



October 4, 2021

To
Israel Securities Authority
Via Magna

To
Tel Aviv Stock Exchange Ltd.
Via Magna

Re: Immediate Report on the Company's Entry into an Agreement for Acquisition of "Mall Hayam" in Eilat

Further to the immediate report of Azrieli Group Ltd. (the "**Company**") released on July 11, 2021 (Ref.: 2021-01-114954), and in accordance with the provisions of Section 36(a1) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 (the "**Reporting Regulations**"), the Company respectfully reports that on October 3, 2021 (the "**Signing Date**"), the Company entered into an agreement with two unrelated third parties (the "**Seller of the Acquired Company**" and the "**Seller of the Land**", respectively; both collectively: the "**Sellers**") and with Mall HaYam Eilat (1978) Ltd. (the "**Acquired Company**"), for acquisition of all (100%) of the rights in the land in Eilat known as Block 40186, Parcel 5, with an area of approx. 6,061 sqm, registered with the Israel Land Authority (the "**Land**"), on which land is built the Eilat mall known as "Mall HaYam", the built-up area of which is approx. 19,000 sqm (the "**Mall**")¹, and all as specified in this immediate report (the "**Agreement**").

1. **The key points of the Agreement are as follows:**

1.1. **The parties to the Agreement**

The parties to the Agreement are the Company, the Seller of the Acquired Company, the Seller of the Land and the Acquired Company (all collectively: the "**Parties**").

¹ The rights include, *inter alia*, the possession and leasehold rights in the Land and the Mall, including everything built thereon and permanently affixed thereto, with the exception of the rights in three stores, the aggregate gross area of which is approx. 47.5 sqm, which are leased on a long-term basis to third parties other than the Sellers; the rights and obligations of the Acquired Company and the Seller of the Land, of whatever type, in respect of the Land and the Mall as of the Closing Date forth; all rights and obligations of the Sellers and/or the Acquired Company and/or the Rentals Company and the Management Company (as defined in the Agreement) in respect of the endorsed agreements (which primarily include the lease agreements and the management agreements), as shall be effective as of the Closing Date, in respect of the collateral of the tenants and/or the holders of units and/or areas and/or facilities in the Mall (the "**Tenants**") that have been provided to the Acquired Company and/or the Seller of the Land and/or the Management Company and/or the Rentals Company, as being on the Closing Date and subject to the settlement of accounts specified in the Agreement; all intellectual property rights in the Mall and the goodwill of the Mall, including its name, design, the construction plans and the building permits; all rights in the equipment, facilities, software, information and assets specified in the annexes to the Agreement.

1.2. The transaction

On the Closing Date (as defined in Section 1.5 below), the Company shall: **(1)** buy from the Seller of the Acquired Company the entire (100%) issued and paid-up share capital of the Acquired Company on a fully diluted basis (without cash and without working capital, and also excluding the Acquired Company's holdings in the Rentals Company and the Management Company, as defined in the Agreement, and in an immovable property which is not part of the Mall) (the "**Acquired Shares**"). The Acquired Company is a private company duly incorporated in Israel, which holds one half (50%) of the rights in the Land and in the Mall; **(2)** buy from the Seller of the Land, which holds one half (50%) of the rights in the Land and in the Mall, all of its rights in the Land and in the Mall (the "**Acquired Land Rights**") – and all such that, upon the closing of the transaction, the Company shall hold the entire (100%) issued and paid-up share capital of the Acquired Company on a fully diluted basis, and also, directly and indirectly, all (100%) of the rights in the Land and in the Mall, them being free and clear, subject to the rights of the Tenants, the rights of Sub-Leaseholders (as defined in the Agreement) and the rights of the Lenders (as defined in the Agreement) according to the Financing Documents (as defined in the Agreement) (collectively: the "**Object of Sale**"); and **(3)** receive by way of assignment all of the rights and obligations of the Seller of the Land, the Rentals Company and the Management Company (collectively: the "**Borrowers**") under loan agreements into which the entered with the Lenders for the taking of loans, such that, as of the Closing Date, the Company shall take the place of the Borrowers, as a borrower, for all intents and purposes, in respect of both rights and obligations, under the Financing Documents² ("**Assignment of the Financing Documents**" and the "**Financing Loans**").

1.3. The consideration

The aggregate consideration in the transaction, in respect of the entire Object of Sale, totals approx. NIS 1.3 billion, plus differentials of linkage to the index of May 2021, and less the balance of the Financing Loans³ as of the Closing Date (the "**Consideration**"), and it shall be paid by the Company on the Closing Date (as defined in Section 1.5 below), subject to the settlement of accounts under the provisions of the Agreement.

1.4. Conditions precedent for the closing of the transaction

The closing of the transaction is subject, *inter alia*, to satisfaction of the following conditions precedent by and no later than 9 months after the Signing Date (broken down into extendable periods), or 30 days after the satisfaction of Conditions Precedent (1) and (2) below,

² The Financing Loans will be available for prepayment with no exit penalty in February 2023.

³ The estimated amount of which, as of the Signing Date, is approx. NIS 641 million.

whichever is earlier (the “**Last Date for Satisfaction of the Conditions Precedent**”): (1) Receipt of the Competition Commissioner’s approval; (2) Receipt of the Israel Land Authority’s approval for transfer of the rights in the Acquired Shares and transfer of the Acquired Land Rights to the Company’s name; (3) Receipt of the Lenders’ approval for the assignment of the financing agreements; (4) No Material Adverse Change (as defined in the Agreement) shall have occurred (the “**Conditions Precedent**”). Furthermore, the Parties have agreed on additional conditions and obligations (the “**Obligations for Closing**”), in the case of failure to satisfy which by the last date for the closing of the transaction, the Company shall not be obligated to close the transaction.

1.5. Closing of the transaction

Subject to the satisfaction of all the Conditions Precedent and Obligations for Closing by and no later than the Last Date for Satisfaction of the Conditions Precedent (except if the Company shall have waived any of them in accordance with the provisions of the Agreement), the transaction shall be closed no later than the last business day in the month in which all of the Conditions Precedent shall have been satisfied (the “**Closing Date**”)⁴.

1.6. Indemnification

The Sellers, each severally, have undertaken to indemnify the Company and/or anyone on its behalf up to the amount of the Consideration, less the balance of the Financing Loans⁵, for such causes and on such terms and conditions as specified in the Agreement. The indemnification obligation is effective for a period of 30 months after the Closing Date and shall only apply in respect of damage the aggregate amount of which is at least NIS 1.8 million⁶. In order to secure the Sellers’ indemnification obligation, collateral shall be provided in cash or by bank guarantee and personal guarantee in the aggregate amount of NIS 25 million, for a period of up to 3 years after the Closing Date, and corporate guarantees will also be provided.

1.7. Termination of the Agreement

The Agreement may be terminated, as long as the transaction is not closed, upon the occurrence, *inter alia*, of one or more of the following events: (1) upon mutual agreement between the Sellers and the Company; (2) by the Company, upon the occurrence of a Material

⁴ With the exception of certain events, which are specified in the Agreement, as a result of which the Closing Date will occur a short time thereafter.

⁵ Divided between the separate Sellers, according to the indemnification causes for which each is responsible, and in any case, none of the separate Sellers shall owe indemnification for damage under an indemnification cause for which it is not responsible and/or in excess of its share in the amount of the Consideration.

⁶ Except as pertains to certain causes determined in the Agreement, for which the indemnification obligation period shall be longer and the indemnification floor limit shall not apply.

Adverse Change (as defined in the Agreement); (3) by any of the Sellers or the Company, at any time after the Last Date for Satisfaction of the Conditions Precedent, if the transaction shall not have been closed by such time because any of the Conditions Precedent shall not have been satisfied by such time; (4) by the Company, or any of the Sellers, due to breach of the Agreement by any of the Sellers or the Company, as applicable, which breach shall not have been remedied within 14 days of the date on which notice of the breach was given; (5) by any of the Sellers or the Company, if an order or a decision shall have been issued by a court of law or another governmental agency, which limit, **prevent** or otherwise prohibit the closing of the transaction or the implementation of any of the material provisions of the Agreement.

1.8. Levy or tax charges resulting from the transaction

Each Party shall bear any and all taxes, levies or mandatory payments imposed thereon by law.

1.9. Additional provisions

The Agreement includes additional standard arrangements for transactions of this type, including standard statements and representations by the Parties, the performance of certain acts during the interim period between the Signing Date and the transaction closing date, matters for which settlement of accounts shall be conducted shortly before the Closing Date, taxes and payments in respect of the Object of Sale, a mutual confidentiality obligation, waiver of claims and causes for termination of the Agreement.

2. **Additional details:**

2.1. The manner in which the Consideration was determined

The Consideration was determined in negotiations between the Parties.

2.2. The manner of financing of the acquisition of the Object of Sale

As of the date of the report, the Company intends to fund the acquisition by means of its own resources and/or by means of bank or institutional financing.

2.3. Restrictions by law or legal arrangements that limit the ability to use the Object of Sale

To the best of the Company's knowledge, subject to the closing of the transaction, the Company is not subject to any restrictions in relation to use of the Object of Sale.

2.4. The Company's plans for the Object of Sale

The Company intends to continue operating the Mall, which is accessible to the residents of the area and to domestic and international tourists that come to Eilat. The Company intends to continue working to tailor an optimal mix of tenants, uses and sources of attraction at the Mall.

2.5. Special risk factors and their effect on the Company's business under Section 36(a1) of the Reporting Regulations

For details with respect to the risk factors that are relevant to the Company, including as pertains to the retail centers and malls in Israel segment, see Section 28 of Part A of the Company's periodic report for 2020, which was released on March 25, 2021 (Ref.: 2021-01-044625), the contents of which are incorporated herein by reference.

2.6. Additional details about the Mall and the Land

The following table presents further details about the Mall (NIS in millions):

Occupancy Rate	Approx. 100%
Number of Tenants	104
Representative Annual Rent⁷	Approx. 83
Representative 2021 NOI⁸	Approx. 86
Representative 2020 NOI⁹	Approx. 82
2019 NOI¹⁰	Approx. 84

⁷ According to information received from the Sellers with respect to the lease agreements in the Mall as of September 2021 and the Company's estimates with respect to an increase in the turnover-based rent based on the actual results of 2019.

⁸ The presented NOI is according to information received from the Sellers with respect to the lease agreements and management agreements in the Mall as of September 2021 and the Company's estimates with respect to an increase in the turnover-based rent, management revenues and electricity revenues based on the actual results of 2019. The NOI indicator presents the Mall's operating income: Income after deducting the operating costs (or adding the operating income) and before deducting taxes and interest. The said indicator is one of the important parameters in valuations of income-producing real estate, because its division by the cap rate appropriate for the property provides an indication for determining the value of the property. This indicator does not present cash flows from current operations according to GAAP and it is not meant to be deemed as a substitute for net profit.

⁹ According to an appraisal received by the Sellers as of the end of 2020. The NOI of the Mall according to the financial statements for 2020 is approx. NIS 52 million. According to information the buyer received from the Sellers, the difference between the representative 2020 NOI and the NOI of the Mall according to the financial statements for 2020, results from the effects of the Covid-19 pandemic.

¹⁰ NOI of the Mall according to the financial statements for 2019.

The Acquired Company and the Seller of the Land have capitalized leasehold rights in the Land until August 2040, with the right to extend the term of the leasehold by 49 additional years, in accordance with the terms and conditions of the leasehold agreement.

2.7. Additional details about the Acquired Company

As of the Closing Date, the only activity the Acquired Company is expected to have is the holding of 50% (one half) of the rights in the Land and in the Mall, and accordingly, the Acquired Company constitutes a land association, within the meaning of this term in the Land Taxation Law (Appreciation and Purchase), 5723-1963.

2.8. Financials

The following table presents key financials from the consolidated financial statements of the Acquired Company, which holds 50% of the rights in the Land and in the Mall, for the period commencing on January 1, 2019 and ending on December 31, 2020:

Figures are presented in thousands of NIS	As of December 31, 2019 or for the year then ending (as applicable)	As of December 31, 2020 or for the year then ending (as applicable)
Total Assets	702,353	652,995
Total Liabilities	510,998	471,403
Revenues from Tenants	52,217	32,980
Net Profit	30,207	17,238

The aforesaid figures are prepared according to Israeli GAAP and include a property owned by the Acquired Company, which is not included in the transaction and the effects of which on the results of the Acquired Company are negligible.

As of the date of this report, the Company does not have the financial statements of the Acquired Company for the period beginning on January 1, 2021.

The information included in this report with respect to the Company's plans for the Object of Sale and the designation thereof, NOI forecasts, forecasts with respect to an increase in the turnover-based rent under lease agreements and forecasts of management and electricity revenues, constitute forward-looking information, within the definition thereof in the Securities Law, 5728-1968, the materialization of which is uncertain or may materially differ from the aforesaid. Such information is chiefly based on the strategy formulated by the Company, its plans, estimates and assumptions that are uncertain. Nothing in the aforesaid shall constitute an obligation that the Company's goals and forecasts shall be

fulfilled or an obligation regarding the manner in which the strategy shall be implemented.

The information presented above may not materialize due to factors that are beyond the Company's control, and, *inter alia*, as a result of the impact of macroeconomic or sectoral factors or as a result of the risk factors listed in Section 28 of Part A of the Company's periodic report for 2020, which was released on March 25, 2021 (Ref.: 2021-01-044625), the contents of which are incorporated herein by reference.

Sincerely,

Azrieli Group Ltd.

Signed by: Adv. Nirit Zeevi, VP, General Counsel and Company Secretary