

**THIS DOCUMENT IS AN ENGLISH TRANSLATION OF THE HEBREW VERSION OF THE COMPANY'S FINANCIAL STATEMENTS AND THE MANAGEMENT DISCUSSION AND ANALYSIS FOR THE SECOND QUARTER OF 2019 (THE "REPORTS"). THE HEBREW VERSION OF THE REPORTS IS THE BINDING VERSION AND THE ONLY VERSION HAVING LEGAL EFFECT. THE ENGLISH TRANSLATION HAS BEEN CREATED FOR THE PURPOSE OF CONVENIENCE ONLY. THE APPROVAL OF THE COMPANY'S BOARD OF DIRECTORS WAS GIVEN TO THE HEBREW VERSION ONLY AND NO SUCH APPROVAL HAS BEEN GIVEN TO THE ENGLISH TRANSLATION. THE ENGLISH TRANSLATION WAS NOT PUBLISHED AND HAS NOT BEEN SUBMITTED TO THE ISRAELI SECURITIES AUTHORITY FOR ITS REVIEW.**



**QUARTERLY REPORT as of June 30, 2019:**

	<u>Page</u>
Directors' Report on the Company's Business	2
Update of Description of the Company's Business	32
Consolidated Financial Statements as of June 30, 2019	34
Separate Financial Statements as of June 30, 2019	57
Quarterly Report on the Effectiveness of Internal Control over Financial Reporting and the Disclosure	68

**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS**

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**GAZIT-GLOBE LTD.****Directors' Report to the Shareholders**  
**For the period ended June 30, 2019**

The Board of Directors of Gazit-Globe Ltd. (the "Company") is pleased to present the Directors' Report of the Company for the period ended June 30, 2019 (the "Reporting Date):

**1. The Company and its Operations****1.1. Overview**

The Company, through its public and private investees<sup>1</sup> (collectively: the "Group"), is an owner, developer, and operator of shopping centers and retail-based mixed-use properties located in densely populated urban areas in North America, Brazil, Israel, Northern, Central and Eastern Europe. The Group continues to look for opportunities within its core business, in geographies in which it already operates as well as other regions. The Company also evaluating entry into additional types of income-producing properties, including initial evaluation of residential rental in areas adjacent to the Group's existing properties.

The Company's shares are listed on the Tel Aviv Stock Exchange Ltd. ("TASE") under the ticker symbol "GZT".

Currently, the Company operates generally through two investment categories:

- Wholly-owned private subsidiaries that are consolidated in its financial statements and in which the Company outlines the strategy, is responsible for their financing activities, and oversees their operations. These operations are conducted through G Israel Commercial Centers Ltd. ("G Israel"), through the Company's subsidiaries in Brazil ("Gazit Brasil") and through Gazit Horizons Inc. ("Gazit Horizons") in the U.S.A.
- Public entities under the Company's control with a similar strategy that are consolidated in its financial statements, in which the Company is the largest shareholder. These operations are conducted through Citycon Oyj. ("CTY") and through Atrium European Real Estate Limited. ("ATR"). For details regarding the Company's ATR's minority share purchase agreement, refer to Note 5a to the financial statements.

In addition, until April 2019, the Company operated through a material interest, but not control in First Capital Realty Inc. ("FCR"). For details regarding the sale of most of the holdings in FCR for total consideration of NIS 3.2 billion subsequent to the reporting date, refer to Note 3b2 to the financial statements.

The Group's strategy is to focus on the acquisition of commercial properties (including with partners) in densely-populated urban areas that meet the needs of the population which have a potential for value appreciation and cash flows growth by proactive management, addition of uses and redevelopment. The Group also takes measures to sell non-core properties which it believes have a limited growth potential and/or are in regions in which the Company wishes to reduce its activity.

The Company's strategy is to increase its direct ownership of real estate, which in Management's opinion may increase and improve its cash flows and value appreciation. Additionally, Management believes that increasing the directly owned real estate part of its portfolio will strengthen its financial ratios, which may lead to an international investment credit rating, and consequently, improve its cost and diversity of capital.

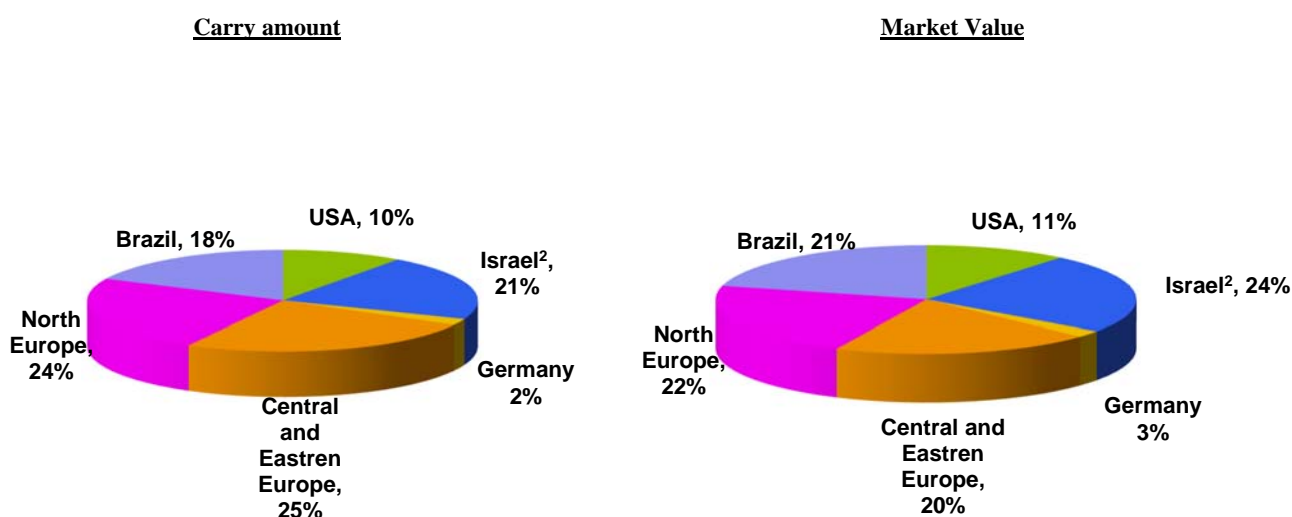
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<sup>1</sup> Reference to investees includes, unless stated otherwise, companies that are fully consolidated by the Company and companies that are presented according to the equity method.

**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS****1.2. Group Properties as of June 30, 2019**

	<u>Country of operation</u>	<u>Holding interest</u>	<u>Income-producing properties</u>	<u>Properties under development</u>	<u>Other properties</u>	<u>GLA (square meters in thousands)</u>	<u>Carrying value of investment property (NIS in millions)</u>
CTY	Finland, Norway, Sweden, Estonia and Denmark	48.6%	38	1	-	1,074	17,007
ATR	Poland, Czech Republic, Slovakia and Russia	60.1%	33	-	-	953	12,453
Gazit Brasil	Brazil (Sao Paulo)	100%	7	-	1	179	3,095
G Israel	Israel	100%	10	1	-	136	3,376
Gazit Horizons	Bulgaria and Macedonia	100%	1	-	-	6	195
Gazit Germany	USA	100%	9	-	1	33	1,323
	Germany	100%	1	-	-	23	366
Total carrying value			<b>99</b>	<b>2</b>	<b>2</b>	<b>2,404</b>	<b>37,815</b>
Jointly controlled properties (proportionate consolidation)			3	-	-	90	2,125
Total			<b>102</b>	<b>2</b>	<b>2</b>	<b>2,494</b>	<b>39,940</b>

Other information about the Group, including updated presentations, supplemental information packages regarding assets, liabilities and additional information (which does not constitute part of this report and is not hereby incorporated by reference), can be found on the Company's website – [www.gazit-globe.com](http://www.gazit-globe.com) and on the websites of the Group's companies.

**1.3. Breakdown of the Company's Investments by Region (on an expanded solo basis) as of June 30, 2019<sup>1</sup>:**

<sup>1</sup> Not including the investment in FCR shares which most of the holdings in FCR shares were sold in April 2019, refer to Note 3b2 of the financial statements.

<sup>2</sup> Including investments in Bulgaria and Macedonia through G Israel.

**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS****1.4. Highlights – Second quarter of 2019 (the "Quarter")**

(NIS in millions, other than per share data)	June 30, 2019	December 31, 2018	
Net debt to total assets (Expanded Solo)	47.1%	53.9%	-
Net debt to total assets (Consolidated)	55.1%	55.3%	-
Equity attributable to equity holders of the Company <sup>1</sup>	8,344	9,301	-
Equity per share attributable to equity holders of the Company (NIS)	45.2	49.0	-
Net asset value per share (EPRA NAV) (NIS) <sup>2</sup>	50.1	58.3	-
EPRA NNAV per share (NIS) <sup>2</sup>	39.5	47.5	-

	3 months ended June 30,		Change
	2019	2018	
Rental income	702	710	(1.1%)
NOI <sup>3</sup>	514	504	2.0%
NOI adjusted for exchange rates	514	479	7.3%
Proportionately consolidated NOI <sup>4</sup>	338	320	5.6%
Cash flow from operating activities per share- Expanded Solo (NIS) <sup>5</sup>	0.48	0.48	-
Economic FFO <sup>6</sup>	147	175	(16.0%)
Diluted Economic FFO per share (NIS) <sup>6</sup>	0.80	0.91	(12.1%)
Economic FFO adjusted for exchange rates	147	163	(9.8%)
Diluted Economic FFO per share adjusted for exchange rates (NIS)	0.80	0.84	(4.8%)
Number of shares used in calculating the diluted Economic FFO per share (in thousands)	184,753	193,225	(4.4%)

Acquisition, construction and development of investment property <sup>7</sup>	685	1,223	-
Disposition of investment property <sup>7</sup>	251	231	-
Fair value loss from investment property and investment property under development, net	(90)	(125)	-
Net income (loss) attributable to equity holders of the Company	(83)	72	-
Diluted net earnings (loss) per share (NIS)	(0.45)	0.37	-
Cash flows provided by (used in) operating activities	142	(59)	-

- 1 The decrease in shareholders' equity attributed to the Company's shareholders is mainly due to the sale of most of the interests holdings in FCR (refer to Note 3b2 to the financial statements), as well as the devaluation of the operating currencies against the NIS.
- 2 Refer to section 2.5 below.
- 3 NOI ("Net Operating Income") – Rental income, net of property operating expenses.
- 4 The Company's proportionate share in the NOI of group companies in accordance with its interest in the equity of each of the Group companies, refer to section 2.4 below.
- 5 Refer to section 2.2 below.
- 6 The Economic FFO is presented according to the management approach and in accordance with the EPRA rules. For the Economic FFO calculation, refer to section 2.3 below. The decrease in economic FFO and economic FFO per share is due to the sale of most of the holding in FCR (refer to Note 3b2 to the financial statements) and from the sale of REG shares in 2018.
- 7 The Company and its subsidiaries (excluding associates and joint ventures presented according to the equity method), net of specifically attributed debt.

**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS**

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**1.4. Highlights – First quarter of 2019 (the "Quarter") (Cont.)**

- As of June 30, 2019, the Company and its subsidiaries had liquidity including revolver undrawn credit facilities available for an immediate drawdown of NIS 7.7 billion (of which NIS 4.5 billion in the Company and its wholly-owned subsidiaries including cash and cash equivalents of NIS 1.3 billion and securities and short-term deposits in the amount of NIS 0.6 billion).
- As a result of fluctuations in currency exchange rates of the US dollar, the Euro and the Brazilian real against the NIS, the equity attributable to the Company's equity holders decreased in the Quarter by NIS 70 million (net of the effect of cross-currency swap transactions).
- In general, fluctuations in the exchange rates of the US dollar, the Euro and the Brazilian real against the shekel have the following effect:
  - The appreciation of these currencies against the shekel has a positive effect on the Company's assets, shareholders' equity, NOI and economic FFO due to the translation of the foreign currency into shekels at higher rates. On the other hand, the appreciation will result in a negative impact on the Company's net income through the increase in financing expenses due to the revaluation loss on the hedging instruments (the financial derivatives).
  - A devaluation of these currencies against the shekel has a negative effect on the on the Company's assets, shareholders' equity, NOI and Economic FFO and, on the other hand, a positive effect on the Company's net income through the decrease in financing expenses due to the revaluation gain on the hedging instruments.

**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS****1.5. Highlights- First six months of 2019 (the "Reporting Period")**

(NIS in millions, other than per share data)	6 months ended June 30,		Change
	2019	2018	
Rental income	1,422	1,421	0.1%
NOI	1,023	996	2.7%
NOI adjusted for exchange rates	1,023	957	6.9%
Proportionately consolidated NOI <sup>1</sup>	669	625	7.0%
Cash flow from operating activities per share-Expanded Solo (NIS) <sup>2</sup>	1.06	0.93	14%
Economic FFO <sup>3</sup>	318	343	(7.3%)
Diluted Economic FFO per share (NIS) <sup>3</sup>	1.71	1.77	(3.4%)
Economic FFO adjusted for exchange rates	318	324	(1.9%)
Diluted Economic FFO per share adjusted for exchange rates (NIS)	1.71	1.68	1.8%
Number of shares used in calculating the diluted FFO per share (in thousands)	186,314	193,417	(3.7%)

Acquisition, construction and development of investment property <sup>4</sup>	1,231	1,586	-
Disposition of investment property <sup>4</sup>	417	596	-
Fair value loss from investment property and investment property under development, net	(173)	(77)	-
Loss attributable to equity holders of the Company	(41)	(414)	-
Diluted loss per share (NIS)	(0.22)	(2.14)	-
Cash flows from operating activities	336	186	-

<sup>1</sup> The company's proportionate share in the NOI of group companies in accordance with its interest in the equity of each of the Group companies, refer to section 2.4 below.

<sup>2</sup> Refer to section 2.4 below.

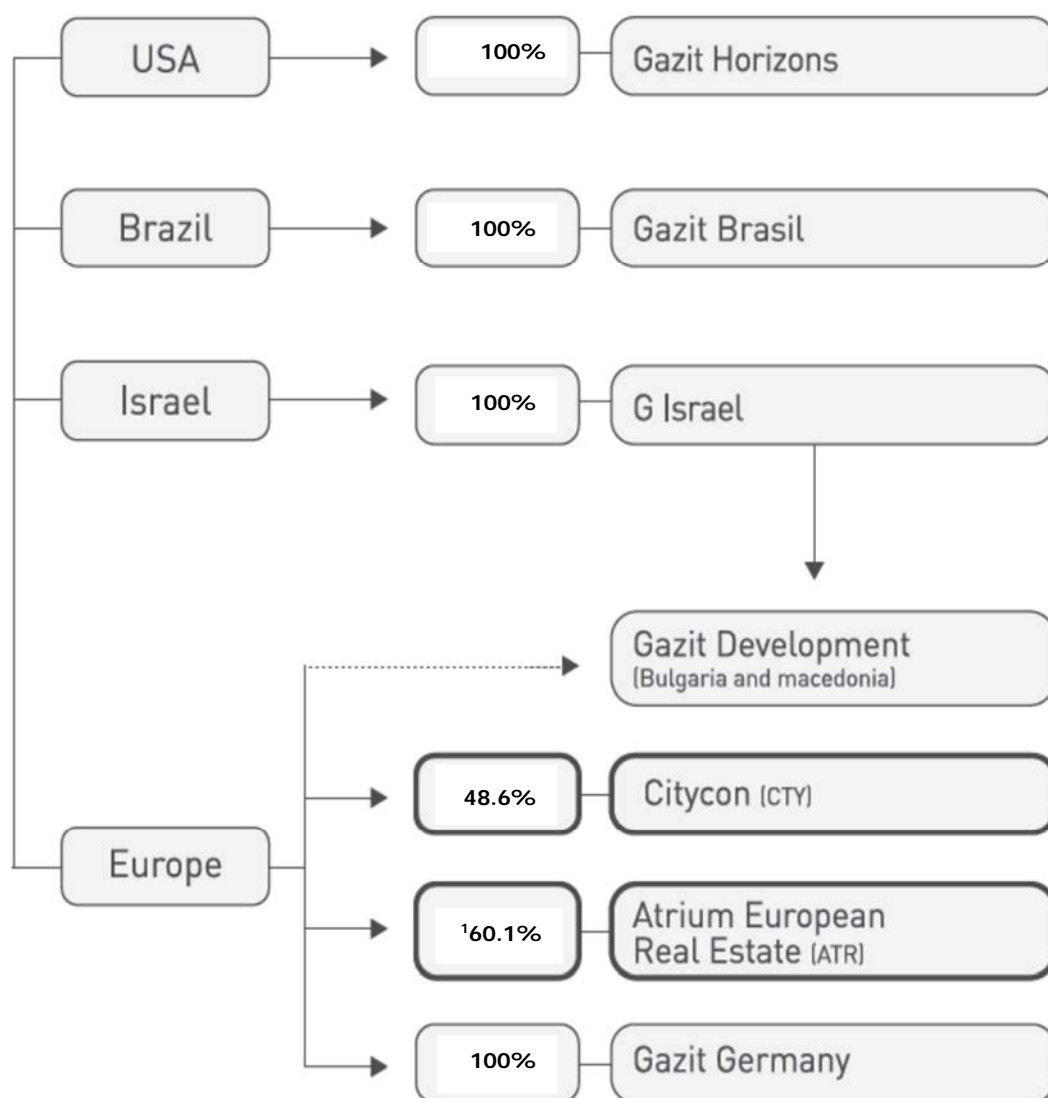
<sup>3</sup> The Economic FFO is presented according to the management approach and in accordance with the EPRA guidance. For the Economic FFO calculation, refer to section 2.2 below. The decrease in Economic FFO and Economic FFO per share is mainly due to the sale of most of the holdings in FCR (refer to Note 3b2 to the financial statements) and from the sale of REG shares in 2018.

<sup>4</sup> The Company and its subsidiaries (excluding associates and joint ventures presented according to the equity method), net of specifically attributed debt.

- As a result of fluctuations in currency exchange rates of the U.S. dollar, the Euro and the Brazilian real against the NIS, the equity attributable to the Company's equity holders decreased in the Reporting Period by NIS 400 million (net of the effect of cross-currency swap transactions).

**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS**

**1.6. The Company's Major Holdings Are Set Forth Below (Ownership Structure and Interests as of June 30, 2019):**



<sup>1</sup> For details regarding the Company's agreement to purchase the minority shares in ATR, subsequent to the reporting date, refer to Note 5a of the financial statements.

**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS****2. Additional Information Concerning the Company's Assets and****2.1. Summary of the Company's Holdings as of June 30, 2019:**

Name of company	Type of security/ property	Amount (millions)	Holding interest (%)	Book value (NIS in millions)	Market value as of 30.6.2019 (NIS in millions)
ATR <sup>1</sup>	Shares (VSX, Euronext)	227.2	60.1	4,246	3,027
CTY	Shares (OMX)	86.5	48.6	4,055	3,218
Israel	Income-producing property	-	-	2,924	-
Israel	Property under development and land	-	-	263	-
Brazil	Income-producing property and land	-	-	2,635	-
USA <sup>2</sup>	Income-producing property and land	-	-	1,600	-
Europe	Income-producing property	-	-	397	-
Europe	Land for future development	-	-	165	-
<b>Total assets</b>		-	-	<b>16,285</b>	-

Set forth below are the Company's monetary balances (including balances of its privately-held subsidiaries) ("expanded solo basis") as of June 30, 2019:

	<u>NIS in millions</u>
Debentures	9,099
Debts to financial institutions	2,916
Total debentures and debts to financial institutions (*)	12,015
Other monetary liabilities	675
Total monetary liabilities	12,690
Less - monetary assets <sup>3</sup>	4,754
Less - other investments <sup>4</sup>	258
Monetary liabilities, net <sup>5</sup>	<u><b>7,678</b></u>

(\*) Maturity profile of the Company's debentures and debts to financial institutions (NIS in millions):

Year	Debentures	Financial Institutions	Total	%
2019	212 <sup>6</sup>	277	489	4
2020	1,037	698	1,735	15
2021	904	648	1,552	13
2022	897	173	1,070	9
2023	1,111	751	1,862	16
2024	1,172	83	1,255	10
2025	1,011	36	1,047	9
2026	1,101	36	1,137	9
2027	917	214	1,131	9
2028	737	-	737	6
<b>Total</b>	<b>9,099</b>	<b>2,916</b>	<b>12,015</b>	<b>100</b>

- 1 For details regarding the Company's ATR's minority share purchase agreement, subsequent to the reporting date, refer to Note 3b2 to the financial statements.
- 2 The USA assets include an investment in a property through a joint venture presented in the financial statements using the equity method.
- 3 Including an investment in FCR shares in the amount of NIS 1,288 million, cash and cash equivalents in the amount of NIS 1,340 million, short-term securities and deposits in the amount of NIS 600 million and financial derivatives in the amount of NIS 331 million.
- 4 Comprises primarily the investment in participation units in private equity funds and other investments.
- 5 Excludes deferred tax liability in the amount of NIS 139 million with respect to investment property, NIS 79 million for the equity investment of FCR and NIS 45 million non-controlling interests in one of the Company's property.
- 6 The principal of debentures (Series J) in the amount of NIS 212 million, with coupon interest of 6.5%, which is secured by investment property, refer to section 7 below.



**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS****2.2 Cash flows from operating activities - expanded Solo:**

	Six months ended		Three months ended		Year ended
	June 30,		June 30,		December 31,
	2019	2018	2019	2018	2018
	<b>NIS in millions (except for per share data)</b>				
Dividends from public investees	298	399	131	198	740
EBITDA from private companies, net of Capex(*)	164	118	85	63	277
<b>Total income</b>	<b>462</b>	<b>517</b>	<b>216</b>	<b>261</b>	<b>1,017</b>
General and administrative expenses	(40)	(37)	(18)	(20)	(66)
Interest expenses, net	(211)	(282)	(101)	(134)	(522)
Taxes	(14)	(19)	(8)	(15)	(20)
<b>Total expenses</b>	<b>(265)</b>	<b>(338)</b>	<b>(127)</b>	<b>(169)</b>	<b>(608)</b>
Cash flows from operating activity before a special dividend from ATR	<b>197</b>	<b>179</b>	<b>89</b>	<b>92</b>	<b>409</b>
Cash flows from operating activity per share before a special dividend from ATR (NIS)	<b>1.06</b>	<b>0.93</b>	<b>0.48</b>	<b>0.48</b>	<b>2.12</b>
Special dividend from ATR	-	136	-	-	136
Cash flows from operating activity after a special dividend from ATR	<b>197</b>	<b>315</b>	<b>89</b>	<b>92</b>	<b>545</b>
Cash flows from operating activity per share after a special dividend from ATR (NIS)	<b>1.06</b>	<b>1.63</b>	<b>0.48</b>	<b>0.48</b>	<b>2.83</b>

(\*) Including capital expenditures (CAPEX) in the amount of NIS 7 million for each of the quarters and NIS 28 million for the year 2018.

**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS**

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**2.3. FFO (EPRA Earnings)**

As is the practice in the real estate industry, the Company customarily publishes information regarding the results of its operating activities in addition to, and without detracting from, the income statement prepared according to accounting principles. In European countries where the financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”), it is customary for income-producing property companies to publish a measure for presenting the operating results of a company that are attributable to its equity holders, in line with the position paper of the European Public Real Estate Association (“EPRA”), the objective of which is to promote greater transparency, uniformity and comparability of the financial information reported by property companies (“EPRA Earnings”). This measure is not based on generally accepted accounting principles. Furthermore, pursuant to the draft securities regulations for anchoring the disclosure provisions for investment property activity, issued by the Israel Securities Authority in December 2013, FFO (Funds from Operations) is to be presented in the “Description of the Company's Business” section of the annual report of investment property companies, similar to the manner of calculating FFO under EPRA rules.

EPRA Earnings (or “Nominal FFO”) are calculated as the net income (loss) attributable to the equity holders of a company after excluding non-recurring income and expenses (including gains or losses from revaluations of properties to their fair value), changes in the fair value of financial instruments through profit and loss, gains or losses on the disposition of properties, and other types of gains and losses.

The Economic Adjusted EPRA Earnings (or “Economic FFO according to the management approach”) is calculated as EPRA Earnings with such additional adjustments being made as a company considers necessary in order to present an operating income measure that is comparable with previous periods and with the results of similar companies. This measure is customarily used to review the performance of income-producing property companies. The required adjustments to the accounting net income (loss) are presented in the table below.

The Company believes that the Economic Adjusted EPRA Earnings measure fairly reflects the operating results of the Company, since it provides a better basis for the comparison of the Company’s operating results in a particular period with those of previous periods and provides a uniform financial measure for comparing the Company’s operating results with those published by other European property companies.

As clarified in the EPRA position papers, the EPRA Earnings and the Economic Adjusted EPRA Earnings measures do not represent cash flows from operating activities according to accepted accounting principles, nor do they reflect the cash held by a company or its ability to distribute that cash, and they are not a substitute for the reported net income (loss). Furthermore, it is clarified that these measures are not audited by the Company’s independent auditors.

**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS**

The table below presents the calculation of the Company's Economic FFO and its Economic FFO per share, calculated according to the recommendations of EPRA and the draft securities regulations for investment property activity, for the stated periods:

	<b>6 months ended June 30,</b>		<b>3 months ended June 30,</b>		<b>Year ended December 31,</b>
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2018</b>
<b>NIS in millions (other than per share data)</b>					
<b>Net income (loss) for the period attributable to equity holders of the Company</b>	<b>(41)</b>	<b>(414)</b>	<b>(83)</b>	<b>72</b>	<b>(253)</b>
<b>Adjustments:</b>					
Fair value loss (gain) from investment property and investment property under development, net	173	77	90	125	(114)
Capital loss on disposition of investment property	8	4	6	17	51
Changes in the fair value of financial instruments, including derivatives, measured at fair value through profit or loss	(130)	702	65	(146)	921
Adjustments with respect to equity-accounted investees	32	8	11	-	(43)
Loss (gain) from decrease in holding interest in investees	2	3	-	2	(3)
Deferred taxes and current taxes with respect to disposition of properties	240	(138)	(68)	44	(109)
Acquisition costs recognized in profit or loss	1	1	-	-	4
Loss from early redemption of interest-bearing liabilities and financial derivatives	4	7	3	4	222
Non-controlling interests' share in above adjustments	(104)	(128)	(50)	(89)	(320)
<b>Nominal FFO (EPRA Earnings)</b>	<b>185</b>	<b>122</b>	<b>(26)</b>	<b>29</b>	<b>356</b>
<b>Additional adjustments:</b>					
CPI linkage and exchange rate differences	85	74	132	96	129
Depreciation and amortization	8	8	4	4	15
Company's share in FCR's Economic FFO (REG in 2018)	27	94	27	39	101
Other adjustments <sup>(2)</sup>	13	45	10	7	91
<b>Economic FFO according to the management approach (Economic Adjusted EPRA Earnings)</b>	<b>318</b>	<b>343</b>	<b>147</b>	<b>175</b>	<b>692</b>
<b>Basic and diluted Economic FFO per share according to the management approach (in NIS)</b>	<b>1.71</b>	<b>1.77</b>	<b>0.80</b>	<b>0.91</b>	<b>3.60</b>
<b>Number of shares used in the diluted Economic FFO per share calculation (in thousands)<sup>(3)</sup></b>	<b>186,314</b>	<b>193,417</b>	<b>184,753</b>	<b>193,225</b>	<b>192,583</b>

The decrease in the Economic FFO and the Economic FFO per share in the Quarter and in the Reporting Period, compared with the comparable periods in the prior year are primarily due to the sale of FCR shares in April 2019 (refer to Note 3b2 to the financial statements) and from the sale of REG shares in 2018.

- 1 Income and expenses adjusted against the net income (loss) for the purpose of calculating FFO, which include non-recurring expenses including expenses arising from the termination of engagements with senior Group officers, income and expenses from operations not related to income-producing property, share-based compensation expenses and the adjustment of expenses and income from extraordinary legal proceedings not related to the Reporting Periods (including a provision for legal proceedings).
- 2 Weighted average for the period.

**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS****Economic FFO guidance**

The Company as many other real estate companies in North America and Europe, presents FFO guidance. The purpose of the Company's guidance is to disclose Management's view as to the expected financial and operating performance of the Company.

Presented below is the 2019 guidance, based on publicly available information and Management's assessments, including the FFO guidance of public investees, where published, and on the following assumptions:

- Known exchange rates and interest rates as of the operating date.
- Acquisitions, sales, investments in development of properties according to the Company's plan.
- Excluding unanticipated material events that affect the Group's operations.
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	<u>1-6/19</u>	<u>4-6/19</u>	<u>2019</u>	<u>2018</u>
	<u>Actual</u>	<u>Actual</u>	<u>Guidance</u>	<u>Pro-forma*</u>
Economic FFO (NIS in million)	318	147	577-592	556
Economic FFO per share (NIS)	1.71	0.80	3.10-3.18	2.89

\* Pro-forma information is presented for comparison between the periods. Pro forma information for 2018 is excluding REG's results and FCR's results with respect to the shares for which the Company sold subsequent to the reporting date, refer to Note 3b2 to the financial statements.

**The Company's Economic FFO guidance for 2019 is forward-looking information, as defined in the Securities Law, 1968, which is based on the aforementioned assumptions, including assessments and estimates by Management of the of Company and the Group companies pertaining to future events and matters whose materialization is not certain nor under the Group's control. There is no certainty that the guidance will be realized, wholly or partly, and actual results could be different from those set forth above due, inter alia, to their dependence on events that are not under the control of the Company and the Group.**

**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS**

- 2.4. Additional information is presented below regarding the Company's pro rata share in the value of income-producing properties owned by the Group as of June 30 2019, based on capitalization of net operating income ("NOI"). The information below is based on a methodology that is generally accepted in the markets in which the Group operates and is intended to provide an additional method of analyzing the value of the Company's properties on the basis of the Company's financial results for the Reporting Period. This information is not intended to represent the Company's estimate of the present or future value of its assets or shares.

	3 months ended June 30,		Year ended December 31,
	2019	2018	2018
	<b>NIS in millions</b>		
Rental income	702	710	2,840
Property operating expenses	188	206	844
NOI for the period	514	504	1,996
Less - minority's share in NOI	(186)	(196)	(770)
Add - Company's share in NOI of associate and jointly controlled companies <sup>1</sup>	10	12	48
<b>NOI for the period - the Group's proportionate share<sup>1</sup></b>	<b>338</b>	<b>320</b>	<b>1,274</b>
<b>Annual NOI - the Group's proportionate share<sup>1</sup></b>	<b>1,352<sup>2</sup></b>	<b>1,280<sup>2</sup></b>	<b>1,274</b>

1 Excluding the Company's share in FCR's NOI.

2 Calculated by multiplying the NOI for the quarter by four.

The sensitivity analysis shown in the table below describes the implied value of the Group's income-producing properties using the aforesaid methodology according to the range of different capitalization rates ("cap rates") generally accepted in the regions in which the Group operates, as of the date of the financial statements. This analysis does not take into account income from premises that have not been leased and additional building rights that exist with respect to the Group's income-producing properties.

**Value of proportionately consolidated income-producing property in accordance with the NOI for the first quarter of 2019:**

	<b>Share price as of June 30 2019</b>					
	<b>Equity per share</b>					
<b>Cap Rate:</b>	<b>5.75%</b>	<b>6.00%</b>	<b>6.25%</b>	<b>6.41%</b>	<b>6.50%</b>	<b>7.44%</b>
Value of income-producing property (NIS in millions) (*)	23,498	22,519	21,618	21,095	20,786	17,899
Share price derived from the above Cap Rate (NIS) (**)	58.4	53.1	48.2	45.2	42.4	29.5

(\*) Calculated as the result of dividing the NOI by the cap rate.

(\*\*) Excluding the tax effect.

New properties, properties under development and land, which are not yet income-producing and which are presented at their fair values in the Group's books (according to the proportionate consolidation method) as of June 30, 2019, amounted to NIS 2,021 million.

The Group's monetary liabilities, net of monetary assets (according to the proportionate consolidation method) as of June 30, 2019, amounted to NIS 14,753 million.

**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS****2.5. Net Asset Value (EPRA NAV and EPRA NNNAV)**

As is customary in the European countries in which the Group operates, and in line with the EPRA position paper, the objective of which is to promote greater transparency, uniformity and comparability of the financial information reported by real estate companies, the Company publishes net asset value data (EPRA NAV), which is a measure that reflects the net asset value of the Company, as reflected by the Company's statement of financial position with certain adjustments, e.g., the exclusion of deferred taxes with respect to the revaluation of investment properties and investment properties under development to their fair value and the exclusion of the fair value of financial derivatives (with the exception of financial derivatives used for currency hedging with respect to which the difference between the fair value and intrinsic value is excluded); the Company also publishes EPRA NNNAV data, which is another measure reflecting net asset value (EPRA NAV), adjusted for the fair value of financial liabilities, as well as certain adjustments to the provision for deferred taxes with respect to the revaluation of investment properties and investment properties under development to their fair value, and certain additional adjustments to the fair value of the above-referenced financial derivatives.

The Company considers that the presentation of the EPRA NAV and the EPRA NNNAV data enables the Company's net asset value data to be compared to those of other European real estate companies. At the same time, such data does not constitute a valuation of the Company and does not replace the data presented in the financial statements; rather, such data provides an additional mechanism for evaluating the Company's net asset value (NAV) in accordance with the EPRA recommendations. Such data is not audited by the Company's independent auditors.

Presented below is the calculation of the EPRA NAV and EPRA NNNAV:

	June 30,		December 31,
	2019	2018	2018
	NIS in millions		
<b><u>EPRA NAV</u></b>			
Equity attributable to the equity holders of the Company, per the financial statements	8,344	9,252	9,301
Exclusion of deferred tax liability on revaluation of investment property to fair value (net of minority's share) <sup>1</sup>	980	993	1,041
Adjustments with respect to equity-accounted investees	-	691	679
Fair value asset adjustment for derivatives, net <sup>2</sup>	(56)	17	83
<b>Net asset value - EPRA NAV</b>	<b>9,268</b>	<b>10,953</b>	<b>11,104</b>
<b>EPRA NAV per share (in NIS)</b>	<b>50.1</b>	<b>57.0</b>	<b>58.3</b>
<b><u>EPRA NNNAV</u></b>			
EPRA NAV	9,268	10,953	11,104
Adjustment of financial liabilities to their fair value	(1,032)	(908)	(224)
Other adjustments to provision for deferred taxes	(980)	(993)	(1,041)
Fair value asset adjustment for financial derivatives, net	56	(17)	(83)
Adjustments with respect to equity-accounted investees	-	(765)	(708)
<b>Adjusted net asset value - EPRA NNNAV</b>	<b>7,312</b>	<b>8,270</b>	<b>9,048</b>
<b>EPRA NNNAV per share (in NIS)</b>	<b>39.5</b>	<b>43.0</b>	<b>47.5</b>
<b>Issued share capital of the Company used in the calculation (in thousands of shares)<sup>3</sup></b>	<b>185,054</b>	<b>192,208</b>	<b>190,354</b>

1 Net of goodwill generated in business combinations against deferred tax liability.

2 Represents the fair value less the intrinsic value of currency hedging transactions.

3 Represents the diluted number of issued shares (in thousands), excluding treasury shares held by the Company.

**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS**
**3. Discussion by the Board of Directors of the Company's Business Position, Results of Operations, Equity and Cash Flows**

3.1. During the Reporting Period, the investments of the Company and its subsidiaries in the acquisition and development of new properties and in the redevelopment, expansion and construction of various properties totaled NIS 1,231 million. The effect of these investments on the operating results of the Group will be reflected in full during the remainder of 2019 and thereafter.

**Activities in Properties**

1) During the Reporting Period, the Company and its subsidiaries acquired 6 income-producing properties, with a total GLA of 25 thousand square meters and land for future development, at a total cost of NIS 916 million. In addition, the Company and its subsidiaries have developed new properties and redeveloped existing properties at a total cost of NIS 315 million. Additionally, during the Reporting Period, the Company and its subsidiaries disposed of non-core properties in the amount of NIS 417 million.

**2) Highlights of operational data:**

	Income producing properties <sup>1</sup>	GLA (in thousands of square meters)	Average basic monthly rent per square meter		Change in same property NOI <sup>2</sup>	NOI (million)		Occupancy rate in core properties		Ratio of net debt to total assets
			30.6.2019	30.6.2018		Q2. 2019	Q2. 2018	30.6.2019	30.6.2018	
<b>Gazit Brasil</b>	7	179	R\$ 79	R\$ 63	23.2%	R\$ 57.3	R\$ 41.4	95.6%	96.0%	N/A
<b>G Israel</b>	10	136	NIS 110	NIS 107	1.3%	NIS 42.7	NIS 40.7	98.5%	98.0%	N/A
<b>CTY</b>	39	1,120	€23.3	€23.2	0.1%	€56.1	€54.3	95.6%	96.3%	48.9%
<b>ATR</b>	34	983	€14.7	€13.8	1.5% <sup>3</sup>	€44.0	€42.6	95.2%	97.0%	39.3%

1 Includes jointly-controlled properties.

2 Change in same property NOI during the Reporting Period compared with the comparable period in the prior year.

3 Excluding Russia. Including Russia the same property NOI grew by 0.5% compared to the corresponding period last year.

**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS****3) Data for Properties under Development, Redevelopment, and Expansion.**

<b>Company</b>	<b>Properties under Development</b>			
	<b>No. of properties</b>	<b>Total investment as of June 30, 2019 (NIS in millions)</b>	<b>Estimated cost to complete (NIS in millions)</b>	<b>Area (square meters in thousands)</b>
CTY	1	386	- <sup>1</sup>	44
G Israel	1	102	12	2
	<b>2</b>	<b>488</b>	<b>12</b>	<b>46</b>

<sup>1</sup> Negotiations regarding construction of main part of shopping centre are ongoing. Impact on expected investment to be confirmed after the agreement has been signed.

<b>Company</b>	<b>Properties under Redevelopment and Expansion</b>			
	<b>No. of properties</b>	<b>Total investment as of June 30, 2019 (NIS in millions)</b>	<b>Estimated cost to complete (NIS in millions)</b>	<b>Area (square meters in thousands)</b>
ATR	1	406	53	21
G Israel	2	128	97	17
	<b>3</b>	<b>534</b>	<b>150</b>	<b>38</b>



**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS****4) Effect of the Macro-Economic Environment on the Group's Activity**

The Group's activity is affected by the macro-economic environment (inter alia, private consumption volumes, the rate of unemployment and the level of demand) in the various countries in which it operates. These parameters impact on the occupancy rates of properties, the level of rents and the Group's ability to increase its revenues over time, as well as the scope and potential of the investments and development.

As of June 30, 2019, the Company is reporting stability in occupancy rates and an increase in average rental rates, at the Group's properties.

**The Macro-Economic data below and the Company's assessments regarding the impact of future macro-economic events on its operations, revenues and financial position are not certain nor are they under the Company's control, and therefore, constitute forward-looking statements as defined in the Securities Law, 1968.**

Presented below are macro-economic data for the countries where the Group operates<sup>1</sup>:

	Growth (GDP)		Rate of unemployment	Yield on government debentures (10 years)	Debt rating (S&P)
	2019 forecast	2018			
Norway	2.30%	1.50%	3.4%	1.10%	AAA
Sweden	1.50%	2.50%	6.6%	0.31-%	AAAu
Canada	1.40%	1.90%	5.7%	1.24%	AAA
Finland	1.60%	1.70%	6.6%	0.36-%	AA+
USA	2.10%	2.90%	3.7%	1.65%	AA+u
Czech Republic	2.60%	3.00%	1.9%	0.84%	AA-
Israel	3.30%	3.40%	4.1%	1.00%	AA-
Poland	4.20%	5.10%	3.8%	1.81%	A-
Russia	1.20%	2.30%	4.4%	7.31%	BBB-
Brazil	0.80%	1.10%	8.2%	7.18%	BB-

International debt rating of Group companies:

Rating Agency	Gazit-Globe <sup>2</sup>	CTY	ATR <sup>4</sup>
Moody's	ilAa3/Stable	Baa3/ Stable	Baa3
S&P	<sup>3</sup> ilAA-/Stable	BBB-/ Stable	BBB-
Fitch	-	-	BBB

<sup>1</sup> Data source: Bloomberg – August 2019.

<sup>2</sup> The Company has a short-term issuer rating of 'ilA-1+' and 'P-1.il' by S&P Maalot and Midroog, respectively.

<sup>3</sup> The debentures (Series J) of the Company, which are secured by properties, have been rated 'ilAA' with a stable outlook by the S&P Maalot rating agency.

<sup>4</sup> ATR under credit watch with negative implications following the publication of the purchase of its Minority Shares by the Company and becoming a private company (refer to Note 5a to the financial statements).

**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS**

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**3.2. Material Events at the Group During the quarter**

- A. For details regarding the sale of 58 million shares of FCR for a total consideration of NIS 3.2 billion, refer to Note 3b2 to the financial statements.
- B. For details regarding the buyback of 5.6 million shares of the Company (including tender offer) in the amount of NIS 158 million, refer to Note 3b3 to the financial statements.
- C. For details regarding the buyback of debentures by the Company in the amount of NIS 46 million, refer to Note 3a to the financial statements.
- D. For details regarding the Company's decision to delist its shares from trading on the New York Stock Exchange (the "NYSE") and termination of its reporting obligations under the SEC, refer to Note 3b1 to the financial statements.

**3.3. Dividend Distribution Policy**

Pursuant to the Company's policy, the Company announces every year the anticipated annual dividend. In March 2019, the Company announced that the quarterly dividend for 2019 would be NIS 0.405 per share (the total dividend to be declared for 2019 will be NIS 1.62 per share, compared with the dividend of NIS 1.52 per share in 2018).

The above is subject to the existence of sufficient distributable income at the relevant dates and is subject to the provisions of any law relating to dividend distributions and to decisions that the Company is permitted to take. This includes the appropriation of its income for other purposes and the revision of this policy.

**3.4. Financial Position****Current assets**

Current assets, as of June 30, 2019, total NIS 5.3 billion, compared with NIS 3.8 billion as of December 31, 2018. The increase in current assets derives mainly from the classification of the investment property to assets held for sale that were mostly sold subsequent to the reporting period and the balance of the remain consideration from the sale of FCR shares in the amount of CAD 125 million, which will be accepted upon April 2020 according to the sale of FCR share agreement.

**Equity-accounted investees**

The balance of equity-accounted investees amounted to NIS 1.7 billion as of June 30, 2019, compared to NIS 6.5 billion as of December 31, 2018. The balance of this item is primarily comprised of investments in property through joint ventures as recorded in the books of CTY, ATR and Gazit Horizons. The decrease in equity-accounted investees is due primarily to the sale of FCR shares (refer to Note 3b2 to the financial statements).

**Long term financial assets**

Long term financial assets amounted to NIS 1,496 million as of June 30, 2019, compared to NIS 208 million as of December 31, 2018. The increase in long term financial assets is primarily due to the balance of the remain FCR shares (refer to Note 3b2) in the amount of NIS 1,288 million.

**Non-current Financial derivatives**

The balance of financial derivatives primarily arises from cross-currency swap transactions, entered into as part of the Group's policy to correlate as closely as possible the currency in which properties are acquired and the currency in which the liabilities are undertaken to finance the respective acquisitions of such properties are incurred (on a proportionately consolidated basis), and are presented at fair value. The balance of the financial derivatives is presented net of amounts received under agreements entered into with certain financial institutions in connection with the collateral with respect to the value of the financial derivatives (CSA agreement). As of June 30, 2019, the aforesaid balance of financial derivatives amounted to NIS 205 million, compared to NIS 83 million as of December 31, 2018. The increase is primarily due to the gain from the revaluation of the financial derivatives to their fair value in the reporting period, primarily from the strengthening of the NIS against the Euro, U.S. dollar and the Canadian dollar offset by proceeds due to CSA agreements.

**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS**

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**Investment property and investment property under development**

Investment property and investment property under development (including assets held for sale that are presented under current assets), as of June 30, 2019, amounted to NIS 37.8 billion, compared to NIS 38.7 billion as of December 31, 2018.

The decrease in these balances during the Reporting Period is primarily due to the change in foreign currency exchange rates (primarily the New Israeli Shekel against the Euro) in the net amount of NIS 1.5 billion, by the sale of none core investment property in consideration of NIS 0.4 billion and the fair value changes of investment property and investment property under development in the amount of NIS 173 million. The decrease was offset by the acquisition of rental properties, the development of new properties and the renovation of existing properties at a total cost of NIS 1.2 billion.

**Intangible assets, net**

Intangible assets, net, as of June 30, 2019, totaled NIS 691 million, compared to NIS 688 million as of December 31, 2018. The intangible assets primarily consist of goodwill in an amount of NIS 602 million relates to properties in Norway own by CTY.

**Current liabilities**

Current liabilities, as of June 30, 2019, totalled NIS 4.9 billion, compared to NIS 4.3 billion as of December 31, 2018. The balance mainly includes credit from banks and others and current maturities of long-term liabilities, in the amount of NIS 3.5 billion, compared to NIS 2.6 billion as of December 31, 2018.

**Non-current liabilities**

Non-current liabilities, as of June 30, 2019, totaled NIS 25.0 billion, compared to NIS 28.0 billion as of December 31, 2018. The decrease in non-current liabilities is primarily due to the decrease in debentures which were repaid during the Reporting Period, the increase in current maturities of debentures in accordance with its maturity dates as well as a decrease in Interest-bearing loans from banks and others that were repaid from the proceeds received from the sale of FCR shares

**Equity attributable to the equity holders of the Company**

Equity attributable to the equity holders of the Company, as of June 30, 2019, amounted to NIS 8,344 million, compared to NIS 9,301 million as of December 31, 2018. The decrease is due to a decrease in capital reserves in the amount of NIS 609 million, from buyback of shares in the amount of NIS 158 million, to the declared dividend of NIS 149 million and from loss attributed to the Company's shareholders in the amount of NIS 41 million.

The equity per share attributable to the equity holders of the Company as of June 30, 2019 totaled NIS 45.2 per share, compared to NIS 49.0 per share as of December 31, 2018, after a dividend distribution of NIS 0.81 per share during the Reporting Period.

**Non-controlling interests**

Non-controlling interests, as of June 30, 2019, amounted to NIS 7.2 billion, compared to NIS 7.7 billion as of December 31, 2018. The balance is primarily composed of the interests of CTY's other shareholders comprising 51.4% of CTY's equity as well as the interests of ATR's other shareholders comprising 39.9% of ATR's equity.

The decrease in non-controlling interests in the reporting period is primarily due to the portion of the non-controlling interests in the dividends distributed by the subsidiaries in an amount of NIS 0.2 billion and by the portion of other shareholders in the comprehensive loss of the subsidiaries in an amount of NIS 0.3 billion.

**Ratio of debt to total assets**

The ratio of the Group's net interest-bearing debt to its total assets is 55.1% as of June 30, 2019, compared to 55.3% as of December 31, 2018.

**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS****3.5 Results of Operations and their analysis****A. Results of operations are as follows:**

	Six months ended		Three months ended		Year ended
	June 30,		June 30,		December
	2019	2018	2019	2018	2018
	Unaudited				Audited
NIS in millions (except for net earnings (loss) per share data)					
Rental income	1,422	1,421	702	710	2,840
Property operating expenses	399	425	188	206	844
Net operating rental income	1,023	996	514	504	1,996
Fair value gain (loss) from investment property and investment property under development, net	(173)	(77)	(90)	(125)	114
General and administrative expenses	(182)	(187)	(90)	(92)	(375)
Other income	7	26	4	3	13
Other expenses	(364)	(61)	(131)	(19)	(126)
Company's share in earnings (loss) of equity-accounted investees, net	49	144	(8)	81	389
Operating income	360	841	199	352	2,011
Finance expenses	(535)	(1,331)	(358)	(353)	(2,262)
Finance income	533	101	89	181	140
Profit (loss) before taxes on income	358	(389)	(70)	180	(111)
Taxes on income (tax benefit)	261	(107)	(52)	67	(64)
Net income (loss)	97	(282)	(18)	113	(47)
Attributable to:					
Equity holders of the Company	(41)	(414)	(83)	72	(253)
Non-controlling interests	138	132	65	41	206
	97	(282)	(18)	113	(47)
<b>Net earnings (loss) per share attributable to equity holders of the Company (in NIS):</b>					
Total basic net earnings (loss)	(0.22)	(2.14)	(0.44)	0.37	(1.31)
Total diluted net earnings (loss)	(0.22)	(2.14)	(0.45)	0.37	(1.32)

**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS****The statement of comprehensive income is as follows:**

	<u>Six months ended</u>		<u>Three months ended</u>		<u>Year ended</u>
	<u>June 30,</u>		<u>June 30,</u>		<u>December</u>
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>31,</u>
	<u>Unaudited</u>				<u>Audited</u>
	<u>NIS in millions</u>				
Net income (loss)	97	(282)	(18)	113	(47)
Other comprehensive income (loss) (net of tax effect):					
<u>Amounts that will not be reclassified subsequently to profit or loss:</u>					
Net gains (losses) on financial assets	57	(35)	54	(25)	(56)
<u>Amounts that will be or that have been reclassified subsequently to profit or loss:</u>					
Exchange differences on translation of foreign operations	(1,110)	108	(126)	(531)	189
Net gains (losses) on cash flow hedges	(52)	10	(23)	(8)	(10)
Realization of capital reserves on sale of an associate	73	-	73	-	-
Total other comprehensive income (loss)	(1,032)	83	(22)	(564)	123
Total comprehensive income (loss)	(935)	(199)	(40)	(451)	76
Attributable to:					
Equity holders of the Company	(656)	(543)	(44)	(369)	(338)
Non-controlling interests	(279)	344	4	(82)	414
	(935)	(199)	(40)	(451)	76

**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS**

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**B. Analysis of Results of Operations for the Reporting Period****Rental income**

Rental income increased by 0.1% to NIS 1,422 million in the Reporting Period, compared to NIS 1,421 million in the comparable period in the prior year.

Excluding the change in the average exchange rate during the aforesaid periods, rental income in the Reporting Period increased by 4.1% as compared to the corresponding period last year. The increase is due mainly to development properties coming on line, new acquisitions during the prior 12-month period and the increase in same-property income. The aforesaid increase was offset due to the sale of non-core properties in the prior 12-month period.

**Property operating expenses**

Property operating expenses totalled NIS 399 million in the Reporting Period, representing 28.1% of total rental income, compared to NIS 425 million, representing 29.9% of total rental income, in the comparable period in the prior year.

**Net operating rental income (NOI)**

Net operating rental income increased by 2.7% to NIS 1,023 million in the Reporting Period (71.9% of rental income), compared to NIS 996 million (70.1% of rental income) in the comparable period in the prior year. The increase is due to development properties coming on line, new acquisitions during the prior 12-month period, and growth in NOI from same properties in the Reporting Period compared to the comparable period in the prior year. The aforesaid increase was offset by the disposition of non-core properties during the prior 12-month period and the devaluation in the average exchange rate of the euro.

Excluding the change in the average exchange rates in the aforesaid periods, the net operating rental income in the Reporting Period increased by 6.9%, compared with the same period in the prior year.

**Fair value gain (loss) from investment property and investment property under development, net**

The Group applies the fair value model, as prescribed in IAS 40 (Revised), *Investment Property*. As a result of implementing this standard, the Group recognized, in the Reporting Period, a fair value loss on its properties in a gross amount of NIS 173 million, compared to a loss of NIS 77 million, in the comparable period in the prior year. Most of the fair value loss in the Reporting Period arose at CTY.

**General and administrative expenses**

General and administrative expenses totalled NIS 182 million (12.8% of total revenues), in the Reporting Period, compared to NIS 187 million (13.2% of total revenues) in the comparable period in the prior year.

**Other expenses**

Other expenses in the Reporting Period amounted to NIS 364 million, compared with NIS 61 million in the comparable period in the prior year. Other expenses in the Reporting period were due mainly to a capital loss of NIS 272 million in respect of the sale of FCR shares at a price lower than its shareholders' equity as well as the balance of the remaining FCR shares, which upon the sale completion the share price was lower than its shareholders' equity, and the loss from realization of capital reserves (mainly currency translation reserve) in the amount of NIS 73 million.

**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS**

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**Company's share in earnings of equity-accounted investees, net**

In the Reporting Period, the Company's share in earnings of equity-accounted investees amounted to NIS 49 million (compared to earnings of NIS 144 million recorded in the comparable period in the prior year) and is primarily comprised of the Company's share in FCR's earnings until April 2019 (in which most of FCR shares were sold, refer to Note 3b2) of NIS 47 million (compared to NIS 144 million in the comparable period in the prior year) and the Group's share in the earnings of CTY's, ATR's and Gazit Horizons' equity-accounted investees. The decrease in the Company's share in the earnings of equity-accounted investees is mainly due to sale of most of FCR's holdings in April 2019.

**Finance expenses**

Finance expenses amounted to NIS 535 million in the Reporting Period, compared to NIS 1,331 million in the comparable period in the prior year. The decrease in the finance expenses in the Reporting Period, compared to the corresponding Reporting Period in the prior year, is primarily due to the revaluation loss of investment in REG in the amount of NIS 610 million in the corresponding Reporting Period in prior year, from the revaluation loss of financial derivatives in the corresponding Reporting Period in prior year in the amount of NIS 138 million in the Reporting Period and a decrease in interest expenses in the amount of NIS 88 million, as a result of the refinancing of debt at a lower interest rate than the debt that was repaid.

The average interest on the Company's interest bearing liabilities (on expanded solo basis) is 3.97% compared to 4.25% in the corresponding quarter in the prior year.

**Finance income**

Finance income totaled NIS 533 million in the Reporting Period, compared to NIS 101 million in the comparable period in the prior year. Finance income in the Reporting Period primarily comprises a gain of NIS 450 million on the revaluation of financial derivatives compared to a revaluation loss recorded in finance expenses in the comparable period in the prior year, income from the gain on realization of securities and dividend in the Reporting Period of NIS 48 million, (compared to income of NIS 66 million in the comparable period in the prior year) and interest income of NIS 31 million (compared to interest income of NIS 32 million in the comparable period in the prior year).

**Taxes on income (tax benefit)**

Taxes expenses totaled NIS 261 million in the Reporting Period, compared to tax income of NIS 107 million in the same period in the prior year. Tax expenses in the Reporting Period consists primarily of deferred tax expenses in the amount of NIS 60 million relating primarily to deferred taxes relates to FCR shares held by the Company and presented as a financial asset and the net changes in the balances of the temporary differences between the tax base and the fair value of investment property and investment property under development, including due to the disposal of properties (in the comparable period in the prior year – net deferred tax income of NIS 364 million relating primarily to the sale of REG shares and a decrease in REG share price). In the Reporting Period, Group companies recorded current tax expenses of NIS 214 million (approximately NIS 182 million relating to the sale of FCR shares), as compared to current tax expenses of NIS 294 million (due mainly to the sale of shares in REG) in the comparable period in prior year. In addition, in the Reporting Period, tax income of NIS 18 million were recognized with respect to prior years, as compared to tax income of NIS 37 million with respect to prior years recognized in the comparable period last year.

**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS**

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**C. Analysis of results of operations for the second quarter of 2019****Rental income**

Rental income decreased by 1.1% to NIS 702 million in the Quarter, compared with NIS 710 million in the corresponding quarter last year. The decrease is due to a decline in the average exchange rate of the Euro against the NIS and the sale of property in the last 12 months. The decrease was offset from development properties coming on line, by new acquisitions during the prior 12-month period and by growth in income from same properties in the Quarter compared to the comparable quarter in the prior year.

Excluding the average exchange rates of the foregoing periods, the rental income in the Quarter increased by 4.1% compared with the corresponding quarter last year.

**Property operating expenses**

Property operating expenses totaled NIS 188 million in the Quarter, representing 26.8% of total rental income, compared with NIS 206 million, representing 29.0% of total rental income, in the corresponding quarter last year.

**Net operating rental income (NOI)**

Net operating rental income rose by 2.0% to NIS 514 million in the Quarter (73.2% of total rental income), compared with NIS 504 million (71.0% of rental income) in the corresponding quarter last year. The changes in net operating income from rental property are due to the same reasons described in the Rental Income section above.

Excluding the average exchange rates of the foregoing periods, the net operating rental income in the Quarter increased by 7.3% compared with the corresponding quarter last year.

**Fair value gain (loss) from investment property and investment property under development, net**

The Group applies the fair value model, as prescribed in IAS 40 (Revised), *Investment Property*. As a result of implementing this standard, the Company and its subsidiaries recognized in the Quarter a fair value loss on its properties in a gross amount of NIS 90 million, compared to value loss of NIS 125 million in the corresponding quarter in the prior year. The fair value loss relates mainly to CTY.

**General and administrative expenses**

General and administrative expenses totaled NIS 90 million (12.8% of total revenues) in the Quarter, compared to NIS 92 million (13.0% of total revenues) in the corresponding quarter in the prior year.

**Other expenses**

Other expenses in the Quarter amounted to NIS 131 million, compared with NIS 19 million in the corresponding quarter in the prior year. Other expenses in the quarter were due mainly to a loss of NIS 73 million, from realization of capital reserves, mainly currency translation reserve of foreign activities that were previously accrued at other comprehensive loss following the sale of FCR shares.

**Company's share in earnings of equity-accounted investees, net**

In the Quarter, the Company's share in loss of equity-accounted investees amounted to NIS 8 million (compared to earnings of NIS 81 million recorded in the corresponding quarter in the prior year) and is primarily comprised of the Group's share in the net earnings of CTY, Gazit Horizons and ATR. In the corresponding quarter last year, the Company's share in earnings of equity-accounted investees included the Company's share in FCR's earnings in the amount of NIS 79 million.



**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS**

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**Finance expenses**

Finance expenses amounted to NIS 358 million in the Quarter, compared to NIS 353 million in the comparable quarter in the prior year. The increase in the finance expenses is due to the CPI linkage expenses which increased by 1.5% in the quarter compared to an increase of 1.2% in the corresponding quarter last year offset by decrease in interest expenses in the amount of about NIS 38 million, as a result of the refinancing of debt at a lower interest rate than the debt that was repaid and the decrease in the interest bearing debt.

**Finance income**

Finance income totaled NIS 89 million in the Quarter, compared to NIS 181 in the corresponding quarter in the prior year. Finance income in the Quarter primarily comprises gain of NIS 60 million on revaluation of financial derivatives (revaluation gain on financial derivatives in the corresponding quarter last year of NIS 66 million), gain of NIS 9 million on the realization and revaluation of securities dividend (income of NIS 103 million in the corresponding quarter in the prior year) and interest income of NIS 20 million (income of NIS 12 million in the corresponding quarter in the prior year).

**Taxes on income (tax benefit)**

Tax income totaled NIS 52 million in the Quarter, compared with tax expenses of NIS 67 million in the corresponding quarter last year. Tax income in the Quarter comprises primarily deferred tax income of NIS 223 million, arising mainly from the sale of FCR shares as well as the net changes in the temporary differences between the tax base and the fair value of investment property and investment property under development, including due to the disposition of properties (in the corresponding quarter last year – net deferred tax income of NIS 87 million arising primarily from the sale of REG shares). In the Quarter, the Company and its subsidiaries recorded current tax expenses in an amount of NIS 177 million arising mainly from the sale of FCR shares, compared with current tax expense of NIS 171 million (NIS 154 million in respect of the sale of REG shares) in the corresponding quarter last year. In addition, tax income of NIS 11 million was recognized in the Quarter with respect to prior years compared with tax income in respect of prior years of NIS 17 million in the corresponding quarter last year.

**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS**

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**3.6. Liquidity and Capital Resources**

The Company and its subsidiaries have a policy of maintaining an adequate level of liquidity that enables the pursuit of business opportunities in its activities, as well as flexibility in accessibility to sources of finance.

The sources of the Company and its subsidiaries liquidity are the cash generated from its income-producing properties, issuing of debentures, equity, credit facilities, mortgages and long-term loans, which is used primarily for the acquisition, development and redevelopment of income-producing properties, the settlement of liabilities, investments in investees and other investments.

The liquid assets available to the Company and its subsidiaries, including short-term investments, totaled NIS 2.1 billion as of June 30, 2019. In addition, as of June 30, 2019, the Company and its subsidiaries have binding undrawn long-term credit facilities<sup>1</sup> available for immediate drawdown of NIS 5.6 billion.

**As of June 30, 2019, the Company and its subsidiaries have liquidity, including undrawn credit facilities<sup>1</sup> available for immediate drawdown, of NIS 7.7 billion (of which NIS 4.5 billion, including cash and cash equivalents of NIS 1.3 billion and securities and short-term deposits in the amount of NIS 0.6 billion, is at the Company and its' wholly – owned subsidiaries).**

Furthermore, as of June 30, 2019, the Company and its subsidiaries have unencumbered investment property and investment property under development, which is carried on the books at a fair value of NIS 32.6 billion (85.6% of the total investment property and investment property under development).

**The Company and its wholly owned subsidiaries have unencumbered investment property and investment property under development that is carried in the books at a value of NIS 6.7 billion (78% of total investment property and investment property under development).**

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<sup>1</sup> Signed credit lines with financial institutions pursuant to which these institutions are obligated to provide the Group with the aforesaid credit, subject to complying with the terms prescribed in the agreements, and with respect to which the Group companies pay various commissions, including commitment fees.

**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS**

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**3.7. Cash flows**

Cash flows generate from (used in) operating activities in the Reporting Period and in the Quarter totalled NIS 336 million and NIS 142 million, respectively, compared to NIS 186 million and NIS (59) million, respectively, in the comparable periods in the prior year.

During the Reporting Period, the activities of the Company and its subsidiaries were funded from the realization of FCR shares in the amount of NIS 2,839 million. The proceeds from these sources were primarily used for the acquisition of investment property and the development of new properties in a net amount of NIS 814 million, for investment in finance assets in the amount of NIS 718 million, for the redemption of debentures in a net amount of NIS 651 million, for repayment of loans and credit lines in a net amount of NIS 434 million, for the payment of dividends by Group companies in a net amount of NIS 426 million and the buyback of the Company's shares in an amount of NIS 158 million.

During the Quarter, the activities of the Company and its subsidiaries were funded from the realization of FCR shares in the amount of NIS 2,839 million. The proceeds from these sources were primarily used for the acquisition of investment property and the development of new properties in a net amount of NIS 434 million, for repayment of loans and credit lines in a net amount of NIS 1,331 million, for the redemption of debentures in a net amount of NIS 46 million, for the payment of dividends by Group companies in a net amount of NIS 249 million and for the buyback of the Company's shares in an amount of NIS 79 million.

**Repurchase Program**

- A.** On March 17, 2019, the Company's Board of Directors approved a buyback program for the Company's debentures (in place of the previous program) with a par value of up to NIS 750 million, in relation to all the outstanding series of debentures. The program is in effect until March 31, 2020. Purchases will be made under the program from time to time and at the discretion of the Company's Management. To the date of publication of the report, the Company has repurchased debentures in consideration of NIS 51 million under the program.
  
- B.** On January 11, 2019, the Company's Board of Directors approved a buyback program for the Company's shares (in place of the previous plan) in an amount of up to NIS 250 million. The program is in effect until December 31, 2019. Acquisitions will be made under the program from time to time, at the discretion of the Company's management, so long as the stock exchange price of the share reflects a significant discount on the Company's NAV, as shall be from time to time. Up to the publication date of this report, the Company acquired 1.6 million shares, in consideration of NIS 46 million, under the program (excluding the shares which acquired through the tender offer, refer to Note 3b3 to the financial statements).

**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS**

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**4. Exposure to Market Risks and their Management**

- 4.1.** The officers responsible for managing and reporting the Company's market risks are the Company's CEO and its Deputy CEO and CFO. The Group operates globally and is consequently exposed to currency risks resulting from fluctuations in exchange rates of various currencies (primarily the U.S. dollar, the euro and the Brazilian real). Since March 17, 2019, the approval date of the Company's annual report for 2017, there has not been any material changes in the management or nature of the market risks to which the Company is exposed.
- 4.2.** During the period from January 1, 2019 through the date on which the financial statements were approved, the CEO and Executive Vice President and CFO have held and continue to hold regular discussions concerning the exposure to market risks, including changes in exchange rates and interest rates. Furthermore, during such period, the Company's Board of Directors discussed such risks and the Company's policy with respect thereto in the meetings in which the financial statements as of December 31, 2018 March 31, 2019 and June 30, 2019 were approved.
- 4.3.** Changes in foreign currency exchange rates – during the period from January 1, 2019 through June 30, 2019, the NIS appreciated against the Euro, the U.S. dollar and the Brazilian real by 5.4%, by 4.9% and 3.7%, respectively. With regard to the impact of exchange rate changes on the Company's equity, as of June 30, 2019, refer to Appendix A of the Directors' Report. In addition, from June 30, 2019 until immediately prior to the date of approval of this report, the NIS appreciated against the Euro, the Brazilian real and the U.S. dollar by 3.1%, 0.7% and by 0.6%, respectively.

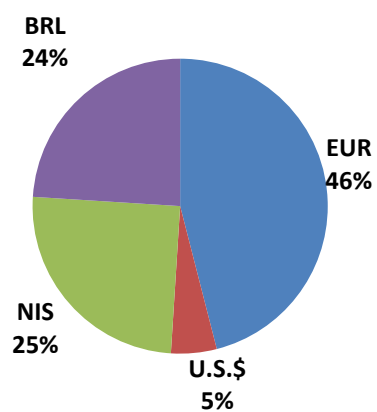
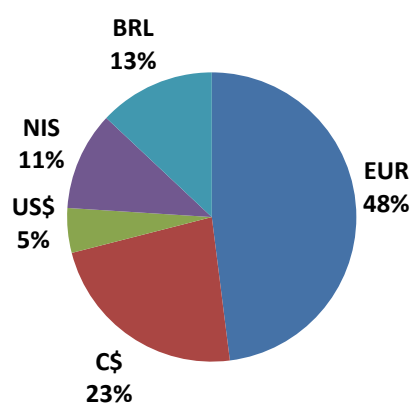
In addition, some of the Company's liabilities (primarily with respect to operations in Israel) are linked to changes in the Israeli consumer price index. During the period from January 1, 2019 through June 30, 2019, the Israeli consumer price index (known index) rose by 1.2%. In addition, from March 31, 2019 until immediately prior to the date of approval of this report, the Israeli consumer price index (known index) fell by 0.9%

- 4.4.** The Company maintains a correlation between the mix of its properties in the various functional currencies and the exposure of its equity to those currencies, by conducting hedging transactions to manage the currency exposure. However, in view of a change in the group's asset mix and an increase in exposure to the euro, during the reporting period, the Company's Board of Directors decided to make additional hedges to the euro exposure in such a way that the exposed equity ratio to the euro will be up to 50% of the assets exposed to the euro. Management regularly evaluates the linkage bases report and takes appropriate action in accordance with exchange rate fluctuations. For details regarding the scope of the Company's exposure to each of the functional currencies (the euro, the U.S. dollar, the Canadian dollar, the NIS and the Brazilian real), with respect to which linkage basis and cross-currency swaps have been transacted and loans taken in the various currencies, and regarding the scope of the remaining exposure after transacting cross-currency swaps, as of June 30, 2019, refer to the table attached as Appendix A of the Directors' Report.

**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS**

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The economic equity attributable to equity holders of the Company to exposure by currency, as of June 30, 2019<sup>1</sup> and December 31, 2018, is presented below:

**June 30, 2019****December 31, 2018**

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<sup>1</sup> Refer also to Appendix A of the Directors' Report.

**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS****5. Corporate Governance Aspects****Donations**

The Group has undertaken to assist the communities in which it operates in accordance with the donation policy approved by the Company's Management. During the Reporting Period, the Group made donations to a variety of projects in the areas of education, culture, welfare, and health in the various countries in which the Company operates.

- A. The majority of the Group's donations in the Quarter was directed to the field of education for the benefit of the "Supporting the South" initiative, which was established by the Company six years ago. Within the framework of the initiative, the Company supports the educational systems of periphery towns in the Negev, including providing support to elementary and high schools, as well as to several nursery schools and preschool centers.
- B. Communal involvement – the Group supports a variety of volunteer organizations in the fields of welfare, health and culture.

**During the Reporting Period, the Group's donations amounted to NIS 3.3 million.**

**6. Disclosure Regarding the Financial Reporting of the Company****Subsequent events**

- A. For details regarding the Company's agreement to purchase minority shares in ATR, subsequent to the Reporting Date, refer to Note 5a to the financial statements.
- B. On July 25, 2019, the S&P Maalot rating agency reaffirmed the issuer rating and the credit rating of all the outstanding series of debentures of the Company, which are not secured by a pledge, at a rating level of 'iIAA-', with a stable outlook, and the credit rating of the Company's debentures (series J), which is secured by a pledge, at a rating of 'iIAA' with a stable outlook. In addition, the S&P Maalot rating agency reaffirmed the short term issuer rating and the Company's commercial papers rating at a rating level of 'iIA-1+'.
- C. On July 18, 2019, Midroog rating agency reaffirmed the short term rating for the Company's commercial papers at a rating level of 'P-1.il'.

**7. Details Concerning the Company's Publicly-Held Debt Certificates****A. Collateral for Debentures (Series J)**

The Company's commitments pursuant to the debentures (Series J) are secured by a first fixed charge on the rights relating to properties, as set out in section 1.5.2 of the Company's shelf prospectus published on May 28, 2018 (reference no. 2018-01-043740), with the information contained therein being hereby presented by means of this reference. The value of the foregoing pledged property as of December 31, 2018 is NIS 300.5 million. No material change has occurred in the value of the pledged property as of June 30 2019 compared to its value as of December 31, 2018.

- B. The principal covenants attaching to the debentures (Series M) of the Company are as follows:

<u>Financial ratio</u>	<u>Covenants</u>	<u>As of June 30, 2019</u>
Minimum shareholders' equity (less non-controlling interests) (dollars in millions)	Higher than 800	2,340
Ratio of net interest-bearing liabilities to total consolidated assets	lower than 75%	55.1%
And		
Minimum rating of the debentures	'iIBaa3'/'iIBBB-'	'iIAa3'/'iIAA'-

As of June 30, 2019, the Company complied with the covenants in respect of debentures (Series M).

August 20, 2019

\_\_\_\_\_  
Date of Approval  
of Directors' Report

\_\_\_\_\_  
Ehud Arnon  
Chairman of the Board of  
Directors

\_\_\_\_\_  
Chaim Katzman  
Vice Chairman of the Board of  
Directors and CEO

**DIRECTORS' REPORT ON THE COMPANY'S BUSINESS**

**Appendix A of the Directors' Report**  
**Additional Information regarding Currency Exposure**  
**As of June 30, 2019**

The information below sets forth the scope of the Company's currency exposure (the euro, the U.S. dollar, the Canadian dollar, the NIS and the Brazilian real) in connection with the cross-currency swaps which have been transacted, and the scope of the exposure remaining after taking into account the cross-currency swaps, as of June 30, 2019. The following table presents the assets and the liabilities presented in the Company's statement of financial position (in the original currency and in NIS<sup>1</sup>) and the percentages they represent out of the total assets and liabilities, respectively, on a proportionately consolidated basis<sup>2</sup>, and the total financial adjustments made by the Company by means of cross-currency swap transactions, in order to correlate, to the extent possible, the Company's equity to the Company's assets (from a currency perspective). As illustrated by the table, the assets and liabilities for each currency do not fully correlate, and the exposure to each such currency is reflected in the differences, as presented in the table.

<b>Data presented in millions</b>	<b>NIS</b>	<b>U.S.\$</b>	<b>EUR</b>	<b>C\$</b>	<b>BRL</b>	<b>Total in NIS</b>
Assets in original currency	3,354	826	4,230	547	3,279	-
Assets in NIS	3,354	2,944	17,182	1,491	3,038	28,009
<b>% of total assets</b>	<b>12</b>	<b>11</b>	<b>61</b>	<b>5</b>	<b>11</b>	<b>100</b>
Liabilities in original currency	9,557	463	1,987	-	-	-
Cross-currency swap transactions in original currency	(8,538)	241	1,158	553	775	-
Liabilities in original currency	1,019	704	3,145	553	775	-
Liabilities in NIS adjusted for swaps	1,019	2,510	12,774	1,506	718	18,527
<b>% of total liabilities</b>	<b>5</b>	<b>14</b>	<b>69</b>	<b>8</b>	<b>4</b>	<b>100</b>
Total equity in original currency	2,335	122	1,085	(6)	2,504	-
Total economic equity <sup>3</sup> in NIS	2,335	434	4,408	(15)	2,320	9,482
<b>% of total equity</b>	<b>25</b>	<b>5</b>	<b>46</b>	<b>-</b>	<b>24</b>	<b>100</b>

1 According to currency exchange rates as of June 30, 2019.

2 The Company's statement of financial position presented on a proportionately consolidated basis has not been prepared in conformance with generally accepted accounting principles, but rather according to the Company's interest in each of the investees at the stated date.

3 Represents the equity attributable to the equity holders of the Company after excluding the provision for deferred taxes with respect to revaluation of investment property.

**UPDATE TO THE DESCRIPTION OF THE COMPANY'S BUSINESS FOR THE 2018 PERIODIC  
REPORT OF GAZIT-GLOBE LTD. (the "Company")**

Pursuant to Regulation 39A of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970, details are presented below concerning material changes and developments that have taken place in the Company's business since the publication of the Company's Periodic Report for 2018 (the "Periodic Report"), for each matter required to be described in the Periodic Report.

**Update to Section 1 – The Company's operations and its business development**

On February 13, 2019, the Company resolved to delist its shares from the New York Stock Exchange and terminate its obligation to report under the Securities Exchange Act of 1934. The required documentation for the delisting was filed with the SEC. The delisting and termination of reporting is effective from March 7, 2019. The deregistration of the Company's shares will be effective 90 days after the delisting subject to the right of the SEC to stop the cancellation of the registration, of the Company does not meet the conditions requires by law and to instruct the company to continue submitting the reports as a reporting corporation under this law.

**Update to Section 2 – Investment in the company's capital and transactions in its shares in the last two year**

- A. As of January 1, 2019 and up to the publication date of this report, the Company issued 153,519 shares to officers of the Company, employees of the Company and employees of its wholly owned subsidiaries, as a result of the vesting of convertible securities allocated to them as part of their employment conditions.
- B. For details regarding the repurchase of 5.6 million shares of the Company (including through a tender offer), in consideration of NIS 158 million, refer to Note 3b3 to the financial statements.

**Update to Section 3 – Dividend distributions in the last two years**

- A. On April 16, 2019, the Company distributed a dividend to its shareholders in an amount of NIS 75 million (NIS 0.405 per share).
- B. On June 13, 2019, the Company distributed a dividend to its shareholders in an amount of NIS 75 million (NIS 0.405 per share).
- C. For details regarding a dividend declared by the Company after the Reporting Date, refer to Note 5b to the financial statements.

**Update to Section 7 – Acquisition, development and operation of shopping centers in Central and Eastern Europe**

For details regarding the Company's agreement to purchase the minority shares in ATR, subsequent to the Reporting Date, refer to Note 5a to the financial statements.

**Update to Section 8 – Acquisition, development and operation of shopping centers in Canada**

For details regarding the sale of 58 million FCR shares for total consideration of NIS 3.2 billion, refer to Note 3b2 to the financial statements.

**Update to Section 18 – Financing**

- A. From the beginning of the year until the reports approval, the Company repurchased debentures (series D and K) with a par value of NIS 51 million with no material effect on the books. The debentures were cancelled and delisted.
- B. On July 25, 2019, the S&P Maalot rating agency reaffirmed the issuer rating and the credit rating of all the outstanding series of debentures of the Company, which are not secured by a pledge, at a rating level of '1AA-', with a stable outlook, and the credit rating of the Company's debentures (series J), which is secured by a pledge, at a rating of '1AA' with a stable outlook. In addition, the S&P Maalot rating agency reaffirmed the short term issuer rating and the Company's commercial papers rating at a rating level of '1A-1+'.
- C. On July 18, 2019, Midroog rating agency reaffirmed the short term rating for the Company's commercial papers at a rating level of 'P-1.il'.



**UPDATE TO THE DESCRIPTION OF THE COMPANY'S BUSINESS****Disclosure Concerning Highly Material Properties Pursuant to Chapter F of the Disclosure Guideline Regarding Investment Property Activity****G Two**

	<b>Second Quarter 2019</b>	<b>First Quarter 2019</b>	<b>2018</b>
Value of property (NIS in 000's)	300,500	300,500	300,500
NOI in the period (NIS in 000's)	5,362	5,141	21,118
Revaluation gains (losses) in the period (NIS in 000's)	-	-	7,000
Average occupancy rate in the period	100%	%100	%100
Actual rate of return (%)	6.9%	%6.8	%7.0
Average annual rental per sq. meter (NIS)	902	881	891
Average annual rental per sq. meter in leases signed in the period (NIS)	N/R	N/R	N/R

**GAZIT-GLOBE LTD.**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**As of June 30, 2019**

**Unaudited**

**TABLE OF CONTENTS**

	<u>Page</u>
Auditors' Review Report	35
Condensed Consolidated Statements of Financial Position	36
Condensed Consolidated Statements of Income	38
Condensed Consolidated Statements of Comprehensive Income	39
Condensed Consolidated Statements of Changes in Equity	40
Condensed Consolidated Statements of Cash Flows	45
Notes to Condensed Consolidated Interim Financial Statements	48

## **AUDITORS' REVIEW REPORT TO THE SHAREHOLDERS OF GAZIT-GLOBE LTD.**

### **Introduction**

We have reviewed the accompanying financial information of Gazit-Globe Ltd. and its subsidiaries ("the Group"), which comprises the condensed consolidated statement of financial position as of June 30, 2019 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the periods of six and three months then ended. The Company's board of directors and management are responsible for the preparation and presentation of interim financial information for these periods in accordance with IAS 34, "Interim Financial Reporting" and are responsible for the preparation of this interim financial information in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of a certain subsidiary, whose assets constitute approximately 30% of total consolidated assets as of June 30, 2019, and whose revenues constitute approximately 36% and 36% of total consolidated revenues for the periods of six and three months then ended, respectively. The condensed interim financial information of this company was reviewed by other auditors, whose review report has been furnished to us, and our conclusion, insofar as it relates to the financial information in respect of this company, is based on the review report of the other auditors.

### **Scope of review**

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel, "Review of Interim Financial 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 and the review report of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

In addition to the abovementioned, based on our review and the review report of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Tel-Aviv, Israel  
August 20, 2019

**KOST FORER GABBAY & KASIERER**  
A Member of Ernst & Young Global

**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	<u>June 30,</u>		<u>December 31,</u>
	<u>2019</u>	<u>2018</u>	<u>2018</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>NIS in millions</u>		
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	1,468	1,555	1,583
Short-term investments and loans	172	535	241
Financial assets	502	2,049	210
Financial derivatives	208	178	194
Trade receivables	157	130	149
Other accounts receivable	728	292	335
Current taxes receivable	10	16	13
	<u>3,245</u>	<u>4,755</u>	<u>2,725</u>
Assets classified as held for sale	<u>2,043</u>	<u>478</u>	<u>1,067</u>
	<u>5,288</u>	<u>5,233</u>	<u>3,792</u>
<b>NON-CURRENT ASSETS</b>			
Equity-accounted investees	1,661	6,587	6,498
Other investments, loans and receivables	56	208	97
Financial assets	1,496	219	208
Financial derivatives	205	215	83
Investment property	33,870	33,555	35,672
Investment property under development	1,849	2,132	1,965
Fixed assets, net	209	142	169
Intangible assets, net	691	720	688
Deferred taxes	46	26	42
	<u>40,083</u>	<u>43,804</u>	<u>45,422</u>
	<u>45,371</u>	<u>49,037</u>	<u>49,214</u>

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	<u>June 30,</u>		<u>December 31,</u>
	<u>2019</u>	<u>2018</u>	<u>2018</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>NIS in millions</u>		
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Credit from banks and others	1,250	562	1,273
Current maturities of non-current liabilities	2,286	2,757	1,295
Financial derivatives	91	233	228
Trade payables	75	77	112
Other accounts payable	817	951	902
Current taxes payable	304	320	434
	<u>4,823</u>	<u>4,900</u>	<u>4,244</u>
Liabilities attributable to assets held for sale	80	16	32
	<u>4,903</u>	<u>4,916</u>	<u>4,276</u>
<b>NON-CURRENT LIABILITIES</b>			
Debentures	18,073	20,417	20,653
Interest-bearing loans from banks and others	4,268	3,876	4,885
Financial derivatives	82	18	60
Other liabilities	552	253	311
Deferred taxes	1,979	2,311	2,072
	<u>24,954</u>	<u>26,875</u>	<u>27,981</u>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>			
Share capital	242	246	244
Share premium	4,794	4,916	4,860
Retained earnings	5,197	5,371	5,387
Foreign currency translation reserve	(2,474)	(1,861)	(1,827)
Other reserves	730	629	694
Treasury shares	(145)	(49)	(57)
	<u>8,344</u>	<u>9,252</u>	<u>9,301</u>
Non-controlling interests	7,170	7,994	7,656
	<u>15,514</u>	<u>17,246</u>	<u>16,957</u>
Total equity	<u>45,371</u>	<u>49,037</u>	<u>49,214</u>

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

August 20, 2019			
Date of approval of the financial statements	Ehud Arnon Chairman of the Board	Chaim Katzman CEO and Vice Chairman of the Board	Adi Jemini Executive Vice President and CFO

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

	Six months ended		Three months		Year ended
	June 30,		ended		
	2019	2018	2019	2018	2018
	Unaudited				Audited
	NIS in millions (except for per share data)				
Rental income	1,422	1,421	702	710	2,840
Property operating expenses	399	425	188	206	844
Net operating rental income	1,023	996	514	504	1,996
Fair value gain (loss) from investment property and investment property under development, net	(173)	(77)	(90)	(125)	114
General and administrative expenses	(182)	(187)	(90)	(92)	(375)
Other income	7	26	4	3	13
Other expenses	(364)	(61)	(131)	(19)	(126)
Company's share in earnings (losses) of equity-accounted investees, net	49	144	(8)	81	389
Operating income	360	841	199	352	2,011
Finance expenses	(535)	(1,331)	(358)	(353)	(2,262)
Finance income	533	101	89	181	140
Income (loss) before taxes on income	358	(389)	(70)	180	(111)
Taxes on income (tax benefit)	261	(107)	(52)	67	(64)
Net income (loss)	97	(282)	(18)	113	(47)
Attributable to:					
Equity holders of the Company	(41)	(414)	(83)	72	(253)
Non-controlling interests	138	132	65	41	206
	97	(282)	(18)	113	(47)
Net earnings (loss) per share attributable to equity holders of the Company (NIS):					
Total basic net earnings (loss)	(0.22)	(2.14)	(0.44)	0.37	(1.31)
Total diluted net earnings (loss)	(0.22)	(2.14)	(0.45)	0.37	(1.32)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2019	2018	2019	2018	2018
	Unaudited				Audited
	NIS in millions				
Net income (loss)	97	(282)	(18)	113	(47)
Other comprehensive income (loss) (net of tax effect):					
<u>Amounts that will not be reclassified subsequently to profit or loss:</u>					
Net gains (losses) on financial assets at fair value through other comprehensive income	57	(35)	54	(25)	(56)
<u>Amounts that will be or that have been reclassified subsequently to profit or loss:</u>					
Exchange differences on translation of foreign operations	(1,110)	108	(126)	(531)	189
Net gains (losses) on cash flow hedges	(52)	10	(23)	(8)	(10)
Realization of capital reserves on sale of an associate	73	-	73	-	-
Total other comprehensive income (loss)	(1,032)	83	(22)	(564)	123
Comprehensive income (loss)	(935)	(199)	(40)	(451)	76
Attributable to:					
Equity holders of the Company (1)	(656)	(543)	(44)	(369)	(338)
Non-controlling interests	(279)	344	4	(82)	414
	(935)	(199)	(40)	(451)	76
(1) Breakdown of total comprehensive income (loss) attributable to equity holders of the Company:					
Net income (loss)	(41)	(414)	(83)	72	(253)
Exchange differences on translation of foreign operations	(713)	(104)	(76)	(412)	(31)
Net gains (losses) on cash flow hedges	(33)	4	(14)	(5)	(9)
Net gains (losses) on financial assets at fair value through other comprehensive income	58	(29)	56	(24)	(45)
Realization of capital reserves on sale of an associate	73	-	73	-	-
	(656)	(543)	(44)	(369)	(338)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Equity attributable to equity holders of the Company								
	Share capital	Share premium	Retained earnings	Foreign currency translation reserve	Other reserves	Treasury shares	Total	Non-controlling interests	Total equity
	Unaudited NIS in millions								
<u>Balance as of December 31, 2018 (audited)</u>	244	4,860	5,387	(1,827)	694	(57)	9,301	7,656	16,957
Net income (loss)	-	-	(41)	-	-	-	(41)	138	97
Other comprehensive income (loss)	-	-	-	(645)	30	-	(615)	(417)	(1,032)
Total comprehensive income (loss)	-	-	(41)	(645)	30	-	(656)	(279)	(935)
Exercise of Company's share options into Company shares	*) -	2	-	-	(2)	-	*) -	-	*) -
Purchase of treasury shares	-	-	-	-	-	(158)	(158)	-	(158)
Cancellation of treasury shares	(2)	(68)	-	-	-	70	-	-	-
Cost of share-based payment	-	-	-	-	4	-	4	2	6
Dividend declared (**)	-	-	(149)	-	-	-	(149)	-	(149)
Capital issuance to non-controlling interests	-	-	-	-	(1)	-	(1)	2	1
Acquisition of non-controlling interests	-	-	-	(2)	5	-	3	(8)	(5)
Dividend to non-controlling interests	-	-	-	-	-	-	-	(203)	(203)
<u>Balance as of June 30, 2019</u>	<u>242</u>	<u>4,794</u>	<u>5,197</u>	<u>(2,474)</u>	<u>730</u>	<u>(145)</u>	<u>8,344</u>	<u>7,170</u>	<u>15,514</u>

\*) Represents an amount of less than NIS 1 million.

\*\*) In the six months ended in June 30, 2019, the Company declared a dividend in the amount of NIS 0.81 per share (in a total amount of NIS 149.3 million), out of which NIS 74.7 million (NIS 0.405 per share) was paid on April 16, 2019 and NIS 74.6 million (NIS 0.405 per share) was paid on June 13, 2019.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.



**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Equity attributable to equity holders of the Company								
	Share capital	Share premium	Retained earnings	Foreign currency translation reserve	Other reserves	Treasury shares	Total	Non-controlling interests	Total equity
	Unaudited NIS in millions								
<u>Balance as of December 31, 2017 (audited)</u>	246	4,914	5,919	(1,722)	581	(2)	9,936	8,181	18,117
Cumulative effect of first time adoption of IFRS 9	-	-	13	-	(13)	-	-	-	-
Balance as of January 1, 2018	246	4,914	5,932	(1,722)	568	(2)	9,936	8,181	18,117
Net income (loss)	-	-	(414)	-	-	-	(414)	132	(282)
Other comprehensive income (loss)	-	-	-	(104)	(25)	-	(129)	212	83
Total comprehensive income (loss)	-	-	(414)	(104)	(25)	-	(543)	344	(199)
Exercise and expiration of Company's share options into Company shares	*) -	2	-	-	(2)	-	*) -	-	*) -
Purchase of treasury shares	-	-	-	-	-	(47)	(47)	-	(47)
Cost of share-based payment	-	-	-	-	11	-	11	4	15
Dividend declared	-	-	(147)	-	-	-	(147)	-	(147)
Capital issuance to non-controlling interests	-	-	-	-	(1)	-	(1)	3	2
Acquisition of non-controlling interests	-	-	-	(35)	78	-	43	(221)	(178)
Dividend to non-controlling interests	-	-	-	-	-	-	-	(317)	(317)
<u>Balance as of June 30, 2018</u>	<u>246</u>	<u>4,916</u>	<u>5,371</u>	<u>(1,861)</u>	<u>629</u>	<u>(49)</u>	<u>9,252</u>	<u>7,994</u>	<u>17,246</u>

\*) Represents an amount of less than NIS 1 million.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity attributable to equity holders of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Retained earnings	Foreign currency translation reserve	Other reserves	Treasury shares	Total		
	Unaudited								
	NIS in millions								
<u>Balance as of April 1, 2019</u>	244	4,861	5,354	(2,466)	683	(136)	8,540	7,265	15,805
Net income (loss)	-	-	(83)	-	-	-	(83)	65	(18)
Other comprehensive income (loss)	-	-	-	(8)	47	-	39	(61)	(22)
Total comprehensive income (loss)	-	-	(83)	(8)	47	-	(44)	4	(40)
Exercise and forfeiture of Company's share option into Company shares	*) -	1	-	-	(1)	-	*) -	-	*) -
Purchase of treasury shares	-	-	-	-	-	(79)	(79)	-	(79)
Cancellation of treasury shares	(2)	(68)	-	-	-	70	-	-	-
Cost of share-based payment	-	-	-	-	2	-	2	-	2
Dividend declared **)	-	-	(74)	-	-	-	(74)	-	(74)
Capital issuance to non-controlling interests	-	-	-	-	(1)	-	(1)	-	(1)
Dividend to non-controlling interests	-	-	-	-	-	-	-	(99)	(99)
<u>Balance as of June 30, 2019</u>	<u>242</u>	<u>4,794</u>	<u>5,197</u>	<u>(2,474)</u>	<u>730</u>	<u>(145)</u>	<u>8,344</u>	<u>7,170</u>	<u>15,514</u>

\*) Represents an amount of less than NIS 1 million.

\*\*) On May 21, 2019, the Company declared a dividend of NIS 0.405 per share that was paid on June 13, 2019.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Equity attributable to equity holders of the Company								
	Share capital	Share premium	Retained earnings	Foreign currency translation reserve	Other reserves	Treasury shares	Total	Non-controlling interests	Total equity
	Unaudited								
	NIS in millions								
<u>Balance as of April 1, 2018</u>	246	4,915	5,372	(1,434)	618	(2)	9,715	8,303	18,018
Net income (loss)	-	-	72	-	-	-	72	41	113
Other comprehensive loss	-	-	-	(412)	(29)	-	(441)	(123)	(564)
Total comprehensive income (loss)	-	-	72	(412)	(29)	-	(369)	(82)	(451)
Exercise and forfeiture of Company's share options into Company shares	*) -	1	-	-	(1)	-	*) -	-	*) -
Purchase of treasury shares	-	-	-	-	-	(47)	(47)	-	(47)
Cost of share-based payment	-	-	-	-	1	-	1	2	3
Dividend declared	-	-	(73)	-	-	-	(73)	-	(73)
Capital issuance to non-controlling interests	-	-	-	-	(1)	-	(1)	1	*) -
Acquisition of non-controlling interests	-	-	-	(15)	41	-	26	(119)	(93)
Dividend to non-controlling interests	-	-	-	-	-	-	-	(111)	(111)
<u>Balance as of June 30, 2018</u>	<u>246</u>	<u>4,916</u>	<u>5,371</u>	<u>(1,861)</u>	<u>629</u>	<u>(49)</u>	<u>9,252</u>	<u>7,994</u>	<u>17,246</u>

\*) Represents an amount of less than NIS 1 million.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Equity attributable to equity holders of the Company								
	Share capital	Share premium	Retained earnings	Foreign currency translation reserve	Other reserves	Treasury shares	Total	Non-controlling interests	Total equity
	Audited								
	NIS in millions								
<u>Balance as of December 31, 2017 (audited)</u>	246	4,914	5,919	(1,722)	581	(2)	9,936	8,181	18,117
Cumulative effect of first time adoption of IFRS 9	-	-	13	-	(13)	-	-	-	-
Balance as of January 1, 2018	246	4,914	5,932	(1,722)	568	(2)	9,936	8,181	18,117
Net income (loss)	-	-	(253)	-	-	-	(253)	206	(47)
Other comprehensive (loss)	-	-	-	(31)	(54)	-	(85)	208	123
Total comprehensive income (loss)	-	-	(253)	(31)	(54)	-	(338)	414	76
Exercise and expiration of Company's share options into Company shares	*) -	2	-	-	(2)	-	*) -	-	*) -
Purchase of treasury shares	-	-	-	-	-	(113)	(113)	-	(113)
Cancellation of treasury shares	(2)	(56)	-	-	-	58	-	-	-
Cost of share-based payment	-	-	-	-	15	-	15	6	21
Dividend declared	-	-	(292)	-	-	-	(292)	-	(292)
Capital issuance to non-controlling interests	-	-	-	-	(2)	-	(2)	3	1
Acquisition of non-controlling interests	-	-	-	(74)	169	-	95	(417)	(322)
Dividend to non-controlling interests	-	-	-	-	-	-	-	(531)	(531)
<u>Balance as of December 31, 2018 (audited)</u>	<u>244</u>	<u>4,860</u>	<u>5,387</u>	<u>(1,827)</u>	<u>694</u>	<u>(57)</u>	<u>9,301</u>	<u>7,656</u>	<u>16,957</u>

\*) Represents an amount of less than NIS 1 million.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2019	2018	2019	2018	2018
	Unaudited				Audited
	NIS in millions				
<u>Cash flows from operating activities:</u>					
Net income (loss)	97	(282)	(18)	113	(47)
Adjustments required to present cash flows from operating activities:					
Adjustments to the profit or loss items:					
Finance expenses, net	2	1,230	269	172	2,122
Company's share in earnings (losses) of equity-accounted investees, net	(49)	(144)	8	(81)	(389)
Fair value gain (loss) from investment property and investment property under development, net	173	77	90	125	(114)
Depreciation and amortization	16	12	7	6	66
Taxes on income (tax benefit)	261	(107)	(52)	67	(64)
Capital (gain) loss, net	10	(19)	5	6	14
Loss (gain) from decrease in holding interest and sale of an associate	345	2	122	2	(3)
Change in provision for legal claims, net	1	(118)	2	(23)	(124)
Cost of share-based payment	6	15	2	3	21
	765	948	453	277	1,529
Changes in assets and liabilities items:					
Decrease (increase) in trade receivables and other accounts receivable	(93)	(48)	(28)	22	(113)
Increase (decrease) in trade and other accounts payable	(84)	(72)	(77)	(97)	27
Increase (decrease) in tenants' security deposits, net	4	(6)	1	(5)	(24)
	(173)	(126)	(104)	(80)	(110)
Net cash provided by operating activities before interest, dividend and taxes	689	540	331	310	1,372
Cash received and paid during the period for:					
Interest paid	(449)	(472)	(223)	(423)	(1,128)
Interest received	14	18	10	4	38
Dividend received	102	159	36	83	285
Taxes paid	(29)	(62)	(21)	(33)	(72)
Taxes received	9	3	9	-	3
	(353)	(354)	(189)	(369)	(874)
Net cash provided by (used in) operating activities	336	186	142	(59)	498

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six ended June 30,		Three months ended June 30,		Year ended December 31,
	2019	2018	2019	2018	2018
	Unaudited				Audited
	NIS in millions				
<u>Cash flows from investing activities:</u>					
Proceeds from sale of an associate	2,839	-	2,839	-	-
Investment and loans to investees	-	(158)	-	(143)	(190)
Acquisition, construction and development of investment property	(1,231)	(1,586)	(685)	(1,223)	(4,025)
Investments in fixed assets and other assets	(33)	(12)	(11)	(7)	(43)
Proceeds from sale of investment property, net of tax paid	417	596	251	231	1,130
Grant of long-term loans	-	(1)	-	(1)	(1)
Collection of long-term loans	1	7	-	6	85
Short-term investments, net	(131)	(498)	159	(498)	(185)
Investment in financial assets	(370)	(215)	(240)	(86)	(431)
Proceeds from sale of financial assets and deposits withdrawal, net of tax paid	(217)	2,576	82	1,505	4,397
Net cash provided by (used in) investing activities	1,275	709	2,395	(216)	737
<u>Cash flows from financing activities:</u>					
Exercise of share options into Company's shares	*) -	*) -	*) -	*) -	*) -
Purchase of treasury shares	(158)	(47)	(79)	(47)	(113)
Capital issuance to non-controlling interests, net	1	2	1	-	1
Acquisition of non-controlling interests	(5)	(178)	-	(93)	(322)
Dividend paid to equity holders of the Company	(223)	(142)	(150)	(74)	(287)
Dividend paid to non-controlling interests	(203)	(315)	(99)	(113)	(531)
Receipt of long-term loans	49	-	-	-	715
Repayment of long-term loans	(11)	(187)	(5)	(2)	(394)
Receipt (repayment) of long-term credit facilities from banks and others, net	(284)	(51)	(1,143)	827	225
Receipt (repayment) of Short-term credit from banks and others, net	(188)	(29)	(183)	(9)	614
Repayment and early redemption of debentures and convertible debentures	(651)	(141)	(46)	(78)	(4,793)
Issuance of debentures	-	851	-	-	4,308
Net cash provided by (used in) financing activities	(1,673)	(237)	(1,704)	411	(577)
<u>Exchange differences on balances of cash and cash equivalents</u>	(53)	(57)	(14)	(54)	(29)
<u>Increase (decrease) in cash and cash equivalents</u>	(115)	601	819	82	629
<u>Cash and cash equivalents at the beginning of the period</u>	1,583	954	649	1,473	954
<u>Cash and cash equivalents at the end of the period</u>	1,468	1,555	1,468	1,555	1,583

\*) Represent an amount of less than NIS 1 million.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six months ended		Three months		Year
	June 30,		ended		ended
	2019	2018	2019	2018	December
	Unaudited				Audited
	NIS in millions				
(a) <u>Significant non-cash transactions:</u>					
Sale of an associate against receivables	335	-	335	-	-
Leases of investment real estate and fixed assets	301	-	-	-	40
Dividend payable to equity holders of the Company	-	73	-	73	73
(b) <u>Additional information:</u>					
Tax paid included under investing activities	344	88	-	72	252

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 1:- GENERAL**

These consolidated financial statements have been prepared in a condensed format as of June 30, 2019 and for the six months then ended (the "Reporting Period") and for the three months then ended (collectively: "Interim consolidated financial statements"). These condensed interim consolidated financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2018 and for the year then ended and accompanying notes, that were authorized by the Board of Directors on March 17, 2019 ("annual financial statements").

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**a. Basis of preparation of the interim condensed consolidated financial statements

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting", and in accordance with the disclosure requirements of Chapter D of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

The significant accounting policies and methods of computation adopted in the preparation of the condensed interim consolidated financial statements are consistent with those followed in the preparation of the annual financial statements, other than the following:

Leases

As detailed in note 2b regarding the first time adoption of IFRS 16, "Leases", ("the standard"), the Company elected to apply the standard using the modified retrospective approach (without restating comparative figures).

The accounting policy applied from January 1, 2019 for leases is as follows:

a. The Group as lessee

At the commencement of the lease term, the Company recognizes a right of use asset and a corresponding lease liability, excluding short term lease agreements (up to 12 months) and leases for which the underlying asset is of low value, for which the Company elected to recognize the lease payments as expenses in the profit or loss on a straight line basis over the lease term. For measuring the liability, the Company elected the practical expedient in the standard not to separate lease components from non-lease components such as: management or maintenance services, etc', that are included in the same agreement.

At the commencement date, the Company measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined or using the Company's incremental borrowing rate. After the commencement date, the Company measures the liability using the effective interest method.

The initial value of the right of use asset is comprised from: the amount of the initial measurement of the lease liability; any lease payments made at or before the commencement date; and, any initial direct transaction costs. The right of use asset is measured at cost and depreciated over the shorter of its useful life, or the lease term. The asset is reviewed for impairment whenever there is an indication that it may be impaired in accordance with IAS 36.



**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**b. The Group as lessor

1. Finance lease - A lease is classified as a finance lease where all the risks and rewards incident to ownership of the asset are transferred to the lessee. The leased asset is derecognized and replaced with a financial asset, "Receivables with respect to finance lease", at an amount equal to the present value of the lease payments. Subsequent to the initial recognition, lease payments are allocated between finance income and settlement of the receivables with respect to the lease.
2. Operating lease - Lease agreements where the Group does not transfer substantially all the risks and rewards incidental to ownership of the leased asset, are classified as operating leases. Lease income is recognized on a straight-line basis over the lease term. Initial direct costs incurred in respect of the lease agreement, are added to the carrying amount of the leased asset and recognized as an expense on the same basis over the lease term.

b. New standards, interpretations and amendments initially adopted by the CompanyIFRS 16, Leases:

In January 2016, the IASB issued IFRS 16, "Leases", ("the Standard"). The standard replaced IAS 17 ("the Old Standard"), IFRIC 4 and SIC 15. According to the Standard, a lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

The principal effects of the Standard are as follows:

- According to the Standard, lessees are required to recognize all leases in the statement of financial position (excluding certain exceptions, see below). Lessees will recognize a liability for lease payments with a corresponding right-of-use asset, similar to the accounting treatment for finance leases under the Old Standard. Lessees will also recognize interest expense and depreciation expense separately.
- Variable lease payments that are not dependent on changes in the Consumer Price Index ("CPI") or interest rates, but are based on performance or use are recognized as an expense by the lessees as incurred and recognized as income by the lessors as earned.
- In the event of change in variable lease payments that are CPI-linked, lessees are required to remeasure the lease liability and record the effect of the remeasurement as an adjustment to the carrying amount of the right-of-use asset.
- The Standard includes two exceptions which allow lessees to account for leases based on the existing accounting treatment for operating leases - leases for which the underlying asset is of low financial value and short-term leases (up to one year).
- The accounting treatment by lessors remains substantially unchanged from the Old Standard, namely classification of a lease as a finance lease or an operating lease.

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The Standard has been applied for the first time since the first quarter of this year. As permitted by the Standard, the Company elected to use the modified retrospective approach with the right of use assets equal to the lease liabilities. According to this approach restatement of comparative figures is not required. The liability amount at the date of transition is calculated using the Company's incremental borrowing rate on that date.

For details regarding the accounting policy applied commencing the transition date, refer to Note 2a above.

The main effect of the first time adoption of the Standard was regarding operating leases that existed on the transition date, where the Company is the lessee. According to the Standard, as mentioned in note 2a above, except for exceptions, the Company recognized each lease that it is the lessee as a lease liability with a corresponding right of use asset, which is opposed to the accounting policy based on the Old standard, where in lease agreement that does not transfer substantially all the risks and rewards incidental to ownership of the leased asset, the lease payments were recognized as expenses in profit or loss on a straight line basis over the lease term.

On January 1 2019, the transition date, the Company recorded right of use assets classified as investment properties and fixed assets at the amount of NIS 249 million and NIS 36 million, respectively with corresponding lease liabilities at the amount of NIS 285 million, in regards of lease agreements as specified above.

**IFRIC 23 – Uncertainty over Income Tax Treatments**

In June 2017, the IASB published IFRIC 23 – Uncertainty over Income Tax Treatments ("the Interpretation"). The Interpretation clarifies the rules pertaining to the recognition and measurement of assets and liabilities under the provisions of IAS 12, Income Taxes, where there is uncertainty concerning income tax. The Interpretation addresses and provides guidelines for the examination of a collection of uncertainties concerning income tax, the examination of the tax authorities' position, the measurement of the effects of the income tax uncertainty on the financial statements and the treatment of changes in the facts and circumstances of the uncertainty.

The Interpretation has been applied for the first time in these financial statements. The application of Interpretation did not have any material effect on the financial statements

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****NOTE 3:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD**a. Debt raising and redemption by the group

1. During the reporting period the Company repurchased debentures (series d and k) with a par value of NIS 37 million for a consideration of NIS 46 million with no material effect on the books. The debentures were cancelled and delisted.

b. Other events

1. On February 13, 2019, the Company resolved to delist its shares from the New York Stock Exchange and terminate its obligation to report under the Securities Exchange Act of 1934. The required documentation for the delisting was filed with the SEC. The delisting and termination of reporting is effective from March 7, 2019. The deregistration of the Company's shares is effective from June 2019.
2. On February 28, 2019, the Company and its wholly-owned subsidiary ("the Subsidiary") entered into conditional strategic agreements to sell 58 million shares of FCR, in which the Company held as of that date an ownership interest of 31.3% (80 million shares owned by the Company), for aggregate consideration of CAD 1.195 billion (NIS 3.2 billion), as follows:
  - a. Conditional buy-back agreement with FCR: The Company and the Subsidiary entered into an agreement with FCR, according to which FCR will buy-back 36 million shares from the Subsidiary, constituting 14.1% of FCR's share capital ("the Buy-Back Shares") for CAD 20.60 per share ("the Buy-Back Price") for an aggregate consideration of CAD 742 million (NIS 2 billion) ("the Buy-Back Agreement").
  - b. The Buy-Back Agreement is fully underwritten. Concurrently, the Company and the subsidiary have signed a binding term sheet with RBC Capital Markets, as the leader of a syndication of underwriters, for the sale of an additional 22 million FCR shares ("the Bought Deal Transaction), representing 8.7% of FCR's share capital (the Bought Deal Shares"), by way of a fully underwritten public offering ("the Bought Deal"), at a price of CAD 20.60 per share ("the Bought Deal Price"), for aggregate gross consideration of CAD 453 million (NIS 1.2 billion). Half of the total consideration was paid upon the closing and half will be paid during a period of up until one year from the closing. By the date of this report approximately CAD 97 million out of the deferred consideration were paid.

The closing of the deals was subject to conditions that were met during April 2019, and the buyback was completed on April 16, 2019. Upon completion of the buyback and the Bought Deal, the Company is holding (through the Subsidiary) 21.6 million FCR shares, which, at that time, represented 9.9% of FCR's share capital and voting rights. As a result, the Company recorded a loss of NIS 345 million as other expenses. This loss includes a loss from realization of capital reserves (mainly currency translation reserve) at the amount of NIS 73 million. In addition, the Company recorded tax expenses of NIS 255 million, which includes deferred tax expenses amounting to NIS 74 million in respect of the shares remaining in the Company's ownership. In total, the Company recognized a reduction in its shareholders' equity of NIS 527 million.

Beginning as at the closing of the transaction, the remaining FCR shares held by the Company are presented in the Company's financial statements as a financial asset measured through OCI. As of June 30 2019, the asset was at the amount of NIS 1,288 million.

3. During the reporting period, the Company repurchased approximately 5.6 million shares for consideration of NIS 158 million, out of which 2.4 million shares for a consideration of NIS 70 million were purchased on April 1 2019 with a tender offer published by the Company on March 18 2019 for up to 10 million of its share which was partially accepted.

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****NOTE 4:- FINANCIAL INSTRUMENTS**a. Fair value of financial instruments

The carrying amount of certain financial assets and liabilities including cash, trade receivables, other receivables, investments in marketable securities, short-term credit and loans, trade payables and other payables approximate their fair value.

The carrying amount and fair value of other financial liabilities (including current maturities), all of which are measured at amortized cost, are disclosed in the table below:

	<u>June 30, 2019</u>		<u>June 30, 2018</u>		<u>December 31, 2018</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
	<b>NIS in million</b>					
Debtures	20,321	21,407	22,428	23,409	21,474	21,831
Interest bearing loans from banks and others	4,306	4,368	4,622	4,649	5,359	5,341
	<u>24,627</u>	<u>25,775</u>	<u>27,050</u>	<u>28,058</u>	<u>26,833</u>	<u>27,172</u>

b. Classification of financial instruments by fair value hierarchy

During the Reporting Period, there was no material change in the classification of financial assets and liabilities measured in the financial statements at their fair value, as compared with their classification as of December 31, 2018. In addition, there were no transfers or reclassifications with respect to fair value measurement in the financial statements of financial instruments between Level 1 and Level 2, and there were no transfers to or from Level 3 with respect to the fair value measurement of financial instruments.

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****NOTE 5:- EVENTS AFTER THE REPORTING DATE**

- a. On July 23, 2019, the Company's wholly owned subsidiary has entered to an agreements with the public subsidiary ATR, to acquire all of ATR's issued shares it does not currently own at a price of EUR 3.75 per share and which equates to gross consideration of EUR 565 million (approximately NIS 2.2 billion), to be paid solely in cash. Upon the completion of the acquisition, Atrium will be a private company and its shares will be de-listed from trading on the Vienna Stock Exchange and the Euronext Amsterdam. This price reflects a premium of 18.3% over the ATR's share price before the agreement. The suggested price may be adjusted for a special dividend of EUR 0.60 per share which ATR intends to distribute.

In parallel, the Company has entered into an agreement with Menora Mivtachim Insurance Ltd. and Menora Mivtachim pension and provident funds, pursuant to which, upon closing, the Company will sell to them approximately 12% of ATR's outstanding shares at an identical price to the price at which the Company is acquiring those shares, for total consideration of approximately EUR 150 million (approximately NIS 600 million).

The acquisition will be carried out by an arrangement according to Jersey island laws and it is dependent in certain conditions among them it has to be approved by 75% of the minority shareholders and by the courts in Jersey island (where ATR is incorporated). The transaction is expected to close in January 2020 subject to the completion of certain conditions.

Under the terms of the agreement, the parties agreed upon a "go-shop" mechanism, during a 7 weeks period which ends at September 10, 2019, ATR will be able to solicit other bids to purchase 100% of its shares at a higher price than agreed. To the extent that a better offer is found, ATR's independent board committee may change or retract its recommendation to ATR shareholders and replace it with a recommendation of the better offer.

Based on information as of June 30 2019, upon the closing of the transaction, equity attributable to shareholders of the company is expected to increase by NIS 308 million.

The company is exploring option to sell additional ATR's shares to another Israeli institutional investor of up to 8% of ATR's outstanding shares at the same price which the Company will acquire those shares.

- b. On August 20, 2019, the Company declared a dividend in the amount of NIS 0.405 (totaling NIS 75 million), payable on September 18, 2019 to the shareholders of the Company as of September 9, 2019.
- c. On July 18, 2019, Midroog rating agency reaffirmed the short term rating for the Company's commercial papers at a rating level of 'P-1.il'.
- d. On July 25, 2019, the S&P Maalot rating agency reaffirmed the issuer rating and the credit rating of all the outstanding series of debentures of the Company, which are not secured by a pledge, at a rating level of '1AA-', with a stable outlook, and the credit rating of the Company's debentures (series J), which is secured by a pledge, at a rating of '1AA' with a stable outlook. In addition, the S&P Maalot rating agency reaffirmed the short term issuer rating and the Company's commercial papers rating at a rating level of '1A-1+'.

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**NOTE 6:- OPERATING SEGMENTS**

The Company reports four reportable segments according to the management approach of IFRS 8.

Following the entrance to an agreement to sale most of FCR shares during the reporting period and the completion of the sale after the reporting date (see note 3b2), the management ceased from analyzing FCR operation separately, therefore the investment in FCR shares is no longer an operating segment. Comparative figures were restated.

In addition, according to the management approach, operating segments in Brazil and Israel, which were previously included in "other segments", became reportable segments, comparative figures were restated.

	Public subsidiaries over which the Company has control		Wholly-owned subsidiaries			Consolidation adjustments	Total
	Shopping centers in Northern Europe	Shopping centers in Central- Eastern Europe	Shopping centers in Israel	Shopping centers in Brazil	Other segments		
	Unaudited						
	NIS in millions						
<u>For the Six months ended June 30, 2019</u>							
Segment revenues	674	531	116	111	43	(53)	1,422
Segment net operating rental income	469	378	85	100	29	(38)	1,023
Segment operating profit	417	327	75	90	15	(564)	360
Finance expenses, net							(2)
Income before taxes on income							358

	Public subsidiaries over which the Company has control		Wholly-owned subsidiaries			Consolidation adjustments	Total
	Shopping centers in Northern Europe	Shopping centers in Central- Eastern Europe	Shopping centers in Israel	Shopping centers in Brazil	Other segments		
	Unaudited						
	NIS in millions						
<u>For the Six months ended June 30, 2018</u>							
Segment revenues	716	547	109	79	30	(60)	1,421
Segment net operating rental income	485	392	80	69	18	(48)	996
Segment operating profit	413	351	55	62	(8)	(32)	841
Finance expenses, net							(1,230)
Loss before taxes on income							(389)

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**NOTE 6:- OPERATING SEGMENT (Cont.)**

	Public subsidiaries over which the Company has control		Wholly-owned subsidiaries				Consolidation adjustments	Total
	Shopping centers in Northern Europe	Shopping centers in Central- Eastern Europe	Shopping centers in Israel	Shopping centers in Brazil	Other segments			
<b>Unaudited</b>								
<b>NIS in millions</b>								
<u>For the three months ended June 30, 2019</u>								
Segment revenues	331	260	59	58	20	(26)	702	
Segment net operating rental income	244	187	43	52	16	(28)	514	
Segment operating profit	218	162	37	46	9	(273)	199	
Finance expenses, net							(269)	
Loss before taxes on income							(70)	

	Public subsidiaries over which the Company has control		Wholly-owned subsidiaries				Consolidation adjustments	Total
	Shopping centers in Northern Europe	Shopping centers in Central- Eastern Europe	Shopping centers in Israel	Shopping centers in Brazil	Other segments			
<u>For the three months ended June 30, 2018</u>								
Segments of revenue	353	269	55	47	15	(29)	710	
Segment net operating rental income	245	192	41	41	9	(24)	504	
Segment operating profit	199	160	36	35	1	(79)	352	
Finance expenses, net							(172)	
Income before taxes on income							180	

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**NOTE 6: OPERATING SEGMENTS (Cont.)**

	Public subsidiaries over which the Company has control		Wholly-owned subsidiaries				Total
	Shopping centers in Northern Europe	Shopping centers in Central-Eastern Europe	Shopping centers in Israel	Shopping centers in Brazil	Other segments	Consolidation adjustments	
	Audited						
	NIS in millions						
<u>Year ended</u>							
<u>December 31, 2018</u>							
Segment revenues	1,416	1,073	224	183	62	(118)	2,840
Segment net operating rental income	962	760	160	166	39	(91)	1,996
Segment operating profit	780	615	98	152	118	248	2,011
Finance expenses, net							(2,122)
Loss before taxes on income							(111)
<u>Segment assets</u>							
	Public subsidiaries over which the Company has control		wholly-owned subsidiaries				Total
	Shopping centers in Northern Europe	Shopping centers in Central-Eastern Europe	Shopping centers in Israel	Shopping centers in Brazil	Other segments	Consolidation adjustments	
	Unaudited						
	NIS in millions						
June 30, 2019	19,186	13,381	3,607	3,169	1,977	4,051	45,371
June 30, 2018	20,122	12,772	3,168	2,694	1,119	9,162	49,037
December 31, 2018 (Audited)	20,348	13,886	3,442	3,081	1,618	6,839	49,214



# GAZIT-GLOBE LTD.

## Financial Data from the Condensed Consolidated Interim Financial Statements Attributable to the Company

As of June 30, 2019

### INDEX

	<b><u>Page</u></b>
Auditor's Special Report in Accordance with Israeli Securities Regulation 38d	58
Financial information from the Condensed Consolidated Statements of Financial Position Attributable to the Company	60
Financial information from the Condensed Consolidated Statements of Income Attributable to the Company	62
Financial information from the Condensed Consolidated Statements of Comprehensive Income Attributable to the Company	63
Financial information from the Condensed Consolidated Statements of Cash Flows Attributable to the Company	64
Additional Details to the Separate Financial Information	66

To  
**The Shareholders of Gazit Globe Ltd.**

Dear Sirs/Mmes.,

Re: Special review report of the separate interim financial information in accordance with Regulation  
38d of the Securities Regulations (Periodic and Immediate Reports), 1970

### **Introduction**

We have reviewed the separate interim financial information presented pursuant to Regulation 38d of the Securities Regulations (Periodic and Immediate Reports), 1970 of Gazit-Globe Ltd. ("the Company") as of June 30, 2019 and for the periods of six and three months then ended. The Company's Board of Directors and management are responsible for the separate interim financial information. We are responsible for expressing our conclusion with regard to the separate interim financial information for these interim periods, based on our review.

We did not review the separate interim financial information of a certain investee whose assets less attributable liabilities amounted to NIS 4,359 million as of June 30, 2019, and for which the Company's share of its earnings amounted to NIS 140 million and NIS 72 million in the periods of six and three months then ended, respectively. The financial statement of this company was reviewed by other auditors, whose report has been furnished to us, and our conclusion, insofar as it relates to the financial statement with respect to this company, is based on the review report of the other auditors.

### **Scope of review**

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel, "Review of Interim Financial 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 and the review report of other auditors, nothing has come to our attention that causes us to believe that the accompanying separate interim financial information is not prepared, in all material respects, pursuant to the provisions of Regulation 38d of the Securities Regulations (Periodic and Immediate Reports), 1970.

Tel-Aviv, Israel  
August 20, 2019

**KOST FORER GABBAY & KASIERER**  
A Member of Ernst & Young Global

**GAZIT-GLOBE LTD.**

**Financial data and financial information from the consolidated interim financial statements attributable to the Company**

Below are separate financial data and financial information from the Group's condensed consolidated interim financial statements as of June 30, 2019 published as part of the interim reports ("consolidated financial statements") attributable to the Company, presented in accordance with the Israeli Regulation 38d of the Securities Regulations (Periodic and Immediate Reports), 1970.

The significant accounting policies applied for presentation of these financial data were set forth in Note 2 to the annual consolidated financial statements.

Subsidiaries - as defined in Note 1 to the annual consolidated financial statements.

**Financial information from the Condensed Consolidated Statements of Financial Position attributed to the Company**

	June 30,		December 31,
	2019	2018	2018
	Unaudited		Audited
	NIS in millions		
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	886	1,195	738
Short-term investments	144	207	207
Short term loans and current maturities of long-term loans to subsidiaries	61	580	261
Financial assets	11	-	-
Financial derivatives	206	171	188
Other accounts receivable	9	6	7
	1,317	2,159	1,401
<b>NON-CURRENT ASSETS</b>			
Financial derivatives	125	52	4
Other accounts receivable	17	-	12
Loans to subsidiaries	5,572	4,500	5,151
Investments in subsidiaries	17,784	17,829	18,744
Fixed assets and other assets, net	33	3	4
	23,531	22,384	23,915
Total non-current assets	23,531	22,384	23,915
Total assets	24,848	24,543	25,316

The accompanying additional information constitutes an integral part of the separate financial data and financial information.

**Financial information from the Condensed Consolidated Statements of Financial Position attributed to the Company**

	<b>June 30,</b>		<b>December</b>
	<b>2019</b>	<b>2018</b>	<b>31,</b>
	<b>Unaudited</b>		<b>2018</b>
	<b>Unaudited</b>		<b>Audited</b>
	<b>NIS in millions</b>		
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Credit from financial institutions	250	-	250
Current maturities of non-current liabilities	843	2,459	1,273
Short-term loans from subsidiaries	1,085	412	1,026
Financial derivatives	89	231	223
Trade payables	1	2	2
Other accounts payable	72	187	131
Current taxes payable	78	56	56
Dividend payable	-	73	73
Total current liabilities	<u>2,418</u>	<u>3,420</u>	<u>3,034</u>
<b>NON-CURRENT LIABILITIES</b>			
Loans from banks and others	1,403	1,444	2,192
Long-term loans from subsidiaries	4,403	1,532	1,950
Debentures	8,278	8,890	8,837
Deferred taxes	2	5	2
Total non-current liabilities	<u>14,086</u>	<u>11,871</u>	<u>12,981</u>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>			
Share capital	242	246	244
Share premium	4,794	4,916	4,860
Reserves	(1,889)	(1,281)	(1,190)
Retained earnings	5,197	5,371	5,387
Total equity	<u>8,344</u>	<u>9,252</u>	<u>9,301</u>
Total liabilities and equity	<u>24,848</u>	<u>24,543</u>	<u>25,316</u>

The accompanying additional information constitutes an integral part of the separate financial data and financial information.

August 20, 2019			
Date of approval of the financial statements	Ehud Arnon Chairman of the Board	Chaim Katzman CEO and Vice Chairman of the Board	Adi Jemini Executive Vice President and CFO

**Financial information from the Condensed Consolidated Statements of Income attributed to the Company**

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2019	2018	2019	2018	2018
	Unaudited				Audited
NIS in millions					
Management fees from related companies	1	1	-	-	3
Finance income from subsidiaries	34	68	26	41	112
Other finance income	455	-	64	-	2
Other income	8	-	-	-	-
Total income	498	69	90	41	117
General and administrative expenses	23	28	12	12	52
Finance expenses	343	552	280	164	1,072
Other expenses	68	-	68	-	22
Total expenses	434	580	360	176	1,146
Loss before income from subsidiaries, net	64	(511)	(270)	(135)	(1,029)
Income from subsidiaries, net	(113)	104	155	212	780
Income (loss) before taxes on income	(49)	(407)	(115)	77	(249)
Taxes on income (tax benefit)	(8)	7	(32)	5	4
Net income (loss) attributable to the Company	(41)	(414)	(83)	72	(253)

The accompanying additional information constitutes an integral part of the separate financial data and financial information.

**Financial Information from the Consolidated Statements of Comprehensive Income attributed to the Company**

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2019	2018	2019	2018	2018
	Unaudited				Audited
	NIS in millions				
Net income (loss) attributable to the Company	(41)	(414)	(83)	72	(253)
Other comprehensive income (loss) attributable to the Company (net of tax effect):					
<u>Amounts that will be or that have been reclassified subsequently to profit or loss:</u>					
Exchange differences on foreign currency translation	23	(100)	28	(164)	(162)
Realization of capital reserve from foreign currency exchange differences	68	-	68	-	-
Other comprehensive income (loss) attributable to the Company	91	(100)	96	(164)	(162)
Other comprehensive income (loss) attributable to subsidiaries (net of tax effect)	(706)	(29)	(57)	(277)	77
Total other comprehensive income (loss) attributable to the Company	(615)	(129)	39	(441)	(85)
Total comprehensive income (loss) attributable to the Company	(656)	(543)	(44)	(369)	(338)

The accompanying additional information constitutes an integral part of the separate financial data and financial information.

**Financial information from the Condensed Consolidated Statements of Cash Flows attributed to the Company**

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2019	2018	2019	2018	2018
NIS in millions					
<u>Cash flows from operating activities of the Company</u>					
Net income (loss) attributable to the Company	(41)	(414)	(83)	72	(253)
Adjustments required to present cash flows from operating activities of the Company:					
Adjustments to profit or loss items of the Company:					
Depreciation expenses	(* -	(* -	(* -	(* -	1
Finance expense, net	(146)	484	190	123	958
Income from subsidiaries, net	113	(104)	(155)	(212)	(780)
Realization of capital reserve from foreign currency exchange differences	68	-	68	-	-
Cost of share-based payment	2	7	1	(* -	8
Taxes on income (tax benefit)	(8)	7	(32)	5	4
	29	394	72	(84)	191
Changes in assets and liabilities of the Company:					
Decrease (increase) in other accounts receivable	(13)	1	(11)	(* -	(11)
Increase (decrease) in trade payables and other accounts payable	(9)	(10)	11	6	18
	(22)	(9)	-	6	7
Cash paid and received during the year by the Company for:					
Interest paid	(310)	(264)	(128)	(262)	(566)
Interest received from subsidiaries	43	49	21	10	67
Taxes paid	(2)	(6)	(2)	-	-
Tax refund received	9	-	9	-	-
Dividend received from subsidiary	114	114	57	57	232
	(146)	(107)	(43)	(195)	(267)
Net cash used in operating activities of the Company	(180)	(136)	(54)	(201)	(322)

\*) Represents an amount of less than NIS 1 million.

The accompanying additional information constitutes an integral part of the separate financial data and financial information.



**Financial information from the Condensed Consolidated Statements of Cash Flows attributed to the Company**

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2019	2018	2019	2018	2018
	Unaudited				Audited
	NIS in millions				
<u>Cash flows from investing activities of the Company</u>					
Investments in fixed assets	(22)	(* -	(5)	(* -	(2)
Proceeds from sale of fixed assets	-	(* -	-	-	(* -
Short-term investments, net	(131)	(207)	159	(207)	(207)
Investments in subsidiaries	21	(718)	-	(60)	(948)
Loans repaid by (granted to) subsidiaries, net	2,220	1,830	1,932	1,002	2,511
Investment (proceeds) in marketable securities, net	(4)	286	(17)	203	613
Net cash provided by investing activities of the Company	2,084	1,191	2,069	938	1,967
<u>Cash flows from financing activities of the Company:</u>					
Exercise of share options into shares	(* -	(* -	(* -	(* -	(* -
Receipt of short-term credit from financial institutions, net	-	-	-	-	249
Purchase of treasury shares	(158)	(47)	(79)	(47)	(113)
Dividend paid to equity holders of the Company	(223)	(142)	(150)	(74)	(287)
Issuance of debentures less issuance expenses	-	851	-	-	1,811
Repayment and early redemption of debentures	(651)	(56)	(46)	(56)	(2,360)
Receipt (repayment) of long-term credit facilities from banks, net	(731)	(556)	(1,207)	446	(266)
Repayment of long-term loans	-	(11)	-	-	(34)
Net cash provided by (used in) financing activities of the Company	(1,763)	39	(1,482)	269	(1,000)
<u>Exchange differences on balance of cash and cash equivalents</u>					
	7	7	13	9	(1)
<u>Decrease in cash and cash equivalents</u>	148	1,101	546	1,015	644
<u>Cash and cash equivalents at the beginning of period</u>	738	94	340	180	94
<u>Cash and cash equivalents at the end of period</u>	886	1,195	886	1,195	738
<u>Significant non-cash activities of the Company:</u>					
Receipt of financial asset against loans from subsidiaries	-	-	-	-	374
Dividend payable to equity holders of the Company	-	73	-	73	73

\*) Represents an amount of less than NIS 1 million.

The accompanying additional information constitutes an integral part of the separate financial data and financial information.

**Additional details to the Separate Financial Information**a. General

This separate financial information as of June 30, 2019 and for the six and three-month periods then ended have been prepared in a condensed format in accordance with the provisions of Regulation 38d of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970. This separate financial information should be read in conjunction with the financial information in the annual financial statements as of December 31, 2018 and for the year then ended and the accompanying notes thereto, that were authorized by the Board of Directors on March 17, 2019 and with the financial information in the interim condensed consolidated financial statements as of as of June 30, 2019.

b. As of June 30, 2019 (the "Reporting Date"), the Company has a working capital deficiency of NIS 1.1 billion. The Company and its wholly-owned subsidiaries have approved unutilized credit facilities amounting to NIS 2.5 billion available for immediate drawdown. The Company's management believes that these sources will allow the Company to repay its current liabilities when due.

c. Material events during the period

1. On February 13, 2019, the Company resolved to delist its shares from the New York Stock Exchange and terminate its obligation to report under the Securities Exchange Act of 1934. The required documentation for the delisting was filed with the SEC. The delisting and termination of reporting is effective from March 7, 2019. The deregistration of the Company's shares is effective from June 2019.
2. For details regarding the repurchase of Company's debentures through market trades, refer to Note 3a1 to the financial statements at the consolidated interim financial statements.
3. For details regarding the repurchase of Company's shares through market trades and through a tender offer, for consideration of NIS 158 million, refer to Note 3b3 to the consolidated interim financial statements.
4. On April 16, 2019, the Company and its wholly-owned subsidiary completed the sale of FCR 58 million shares (80 million shares owned by the Company), for a total consideration of CAD 1,195 million (NIS 3.2 billion), for further details, refer to Note 3b2 to the Consolidated Interim Financial Statements.

d. IFRS 7 - Financial Instruments1. Fair value of financial instruments

The carrying amount of certain financial assets and liabilities including cash, trade receivables, other receivables, investments in marketable securities, short-term credit and loans, trade payables and other payables approximate their fair value.

The carrying amount and fair value of other financial liabilities (including current maturities), all of which are measured at amortized cost, are disclosed in the table below:

	<u>June 30, 2019</u>		<u>June 30, 2018</u>		<u>December 31, 2018</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
<u>NIS in million</u>						
Debentures	9,099	9,894	10,901	11,673	9,658	9,783
Loans from banks and others	1,425	1,468	1,892	1,899	2,644	2,629
	<u>10,524</u>	<u>11,362</u>	<u>12,793</u>	<u>13,572</u>	<u>12,302</u>	<u>12,412</u>

**Additional details to the Separate Financial Information**

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d. IFRS 7 - Financial Instruments (cont.)2. Classification of financial instruments by fair value hierarchy

During the Reporting Period, there was no material change in the classification of financial assets and liabilities measured in the financial statements at their fair value, compared to their classification as of December 31, 2018. In addition there were no transfers or reclassifications with respect to fair value measurement in the financial statements of financial instruments between Level 1 and Level 2, and there were no transfers to or from Level 3 with respect to fair value measurement of financial instruments.

e. Events after the reporting date

1. On July 23, 2019, the Company's wholly owned subsidiary has entered to an agreements with the public subsidiary ATR, to acquire all of ATR's issued shares it does not currently own at a price of EUR 3.75 per share and which equates to gross consideration of EUR 565 million (approximately NIS 2.2 billion), to be paid solely in cash. Upon the closing of the acquisition, Atrium will be a private company and its shares will be de-listed from trading on the Vienna Stock Exchange and the Euronext Amsterdam. For further details, see Note 5a to the interim consolidated financial statements.
2. On July 18, 2019, Midroog rating agency reaffirmed the short term rating for the Company's commercial papers at a rating level of 'P-1.il'.
3. On July 25, 2019, the S&P Maalot rating agency reaffirmed the issuer rating and the credit rating of all the outstanding series of debentures of the Company, which are not secured by a pledge, at a rating level of '1AA-', with a stable outlook, and the credit rating of the Company's debentures (series J), which is secured by a pledge, at a rating of '1AA' with a stable outlook. In addition, the S&P Maalot rating agency reaffirmed the short term issuer rating and the Company's commercial papers rating at a rating level of '1A-1+'.

f. Dividend declared

On August 20, 2019, the Company declared a dividend in the amount of NIS 0.405 per share (totaling NIS 75 million), payable on September 18, 2019 to the shareholders of the Company on June 9, 2019.

**Quarterly Report regarding Effectiveness of the Internal Control over the  
Financial Reporting and the Disclosure  
In accordance with Israeli Securities' Regulation 38C(a)**

**QUARTERLY REPORT REGARDING EFFECTIVENESS OF INTERNAL CONTROL OVER THE FINANCIAL REPORTING AND THE DISCLOSURE**

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**Quarterly Report regarding Effectiveness of the Internal Control over the Financial Reporting and the Disclosure in accordance with Israeli Securities' Regulation 38C(a)**

Management, under the supervision of the Board of Directors of Gazit-Globe Ltd. (the "Corporation"), is responsible for determining and maintaining proper internal control over the Corporation's financial reporting and disclosure.

For the purposes of this matter, the members of management are:

1. Chaim Katzman, CEO and Vice Chairman of the Board of Directors;
2. Adi Jemini, Executive Vice President and Chief Financial Officer;
3. Rami Vaisenberger, Vice President and Controller;
4. Lisa Haimovitz, vice president and global general counsel;

Internal control over financial reporting and disclosure includes the Corporation's existing controls and procedures, which were designed by the President and the most senior officer in the finance area or under their supervision, or by a party actually executing the said functions, under the supervision of the Corporation's Board of Directors, which aims to provide reasonable assurance regarding the reliability of financial reporting and preparation of the financial statements in accordance with the provisions of the law, and to ensure that information the Corporation is required to disclose in the statements it publishes under the provisions of the law is gathered, processed, summarized and reported on the date and in the format prescribed by the law.

Internal control includes, among other things, controls and procedures that were designed to ensure that information the Corporation is required to disclose, as stated, was accumulated and transferred to the Corporation's management, including to the CEO and to the most senior officer in the finance area or to a party actually executing the said functions, in order to enable decisions to be made at the appropriate time, with respect to disclosure requirements.

Due to its inherent limitations, internal control over the financial reporting and disclosure does not aim to provide complete assurance that a misrepresentation or omission of information in the statements will be avoided or discovered.

In the Quarterly Report regarding Effectiveness of the Internal Control over the Financial Reporting and the Disclosure, which was attached to the Quarterly Report for the period ended March 31, 2019 (the "Last Quarterly Report regarding Internal Control"), the internal control was found to be effective.

Through the date of the report, no event or matter had been brought to the attention of the Board of Directors and the management that would be enough to change the evaluation of the effectiveness of the internal control, as found in the Last Quarterly Report regarding Internal Control.

As of the date of the report, based on that stated in the Last Quarterly Report regarding Internal Control and based on information brought to the attention of the management and the Board of Directors, as referred to above, the internal control is effective.

**QUARTERLY REPORT REGARDING EFFECTIVENESS OF INTERNAL CONTROL OVER THE FINANCIAL REPORTING AND THE DISCLOSURE**

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**Officers' Declarations**

**A) Declaration of the Chief Executive Officer in accordance with Israeli Securities' Regulation 38C(d)(1):**

**Officers' Declaration**

**Declaration of the Chief Executive Officer**

I, Chaim Katzman, declare that:

- (1) I have examined the quarterly report of Gazit-Globe Ltd. (the "**Corporation**") for the second quarter of 2019 (the "**Statements**");
- (2) As far as I am aware, the Statements do not include any misrepresentation of a material fact and no representation of a material fact that is required has been omitted, so that the representations included therein, in light of the circumstances in which such representations were included, will not be misleading with reference to the period covered by the Statements;
- (3) As far as I am aware, the financial statements and other financial information included in the Statements properly reflect, in all material respects, the Corporation's financial position, results of operations and cash flows as of the dates and for the periods to which the Statements relate;
- (4) I have disclosed to the Corporation's auditors, the Board of Directors and the Audit Committee of the Board of Directors, based on my most up-to-date evaluation with respect to internal control over the Corporation's financial reporting and disclosure:
  - (A) All significant deficiencies and material weaknesses in the determination or operation of internal control over financial reporting and disclosure, which could reasonably have an adverse impact on the Corporation's ability to gather, process, summarize or report financial information in such a manner that could cause doubt with respect to the reliability of the financial reporting and preparation of the financial statements in accordance with the provisions of the law; and -
  - (B) Any fraud, whether or not significant, wherein the Chief Executive Officer is involved or a party under his direct supervision or other employees are involved that have a significant function in internal control over financial reporting and disclosure;
- (5) I, alone or together with others in the Corporation:
  - (A) Have determined controls and procedures, or have verified the determination and existence under my supervision of controls and procedures, which are designed to ensure that significant information relating to the Corporation, including subsidiaries as defined in the Israeli Securities Regulations (Annual Financial Statements), 2010, is brought to my attention by others in the Corporation and the subsidiaries, particularly during the period of preparation of the Statements; and -
  - (B) Have determined controls and procedures, or have verified the determination and existence under my supervision of controls and procedures, which are designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles.
  - (C) No event or matter has been brought to my attention that occurred during the period between the date of the last quarterly report and the date of this report, which would be enough to change the conclusion of the Board of Directors and the management with regard to the effectiveness of the internal control over the financial reporting and the disclosure of the Corporation.

Nothing stated above detracts from my responsibility or the responsibility of any other person under any law.

August 20, 2019

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Chaim Katzman, CEO and Vice  
Chairman of the Board of Directors

**QUARTERLY REPORT REGARDING EFFECTIVENESS OF INTERNAL CONTROL OVER THE FINANCIAL REPORTING AND THE DISCLOSURE**

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**A) Declaration of the most senior officer in the finance area in accordance with Israeli Securities Regulation 38C(d)(2):**

**Officers' Declaration**

**Declaration of the most senior officer in the finance area**

I, Adi Jemini, declare that:

- (1) I have examined the interim financial statements and other financial information included in the interim period statements of Gazit-Globe Ltd. (the "**Corporation**") for the second quarter of 2019 (the "**Statements**" or the "**Statements for the Interim Period**");
- (2) As far as I am aware, the financial statements and the other financial information included in the Statements for the Interim Period do not include any misrepresentation of a material fact and no representation of a material fact that is required has been omitted, so that the representations included therein, in light of the circumstances in which such representations were included, will not be misleading with reference to the period covered by the Statements;
- (3) As far as I am aware, the interim financial statements and the other financial information included in the Statements for the Interim Period properly reflect, in all material respects, the Corporation's financial position, results of operations and cash flows as of the dates and for the periods to which the Statements relate;
- (4) I have disclosed to the Corporation's auditors, the Board of Directors and the Audit Committee of the Board of Directors, based on my most up-to-date evaluation with respect to internal control over the Corporation's financial reporting and disclosure:
  - (A) All significant deficiencies and material weaknesses in the determination or operation of internal control over financial reporting and disclosure to the extent it relates to the interim financial statements and the other financial information included in the Statements for the Interim Period, which could reasonably have an adverse impact on the Corporation's ability to gather, process, summarize or report financial information in such a manner that could cause doubt with respect to the reliability of financial reporting and preparation of the financial statements in accordance with the provisions of the law; and-
  - (B) Any fraud, whether or not significant, wherein the CEO is involved or a party under his direct supervision or other employees are involved that have a significant function in internal control over financial reporting and disclosure;
- (5) I, alone or together with others in the Corporation:
  - (A) Have determined controls and procedures, or have verified the determination and existence under our supervision of controls and procedures, which are designed to ensure that significant information relating to the Corporation, including subsidiaries as defined in the Securities Regulations (Annual Financial Statements), 2010, to the extent it is relevant to the financial statements and to other financial information included in the Statements, is brought to my attention by others in the Corporation and the subsidiaries, particularly during the period of preparation of the Statements; and-
  - (B) Have determined controls and procedures, or have verified the determination and existence under my supervision of controls and procedures, which are designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles;
  - (C) No event or matter has been brought to my attention that occurred during the period between the date of the last quarterly report and the date of this report, with respect to the Statements for the Interim Period and any other financial information included therein, which would be enough to change the conclusion of the Board of Directors and the management with regard to the effectiveness of the internal control over the financial reporting and the disclosure of the Corporation.

Nothing stated above detracts from my responsibility or the responsibility of any other person under any law.

August 20, 2019

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Adi Jemini, Executive Vice President and Chief  
Financial Officer