was declared by the Company at the time. The properties are presented according to valuations performed by an independent appraiser as of June 30, 2021.

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

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

	For the Three Months Ended			For the Six Months Ended			For the Year Ended
	Rate of Change	**30.6.2021**	**30.6.2020**	**Rate of Change**	**30.6.2021**	**30.6.2020**	**31.12.2020**
Revenues	**214%**	**239**	76	**13%**	**364**	322	607
NOI	**506%**	**188**	31	**16%**	**274**	237	425

Figures are presented in millions of NIS.

As noted above, in the Report Period, in view of the Government directives, the Group's malls were closed (other than essential businesses) starting from the end of December 2020 until February 21, 2021, due to the Covid-19 pandemic. In addition, in the same period last year the Company released a relief plan for tenants in view of the closing of the malls. The Company has elected to recognize the rent concessions in the period in which they were given, rather than spread them out over the duration of the lease contracts, in accordance with the provisions of IFRS 9 Financial Instruments and IFRS 16 Leases, and in accordance with alternatives published in an ISA Staff Paper. The growth in revenues and in the NOI mainly reflects the change in the relief given to tenants in Q2/2021 and in the Report Period compared with the same quarter and the same period last year. For further details, see Section 2.2 above.

[14] The details in this section which relate to the profit and loss figures include the Azrieli Kiryat Ata mall, the sale of which was completed at the end of the Report Period. For further details, see Section 1.2.3.2 above.

The table below presents the segment's NOI development:

Development of the NOI of the Retail Centers and Malls in Israel Segment

	For the Three Months Ended		For the Six Months Ended	
	30.6.2021	**30.6.2020**	**30.6.2021**	**30.6.2020**
NOI from segment properties owned by the Company as of the beginning of the period	**188**	31	**274**	237
NOI from properties purchased or construction of which was completed in 2020-2021	**-**	-	**-**	-
Total NOI from all properties	**188**	31	**274**	237

Figures are presented in millions of NIS.

The Same-Property NOI in the retail centers and malls in Israel segment was chiefly affected by the closing of malls to visitors according to the Government's decisions and the effects of the relief provided to tenants in the first part of H1/2021 compared with the relief given last year as noted above.

2.10. Office Segment

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

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

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

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

rooted in the long-term vision of properties that will be owned and managed by the Group for many years to come.

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

Azrieli Group's office areas in Israel are leased to some 700 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

Azrieli Group has 16 income-producing properties in this segment in Israel, with a total GLA of approx. 638 thousand sqm.

Balance of the Group's investment properties in the leasable office and other space in Israel Segment – as of June 30, 2021, the balance totaled approx. NIS 13 billion, compared with approx. NIS 12.5 billion as of December 31, 2020. The change mainly derives from revaluation profits, from purchase of the land in Tel Aviv during the Report Period and 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 163 million and mainly derived from growth in rent in the Report Period, compared with a loss of approx. NIS 9 million in the same period last year.

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

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

	For the Three Months Ended			For the Six Months Ended			For the Year Ended
	Rate of Change	30.6.2021	30.6.2020	Rate of Change	30.6.2021	30.6.2020	31.12.2020
Revenues	**14%**	**199**	174	**11%**	**394**	354	708
NOI	**10%**	**168**	153	**9%**	**334**	306	601

Figures are presented in millions of NIS.

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

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 Six Months Ended	
	30.6.2021	**30.6.2020**	**30.6.2021**	**30.6.2020**
NOI from segment properties owned by the Company as of the beginning of the period	**149**	153	**295**	306
NOI from properties purchased in 2020-2021	**19**	-	**39**	-
Total NOI from all properties	**168**	153	**334**	306

Figures are presented in millions of NIS.

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

2.11. Senior Housing Segment

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

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

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

As of the Report Release Date, Azrieli Group has four operating senior homes with aboveground built-up areas of approx. 105 thousand sqm (excluding areas which are attributed to the LTC unit and to retail areas), which consist of approx. 1,033 senior housing units, and is in advanced construction stages of Phase B in the senior home in Lehavim and another project in Rishon LeZion, in which approx. 275 residential units with a total area of approx. 31 thousand sqm, which is under construction (excluding areas which are attributed to the LTC unit and to retail areas) will be built. The Company is also promoting a zoning plan for additional rights, including for senior housing, in the Azrieli Jerusalem mall. For further details, see Section 4.1.2 of the board of directors' report in the Periodic Report for 2020, which is included herein by way of reference.

Balance of the Group's segment properties in the senior housing segment – This balance totaled approx. NIS 2.6 billion as of June 30, 2021, similarly to the balance as of December 31, 2020.

Change due to adjustment of the fair value of the segment's investment properties and investment properties under construction – There has been no change in the fair value of investment properties and investment properties under construction of the segment in the Report Period compared with a profit of approx. NIS 12 million in the same period last year due to an update of the valuation for Palace Lehavim. The properties are presented according to an update to the valuations prepared by an independent appraiser as of December 31, 2020.

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

Summary of the Business Results of the Senior Housing Segment							
	For the Three Months Ended			For the Six Months Ended			For the Year Ended
	Rate of Change	30.6.2021	30.6.2020	Rate of Change	30.6.2021	30.6.2020	31.12.2020
Revenues	**21%**	**47**	39	**15%**	**92**	80	162
NOI	**50%**	**12**	8	**21%**	**23**	19	33

Figures are presented in millions of NIS.

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

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

Development of the NOI of the Senior Housing Segment				
	For the Three Months Ended		For the Six Months Ended	
	30.6.2021	30.6.2020	30.6.2021	30.6.2020
NOI from segment properties owned by the Company as of the beginning of the period	**13**	11	**25**	22
NOI from properties construction of which was completed in 2020	**(1)**	(3)	**(2)**	(3)
Total NOI from all properties	**12**	8	**23**	19

Figures are presented in millions of NIS.

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

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

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

As part of the global events surrounding the outbreak of Covid-19, there was considerable fluctuation in energy prices and in the raw materials and commodities market. Accordingly, from the end of 2019, the price of an oil barrel decreased significantly, even to the point of negative figures. Since that low point at the beginning of the Covid-19 crisis, oil prices have recovered and returned to pre-Covid levels. These price levels are still not considered high, which adversely affects companies in the energy industry, which is one of the most important engines of Houston's economy, and its effect was felt in the office market in Houston during the Report Period. In addition, the Covid-19 pandemic has brought on uncertainty with respect to the Houston office market, which, coupled with the transition to telecommuting, has led to an increase in vacant space.

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

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

As of the report date, Azrieli Group has 8 income-producing properties in this segment, mostly in the U.S. with a total GLA of approx. 248 thousand sqm (on a consolidated basis) and approx. 239 thousand sqm (the Company's share) leased to some 200 tenants.[15]

Balance of the Group's investment properties in the segment – This balance totaled approx. NIS 2.2 billion as of June 30, 2021, compared with approx. NIS 2.1 billion on December 31, 2020. The change mainly derives from an increase in the dollar exchange rate as of June 30, 2021, compared with December 31, 2020.

Change due to adjustment of the fair value of the segment's investment properties – The profit from such adjustment in the Report Period totaled approx. NIS 3 million, compared with a loss of approx. NIS 156 million recorded in the same period last year. The loss in the same period last year mainly resulted from the prolongation of the expected timeframe for lease-up of the empty space, the increase in vacant space and the expected decrease in the rate of inflation due to the economic crisis in the U.S., the health crisis and the crisis in energy prices, which play a major role in Houston's economy. The properties are presented according to valuations carried out by independent appraisers as of December 31, 2020.

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

Summary of the Business Results of the Income-Producing Properties in the U.S. Segment

	For the Three Months Ended			For the Six Months Ended			For the Year Ended
	Rate of Change	**30.6.2021**	**30.6.2020**	**Rate of Change**	**30.6.2021**	**30.6.2020**	**31.12.2020**
Revenues	**(6%)**	**58**	62	**(9%)**	**116**	128	251
NOI	**(6%)**	**31**	33	**(12%)**	**60**	68	129

Figures are presented in millions of NIS.

The following table presents the segment's NOI Development:

Development of the NOI of the Income-Producing Properties in the U.S. Segment

	For the Three Months Ended		For the Six Months Ended	
	30.6.2021	**30.6.2020**	**30.6.2021**	**30.6.2020**
NOI from segment properties owned by the Company as of the beginning of the period	**31**	33	**60**	68
NOI from properties purchased in 2020-2021	**-**	-	**-**	-
Total NOI from all properties	**31**	33	**60**	68

Figures are presented in millions of NIS.

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

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

2.13. Income-Producing Real Estate – Additional Operations

2.13.1. Data centers

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

The Company decided that its entry into the data centers market would be made through equity investment in a company operating in North America, with an option to increase the holding rate in this company, which has significant development and entrepreneurial potential in the sector.

Further to the foregoing, on July 16, 2021, the Company entered into an agreement for acquisition of a company operating in the data center industry in Norway. For further details, see Section 12.1 of Chapter A of the Periodic Report for 2020, which is included herein by reference, as well as Section 1.2.3.8 above.

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

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

2.13.2. Hospitality

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

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

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

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

3 | NON-REAL ESTATE BUSINESS

3.1. Granite Segment – Discontinued Operations

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

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

3.2. Additional Activities

3.2.1. Investments in Financial Corporations

The Group has holdings in the financial sector by means of an investment in Bank Leumi[16]. A summary of changes in the investments in the Report Period follows:

Changes in Investments in Financial Companies

	Bank Leumi (1)
Investment value in the financial statements as of December 31, 2020	862
Sale proceeds	(63)
Investment	-
Total investment as of June 30, 2021 (2)	799
Fair value of the investment as presented in the financial statements as of June 30, 2021	1,069
Change in fair value during the Report Period	270
Dividend received in the Report Period	-

Figures are presented in millions of NIS.

(1) The fair value of the investment in Bank Leumi was determined according to the value of the share at the Tel Aviv Stock Exchange (TASE) as of June 30, 2021.

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

3.2.2. E-Commerce Platform Activity – Azrieli.com

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

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

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

4 | BUSINESS DEVELOPMENT – GROWTH ENGINES

4.1. Review of the Business Development Operations

4.1.1. Development of Income-Producing Properties

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

Summary of Information about Development Pipeline

Name of Property	Use	Marketable Sqm[1]	Estimated Completion	Book Value of Project [2]	Cost Invested [3]	Estimated Construction Cost including Land[3]
Development Projects under Construction in the Short-Term						
Akko	Offices	8,000	Q4/2021	**58**	**78**	**78**
Azrieli Town Tel Aviv [4]	Retail and residence	Retail: 4,000 Residence: 21,000 (210 residential units)	2022	**485**	**463**	**565-595**
Palace Lehavim Senior Housing Phase B	Senior housing	10,000	2022	**107**	**103**	**130-135**
Modi'in land (Lot 21)	Retail, offices, residence and hospitality	31,000[6]	2023	**156**	**153**	**420-450**
Check Post Haifa	Retail	13,000	2023	**16**	**10**	**130-140**
Total		**87,000**		**822**	**807**	**1,323-1,398**
Development Projects in the Medium-Term						
Senior housing land Rishon LeZion	Senior housing and retail	37,300	2024	**85**	**69**	**450-470**
Expansion of Azrieli Tel Aviv Center (Spiral Tower)	Retail, offices, hospitality and residence	150,000[5]	2025	**936**	**627**	**2,450-2,650**
Total		**187,300**		**1,021**	**696**	**2,900-3,120**
Total		**274,300**		**1,843**	**1,503**	**4,223-4,518**
Development Projects in Planning Stages						
Azrieli Town Building E	Offices	21,000	TBD	**121** [7]	**130**	**TBD**
Holon 3 – Holon Industrial Zone [8]	Retail and offices	250,000	TBD	**564**	**501**	**TBD**
Petach Tikva land	Offices and retail	53,000[9]	TBD	**96**	**100**	**TBD**
Modi'in land (Lot 10)	Offices and retail	37,000	TBD	**88**	**93**	**TBD**
Mount Zion Hotel	Hospitality	34,000[10]	TBD	**297**	**300**	**TBD**
Total		**395,000**		**1,166**	**1,124**	
Total		**669,300**				

Cost and value figures are presented in millions of NIS.

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

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

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

Description of Properties under Construction and Land Reserves

Azrieli Akko Offices – In June 2019, a permit was received for the addition of two office floors above the mall and the addition of parking spaces. In June 2021, the project received a Form 4.

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

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

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

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

In Phase A, a 2-floor building in the area of approx. 13 thousand sqm and approx. 340 parking spaces, whose ground floor will be used as a supermarket, is expected to be built on the land. In December 2020, the Company engaged in an agreement for the lease of the space which will be used as a supermarket.

The Company is acting for the approval of a building plan by the Local Committee, which is a condition to the issuance of a building permit. The Company has also filed an application for a shoring and foundation work permit and for a full building permit.

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

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

In June 2020, an application was filed requesting an aboveground building permit for two retail floors, two hotel floors (84 rooms) and service and operating space. The Local Committee discussed the application and decided to conditionally approve it. The Company has also filed an application for an aboveground building permit for the rest of the project.

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

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

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

As part of the zoning plan, the Company was required to approve an architectural design and development plan for the project, as a condition for an above-ground building permit. The Company also undertook to pay and perform various tasks in the project and its surrounding, including in Azrieli Center. The Company intends to construct retail space that will serve to expand the existing mall and a multi-story tower, the Spiral Tower. In January 2020 a basement permit was received for the project. In January 2021 the design plan was signed by the approving functions in the City of Tel Aviv. As of the Report Release Date, the Company is continuing to carry out excavation and shoring work and the construction of the parking basements on the land. In July 2021, the Company filed an application for an aboveground building permit for the project.

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

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

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

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

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

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

The Company had also filed a construction plan with the Local Committee, which was conditionally approved, and had further filed an application for an excavation and shoring permit, which was conditionally approved.

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

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

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

DEVELOPMENT PIPELINE*

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

EXPANSION OF AZRIELI TEL AVIV CENTER (SPIRAL TOWER)

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

AZRIELI HOLON 3

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

MOUNT ZION HOTEL JERUSALEM

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

MODI'IN LAND (LOT 21)

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

PALACE RISHON LEZION SENIOR HOME

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

DEVELOPMENT PIPELINE*

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

AZRIELI TOWN

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

MODI'IN LAND (LOT 10)

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

PETACH TIKVA LAND

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

AZRIELI TOWN BUILDING E

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

4.1.2. Betterment of income-producing properties

Another growth engine of the Company is the betterment of its existing properties. The Company also examines, from time to time, options to promote zoning plans for additional building rights in its properties. For details with respect to the Company's activities for the betterment of its existing properties, see Section 4.1.2 of the board of directors' report for the Periodic Report for 2020, which is included herein by way of reference and Section 4 of Chapter B of this report – updates to the Description of the Corporation's Business chapter as of June 30, 2021.

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

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

5 | FUNDING OF THE BUSINESS

5.1. Leverage Ratio of the Group

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

Summary of Balance Sheet Figures out of the Consolidated Statements			
	30.6.2021	**30.6.2020**	**31.12.2020**
Current assets	**2,212**	3,607	3,273
Non-current assets	**32,853**	31,598	31,851
Current liabilities	**2,760**	2,770	2,900
Non-current liabilities	**14,036**	14,423	14,091
Equity attributable to the Company's shareholders	**18,235**	17,979	18,101
Equity attributable to the Company's shareholders out of total assets (in %)	**52%**	51%	52%
Net debt to assets (in %)	**27%**	26%	26%

Figures are presented in millions of NIS.

The Group funds its business operations primarily out of its equity, cash and cash equivalents and by means of non-bank credit (mainly bonds and loans from institutional bodies), bank credit (short-term and long-term) and commercial paper. In April 2020, the Company issued bonds (Series E and F) by way of expanding such bond series. For further details, see Section 19.5 of Chapter A of the Periodic Report for 2020, which is included herein by reference. After the Report Period, the Company issued two new bond series (Series G and H). For further details, see Section 1.2.3.9 above.

The Group's financial soundness, which is characterized by a low leverage ratio and considerable unencumbered assets, affords the Group available sources for the obtainment of financing on convenient terms.[17] The Group's leverage ratio is low relative to its major competitors. The Group's low leverage ratio, coupled with the Company's extensive initiatives in the real estate sector, provides flexibility also at times of crisis, which is illustrated by the Company's aforesaid April 2020 issue, in the midst of the Covid-19 crisis, and by the issue of two new bond series of the Company, which was completed after the Report Period.

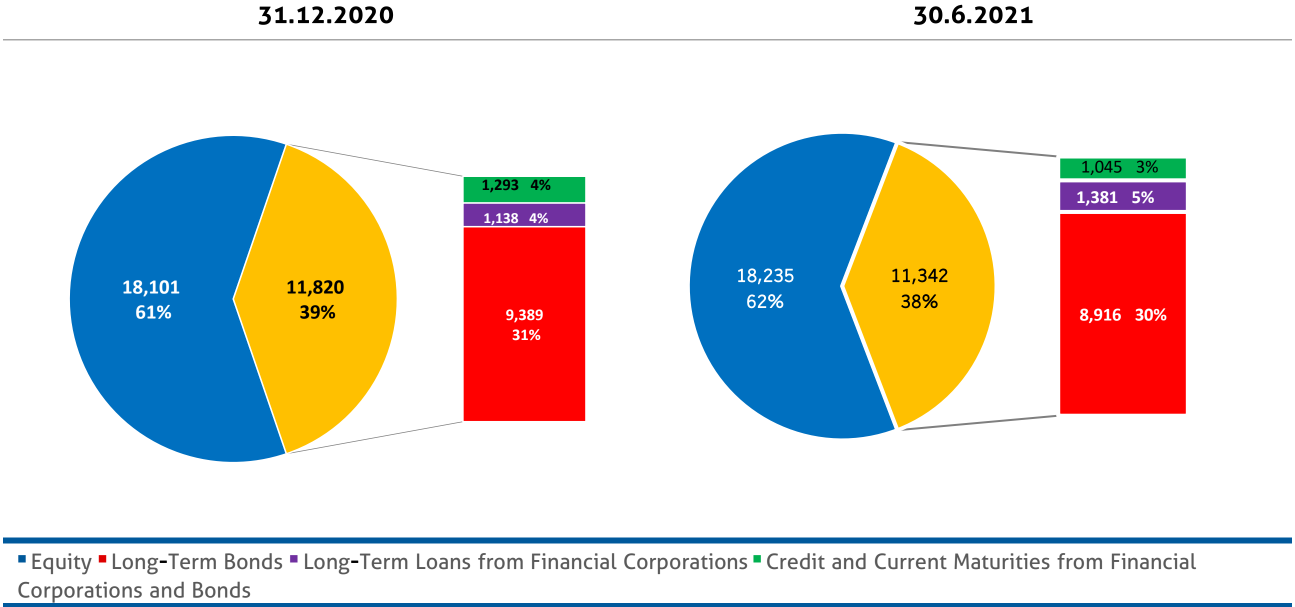
[17] For further details, see Section 19 of Chapter A of the Periodic Report for 2020, which is included herein by way of reference.

5.2. Composition of Financing Sources

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

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

Composition of Capital and Breakdown of Debt of the Group



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

The decrease of approx. NIS 478 million in total debt in the Report Period chiefly results from ongoing repayments of loans and bonds.

As of the report date, the Group, on a consolidated basis, has a deficit in the working capital of approx. NIS 548 million (in the separate statement there is no working capital deficit).

The Group estimates, in view of indications it recently received, that if it decides to raise debt at any time, it will be able to do so in view of its financial soundness and/or the scope of its unencumbered assets. Therefore, the Company's board of directors determined in its meeting of August 17, 2021, after it examined the financing options available to the Company in view of the aforesaid, that the said working capital deficit is not an indication of a liquidity problem in the Company and does not reflect on its ability to repay its liabilities as they become due.

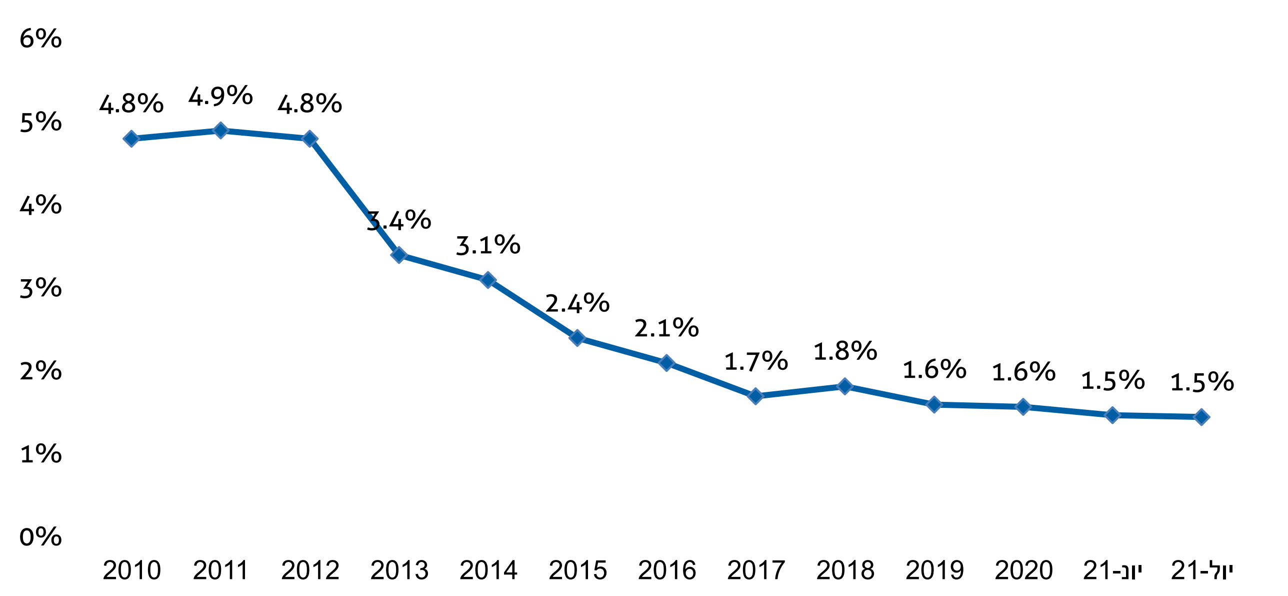
The Group's estimations mentioned in this Section 5.2 above in relation to its liquidity and the availability of its financing sources are forward-looking information as defined in the Securities Law, which is based on the Company's assessments as to market developments, inflation levels and projected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

5.3. Financing Transactions

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

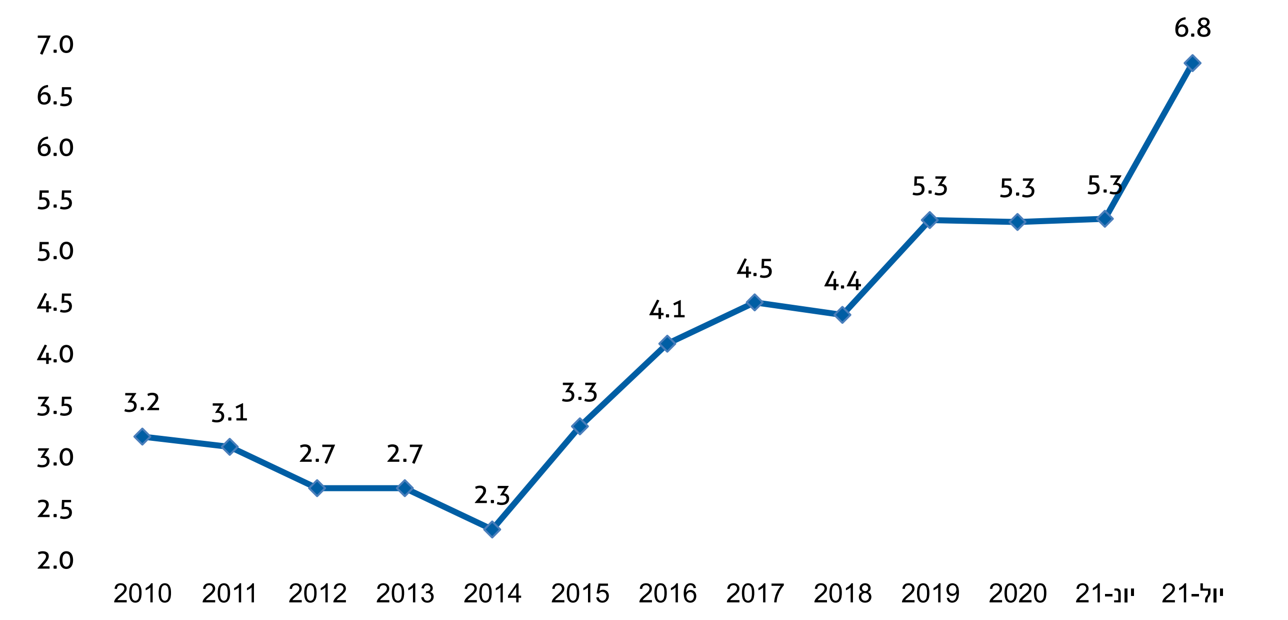
After the Report Period, the Company completed a round of debt raising by issuing two new bond series (Series G and H), in the amount of approx. NIS 3.6 billion, with an average duration of approx. 11.5 years and a weighted index-linked interest rate of approx. 1.28%. For further details, see Section 1.2.3.9 above.

Reduction of Average Interest over the Years



1. Interest rate as of the end of the period

Extension of the Average Duration of Debt



2. Duration as of the end of the period

5.4. Rating

The Company has a high credit rating that reflects its financial strength, the quality of its assets and its low leverage ratio. As of the report date, the Company's credit rating is ilAA+/Stable/ilA-1+ by Ma'alot and Aa1 by Midroog. For details with respect to the rating of bonds, commercial paper and private loans of the Company, see Section 19.12 of Chapter A of the Periodic Report for 2020, which is included herein by way of reference, and Section 7 in Chapter B of this report.

5.5. Liabilities and Financing

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

Breakdown of Financial Liabilities

	Fixed Interest			Variable Interest		Total		Total
	Index-linked	USD-linked	Unlinked	GBP-linked	Unlinked	Fixed Interest	Variable Interest	
Short-term loans	-	-	-	19	58	-	77	77
Long-term loans	10,227	1,028	-	-	10	11,255	10	11,265
Total	10,227	1,028	-	19	68	11,255	87	11,342

Figures are presented in millions of NIS, as of June 30, 2021.

As of June 30, 2021, short-term loans represented less than 1% of the Group's total financial liabilities. The Company's management estimates that this rate is low and conservative in view of the low leverage ratio and the total unencumbered assets as specified below.

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

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

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

5.7. Maturities of the Group's Financial Liabilities

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

Forecast of Maturities of Financial Liabilities			
Year	**Principal**	**Interest**	**Total**
1	**1,045**	**207**	**1,252**
2	**918**	**194**	**1,112**
3	**856**	**180**	**1,036**
4	**948**	**168**	**1,116**
5 forth	**7,575**	**612**	**8,187**
Total	**11,342**	**1,361**	**12,703**

Figures are presented in millions of NIS, as of June 30, 2021.

The main sources for the funding of the Group's financial liabilities are as follows:

- Positive cash flow from current operations, which totaled approx. NIS 593 million in the six months ended June 30, 2021.
- Liquid assets and unencumbered assets.
- The Group has mortgaged income-producing properties, the fair value of which significantly exceeds the loan undertaken therefor.
- Refinancing of debts in the capital market and/or institutional bodies and/or banking institutions.

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

As of June 30, 2021, the aggregate amount of liquid assets (cash and cash equivalents) held by the Group amounted to NIS 1.9 billion. The Company deems its liquid assets, the considerable cash flow from its current operations and its unencumbered assets (in the total value of approx. NIS 25.3 billion, in addition to the aforesaid amount of approx. NIS 1.9 billion in liquid assets) essential to its financial soundness, its high financial flexibility due to its lack of dependence on the availability of external sources both in terms of debt repayment and in terms of the ability to seize investment opportunities at various times.[18] As pertains to additional possible liquid sources, the Group estimates that it has the ability to obtain financing on convenient terms in the prevailing economic conditions.

Unencumbered Assets Available to Serve as Collateral against the Receipt of Credit	
Assets	**Value of Assets as of June 30, 2021**
Real estate of the retail centers and malls in Israel segment	11,472
Real estate of the leasable office and other space in Israel segment	11,426
Other real estate (mainly hospitality)	435
The Company's holdings in Compass and Azrieli E-Commerce	865
The Company's holdings in Bank Leumi	1,069
Total	**25,267**

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.

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

The Group's estimations mentioned in this Section 5.8 above in connection with the Company's ability to obtain financing on convenient terms in the currently prevailing economic conditions, are forward-looking information as defined in the Securities Law, which is based on the Company's estimations as to the economic conditions and the liquidity level as of the Report Release Date. Such estimations may not materialize, in whole or in part, or may materialize in a manner that materially differs from the Company's estimations. The primary factors that may affect the above are: changes in the capital market affecting the conditions and possibilities of obtaining financing, changes in the Company's plans, including use of future available liquid balances in order to seize business opportunities, changes in the advantageousness of the holding of various investment channels or the advantageousness of use of various financing channels, deterioration of the Israeli or U.S. economy and decline into severe recession, as well as the effects the Covid-19 pandemic, in a manner which affects the Company's ability to obtain financing on convenient terms.

5.9. Financial Position

Financial Position, Liquidity and Financing Sources		
Item	**30.6.2021**	**31.12.2020**
Total assets (1)	35,065	35,124
Current assets	2,212	3,273
Investment properties (2)	29,938	29,266
Short-term credit (3)	1,045	1,293
Loans from banking corporations and other credit providers (4)	1,381	1,138
Net bonds (5)	8,916	9,389
Equity (6)	18,269	18,133

Figures are presented in millions of NIS.

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

6 | BUSINESS RESULTS AT A GLANCE

6.1. Summary of Business Results

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

Analysis of the Consolidated Net Profit					
	For the Three Months Ended		For the Six Months Ended		For the Year Ended
	30.6.2021	**30.6.2020**	**30.6.2021**	**30.6.2020**	**31.12.2020**
Net profit (loss) for the period attributable to the shareholders	**382**	(66)	**492**	27	189
Net profit (loss) attributable to the shareholders and to non-controlling interests	**383**	(72)	**493**	20	184
Basic earnings (loss) per share (NIS)	**3.15**	(0.54)	**4.06**	0.22	1.56
Basic earnings (loss) per share from continued operations (NIS)	**3.15**	(0.54)	**4.06**	0.27	1.66
Comprehensive income (loss) to shareholders and to non-controlling interests	**445**	(191)	**734**	(265)	(147)

Figures are presented in millions of NIS.

Net profit in the Report Period totaled NIS 493 million, compared with NIS 20 million in the same period last year. The increase in profit in the Report Period was affected mostly by an increase in profit due to the adjustment of the fair value of the properties in the amount of NIS 712 million, growth in the NOI of NIS 61 million (excluding data centers), offset by an increase of NIS 208 million in net financing expenses, mainly due to a rise in the index in the Report Period compared to the decrease in the index in the same period last year, and from an increase in the tax expenses of NIS 122 million, mainly due to deferred taxes on the revaluation profits.

6.2. Comprehensive Income

The Group's capital and comprehensive income are also affected by various capital reserves, chiefly by capital reserves in respect of changes in the fair value of investments in equity instruments designated at fair value through other comprehensive income and by reserves for translation differences from foreign operations. The difference between the comprehensive income and the net profit as presented in Section 6.1 above, for the six-month period ended June 30, 2021, mostly derives from an increase in the fair value of financial assets net of tax in the sum of NIS 209 million and from a profit from translation differences from foreign operations in the sum of NIS 24 million. With respect to the three-month period ended June 30, 2021, it mainly derives from an increase in the fair value of the financial assets net of tax of NIS 100 million net of a loss from translation differences from foreign operations of NIS 44 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 Six Months Ended	
	30.6.2021	**30.6.2020**	**30.6.2021**	**30.6.2020**
Marketing, general and administrative expenses (1)	**34**	34	**76**	78
Net other revenues (expenses)	**1**	(3)	**(3)**	-
Net financing expenses (2)	**(173)**	(20)	**(222)**	(14)
Income tax expenses (revenue) (3)	**97**	(25)	**137**	15

Figures are presented in millions of NIS.

(1) The decrease in expenses in the Report Period compared with the same period last year mainly derives from a decrease in contributions.
(2) The increase in net financing expenses in the current quarter compared with the same quarter last year and in the present period compared with the same period last year mainly derives from an increase in linkage expenses on loans, bonds and senior housing residents' deposits due to a 1.3% increase in the known CPI in the current quarter compared with a 0.2% decrease in the same quarter last year, and due to a rise in the known CPI in the present period by 1.4% compared with a decrease of 0.7% in the same period last year.
(3) The increase in tax expenses in the Report Period and in the quarter compared with the same period and the same quarter last year, is mainly attributed to an increase in deferred tax expenses due to the increase in profit from fair value adjustments of properties.

6.4. Cash Flows

The following table shows the cash flows generated by the Group in Q2/2021, compared with the same quarter in 2020:

Quarterly Cash Flows		
Quarter	**Q2/2021**	**Q2/2020**
Net cash flows generated by the Group from current operations (1)	384	123
Net cash flows used by the Group for investment activities (2)	(134)	(204)
Net cash flows used by the Group for financing activities (3)	(795)	1,122

Figures are presented in millions of NIS.

(1) The cash flow in the quarter and in the same quarter last year chiefly resulted from the operating profit of the income-producing real estate in the sum of approx. NIS 399 million (without Compass) (approx. NIS 225 million in the corresponding period), plus net senior housing deposits and net of income taxes paid.
(2) Most of the cash flow in Q2/2021 was used for acquisition of and investment in investment properties and investment properties under construction in the sum of approx. NIS 202 million, net of the proceeds received from the sale of Bank Leumi stock in the amount of NIS 63 million. Most of the cash flow in the same period last year was used for the acquisition of and investment in investment properties and investment properties under construction in the sum of approx. NIS 245 million, net of the proceeds received from the sale of GES.
(3) Most of the change relative to the same quarter last year derives from the bond issue in the same period last year in the sum of NIS 1,672 million.

The following table shows the cash flows generated by the Group in the six-month period ended June 30, 2021, compared with the same period last year:

Cash Flows for 6 Months		
6 Months	**H1/2021**	**H1/2020**
Net cash flows generated by the Group from current operations (1)	593	432
Net cash flows used by the Group for investment activities (2)	(203)	(714)
Net cash flows used by the Group for financing activities (3)	(1,180)	462

Figures are presented in millions of NIS.

(1) The cash flow in the 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 691 million (excluding Compass) (approx. NIS 630 million in the corresponding period), plus net senior housing deposits and net of the income tax paid.

(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 527 million, net of proceeds received from the sale of Leumi Card, Bank Leumi stock and the proceeds from the sale of the property in Kiryat Ata. Most of the cash flow in the same period last year was used for the acquisition of and investment in investment properties and investment properties under construction in the sum of approx. NIS 464 million, and for the purchase of the Mount Zion hotel.

(3) The main change relative to the same period last year resulted from the bond offering in the same period last year in the sum of NIS 1,672 million.

7 | CORPORATE GOVERNANCE ASPECTS

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

7.1. Internal Enforcement Plan

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

7.2. Changes in the Service of Company Officers

See Section 1.2.3.4 above.

7.3. Directors and Officers Liability Insurance

During the Report Period, the Company's compensation committee and board of directors approved an engagement for the purchase of a liability insurance policy for directors and officers of the Company and subsidiaries of the Company from July 1, 2021 to June 30, 2022, with a liability cap of U.S. $100 million per occurrence and in the aggregate, and for an annual premium of U.S. $617,000, while determining that the engagement is carried out at arm's length and is not material to the Company. This is in keeping with the position of the ISA, whereby given the Covid-19 crisis and its effects on the insurance market, a company's engagement with an insurer may be carried out on terms and conditions that differ from those specified in such company's compensation policy as concerns the premium component, provided that it is carried out at arm's length, is not material to the company and the company' compensation committee approves the engagement, until the date of the coming general meeting to be convened by the company.

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 June 30, 2021 and Note 3 to the financial statements as of June 30, 2021.

8.2. Report on the Group's Liabilities

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

8.3. Disclosure of Highly Material Valuations

As of the date of the report, there has been no change in the parameters for disclosure and attachment of valuations, as published in the Periodic Report for 2020. The Company has updated the valuations of its properties as of June 30, 2021.

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

8.4. Subsequent Events

See Note 7 to the financial statements as of June 30, 2021.

8.5. Financials attributable to the Company as a Parent Company

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

8.6. Note on Forward-Looking Information

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

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

The Company's board of directors and management wish to express their high regard for the Company's officers, the managements of the various companies of the Group and their employees, for their welcome contribution to the Group's achievements in the quarter ended June 30, 2021.

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

Date: August 17, 2021

<u>Annex A</u>

Designated Disclosure to the Bondholders

Annex A - Designated Disclosure to the Bondholders

Set forth below are details regarding the bonds of the Company that are held by the public

Series	Date of the Issue	Par Value on the Date of the Issue	Par Value on the Report Date	Par Value on the Report Date, including Linkage	Amount of Interest Accrued by the Report Date	Value in the Financial Statements	Market Cap	Type of Interest	Annual Interest Rate	Principal Payment Dates	Interest Payment Dates	Linkage Terms	Details regarding the Trustee
		NIS in Millions											
Series B	Feb. 10, 2015	623.3	**603.9**	**612.3**	**1.0**	**604.5**	**640.0**	Fixed	0.65	April 1 in the years 2016 through 2025	From October 1, 2015 and subsequently April 1st and October 1st in the years 2016 through 2025	Linkage (principal and interest) to the rise in the CPI for December 2014*	Name of the trust company: Hermetic Trust (1975) Ltd.; Address: Champion Tower, 13th floor, 30 Sheshet Ha-Yamim Road, Bnei Brak. Tel: 03-5274867; Fax: 03-5271039; E-mail address: hermetic@hermetic.co.il Contact person at the trustee: Dan Avnon or Meirav Ofer
	June 23, 2015	600.3											
	Mar. 30, 2017	228.8											
Series D	July 7, 2016	2,194.1	**3,454.0**	**3,548.1**	**22.9**	**3,530.8**	**3,862.3**	Fixed	1.34	From July 5, 2018 twice a year on January 5 and July 5 of each of the years 2018 through 2030	From January 2017, twice a year on January 5 and July 5 of each of the years 2017 through 2030	Linkage (principal and interest) to the rise in the CPI for May 2016*	
	March 30, 2017	983.6											
	Feb. 1, 2018	1,367											
Series E	Jan. 22, 2019	1,215.9	**3,243.4**	**3,288.9**	**-**	**3,393.2**	**3,642.0**	Fixed	1.77	On June 30 of each of the years 2022 through 2028	From June 30, 2019, twice a year on June 30 of each of the years 2019 through 2028 and December 31 of each of the years 2019 through 2027	Linkage (principal and interest) to the rise in the CPI for December 2018*	
	Dec. 19, 2019	1,216.7											
	April 20, 2020	810.7											

Series	Date of the Issue	Par Value on the Date of the Issue	Par Value on the Report Date	Par Value on the Report Date, including Linkage	Amount of Interest Accrued by the Report Date	Value in the Financial Statements	Market Cap	Type of Interest	Annual Interest Rate	Principal Payment Dates	Interest Payment Dates	Linkage Terms	Details regarding the Trustee
Series F	Jan. 22, 2019	263.4	**1,958.0**	**1,985.5**	**-**	**2,189.1**	**2,341.6**	Fixed	2.48	On December 31 of each of the years 2025 through 2032	From June 30, 2019, twice a year on June 30 and December 31 of each of the years 2019 through 2032	Linkage (principal and interest) to the rise in the CPI for December 2018*	
	Dec. 19, 2019	932.6											
	April 20, 2020	761.9											
Total		**11,198.3**	**9,259.3**	**9,434.8**	**23.9**	**9,717.6**	**10,485.9**						

* The Series B, Series D, Series E, Series F Bonds (jointly, the "**Company's Bond Series**") are protected, such that if the known index on the relevant payment due date is lower than the base index (stated in the table), the payment index will be the base index.

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

1. The Company's Bond Series are material to the Company and are not secured by any collateral.

2. The Company will be entitled, at its sole discretion, to perform (partial or full) early redemption of the Company's Bond Series. For details, see Section 9.2 of the terms and conditions overleaf in the indentures of each of the Company's Bond Series, and as follows:

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

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

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

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

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

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

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

Series	Name of Rating Company	Rating Set on the Date of the Issue	Rating Set as of the Report Release Date	Date of Issuance of the Current Rating	Additional Ratings Set between the Date of the Issue and the Report Date	
					Rating	Date of Rating
Series B	Ma'alot	AA+ stable	AA+ stable	February 7, 2021(*)	AA+ stable	June 21, 2015 March 28, 2017 February 2, 2020 February 7, 2021
Series D	Midroog	Aa1/stable outlook	Aa1/stable outlook	December 27, 2020(**)	Aa1/stable outlook	July 20, 2016 March 27, 2017 March 28, 2017 December 31, 2017 January 28, 2018 January 31, 2018 December 31, 2019 April 19, 2020 December 27, 2020
Series E	Midroog	Aa1/stable outlook	Aa1/stable outlook	December 27, 2020(**)	Aa1/stable outlook	January 20, 2019 December 17, 2019 December 31, 2019 April 19, 2020 December 27, 2020
Series F	Midroog	Aa1/stable outlook	Aa1/stable outlook	December 27, 2020(**)	Aa1/stable outlook	January 20, 2019 December 17, 2019 December 31, 2019 April 19, 2020 December 27, 2020

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

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

PART B

Update of the Description of the Corporation's Business

AZRIELI GROUP LTD.

Update of the Description of the Corporation's Business Chapter in the Company's Periodic Report as of December 31, 2020 (the "**Periodic Report**")[1]

In accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, following is a description of material developments that have occurred in the Company's business during the six months ended June 30, 2021 and until the Report Release Date, with respect to which disclosure has not yet been made in the Periodic Report, according to the order of the sections in the Description of the Corporation's Business chapter in the Periodic Report. It shall be noted that the terms in this chapter shall have the meaning ascribed thereto in the Periodic Report, unless otherwise expressly provided.

In this chapter: the "**Report Release Date**" – August 18, 2021; the "**Date of the Statement of Financial Position**" and the "**Report Date**" – June 30, 2021; the "**Board of Directors' Report**" – the Board of Directors' Report on the State of the Company's Affairs for the six- and three-months ended June 30, 2021.

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

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

For details with respect to: (1) the development pipeline; (2) the sale of the Azrieli Kiryat Ata mall and office building; (3) the engagement in agreements for the purchase of land in Tel Aviv; (4) the changes in the office of senior officers; (5) the extension of the effect of a shelf prospectus; (6) the engagement in an agreement to purchase lands that are located in the North Glilot complex and an agreement for the construction of a campus and lease thereof to SolarEdge Technologies Ltd.; (7) negotiations for the acquisition of ownership in "Mall Hayam", Eilat; (8) engagement in an agreement for the acquisition of a Norwegian company that operates in the Data Centers field; (9) financing transactions; and (10) the Covid-19 pandemic, see Section 1.2.3 of Chapter A hereof.

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

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

For details with respect to the status of holdings of the interested parties in the Company, see the Company's immediate report of July 7, 2021 (Ref.: 2021-01-113136), and the immediate report on changes in interested parties' holdings (Ref.: 2021-01-122280), which are included herein by way of reference.

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

3. Dividends

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

On May 12, 2021, the Company paid a dividend to its shareholders in the total amount of NIS 450 million and on July 6, 2021, the Company paid a dividend to its shareholders, in a sum total of NIS 150 million. For details, see Section 1.2.4 of Chapter A hereof.

4. Development Pipeline

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

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

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

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

The Company is acting for the approval of a building plan by the local committee, which is a condition to the issuance of a building permit. In addition, the Company filed an application for a shoring and foundation permit and for a full building permit.

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

Land in Modi'in (Lot 21) – the Company began construction of the parking lot floors. In addition, the Company filed an application for an aboveground building permit for the entire project.

Expansion of Azrieli Center Tel Aviv (Spiral Tower) – in July 2021, the Company filed an application for an aboveground building permit for the entire project.

Azrieli Akko Offices – in June 2021, a Form 4 was received for the addition of two office floors above the mall.

Azrieli Haifa Mall – during the report period, a zoning plan for an additional construction of approx. 3,000 sqm was deposited for objections.

5. Land Reserves (Additional Details)

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

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

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

Land in Modi'in (Lot 10) – in April 2021 a deliberation was held on the plan that was filed by the Company with the local committee for additional uses of the lot and a decision was made for conditional deposit thereof. In June 2021, the plan was deposited for objections. In addition, the Company filed a construction plan with the local committee, which was approved under conditions, and filed an application for an excavation and shoring permit which was conditionally approved.

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

6. Financing

Non-Bank Financing for the Company

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

Series B Bonds of the Company

In the report period, principal and interest payments were made in accordance with the payment schedule thereof. As of the Report Date, the par value balance of the Company's Series B Bonds in circulation is approx. NIS 604 million.

Series D Bonds of the Company

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

Series G Bonds

On July 19, 2021, the Company released a shelf offering report for the issuance and listing on the stock exchange of up to approx. NIS 2,056 million par value of the Company's Series G Bonds, under the 2019 shelf prospectus. On July 20, 2021, the Company announced that according to the issuance results, approx. NIS 1,904 million par value of Series G Bonds were issued, in consideration for approx. NIS 1,904 million (approx. NIS 1,883 million net of issue expenses).

As of the Report Release Date, the par value balance of the Company's Series G Bonds in circulation is approx. NIS 1,904 million.

Series H Bonds

On July 19, 2021, the Company released a shelf offering report for the issuance and listing on the stock exchange of up to approx. NIS 1,896 million par value of the Company's Series H Bonds, under the 2019 shelf prospectus. On July 20, 2021, the Company announced that according to the issuance results, approx. NIS 1,751 million par value of Series H Bonds were issued, in consideration for approx. NIS 1,751 million (approx. NIS 1,729 million net of issue expenses).

As of the Report Release Date, the par value balance of the Company's Series H Bonds in circulation is approx. NIS 1,751 million.

7. Credit Rating

On July 18, 2021, Ma'alot approved the rating of the Company's new Series G and H Bonds in the ilAA+ rating. For a review of Ma'alot's report of such date, see the Company's immediate report of July 18, 2021 (Ref.: 2021-01-118089), which is included herein by way of reference.

8. Legal Proceedings

For an update in connection with the legal proceedings to which the Group's companies are party, see Note 3E to the financial statements as of June 30, 2021.

AZRIELIGROUP

PART C

Consolidated Financial Statements

Dated 30 June 2021

Azrieli Group Ltd.

Condensed Consolidated Financial Statements
as of June 30, 2021

(Unaudited)

Azrieli Group Ltd.

Condensed Consolidated Financial Statements

As of June 30, 2021

C o n t e n t s

Deloitte.

Auditors' review report to the shareholders of

Azrieli Group Ltd.

Introduction

We have reviewed the accompanying financial information of **Azrieli Group Ltd.**, the company and consolidated companies (the "**Company**") which includes the Condensed Consolidated Statement of Financial Position as of June 30, 2021 and the Condensed Consolidated Statements of Profit or Loss and other Comprehensive Income, Changes in Capital and Cash Flows for the six-month and three-month periods then ended. The board of directors and management are responsible for the preparation and presentation of the financial information for these interim periods in accordance with IAS 34 "Interim Financial Reporting", and they are responsible for the preparation of information for these interim periods under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express a conclusion on this interim financial information, based on our review.

Scope of Review

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

Conclusion

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

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

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

Tel Aviv, August 17, 2021

Azrieli Group Ltd.

Condensed Consolidated Statements of Financial Position

	As of June 30		As of Dec. 31
	2 0 2 1	2 0 2 0	2 0 2 0
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
Assets			
Current Assets			
Cash and cash equivalents	1,858	3,020	2,646
Short-term investments and deposits	17	19	19
Trade accounts receivable	71	79	78
Other receivables	136	394	380
Inventory	12	8	10
Current tax assets	118	87	140
Total Current Assets	2,212	3,607	3,273
Non-current Assets			
Investment in company accounted for on the equity method	822	572	805
Loans and receivables	373	444	281
Financial assets	1,073	795	866
Investment property and investment property under construction	29,938	29,152	29,266
Fixed assets	530	512	514
Other non-current assets	117	123	119
Total Non-current Assets	32,853	31,598	31,851
Total Assets	35,065	35,205	35,124

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Financial Position

(Continued)

	As of June 30		As of Dec. 31
	2021	2020	2020
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
Liabilities and Equity			
Current liabilities			
Credit and current maturities from financial corporations and bonds	1,045	1,336	1,293
Trade payables	345	284	406
Payables and other current liabilities	165	162	187
Deposits from customers	1,053	985	1,011
Current tax liabilities	2	3	3
Declared dividend	150	-	-
Total Current liabilities	2,760	2,770	2,900
Non-current liabilities			
Loans from financial corporations	1,381	1,296	1,138
Bonds	8,916	9,584	9,389
Other liabilities	70	68	61
Deferred tax liabilities	3,669	3,475	3,503
Total Non-current liabilities	14,036	14,423	14,091
Equity			
Ordinary share capital	18	18	18
Share premium	2,518	2,518	2,518
Capital reserves	310	135	95
Retained earnings	15,389	15,308	15,470
Total equity attributable to the shareholders of the Company	18,235	17,979	18,101
Non-controlling interests	34	33	32
Total Equity	18,269	18,012	18,133
Total Liabilities and Equity	35,065	35,205	35,124

August 17 2021			
Date of approval of the financial statements	**Danna Azrieli** **Chairman of the Board**	**Eyal Henkin** **CEO**	**Irit Sekler-Pilosof** **CFO and Deputy CEO**

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2021	2020	2021	2020	2020
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		(Unaudited)		
Revenues:					
From rent, management fees, maintenance fees and sales, net	992	(*)916	555	(*)366	(*) 1,798
Net profit (loss) from fair value adjustment of investment property and investment property under construction	254	(458)	292	(234)	(764)
Share in results of companies accounted for using the equity method, net of tax	(6)	(25)	-	(24)	98
Financing	8	18	2	(8)	18
Other	4	9	4	-	9
Total revenues	1,252	460	853	100	1,159
Costs and Expenses:					
Cost of revenues from rent, management fees, maintenance fees and sales	309	300	161	148	628
Sales and marketing	32	33	15	15	74
G&A	44	45	19	19	91
Financing	230	32	175	12	121
Other	7	9	3	3	9
Total Costs and Expenses	622	419	373	197	923
Income (loss) before income taxes	630	41	480	(97)	236
Taxes on income	(137)	(15)	(97)	25	(40)
Income (loss) from continuing operations for the period	493	26	383	(72)	196
Loss from discontinued operations (after tax)	-	(6)	-	-	(12)
Net profit (loss) for the period	493	20	383	(72)	184

(*) In 2020 and in the six- and three-month periods ended June 30, 2020, revenues from rent, management fees, maintenance fees and sales amounted to NIS 1,861 million, NIS 979 million and NIS 429 million, respectively. For the period from April 1, 2020 to May 4, 2020, the Company granted rent relief to tenants in the retail centers and malls in Israel in the sum of NIS 63 million, which were treated as write-off of an operating lease receivables asset due to Covid-19 related concessions. In view of the aforesaid, net revenues from rent, management fees, maintenance fees and sales amounted to NIS 1,798 million, NIS 916 million and NIS 366 million, respectively. For further details on the impact of the Covid-19 crisis, see Note 3B.

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income

(Continued)

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2021	2020	2021	2020	2020
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		(Unaudited)		
Other Comprehensive Income (Loss):					
Amounts that will not be carried in the future to the income statement, net of tax:					
Change in the fair value of financial assets, net of tax	209	(276)	100	(81)	(220)
Amounts that were carried or will be carried in the future to the income statement, net of tax:					
Share in other comprehensive income (loss) of an investment accounted for using the equity method	8	(16)	6	12	18
Translation differences from foreign operations	24	7	(44)	(50)	(129)
Total	32	(9)	(38)	(38)	(111)
Total other comprehensive income (loss) for the period, net of tax	241	(285)	62	(119)	(331)
Total comprehensive income (loss) for the period	734	(265)	445	(191)	(147)

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income

(Continued)

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2021	2020	2021	2020	2020
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		(Unaudited)		
Net profit (loss) for the period attributable to:					
Shareholders of the Company	492	27	382	(66)	189
Non-controlling interests	1	(7)	1	(6)	(5)
	493	20	383	(72)	184
Total comprehensive income (loss) for the period attributable to:					
Shareholders of the Company	732	(258)	445	(184)	(139)
Non-controlling interests	2	(7)	-	(7)	(8)
	734	(265)	445	(191)	(147)
	NIS	NIS	NIS	NIS	NIS
Basic and diluted earnings (loss) (in NIS) per ordinary share of par value NIS 0.1 attributable to shareholders of the Company:					
Continuing operations	4.06	0.27	3.15	(0.54)	1.66
Discontinued operations	-	(0.05)	-	-	(0.10)
	4.06	0.22	3.15	(0.54)	1.56
Weighted average of the number of shares used for calculating the basic and diluted earnings per share	121,272,760	121,272,760	121,272,760	121,272,760	121,272,760

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital

	For the six-month period ended June 30, 2021 (Unaudited)								
	Share capital	Share premium	Capital reserve for changes in the fair value of investments in equity instruments designated at fair value through other comprehensive income	Capital reserve for translation differences from foreign operations	Other capital reserves	Retained earnings	Total attributed to shareholders of the Company	Non-controlling interests	Total
	NIS in millions								
Balance as of January 1, 2021	18	2,518	304	(209)	-	15,470	18,101	32	18,133
Net profit for the period	-	-	-	-	-	492	492	1	493
Change in the fair value of financial assets, net of tax	-	-	209	-	-	-	209	-	209
Share in comprehensive income of an investment accounted for using the equity method	-	-	-	8	-	-	8	-	8
Translation differences from foreign operations	-	-	-	23	-	-	23	1	24
Total comprehensive income for the period	-	-	209	31	-	492	732	2	734
Declared dividend to shareholders of the Company	-	-	-	-	-	(600)	(600)	-	(600)
Funds from investee companies	-	-	-	-	2	-	2	-	2
Total transactions with shareholders of the Company	-	-	-	-	2	(600)	(598)	-	(598)
Carried to retained earnings as a result of disposition of financial assets	-	-	(27)	-	-	27	-	-	-
Balance as of June 30, 2021	18	2,518	486	(178)	2	15,389	18,235	34	18,269

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital

(Continued)

	For the six-month period ended June 30, 2020 (Unaudited)								
	Share capital	Share premium	Capital reserve for changes in the fair value of investments in equity instruments designated at fair value through other comprehensive income	Capital reserve for translation differences from foreign operations	Other capital reserves	Retained earnings	Total attributed to shareholders of the Company	Non-controlling interests	Total
	NIS in millions								
Balance as of January 1, 2020	18	2,518	531	(99)	(8)	15,574	18,534	40	18,574
Net profit (loss) for the period	-	-	-	-	-	27	27	(7)	20
Change in the fair value of financial assets, net of tax	-	-	(276)	-	-	-	(276)	-	(276)
Share in comprehensive loss of an investment accounted for using the equity method	-	-	-	(12)	(4)	-	(16)	-	(16)
Translation differences from foreign operations	-	-	-	7	-	-	7	-	7
Total comprehensive income (loss) for the period	-	-	(276)	(5)	(4)	27	(258)	(7)	(265)
Dividend to shareholders of the Company	-	-	-	-	-	(300)	(300)	-	(300)
Funds from investee companies	-	-	-	-	3	-	3	-	3
Total transactions with shareholders of the Company	-	-	-	-	3	(300)	(297)	-	(297)
Carried to retained earnings as a result of disposition of financial assets	-	-	(7)	-	-	7	-	-	-
Balance as of June 30, 2020	18	2,518	248	(104)	(9)	15,308	17,979	33	18,012

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital

(Continued)

	For the three-month period ended June 30, 2021 (Unaudited)								
	Share capital	Share premium	Capital reserve for changes in the fair value of investments in equity instruments designated at fair value through other comprehensive income	Capital reserve for translation differences from foreign operations	Other capital reserves	Retained earnings	Total attributed to shareholders of the Company	Non-controlling interests	Total
	NIS in millions								
Balance as of April 1, 2021	18	2,518	415	(141)	1	15,128	17,939	34	17,973
Net profit for the period	-	-	-	-	-	382	382	1	383
Change in the fair value of financial assets, net of tax	-	-	100	-	-	-	100	-	100
Share in comprehensive income of an investment accounted for using the equity method	-	-	-	6	-	-	6	-	6
Translation differences from foreign operations	-	-	-	(43)	-	-	(43)	(1)	(44)
Total comprehensive income for the period	-	-	100	(37)	-	382	445	-	445
Declared dividend to shareholders of the Company	-	-	-	-	-	(150)	(150)	-	(150)
Funds from investee companies	-	-	-	-	1	-	1	-	1
Total transactions with shareholders of the Company	-	-	-	-	1	(150)	(149)	-	(149)
Carried to retained earnings as a result of disposition of financial assets	-	-	(29)	-	-	29	-	-	-
Balance as of June 30, 2021	18	2,518	486	(178)	2	15,389	18,235	34	18,269

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital

(Continued)

	For the three-month period ended June 30, 2020 (Unaudited)								
	Share capital	Share premium	Capital reserve for changes in the fair value of investments in equity instruments designated at fair value through other comprehensive income	Capital reserve for translation differences from foreign operations	Other capital reserves	Retained earnings	Total attributed to shareholders of the Company	Non-controlling interests	Total
	NIS in millions								
Balance as of April 1, 2020	18	2,518	329	(62)	(15)	15,374	18,162	40	18,202
Net loss for the period	-	-	-	-	-	(66)	(66)	(6)	(72)
Change in the fair value of financial assets, net of tax	-	-	(81)	-	-	-	(81)	-	(81)
Share in comprehensive income of an investment accounted for using the equity method	-	-	-	7	5	-	12	-	12
Translation differences from foreign operations	-	-	-	(49)	-	-	(49)	(1)	(50)
Total comprehensive income (loss) for the period	-	-	(81)	(42)	5	(66)	(184)	(7)	(191)
Funds from investee companies	-	-	-	-	1	-	1	-	1
Total transactions with shareholders of the Company	-	-	-	-	1	-	1	-	1
Balance as of June 30, 2020	18	2,518	248	(104)	(9)	15,308	17,979	33	18,012

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Changes in Capital

(Continued)

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

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Cash Flows

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2021	2020	2021	2020	2020
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		(Unaudited)		
Cash Flows – Operating Activities					
Net profit (loss) for the period	493	20	383	(72)	184
Depreciation and amortization	12	15	6	6	28
Impairment of fixed assets	-	7	-	1	6
Forfeiture of senior housing residents' deposits	(19)	(16)	(10)	(8)	(31)
Net loss (profit) from fair value adjustment of investment property and investment property under construction	(254)	458	(292)	234	764
Net financing and other expenses	226	4	178	23	102
Share in losses (profits) of associates accounted for using the equity method	6	25	-	25	(99)
Taxes recognized in the income statement	137	15	97	(26)	37
Income taxes paid, net	(12)	(60)	(21)	(42)	(121)
Erosion of financial assets designated at fair value through profit and loss	-	-	-	-	1
Change in inventory	(1)	2	1	2	-
Change in trade and other receivables	(7)	(19)	13	9	(36)
Change in trade and other payables	(37)	(75)	(6)	(58)	5
Receipt of deposits from senior housing residents	83	82	55	44	158
Return of deposits from senior housing residents	(35)	(26)	(20)	(15)	(57)
Change in employee provisions and benefits	1	-	-	-	-
Net cash – Operating Activities	593	432	384	123	941
Cash flows - Investment Activities					
Proceeds from disposition of fixed assets	-	1	-	1	1
Proceeds from disposition of investment properties	59	-	27	-	-
Purchase of and investment in investment properties and investment properties under construction	(527)	(464)	(202)	(245)	(942)
Purchase of and investment in fixed and intangible assets	(15)	(277)	(8)	(6)	(292)
Investment in and granting of loans to companies accounted for using the equity method	(2)	(102)	(2)	(2)	(231)
Receipt of indemnification from insurance	-	13	-	-	13
Provision of long-term loans	(45)	(5)	(45)	(5)	(10)
Interest and dividend received	6	15	2	3	20
Net proceeds from disposition of financial assets	285	84	63	-	84
Proceeds from disposition of investments in investee companies, net (Annex A)	36	50	-	50	178
Taxes paid in respect of financial assets	-	-	-	-	(2)
Proceeds (payments) to institutions for purchase of real estate, net	-	(29)	31	-	9
Net cash – investment activities	(203)	(714)	(134)	(204)	(1,172)

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Cash Flows

(Continued)

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2021	2020	2021	2020	2020
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		(Unaudited)		
Cash flows – Financing activities					
Dividend distribution to shareholders	(450)	(300)	(450)	(300)	(300)
Repayment of bonds	(335)	(336)	(151)	(151)	(520)
Issuance of bonds net of issue expenses	-	1,672	-	1,672	1,672
Receipt of long-term loans from financial corporations	290	-	-	-	-
Repayment of long-term loans from financial corporations	(574)	(112)	(122)	(33)	(220)
Short-term credit from financial corporations, net	-	(351)	(1)	(1)	(350)
Repayment of other long-term liabilities	(2)	(3)	(1)	(1)	(5)
Repayment of deposits from customers	(3)	(3)	(2)	(2)	(7)
Received deposits from customers	4	4	3	2	5
Interest paid	(110)	(109)	(71)	(64)	(227)
Net cash – financing activities	(1,180)	462	(795)	1,122	48
Increase (decrease) in cash and cash equivalents	(790)	180	(545)	1,041	(183)
Cash and cash equivalents at beginning of period	2,646	2,842	2,416	1,981	2,842
Change in net cash classified for a disposal group held for sale	-	(2)	-	-	(2)
Effect of exchange rate changes on cash balances held in foreign currency	2	-	(13)	(2)	(11)
Cash and cash equivalents at end of period	1,858	3,020	1,858	3,020	2,646

(*) In the six-month and three-month periods ended June 30, 2021, non-cash transactions include a change in dividend payables in the sum of NIS 150 million and a change in receivables in respect of the sale of investment properties in the sum of approx. NIS 32 million.

Non-cash transactions in the six-month and three-month periods ended June 30, 2020 included an increase in receivables in respect of the sale of consolidated companies in the sum of NIS 53 million.

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

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

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

Azrieli Group Ltd.

Condensed Consolidated Statements of Cash Flows

(Continued)

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2021	2020	2021	2020	2020
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		(Unaudited)		
Annex A –					
Proceeds from disposition of an investment in investee company:					
Working capital (excluding cash and cash equivalents)	-	103	-	103	103
Receivables in respect of sale of the investment	36	(53)	-	(53)	75
	36	50	-	50	178

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

Note 1 – General

A. Azrieli Group Ltd. (the "**Company**") is a company domiciled and incorporated in Israel and whose registered address is 1 Azrieli Center, Tel Aviv. The Company is listed on TASE and is included, *inter alia*, in the "Tel Aviv 35" Index and in the "Tel Aviv Real Estate" Index. The Company has series of bonds that have been issued to the public (Series B, D-F, and after the date of the Statement of Financial Position, Series G and H were issued. For further details, see Note 7A). The Group's Consolidated Financial Statements as of June 30, 2021 include those of the Company and of its subsidiaries (jointly, the "**Group**"), as well as the Group's rights in associates and in jointly-controlled entities.

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

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

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

B. These Condensed Consolidated Statements should be reviewed in the context of the Group's annual financial statements as of December 31, 2020, and for the year then ended, and the notes attached thereto.

Note 2 – Significant Accounting Policies

A. The basis for the preparation of the Financial Statements:

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

In the preparation of these Interim Financial Statements the Group has applied the accounting policy, rules of presentation and methods of calculation identical to those used in the preparation of its financial statements as of December 31, 2020 and for the year then ended.

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

B. Use of estimates and discretion:

(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, 2020.

(2) Further to Note 3B to the annual financial statements, as of June 30, 2021, the Group has updated the valuations for some of its investment properties in Israel (which are attributed to the retail centers and malls segment and to the leasable office and other space segment).

The valuations were conducted by an independent outside appraiser with the appropriate professional qualifications.

The valuations for the investment properties and for properties under construction were mainly prepared using the method of discounting the cash flows expected to be generated by the properties. For details with respect to the cap rates and the sensitivity to changes in the interest rates of the investment property cap rates, see Section 5D.

With respect to the other properties, in the Company's estimation, no significant changes have occurred in the value of the real estate as compared with the last date on which a valuation was prepared.

Note 2 – Significant Accounting Policies (Cont.)

C. Rates of exchange and linkage basis:

(1) Balances that are stated in foreign currency or linked thereto are recorded in the Financial Statements according to the representative exchange rates published by the Bank of Israel and which were effective as of the end of the report period.

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

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

	Representative Exchange Rate of the $	**CPI in Israel**	
		"For"	**"Known"**
	(NIS to $1)	**Base 1993**	**Base 1993**
As of the date of the financial statements:			
June 30, 2021	3.260	226.69	226.47
June 30, 2020	3.466	222.89	223.11
December 31, 2020	3.215	223.11	223.34
	%	%	%
Rates of change:			
For the six-month period ended:			
June 30, 2021	1.40	1.60	1.40
June 30, 2020	0.29	(0.80)	(0.70)
For the three-month period ended:			
June 30, 2021	(2.22)	0.80	1.30
June 30, 2020	(2.78)	(0.70)	(0.20)
For the year ended:			
December 31, 2020	(6.97)	(0.70)	(0.60)

Note 3 – Material Events during the Report Period

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

On May 25, 2021, the Company's board of directors decided to approve an additional dividend distribution in the amount of NIS 150 million (reflecting an amount of NIS 1.24 per share), which was paid on July 6, 2021.

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

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

From March 2021 and during the quarter, in view of the extensive campaign for vaccination against Covid-19, resumption of normal operations was evident in the Israeli economy. However, towards the end of the quarter and during July 2021 until the report release date, there has been a renewed rise in morbidity in Israel and worldwide due to the spread of the Delta variant, such that it is difficult to assess the risk reflected by the continuing pandemic.

In view of the low and stable morbidity figures in the period following the third lockdown, the Green Pass requirement and the Purple Badge restrictions were revoked from June 1, 2021. However, on June 25, 2021, and in view of the renewed increase in morbidity, the Ministry of Health announced a requirement for mask-wearing at any indoor venue.

After the Date of the Statement of Financial Position, in view of further increase in morbidity, starting from July 29, 2021, the Green Pass regulations were reinstated, further restrictions were imposed to cope with the pandemic, and a decision was made to vaccinate certain sectors of the population with a third dose. Starting from August 18, 2021, the Green Pass regulations will be expanded, the Purple Badge regulations will be instated and various gathering restrictions will be updated in an effort to stop the increasing morbidity. In addition, the obligation to wear masks will also apply to outdoor gatherings of over 100 people.

As of the report date, the Company has examined the value of the Company's assets, using an outside appraiser. In the appraiser's estimation, as of the date of the financial statements, it is too early to estimate the effect of the Covid-19 crisis on the long-term valuations. In view of the reasonable assumption, as of the date of the financial statements, that considering the vaccination rate, no further lockdown is expected, it was assumed that no material discounts are expected to be given to tenants.

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

C. On February 23, 2021, an indirectly wholly-owned subsidiary of the Company (in this section: the "**Seller**") entered into two sale agreements with an unaffiliated third party (in this section: the "**Buyer**") for the sale of all of the Seller's rights and undertakings in the mall and office building known as "Azrieli Kiryat Ata" to the Buyer, for total consideration of NIS 90 million, plus lawful VAT. On June 30, 2021, after the Buyer paid the Seller the full consideration according to the agreements, the transactions were closed and possession of the properties was handed over to the Buyer. Part of the consideration being paid through provision of a loan secured by a first-ranking mortgage on the mall from the Seller to the Buyer for 36 months.

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

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

In consideration for the property, the Company has paid the Seller the sum total of NIS 180 million, plus VAT. On the date of signing of the agreements, the Company paid the consideration from its own resources and at the beginning of March 2021, possession of the property was handed over. In addition, the Company has paid purchase tax in the sum of approx. NIS 10.8 million.

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

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

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

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

F. (Contd.)

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

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

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

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

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

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

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

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

H. Further to Note 33D(3) to the annual financial statements, during the report period, the Company's compensation committee and board of directors approved an engagement for the purchase of a liability insurance policy for directors and officers of the Company and subsidiaries of the Company from July 1, 2021 to June 30, 2022, with a liability cap of U.S. $100 million per occurrence and in the aggregate, and for an annual premium of U.S. $617,000, while determining that the engagement is carried out at arm's length and is not material to the company. This is in keeping with the position of the ISA, whereby given the Covid-19 crisis and its effects on the insurance market, a company's engagement with an insurer may be carried out on terms and conditions that differ from those specified in such company's compensation policy as concerns the premium component, provided that it is carried out at arm's length, is not material to the company and the company' compensation committee approves the engagement, until the date of the coming general meeting to be convened by the company.

Note 4 – Discontinued Operations

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

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2021	2020	2021	2020	2020
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		(Unaudited)		
Results of discontinued operations:					
Revenues	-	38	-	-	38
Expenses	-	43	-	-	43
Loss before income taxes	-	(5)	-	-	(5)
Income taxes	-	-	-	-	-
Loss after income taxes	-	(5)	-	-	(5)
Other costs	-	(1)	-	-	(2)
Loss from the sale of discontinued operations, net of tax	-	-	-	-	(5)
Loss for the period	-	(6)	-	-	(12)
Cash flows from discontinued operations:					
Net cash derived from operating activities	-	4	-	-	-
Net cash derived from investment activities	36	-	-	-	-
Net cash used for financing activities	-	(2)	-	-	-
Net cash flows from discontinued operations:	36	2	-	-	-

Note 4 – Discontinued Operations (Contd.)

B. On December 29, 2020, Granite Hacarmel Investments Ltd. (a wholly-owned subsidiary until its sale in 2019, "**Granite**"), was issued with tax assessments to the best of judgment in respect of the 2016, 2017 and 2018 tax years. The amount of the tax according to the assessment is approx. NIS 17 million (an amount for which the Group had given indemnification in the context of the sale). The amount of the tax according to the assessment predominantly arises from the reclassification and/or a different classification by the Tax Assessor of the transaction for the sale of the shares of Sonol by Granite in 2016. Granite rejected the tax authorities' demand and filed an administrative objection to these tax assessments on January 27, 2021.

In the estimation of Granite's consultants, it is more likely than not that Granite's position in the administrative objection will be accepted by the tax authorities and/or by a judicial instance, in the event that the case is heard thereby.

Note 5 – Fair Value of financial instruments

A. Fair value vs. book value:

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

	As of June 30, 2021		As of June 30, 2020		As of Dec. 31, 2020	
	Book Value	Fair Value	Book Value	Fair Value	Book Value	Fair Value
	NIS in millions		NIS in millions		NIS in millions	
	(unaudited)		(unaudited)			
Non-current liabilities:						
Loans from financial corporations (1)	1,550	1,580	2,015	2,092	1,812	1,912
Bonds (1)(2)	9,741	10,486	10,157	10,193	9,962	10,540
	11,291	12,066	12,172	12,285	11,774	12,452

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

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

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

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

	As of June 30		As of December 31
	2021	2020	2020
	%	%	%
Non-current liabilities:			
Loans from financial corporations	(1.25)-4.66	0.96-3.34	0.44-2.91

C. Fair value hierarchy:

Set forth below is an analysis of the financial instruments measured at fair value using valuation techniques.

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

	As of June 30		As of Dec. 31
	2021	2020	2020
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
Financial assets at fair value through other comprehensive income:			
Marketable shares – Level 1	1,069	789	862

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

D. Sensitivity to changes in the interest rates of the investment properties cap rates:

	Loss from changes in the market factor			Fair value of property	Profit from changes in the market factor			Valuation method
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions	
Rate of change	**Absolute increase of 2%**	**Increase of 10%**	**Increase of 5%**		**Decrease of 5%**	**Decrease of 10%**	**Absolute decrease of 2%**	
Weighted cap rate:								
6.0% - 6.25%	(132)	(48)	(25)	533	28	59	262	DCF method
6.26% - 6.99%	(4,220)	(1,661)	(874)	17,729	948	2,010	7,832	DCF method
7.0% - 7.59%	(1,160)	(474)	(248)	5,134	274	579	2,080	DCF method
7.6% - 8.24%	(275)	(125)	(65)	1,114	72	152	460	DCF method
8.25% - 9.00%	(222)	(104)	(54)	2,513	59	125	352	DCF method
Investment properties and investment properties under construction	(6,009)	(2,412)	(1,266)	27,023	1,381	2,925	10,986	

Note 6 – Segment Reporting

A. General:

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

B. Operating segments:

	For the six-month period ended June 30, 2021						
	Retail centers and malls in Israel	**Leasable office and other space in Israel**	**Income-producing properties in the U.S.**	**Senior housing**	**Other**	**Adjustments**	**Consolidated**
	NIS in millions						
	(Unaudited)						
Revenues:							
Total external income	364	394	116	92	48	(22)	992
Total segment expenses	90	60	56	69	55	(7)	323
Segment profit (loss) (NOI)	274	334	60	23	(7)	(15)	669
Net profit from fair value adjustment of investment property and investment property under construction	88	163	3	-	-	-	254
Unallocated costs							(62)
Financing expenses, net							(222)
Other expenses, net							(3)
The Company's share in the results of companies accounted for using the equity method, net of tax							(6)
Income before income taxes							630
Additional information:							
Segment assets	12,520	13,020	2,173	2,607	1,536	(417)	31,439
Unallocated assets (*)							3,626
Total consolidated assets							35,065

(*) Mainly financial assets in the sum of approx. NIS 1.1 billion and cash and short-term deposits in the sum of approx. NIS 1.9 billion.

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

	For the six-month period ended June 30, 2020						
	Retail centers and malls in Israel	Leasable office and other space in Israel	Income-producing properties in the U.S.	Senior housing	Other	Adjustments	Consolidated
	NIS in millions						
	(Unaudited)						
Revenues:							
Total external income	322	354	128	80	48	(16)	916
Total segment expenses	85	48	60	61	64	(3)	315
Segment profit (loss) (NOI)	237	306	68	19	(16)	(13)	601
Net profit (loss) from fair value adjustment of investment property and investment property under construction	(305)	(9)	(156)	12	(8)	8	(458)
Unallocated costs							(63)
Financing expenses, net							(14)
The Company's share in the results of a company accounted for using the equity method							(25)
Income before income taxes							41
Additional information:							
Segment assets	12,805	11,945	2,290	2,470	980	(120)	30,370
Unallocated assets (*)							4,835
Total consolidated assets							35,205

(*) Mainly financial assets in the sum of approx. NIS 0.8 billion, and cash and short-term deposits in the sum of approx. NIS 3 billion.

Note 6 – Segment Reporting (Cont.)

B. Operating segments: (Cont.)

	For the three-month period ended June 30, 2021						
	Retail centers and malls in Israel	Leasable office and other space in Israel	Income-producing properties in the U.S.	Senior housing	Other	Adjustments	Consolidated
	NIS in millions						
	(Unaudited)						
Revenues:							
Total external income	239	199	58	47	23	(11)	555
Total segment expenses	51	31	27	35	27	(3)	168
Segment profit (loss) (NOI)	188	168	31	12	(4)	(8)	387
Net profit (loss) from fair value adjustment of investment property and investment property under construction	89	199	4	-	(1)	1	292
Unallocated costs							(27)
Financing expenses, net							(173)
Other income, net							1
Profit before income taxes							480

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

	For the three-month period ended June 30, 2020						
	Retail centers and malls in Israel	Leasable office and other space in Israel	Income-producing properties in the U.S.	Senior housing	Other	Adjustments	Consolidated
	NIS in millions						
	(Unaudited)						
Revenues:							
Total external income	76	174	62	39	24	(9)	366
Total segment expenses	45	21	29	31	32	(2)	156
Segment profit (loss) (NOI)	31	153	33	8	(8)	(7)	210
Net profit (loss) from fair value adjustment of investment property and investment property under construction	(120)	(10)	(116)	12	(8)	8	(234)
Unallocated costs							(26)
Financing expenses, net							(20)
Other expenses, net							(3)
The Company's share in the results of a company accounted for using the equity method, net of tax							(24)
Loss before income taxes							(97)

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

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

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

Note 7 – Material Subsequent Events

A. Bond issue:

After the date of the Statement of Financial Position, in July 2021, the Company made a public issue of registered Series G Bonds of approx. NIS 1,904 million par value, based on the Company's shelf prospectus. The bonds are linked (principal and interest) to the CPI and bear fixed interest at the rate of 0.90% per year.

Series G Bonds will be payable (principal) in 13 annual payments, which payments shall be consecutive but not equal and paid on July 2 of each of the years 2024 through 2036 as follows:

Payments 1-5 shall be paid on July 2 of each of the years 2024 through 2028 and shall each amount to 2% of the nominal value of the principal. Payments 6-10 shall be paid on July 2 of each of the years 2029 through 2033 and shall each amount to 13% of the nominal value of the principal. Payments 11 and 12 shall be paid on July 2 in each of the years 2034 and 2035 and shall each amount to 10% of the nominal value of the principal. Payment 13 (the final payment) shall be paid on July 2, 2036 and amount to 5% of the nominal value of the principal.

Interest is payable in semiannual installments on January 2 and July 2 of each of the years 2022 through 2036, beginning on January 2, 2022 and ending with the last payment on July 2, 2036. The bonds were issued without discount.

The proceeds of the issue of Series G Bonds totaled approx. NIS 1,904 million, and after deduction of the issue expenses, net proceeds totaled approx. NIS 1,883 million. The effective interest rate for Series G Bonds is 1.01% per year.

After the date of the Statement of Financial Position, in July 2021, the Company made a public issue of registered Series H Bonds of approx. NIS 1,751 million par value, based on the Company's shelf prospectus. The bonds are linked (principal and interest) to the CPI and bear fixed interest at the rate of 1.69% per year.

Series H Bonds will be payable (principal) in 10 consecutive and equal annual payments on January 2 of each of the years 2032 through 2041 (each payment shall amount to 10% of the nominal value of the principal beginning on January 2, 2032).

Interest is payable in semiannual installments on January 2 and July 2 of each of the years 2022 through 2041, beginning on January 2, 2022 and ending with the last payment on January 2, 2041. The bonds were issued without discount.

The proceeds of the issue of Series H Bonds totaled approx. NIS 1,751 million, and after deduction of the issue expenses, net proceeds totaled approx. NIS 1,729 million. The effective interest rate for Series H Bonds is 1.79% per year.

Note 7 – Material Subsequent Events (Contd.)

A. Bond issue (Contd.)

On July 18, 2021, S&P Ma'alot approved a rating (ilAA+) for the issue of the new Series G Bonds and Series H Bonds (jointly: the "**Bonds**").

The Bonds are not secured by any collateral and shall be of equal rank in relation to the amounts due in respect thereof, *pari passu*, *inter se*, having no preference or priority over one another.

When issuing the Series G Bonds and Series H Bonds, the Company undertook financial covenants similar to the financial covenants undertaken thereby with respect to the Series E Bonds and Series F Bonds (for a description of the terms and conditions, see Note 17B(4) to the annual financial statements).

It is further provided that if the rating of the Company's Series G Bonds and Series H Bonds falls below S&P Ma'alot's (AA) rating or a corresponding rating determined by another agency that shall rank the Bonds, the annual interest rate borne by the balance of the outstanding principal of the Bonds shall increase. In such a case, the interest rate to be added to the annual interest on the Bonds shall be 0.5% up to 1% according to the rating of the Bonds.

Furthermore, the Series G Bonds and Series H Bonds shall be accelerated upon the fulfillment of certain conditions which are materially similar to the conditions specified in relation to Series B Bonds and Series D-F Bonds (for a description of the conditions, see Note 17 to the annual financial statements).

B. After the date of the Statement of Financial Position, on July 16, 2021, the Company, through a special-purpose wholly-owned subsidiary incorporated under Norwegian law (in this section: the "**Subsidiary**" and the "**Buyer**"), entered into an agreement for acquisition of 100% of the issued and paid-up share capital of Green Mountain AS, a private company incorporated under Norwegian law (in this section: "**GM**", the "**Agreement**" and the "**Transaction**", as applicable), which is engaged in the data center industry (in this section: "**DC**") and, as of the report release date, operates three server farms in Norway.

The parties to the Agreement are the Company, the Subsidiary and all of GM's shareholders (in this section, all of them collectively: the "**Parties**"; all of GM's shareholders: the "**Sellers**").

The Company shall guarantee all of the Subsidiary's obligations to the Sellers under the Agreement. Such guarantee shall be effective for as long as the Subsidiary shall have obligations to the Sellers.

On the Transaction closing date, the Buyer shall acquire 100% of the issued and paid-up share capital of GM

Note 7 – Material Subsequent Events (Contd.)

B. (Contd.)

The consideration for the value of GM's business, in Enterprise Value (EV) terms, totals 7,600 million Norwegian Krone (NOK) (in this section: the "**Consideration**") (in proximity to the release date of this report, the representative NOK exchange rate was NOK 2.75 to NIS 1), and in Israeli currency, approx. NIS 2,768 million.

The Sellers will be liable for financial damage caused to the Buyer due to a breach of their obligations under the Agreement, in accordance with the terms and conditions set forth in the Agreement.

The Transaction will be closed on the trading day to occur about 30 days after the date of signing of the Agreement, or on such later date as shall be agreed by and between the Parties (the "**Transaction Closing Date**").

The Consideration will be self-funded by the Company, including by means of some of the proceeds from the debt offering the Company has made (for details, see Note 7A). The Company also intends to act to obtain a specific loan, through the Subsidiary or GM, from a financial entity, in connection with the Transaction, the terms and conditions of which loan, at this time, have yet to be concluded.

The Transaction includes other arrangements that are standard for transactions of this type, including standard statements and representations that were made by the Parties, refrainment from the performance of certain acts at GM during the period between the signing of the Agreement and the Transaction Closing Date, mutual confidentiality undertakings, and a non-compete undertaking by the sellers of most of GM's shares for a period of 24 months from the Transaction Closing Date in respect of certain markets.

Annex to Consolidated Financial Statement

Separate Interim Financial Statement

as of June 30, 2021

(Unaudited)

<u>Azrieli Group Ltd.</u>

Separate Interim Financial Statement

<u>as of June 30, 2021</u>

<u>(Unaudited)</u>

Prepared according to the provisions of Regulation 38D

of the Securities Regulations

<u>(Periodic and Immediate Reports), 5730-1970</u>

Azrieli Group Ltd.

Separate Interim Financial Statement
as of June 30, 2021

(Unaudited)

Contents

Deloitte.

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

Dear Sir/Madam,

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

We have reviewed the separate interim financial statement, which is presented according to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, of **Azrieli Group Ltd.** (the "**Company**") as of June 30, 2021 and for the six- and three-month periods then ended. The board of directors and management are responsible for the preparation and presentation of this separate interim financial statement according to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970. Our responsibility is to express a conclusion on the separate interim financial statement for these interim periods, based on our review.

Scope of Review

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

Conclusion

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

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

Tel Aviv, August 17, 2021

Azrieli Group Ltd.
Statement of Financial Position

	As of June 30		As of Dec. 31
	2021	2020	2020
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
Assets			
Current assets			
Cash and cash equivalents	1,681	2,811	2,472
Trade accounts receivable	11	18	19
Other receivables	158	427	395
Current tax assets	62	54	91
Total current assets	1,912	3,310	2,977
Non-current assets			
Financial assets	1,073	795	866
Investment property and investment property under construction	13,366	12,533	12,856
Investments in Investee Companies	11,706	11,087	11,297
Loans to Investee Companies	2,181	2,526	2,257
Fixed assets	311	301	304
Other receivables	63	33	35
Total non-current assets	28,700	27,275	27,615
Total assets	30,612	30,585	30,592

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

	As of June 30		As of Dec. 31
	2021	2020	2020
	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		
Liabilities and capital			
Current liabilities			
Credit and current maturities from financial corporations and bonds	1,015	804	803
Trade payables	191	111	239
Payables and other current liabilities	82	82	101
Declared dividend	150	-	-
Total current liabilities	1,438	997	1,143
Non-current liabilities			
Loans from financial corporations	374	502	413
Bonds	8,916	9,584	9,389
Other liabilities	26	28	26
Deferred tax liabilities	1,623	1,495	1,520
Total non-current liabilities	10,939	11,609	11,348
Capital			
Ordinary share capital	18	18	18
Premium on shares	2,478	2,478	2,478
Capital reserves	350	175	135
Retained earnings	15,389	15,308	15,470
Total capital attributable to shareholders of the Company	18,235	17,979	18,101
Total liabilities and capital	30,612	30,585	30,592

August 17, 2021			
Date of Approval of Separate Financial Statement	**Danna Azrieli Chairman of the Board**	**Eyal Henkin CEO**	**Irit Sekler-Pilosof Chief Financial Officer and Deputy CEO**

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

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

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended Dec. 31
	2021	2020	2021	2020	2020
	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, net	320	(*) 254	187	(*) 82	(*) 485
Net profit (loss) from adjustment to fair value of investment property and investment property under construction	141	(136)	166	(33)	(277)
Financing	64	52	36	12	100
Other	6	9	6	-	9
Total Revenues	531	179	395	61	317
Costs and Expenses					
Cost of revenues from rent and management and maintenance fees	20	17	8	12	42
Sales and marketing	13	11	6	4	31
G&A	38	35	16	15	71
Financing	195	1	153	(3)	60
Other	2	2	2	2	3
Total Costs and Expenses	268	66	185	30	207
Income before the Company's share in the profits of Investee Companies	263	113	210	31	110
Share in profits (losses) of Investee Companies, net of tax	274	(66)	210	(101)	111
Income (loss) before income taxes	537	47	420	(70)	221
Taxes on income	(45)	(14)	(38)	4	(20)
Income (loss) for the period from continued operations	492	33	382	(66)	201
Loss from discontinued operations (after tax)	-	(6)	-	-	(12)
Net income (loss) for the period	492	27	382	(66)	189
Other comprehensive income (loss):					
Amounts that will not be carried in the future to the income statement, net of tax:					
Change in the fair value of financial assets, net of tax	209	(276)	100	(81)	(220)
Amounts that were carried or will be carried in the future to the income statement, net of tax:					
Translation differences from foreign operations	21	5	(39)	(44)	(110)
Share in the other comprehensive profit (loss) of Investee Companies, net of tax	10	(14)	2	7	2
Total	31	(9)	(37)	(37)	(108)
Other comprehensive income (loss) for the period, net of tax	240	(285)	63	(118)	(328)
Total comprehensive income (loss) for the period	732	(258)	445	(184)	(139)

(*) For Y2020 and for the six- and three-months periods ended June 30, 2020, revenues from rent and management and maintenance fees amounted to NIS 520 million, NIS 289 million and NIS 117 million, respectively. For the period from April 1, 2020 to May 4, 2020, the Company granted rent relief to tenants in the retail centers and malls in Israel in the sum of NIS 35 million, which were treated as write-off of an operating lease receivables asset due to Covid-19-related concessions. In view of the aforesaid, net revenues from rent and management and maintenance fees amounted to NIS 485 million, NIS 254 million and NIS 82 million, respectively. For further details on the impact of the Covid-19 crisis, see Note 3B to the condensed consolidated financial statements.

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

Azrieli Group Ltd.
Statement of Cash Flows

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended Dec. 31
	2021	2020	2021	2020	2020
	NIS in millions	NIS in millions	NIS in millions	NIS in millions	NIS in millions
	(Unaudited)		(Unaudited)		
Cash flows – current operations					
Net profit (loss) for the period	492	27	382	(66)	189
Depreciation and amortization	1	1	-	-	2
Net loss (profit) from adjustment to fair value of investment property and investment property under construction	(141)	136	(166)	33	277
Financing and other expenses (revenues), net	130	(62)	117	(14)	(50)
Share in profits (losses) of Investee Companies, net of tax	(274)	72	(210)	101	(103)
Tax expenses (revenues) recognized in the income statement	45	14	38	(4)	19
Income tax received (paid), net	26	(24)	1	(14)	(52)
Change in trade and other receivables	7	(126)	14	(54)	(134)
Change in trade and other payables	(16)	(34)	(7)	(21)	9
Other changes	1	1	-	1	1
Net cash – current operations	271	5	169	(38)	158
Cash flows – investment activities					
Acquisition of and investment in investment property and investment property under construction	(410)	(261)	(142)	(129)	(603)
Purchase of fixed assets	(8)	(264)	(4)	-	(269)
Investments in Investee Companies	(96)	(102)	(1)	(2)	(231)
Return (grant) of long-term loans from Investee Companies, net	110	271	(7)	97	550
Interest and dividend received	14	12	10	2	31
Recovery of investment in Investee Company	-	-	-	-	14
Proceeds from the disposition of financial assets, net	285	84	63	-	84
Taxes paid for financial assets	-	-	-	-	(2)
Revenues (payments) from institutions for the acquisition of real estate, net	-	(29)	31	-	9
Net cash – investment activities	(105)	(289)	(50)	(32)	(417)

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

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

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended Dec. 31
	2021	2020	2021	2020	2020
	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	-	1,672	-	1,672	1,672
Dividend distribution to shareholders	(450)	(300)	(450)	(300)	(300)
Repayment of bonds	(335)	(336)	(151)	(151)	(520)
Repayment of long-term loans from financial corporations	(89)	(94)	(22)	(25)	(185)
Short-term credit from financial corporations, net	-	(352)	(1)	(2)	(351)
Interest paid	(85)	(77)	(57)	(46)	(164)
Net cash – financing activities	(959)	513	(681)	1,148	152
Increase (decrease) in cash and cash equivalents	(793)	229	(562)	1,078	(107)
Cash and cash equivalents at beginning of period	2,472	2,582	2,244	1,733	2,582
Effect of exchange rate changes on cash balances held in foreign currency	2	-	(1)	-	(3)
Cash and cash equivalents at end of period	1,681	2,811	1,681	2,811	2,472

(*) Non-cash transactions, for the six-month period ended June 30, 2021, include a change in other payables due to a dividend in the amount of NIS 150 million.

For the six- and three-month periods ended June 30, 2020 and for Y2020, non-cash transactions included an increase in other payables due to acquisitions on credit in the amount of NIS 30 million, NIS 24 million and NIS 136 million, respectively.

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

Azrieli Group Ltd.

Notes to the Separate Interim Financial Statement

As of June 30, 2021

A. General:

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

This separate financial statement is to be inspected with respect to the Company's separate financial statement as of December 31, 2020, and for the year then ended, and the additional figures that were attached thereto.

B. Definitions:

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

C. Accounting Policy:

The separate financial statement is prepared in accordance with the accounting policy specified in Note B to the Company's separate financial statement as of December 31, 2020 and the year then ended.

D. Material Events during the Reporting Period:

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

E. Subsequent Events:

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

Deloitte.

Date: August 17, 2021

To:

The Board of Directors of Azrieli Group Ltd.

Azrieli 1,

Tel Aviv

Dear Sir/Madam,

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

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

(1) Review report of August 17, 2021 on condensed consolidated financial statement of the Company as of June 30, 2021 and for the six- and three-month periods then ended.

(2) Special auditors' report of August 17, 2021 on condensed separate financial statement of the Company as of June 30, 2021 and for the six- and three-month periods then ended according to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970.

Sincerely,

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

AZRIELIGROUP

PART D

Effectiveness of Internal Control over the Financial Reporting and Disclosure

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

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

For this purpose, the members of management are:

1 | **Eyal Henkin**, CEO

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

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

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

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

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

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

In the quarterly report regarding the effectiveness of internal control over financial reporting and disclosure, which was attached to the quarterly report for the period ended March 31, 2021 (the "**Most Recent Quarterly Report on Internal Control**"), the internal control was found to be effective.

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

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

STATEMENT OF MANAGERS:

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

I, Eyal Henkin, represent that:

1. I have reviewed the quarterly report of Azrieli Group Ltd. (the "**Corporation**") for Q2/2021 (the "**Reports**").
2. To my knowledge, the Reports do not contain any misrepresentation nor omission of a material fact required for the representations included therein, given the circumstances under which such representations were included, not to be misleading with regard to the period of the Reports.
3. To my knowledge, the Financial Statements and other financial information included in the Reports adequately reflect, in all material respects, the financial position, operating results and cash flows of the Corporation for the periods and as of the dates covered by the Reports.
4. I have disclosed to the Corporation's auditor and to the Corporation's Board of Directors and the Audit Committee and Financial Statement Committee, based on my most current evaluation of internal control over financial reporting and disclosure:
   a. Any and all significant flaws and material weaknesses in the setting or maintaining internal control over financial reporting and disclosure which may reasonably adversely affect the Corporation's ability to gather, process, summarize or report financial information in a manner which casts doubt on the reliability of the financial reporting and preparation of the Financial Statements in conformity with the provisions of the law; and –
   b. Any fraud, either material or immaterial, which involves the CEO or anyone reporting to him directly or which involves other employees who play a significant role in internal control over financial reporting and disclosure;
5. I, myself or jointly with others at the Corporation:
   a. Have set controls and procedures, or confirmed, under my supervision, the setting and maintaining of controls and procedures which are designed to ensure that material information in reference to the Corporation, including consolidated companies thereof as defined in the Securities Regulations (Annual Financial Statements), 5770-2010, is brought to my knowledge by others at the Corporation and the consolidated companies, particularly during the preparation of the Reports; and –
   b. Have set controls and procedures, or confirmed, under my supervision, the setting and maintaining of controls and procedures which are designed to reasonably ensure reliability of financial reporting and preparation of the Financial Statements in conformity with the provisions of the law, including in conformity with GAAP.
   c. No occurrence or issue have been brought to my attention, that occurred during the period between the date of the most recent periodic report and the date of this report date, which may change the conclusion of the Board of Directors and management with regard to the effectiveness of internal control over the Corporation's financial reporting and disclosure.

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

Date: August 17, 2021

____

Eyal Henkin | CEO

STATEMENT OF MANAGERS:

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

I, Irit Sekler-Pilosof, represent that:

1. I have reviewed the Interim Financial Statements and other financial information included in the interim reports of Azrieli Group Ltd. (the "**Corporation**") for Q2/2021 (the "**Reports**" or the "**Interim Reports**");
2. To my knowledge, the Interim Financial Statements and the other financial information included in the Interim Reports do not contain any misrepresentation nor omission of a material fact required for the representations included therein, given the circumstances under which such representations were included, not to be misleading with regard to the period of the Reports.
3. To my knowledge, the Interim Financial Statements and other financial information included in the Interim Reports adequately reflect, in all material respects, the financial position, operating results and cash flows of the Corporation for the periods and as of the dates covered by the Reports;
4. I have disclosed to the Corporation's auditor and to the Corporation's Board of Directors and the Audit Committee and Financial Statement Committee, based on my most current evaluation of internal control over financial reporting and disclosure:
   a. Any and all significant flaws and material weaknesses in the setting or maintaining internal control over financial reporting and disclosure, insofar as it relates to the Interim Financial Statements and the other information included in the Interim Reports, which may reasonably adversely affect the Corporation's ability to gather, process, summarize or report financial information in a manner which casts doubt on the reliability of financial reporting and preparation of the Financial Statements in conformity with the provisions of the law; and -
   b. Any fraud, either material or immaterial, which involves the CEO or anyone reporting to him directly or which involves other employees who play a significant role in internal control over financial reporting and disclosure;
5. I, myself or jointly with others at the Corporation-
   a. Have set controls and procedures, or confirmed, under my supervision, the setting and maintaining of controls and procedures which are designed to ensure that material information in reference to the Corporation, including consolidated companies thereof as defined in the Securities Regulations (Annual Financial Statements), 5770-2010, is brought to my knowledge by others at the Corporation and the consolidated companies, particularly during the preparation of the Reports; and -
   b. Have set controls and procedures, or confirmed, under my supervision, the setting and maintaining of controls and procedures which are designed to reasonably ensure reliability of financial reporting and preparation of the Financial Statements in conformity with the provisions of the law, including in conformity with GAAP;
   c. No occurrence or issue have been brought to my attention, that occurred during the period between the date of the most recent periodic report and the date of this report date, pertaining to the Interim Financial Statements and any other information included in the Interim Reports, which could, in my opinion, change the conclusion of the Board of Directors and management with regard to the effectiveness of internal control over the Corporation's financial reporting and disclosure.

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

Date: August 17, 2021

____

Irit Sekler-Pilosof | Deputy CEO and CFO