Press Release

May 26, 2011

<u>Azrieli Group Reports Excellent Results for the First Quarter of 2011:</u>

The group continues to demonstrate strong growth in its business parameters:

<u>The net profit rose by approx. 18% to approx. NIS 181 million;</u>

<u>An impressive 11% growth in the NOI totaled NIS 236 million compared to NIS 213 million in the equivalent quarter in 2010.</u>

<u>An increase of 26% in the FFO from the real estate business, amounting to approx. NIS 168 million;</u>

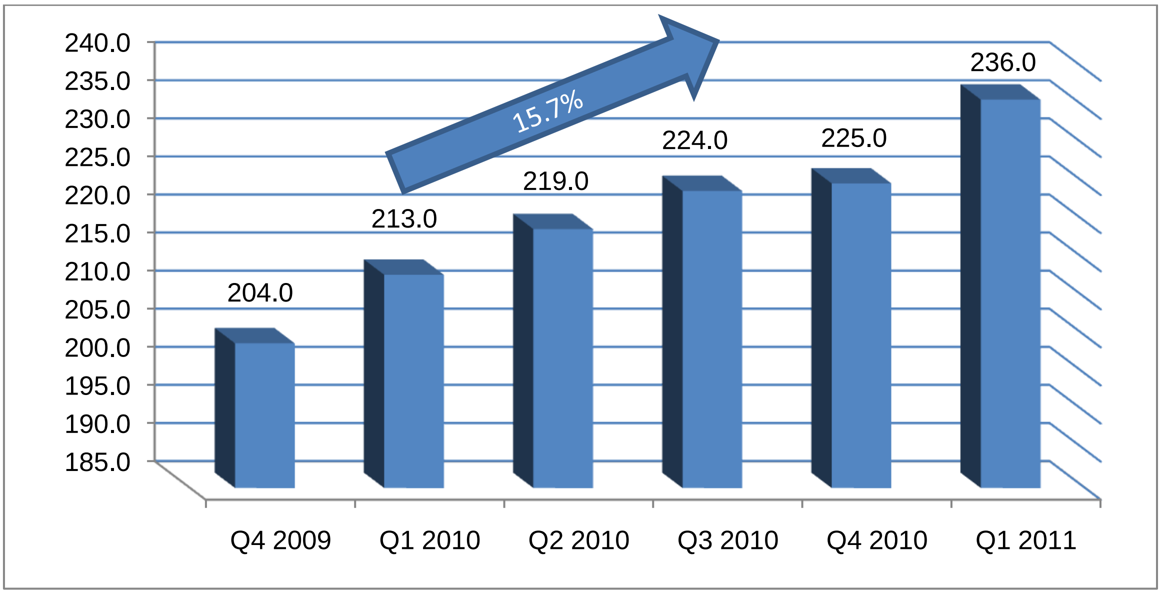
Shlomo Sherf, CEO of Azrieli Group: "We are demonstrating strong, two-digit growth in our main business parameters. We are proud of the fact that the majority of the growth in the first quarter is attributed to good and correct management, which improves our performance in our existing business and the group's development momentum. The results prove that looking forward, the group is equipped with the engines assuring that the strong growth will continue: The opening of two additional malls in the North in as early as the third quarter of this year, and the opening of two more malls in the center of Israel over the next three years, which will generate a strong cash flow. The Company's solid financial condition will enable it to identify, examine and perform significant transactions in the future".

Azrieli Group is reporting today its financial results for the first quarter of 2011, and is presenting continued strong growth in its core business segments: The Company's **net profit** in the first quarter grew by approx. 18% to approx. NIS 181 million, versus approx. NIS 154 million in the first quarter of 2010. The company's **revenues** from rent, management and maintenance grew by approx. 11% to approx. NIS 295.7 million, versus approx. NIS 265.4 million in the same quarter last year.

The NOI, the main parameter associated with the group's performance in the income-producing real estate segment, its core business, increased in the first quarter by approx. 11%, to approx. NIS 236 million, versus approx. NIS 213 million in the same quarter last year. The increase in the NOI results mainly from an increase in rent income and from the acquisition of new properties.

The same-property NOI, which represents the internal growth net revenues from rent, grew by an impressive rate of approx. 7%.

<u>NOI development over the last six quarters:</u>



The FFO (Funds from Operations) attributed to the real estate business increased by approx. 26% to approx. NIS 168 million, versus approx. NIS 133 million in the same quarter last year.

AZRIELI GROUP

The occupancy rate in the properties of Azrieli Group remained very high in the first quarter, and is approx. 100% in the shopping centers and malls segment, and close to 100% in the office segment in Israel. The company has around 2,400 tenants. The location of the shopping-centers, malls and offices, their management and the tenant composition, render the group's leasable areas an attractive destination for many high-quality tenants.

The group has announced that this coming September, the first store in Israel of the leading American fashion brand **FOREVER-21** will open at Azrieli Mall in Tel Aviv. The brand has leased 1,500 sqm and this will be its flagship store in Israel.

The total balance sheet as of March 31, 2011 was approx. NIS 22.1 billion, versus approx. NIS 17.4 billion on March 31, 2010. The company's **equity** amounted to approx. NIS 11.5 billion as of March 31, 2011, and accounts for approx. 52% of the company's balance sheet.

In the first quarter of 2011, Azrieli Group invested approx. NIS 735 million in real estate transactions: The signing of an agreement for the purchase of rights to land on an area of 31,650 sqm in Ramla, in consideration for approximately NIS 100 million (the Group made a down payment of NIS 20 million this quarter), on which Azrieli Ramla mall is planned to be built, with an investment of approx. NIS 210-230 million; and an investment of approx. NIS 60 million in properties under construction and existing properties. In addition, in February 2011 the group completed the acquisition of three office towers on a total area of approx. 99,000 sqm in Houston, Texas, in consideration for approx. $176 million.

In the context of releasing its reports, the group has announced an acceleration in the construction of the group's two malls in the North of Israel, due to open to the public between the end of the third quarter and the beginning of the fourth quarter of this year. The leasable area of the two malls is estimated at approx. 21,500 sqm, and will include around 160 stores together – approx. 12,500 sqm in the Akko Mall, designated for commerce on two floors with around 80 stores; and approx. 9,000 sqm in Kiryat Ata mall, designated for commerce on three floors with around 80 stores. To date, approx. 80% of the leasable areas in both malls have been rented.

AZRIELI GROUP

Azrieli Group holds approx. 60% of Granite HaCarmel, which controls the companies Sonol, Tambour, Supergas and desalination company GES. Granite's net profit which is attributed to the shareholders amounted, in the first quarter of 2011, to approx. NIS 35 million, versus approx. NIS 27 million last year.

The group also has financial holdings of approx. 4.8% of the shares of Bank Leumi shares, and approx. 20% of credit card company Leumi Card. In the first quarter, the value of these holdings remained approx. NIS 1.8 billion. In addition, in the first quarter the group received a dividend of approx. NIS 24 million from its holdings in Bank Leumi.

Financial Highlights for Q1/2011

- ✓ **NOI for the first quarter increased by 11%**, totaling NIS 236 million, compared to NIS 213 million in the same quarter in 2010. The increase is due to both an internal increase in rent (same-property NOI) and the acquisition of the Azrieli Haifa Shopping Mall and the Galleria office towers in Texas.
- ✓ Additional **Same Property NOI** growth of 7% during Q1/2011 compared to Q1/2010: A 7% increase in the commercial segment and an increase of 6% in the offices and others segment. The growth is attributed to an internal increase in rent and the continued occupation of income-producing properties.
- ✓ **FFO from real estate activity** (relating to the Group's income-producing real estate business only) totaled NIS 168 million in Q1/2011 compared to NIS 133 million in Q1/2010 – an increase of 26%. The increase is attributed both to an overall improvement in the real estate sector and to acquisitions.
- ✓ **Net profit (attributed to the shareholders) of NIS 162 million in Q1/2011** compared to NIS 141 million in the same quarter in 2010. The 15% rise is attributed to an increase in the NOI, the improvement in Granite's results and the dividend from Bank Leumi.
- ✓ **Occupancy rate as of March 31, 2011 remained close to 100%.**
- ✓ **Shareholders' equity as of March 31, 2011 totaled NIS 11 billion** compared to NIS 7.5 billion as of March 31, 2010 – an increase of 47%, due to both the net profit during the last year and the IPO in June 2010.
- ✓ **Shareholders' equity per share as of March 31, 2011 totaled NIS 90.6** compared to NIS 91.5 as of December 31, 2010 – due to the dividend that was paid in April 2011 (NIS 240 million – NIS 1.97 per share).
- ✓ **EPRA NAV per share as of March 31, 2011 totaled NIS 102** compared to NIS 95 as of March 31, 2010 – an increase of 7.4%.

Acquisitions, Development and Redevelopment Activities

- ✓ During the quarter, the Group's investments totaled NIS 735 million: Investments in existing properties and properties under development of NIS 59 million, the acquisition of a portfolio of 3 office buildings in Houston, Texas for NIS 622 million ($176 million) and an advance payment for the purchase of land in Ramla of NIS 20 million.

Balance sheet (extended standalone)

- ✓ As of March 31, 2011 the company's cash and cash equivalents totaled NIS 2.1 billion (excluding the real holdings in Bank Leumi and Leumi Card, which totaled NIS 1.8 billion as of March 31, 2011).
- ✓ The net debt totaled NIS 4.7 billion as of March 31, 2011.
- ✓ As of March 31, 2011 the company's fair value of income producing real estate totaled NIS 12.9 billion compared to NIS 11.1 billion as of March 31, 2010.
- ✓ **Shareholders' equity as of March 31, 2011 totaled NIS 11 billion** compared to NIS 7.5 billion as of March 31, 2010 – an increase of 47% due to both the net profit during the last year and the IPO in June 2010.
- ✓ The equity to balance sheet ratio stood at 62% as of March 31, 2011.
- ✓ The company owns unpledged assets worth NIS 7.7 billion as of March 31, 2011.

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