



Press Release

Azrieli Group Ltd. announces second quarter 2011 results; Reports a 9% increase in NOI and a 6% increase in FFO from real estate activity for the second quarter of 2011

TEL AVIV, ISRAEL, August 24, 2011 (PR Newswire) –

Azrieli Group Ltd. (TASE: AZRG IT) today reported results for the quarter ended June 30, 2011.

Highlights for the Second Quarter¹

- **NOI** for the second quarter increased by 9%, totaling NIS 239 million, compared to NIS 219 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 Galleria office towers in Houston, Texas.
- **Increased same-property net operating income (NOI)** of 5.5% over the second quarter of 2010. A 5% increase in the commercial segment and an increase of 6% in the offices and others segment.
- **FFO from real estate activity²** (relating to the Group's income-producing real estate business only) totaled NIS 168 million in Q2/2011 compared to NIS 159 million in the same quarter in 2010 – representing an increase of 6%. The increase is attributed both to an overall improvement in the real estate sector and to acquisitions.
- Quarter closed with gross **occupancy rate** both in the shopping center segment and in the office segment of close to 100%.
- An increase in the **market value of the income-producing properties** (according to independent appraiser) of NIS 278 million, net of tax.
- **Net profit** (attributed to the shareholders) of NIS 383 million in Q2/2011 compared to NIS 62 million in the same quarter in 2010. The rise is attributed to an increase in the NOI, an increase in the market value of the income-producing properties and the dividend from Bank Leumi.
- **Comprehensive income** (attributed to the shareholders) totaled NIS 276 million in Q2/2011 compared to NIS 132 million losses in the same quarter in 2010. The rise is attributed to an increase in the NOI, an increase in the market value of the income-producing properties and the better performance of Bank Leumi's share in the Israeli stock market.

Acquisitions, Development and Redevelopment Activities

- During the quarter, the Group's investments in real estate totaled NIS 780 million: Investments in existing properties and properties under development of NIS 106 million, the acquisition of land in Tel Aviv for NIS 588 million (excluding purchase taxes) and the final payment for the purchase of land in Ramla of NIS 86 million.
- The cost-to-completion of the projects under development as of 30.06.2011 totaled NIS 2.5 billion.
- After the balance sheet date, the Company signed an agreement for the purchase of 50% rights in the Ir-Yamim mall in Netanya, for a consideration of approx. NIS 350 million (excluding the Group's share in the projected cost-to-completion of approx. NIS 40 million). The property, with a GLA of approx. 24,000 sqm, is scheduled to be completed in early 2012.

Management Review

Shlomo Sherf, Azrieli Group's CEO: "The strong results in the Group's core business attest to a well-formed and stable business model as well as to a highly experienced and professional management team. During the report period, the Company realized significant business opportunities which supported the group's growth strategy. We intend to continue making wise use of the cash reserves and building additional future growth engines for the Group".

¹ Based on the 30.06.2011 extended standalone financial statements.

² For further details on the method of calculation and the assumptions, see Sections 1.1.4 and 1.1.5 of the board of directors' report as of June 30, 2011. Funds from operations (FFO) are a widely accepted supplemental measure of the performance of income-producing real estate companies and REITs.

Balance Sheet¹

- As of June 30, 2011 the Company's **cash and cash equivalents** totaled NIS 1.4 billion (excluding the real holdings in Bank Leumi and Leumi Card, which totaled NIS 1.6 billion as of June 30, 2011).
- **The net debt** totaled NIS 3.6 billion as of June 30, 2011.
- As of June 30, 2011 the **fair value of the Company's income producing properties** totaled NIS 14 billion, compared to NIS 11.2 billion as of June 30, 2010.
- **Shareholders' equity** as of June 30, 2011 totaled NIS 11.3 billion compared to NIS 9.8 billion as of June 30, 2010 – an increase of 15% due to the net profit during the last year, offset by the dividend paid in April 2011.
- **Shareholders' equity per share** as of June 30, 2011 totaled NIS 92.9, compared to NIS 80.8 as of June 30, 2010 – an increase of 15%.
- The **equity to balance sheet ratio** stood at 63% as of June 30, 2011.
- The Company owns **unpledged assets** worth NIS 8.5 billion as of June 30, 2011.
- **EPRA NAV per share** as of June 30, 2011 totaled NIS 105, compared to NIS 91 as of June 30, 2010 – an increase of 15%.

Core Business Operations

Second quarter 2011 malls and shopping center segment and offices and others segment operating results:

Shopping Center Portfolio

- Total net operating income (NOI) totaled NIS 160 million, an increase of 5% over the second quarter of 2010;
- Same-property NOI increased by 5% over the second quarter of 2010; and
- Gross occupancy was close to 100%.

The increase in the shopping center segment same-property NOI of 5% over the same period in 2010 is in continuation to the 7% increase in that parameter in Q1/2011 and a 7% increase in 2010.

Office Space and Others Portfolio

- Total net operating income (NOI) totaled NIS 79 million, an increase of 18% over the second quarter of 2010;
- Same-property NOI increased by 6% over the second quarter of 2010; and
- Gross occupancy was close to 100%.

The increase in offices and others segment same-property NOI of 6% over the same period in 2010 is in continuation to the 6% increase in that parameter in Q1/2011 and a 3% increase in 2010.

Non-Core Operations

Granite (approx. 60% holding) – Profit of approx. NIS 0.1 million in Q2/2011 compared to NIS 2.5 million loss in Q2/2010 (attributed to the shareholders). Revenues increased, and profit improved in most of the segments (particularly Sonol, Tambour and GES).

Bank Leumi (approx. 4.8% holding) – In Q2/2011, the share value on TASE decreased by 10%, dividend-adjusted price (decrease in the Group's holding value of NIS 128 million). Bank Leumi distributed a dividend of NIS 400 million in June 2011 (Group's share, NIS 19.2 million).

Leumi Card (20% holding) – The company has not yet released its financial statements.

¹ Based on the 30.06.2011 extended standalone financial statements.

NOI development over the last six quarters:



2011 Guidance

The Company remains committed to its core business objectives:

- Increasing shareholder value through the ownership, management and selective acquisition of malls, shopping centers and office space – mainly in Israel;
- Seeking of opportunities, especially in the development field, such as the acquisition of land for the development of new income-producing properties;
- Continued lease-up of its under-construction projects.

Conference Call

The Company will hold its quarterly conference call, hosted by Mr. Shlomo Sherf, CEO and Mr. Yuval Bronstein, CFO, on Wednesday, August 24, 2011 at 16:00 Israel local time (15:00 CET; 14:00 London time and 09:00AM New York time). The call will include a review of the Company's Q2/2011 performance as well as a discussion of the Company's strategy and expectations for the future. A Question & Answer session will follow the discussion.

To participate, please dial 03-9180650 from Israel, 1-888-668-9141 from the US, 0-800-917-5108 from the UK and 0-800-022-9568 from the Netherlands and 972-3-9180650 internationally.

A replay will be available for 3 days by dialing 03-9255930 from Israel, 1-888-782-4291 from the US & Canada, 0-800-028-6837 from the UK, 0-800-023-4246 from the Netherlands and 972-3-9255930 internationally.

Access to the presentation will be available through the Company's website at www.azrieli.com under "Investor Relations → Presentations."

For Additional Information

A full copy of the Company's financial statements is available on Azrieli Group's website at www.azrieli.com, in the IR (Investor Relations) section. To be included in the Company's e-mail distributions for press releases, news and other Company notices, please send e-mail addresses to Mr. Moran Goder, Head of Investor Relations, at morango@azrieli.com, Tel.: +972-3-6081310.

About Azrieli Group

Azrieli Group Ltd. owns and operates Israel's largest portfolio of malls & shopping centers and office space nationwide. The Group is publicly traded on TASE under the symbol AZRG IT, is included in the TA-25 and TA-real-estate 15 indices, and is the only Israeli stock included in the EPRA Index. As of June 30, 2011, the Company has an equity market capitalization of about \$3.3 billion. The Group operates mainly in Israel, owns and manages properties with a gross leasable area of 657,000 square meters; As of June 30, 2011, the Company owned interests in 11 shopping centers comprising 230,000 square meters of leasable space across Israel, 8 office properties comprising 280,000 square meters of leasable space across Israel and 5 properties overseas (mainly in Houston, Texas) comprising 147,000 square meters of leasable space. In addition, the Group has 9 projects under development comprising 355,000 square meters of leasable space in Israel. 94% of the fair value of investment properties and properties under development relates to properties in Israel. The Group has a consolidated total asset value of approx. \$3.8 million and an annualized NOI of approx. \$276 million. The Company has specialized in shopping center and office space development, acquisition, and management for 27 years. For further information, visit the Company's web site at www.azrieli.com.

Accounting and Other Disclaimers

The Company believes that publication of the FFO, which is calculated according to EPRA best-practice recommendations, better reflects the operating results of the Company, since the Company's financial statements are prepared in conformity with IFRS. In addition, publication of the FFO provides a better basis for the comparison of the Company's operating results between different reporting periods and strengthens the uniformity and the comparability of this financial measure to that published by European real estate companies.

As clarified in the EPRA and NAREIT position papers, the FFO measures do not represent cash flows from current operations 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 also clarified that these measures are not part of the data audited by the Company's independent auditors.

Forward Looking Statements

This press release may contain forward-looking statements relating to Azrieli Group's operations and the environment in which it operates that are based on Azrieli Group's expectations, estimates, forecasts and projections. These statements may be identified by their use of forward-looking terminology such as "believes", "expects", "may", "should", "would", "will", "intends", "plans", "estimates", "anticipates" and similar words. These statements are not guarantees of future performance and involve risks and uncertainties that are impossible to control or predict. Actual outcomes and results may differ materially from those expressed or implied in these forward-looking statements. We refer you to our latest annual report and current interim financial statements, both of which are available on Azrieli Group's website, for a discussion of the risks and uncertainties associated with forward-looking statements. You therefore should not place undue reliance on any such forward-looking statements. Further, these forward-looking statements speak only as of the date on which such statements are made. Except as required by laws and regulations, Azrieli Group undertakes no obligation to publicly update any such statement or to reflect new information or the occurrence of future events or circumstances.

The Company refers you to the documents filed by the Company from time to time with the Israel Securities Authority, specifically the section titled "Risk Factors" in the Company's Annual Report for the year ended December 31, 2010, as may be updated or supplemented in the Company's immediate filings, which discuss these and other factors that could adversely affect the Company's results.

Please note that this document should not be regarded as a substitute for reading the original Hebrew version of the Company's reports in full. The full and legal version of the Company's reports, in Hebrew, was released by the Company on August 24th, 2011 and may be inspected on the Israeli MAGNA website at www.magna.isa.gov.il.