



August 19, 2015

Azrieli Group: Results of the Second Quarter of 2015

FFO¹ totaled approx. NIS 217 million, up approx. 12% from the same quarter last year

NOI totaled approx. NIS 306 million, up approx. 9% from the same quarter in 2014

Q2/2015 Highlights

- **NOI increased by approx. 9%, totaling approx. NIS 306 million**, compared with approx. NIS 281 million in the same quarter last year.
- **Same-property NOI increased by approx. 5% and totaled approx. NIS 294 million** compared with approx. NIS 281 million in the same quarter.
- **FFO grew by approx. 12% and totaled approx. NIS 217 million**, compared with approx. NIS 193 million in the same quarter.
- **Financing expenses** amounted to approx. NIS 40 million, similarly to the same quarter last year. The decrease in the average interest on the debt as a result of the financing moves was counterbalanced by an increase in the linkage expenses due to the high index in this quarter.
- **Shareholders' equity** totaled approx. NIS 13.5 billion, compared with approx. NIS 12.8 billion on June 30, 2014.
- **During the quarter, the Group invested approx. NIS 247 million in investment properties**, the betterment of existing properties and the construction of new properties. Since the beginning of 2015, real estate investments totaled approx. NIS 602 million.
- **Net profit for shareholders** totaled NIS 244 million, compared with approx. NIS 258 million in the same quarter in 2014. The decrease is attributed to the decrease in the profit from Granite due to the sale of Tambour, while the profit from continuing operations (without Tambour) totaled approx. NIS 199 million in the same quarter.
- **Comprehensive income for shareholders** from continuing operations (net of the sale of Tambour last year) totaled NIS 257 million, compared with approx. NIS 185 million in the same quarter in 2014.
- **Dividend** – In May 2015, the Group distributed a NIS 320 million dividend (NIS 2.64 per share).

Yuval Bronstein, CEO of Azrieli Group: "The Group continues to display good performance that is expressed in the continued impressive growth in the NOI, FFO and other operating parameters. The development momentum in Israel is continuing according to our plans. In 2015 we have seen a rise in tenants' revenues in the malls, as well as significant demand for our offices in the Azrieli Towers in Tel Aviv, in the Herzliya park and in the projects under construction in Sarona, Rishonim and Holon. Recently we completed the purchase of the Palace Tel Aviv senior housing facility, and launched the marketing of the Azrieli Palace project in Modi'in in which potential tenants are showing a lot of interest. We are also continuing to implement financial streamlining measures, including the refinancing of existing loans and

¹ For details and the manner of calculation of the FFO, see Section 1.1.6 of the financial statements as of June 30, 2015.

raising of new debt, that are reflected in significant reductions in our financing costs, in addition to our actions for the disposition of non-real estate holdings".

Summary of Financials for Q2/2015:

NIS in millions					
	<u>Q2 2015</u>	<u>Q2 2014</u>	<u>Change</u>	<u>2014</u>	<u>2013</u>
-					
NOI	306	281	8.9%	1,134	1,105
Same property NOI	294	281	4.6%	1,117	1,101
FFO from real estate business	217	193	12.4%	787	759
EPRA NAV per share	134	127	5.5%		

Core Business Operations:

Retail centers and malls in Israel segment

- The NOI in the quarter totaled approx. NIS 187 million – an increase of 6% compared with the same quarter last year.
- The same property NOI rose by approx. 2% compared with the same quarter last year.
- The occupancy rate in this segment remained extremely high at approx. 97% at the end of the quarter. Including the retail center in Holon that was recently completed and is under lease-up, the occupancy rate is approx. 96%.

The rise in NOI, derives from the completion and opening of the Azrieli Ramla mall, the second floor of the Ayalon mall and internal growth, whereas the increase in same-property NOI is mainly attributed to the second floor of the Ayalon Mall and to internal growth, which was partly offset by a decline in the NOI of Beer Sheva Mall.

Office and other space in Israel segment – consistent growth trend continues

- NOI totaled approx. NIS 85 million in the quarter, up about 9% from the same quarter last year.
- Same property NOI increased by approx. 9% in the quarter, compared with the same quarter last year.
- The occupancy rate in this segment is approx. 99% at the end of the quarter.

The increase in the NOI and in the same property NOI mainly derives from an increase in rent and continued lease-up and a rise in occupancy in the Azrieli Holon center.

Income-producing property in the U.S.A. segment

- NOI totaled approx. NIS 34 million in the quarter, up about 31% from the same quarter last year, mainly due to the purchase of an asset in Houston, the rise in the dollar rate and a rise in the occupancy rate.
- The same property NOI totaled approx. NIS 29 million, up about 11.5% from the same quarter last year.
- The occupancy rate in this segment was approx. 93% at the end of the quarter.

The increase in NOI mainly derives from the purchase of the property in Houston, and the increase in the same property NOI mainly derives from the weakening of the Shekel against the dollar (down by 12% in this period). Net of exchange rate changes, the overseas segment NOI rose by approx. 18%.

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Acquisitions, Development and Redevelopment of Property

- **During the quarter, the Group invested approx. NIS 247 million in investment properties**, the betterment of existing properties, the acquisition of new properties and the construction of properties under development. **Investments since the beginning of 2015 total around. NIS 602 million.**
- **The Company has 8 development projects of around 507,500 sqm, with a total investment of approx. NIS 5.2-5.4 billion.** Their book value is approx. NIS 2.1 billion (excluding capitalizations), and cost-to-completion is approx. NIS 3.1-3.3 billion.
- **Lease contracts in Azrieli Holon Center** - To date, lease agreements have been signed for around 74,400 sqm: in Stage A - around 53,800 sqm of offices (~95% of the space) and around 4,900 sqm of retail space (~63% of the space) and in Stage B - around 15,700 sqm of offices (~29% of the space). The contracts were signed for 5-15 year terms, plus options for another 5-10 years.

It is emphasized that the pace of signed lease-up is satisfactory and even exceeds the Company's earlier forecasts.

Office Lease Contracts Signed for the Azrieli Sarona Center and Rishonim:

Azrieli Sarona Center – in June 2015, a lease agreement was signed with Africa Israel Hotels for the construction of a luxurious business boutique hotel at the Azrieli Sarona Center which is under construction. **The agreement was signed for a term of 20 years with a financial value of approx. NIS 250 million at the envelope level.**

In the transaction, the hotel chain will lease a total area of approx. 12,000 sqm over five floors (Floors 33-37) out of the 61 floors of the tower. The hotel in Azrieli Sarona will be separate from the office and retail floors. It will consist of around 160 rooms, separate elevators and an independent lobby at the hotel's bottom floor, which will also host a restaurant and a business lounge.

Azrieli Center Rishonim – signed leases for approx. 6,700 sqm of the office space.

- **Acquisition of the Palace Tel Aviv Senior Housing Home** – in late July 2015, the Azrieli Group closed the purchase of the Palace Tel Aviv senior housing home for approx. NIS 270 million, NIS 7 million of which will be injected into the purchased company, such that the effective price is NIS 263 million. The average annual FFO from the property is expected to be approx. NIS 30 million. A cap rate of approx. 9%-9.25% was used for the valuation of the property in the transaction.

Palace is a senior housing complex established in 2005 by Helena and Jacob Shaham, who invested in making it a high-quality luxurious facility in the sector. It is located on Weizmann Street, Tel Aviv, in the vicinity of the Ichilov Hospital, and consists of a total area of around 30,000 sqm. The Home includes two buildings with 231 residential units and 4 nursing wings. Occupancy rate is 100%.

Financing

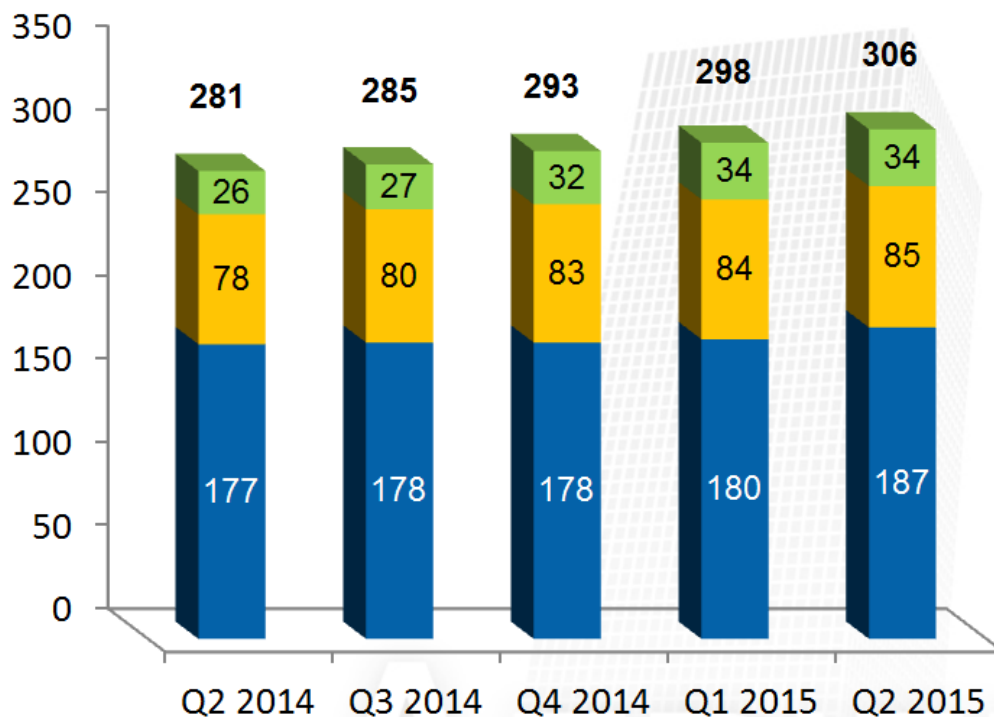
In June 2015, the Group made a NIS 600 million expansion of the Series B linked to the CPI marketable bond series. The bonds were rated AA+ by S&P Maalot. The bonds bear stated interest of 0.65% per year, and the series is not secured by a pledge.

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Balance Sheet (on an extended standalone basis) as of June 30, 2015

- The Group has **cash and financial assets held for trade** of approx. NIS 697 million.
- The Group has **financial investments** (mainly Bank Leumi and Leumi Card) with a fair value of approx. NIS 1.75 billion.
- **The net debt** totaled approx. NIS 5.4 billion.
- **The value of income-producing properties (including construction)** owned by the Group totaled approx. NIS 19.3 billion, compared with NIS 17.6 billion on June 30, 2014.
- **Investment properties under construction** totaled approx. NIS 2.1 billion, compared with approx. NIS 1.9 billion on June 30, 2014.
- **Shareholders' equity** totaled approx. NIS 13.5 billion, compared with approx. NIS 12.8 billion on June 30, 2014.
- **Equity per share** is approx. NIS 111, compared with approx. NIS 105.4 on June 30, 2014.
- **Equity to assets ratio** of approx. 58% and **net debt to assets ratio** of approx. 23%.
- **Unmortgaged properties** of approx. NIS 16.8 billion.
- **EPRA NAV per share** was NIS 134, compared with NIS 127 on June 30, 2014.

NOI development in the last 5 quarters



Malls and retail spaces **Offices and others** **Income-producing properties in the U.S.**

Non-Core Business Operations

Granite Hacarmel (100% held) – In Q2/2015, Granite recorded a net profit of approx. NIS 150 million, compared with approx. NIS 95 million in the same quarter last year. Discounting Tambour's results (discontinued operations), last year the net profit would have amounted to approx. NIS 21 million. During Q2, the sale of the desalination plant in Palmachim (Via Maris) was closed and Granite signed an MOU for the sale of the shares of Supergas (Excluding the solar operations of Supergas, which were sold separately), for approx. NIS 250 million.

Financial Holdings

Bank Leumi (4.8% holding) – In Q2/2015, the share price on TASE rose by approx. 8.1%, a rise of approx. NIS 62 million in the value of holding in the bank, after tax.

The value of the Group's holding in the bank, as of June 30, 2015, is approx. NIS 1,127 million.

Leumi Card (20% holding) – In Q2/2015, a net profit of approx. NIS 46 million was recorded, compared with a net profit of NIS 52 million recorded in the same quarter in 2014. After the date of the reports, Leumi card announced a dividend of NIS 50 million (the company's share NIS 10 million).

The value of the holding in the statements as of June 30, 2015, was approx. NIS 593 million, according to an external valuator.

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About Azrieli Group

Azrieli Group Ltd. owns and operates one of Israel's largest portfolios of malls, shopping centers and office properties nationwide. The Company is publicly traded on the TASE under the symbol AZRG IT, and is included in the TA-25, TA-100 and TA Real Estate 15 indices. It is the only Israeli stock included in the EPRA Index, which is the European index of the world's largest income-producing property companies. As of June 30, 2015, the Company has an equity market capitalization of about NIS 18.3 billion. The Company operates mainly in Israel, and owns and manages properties with a gross leasable area of approx. 840,000 square meters; the Company holds 15 malls and shopping centers comprising 301,000 square meters of leasable space across Israel, 11 office properties comprising 352,000 square meters of leasable space across Israel and 6 properties overseas (mainly in Houston, Texas) comprising 187,000 square meters of leasable space. In addition, the Company has 8 projects under development comprising around 507,500 square meters of leasable space in Israel. Approx. 90% of the fair value of the investment property and the property under development relates to domestic properties (in Israel). The Group has been specializing in shopping center and office space development, acquisition, and management for the past 30 years. For further information, please visit the Company's website at www.azrieli.com.

Disclaimer

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- The information in this document is a summary only, and is no substitute for inspection of the quarterly report as of June 30, 2015, the Company's periodic report for 2014 and its current reports, as reported to the ISA through the MAGNA distribution website. The Company is not responsible for the completeness or accuracy of the information, and will bear no liability for any loss and/or damage which may be caused as a result of use of the information.
- Various issues presented in this document, which include forecasts, targets, assessments, estimates and other information pertaining to future matters and/or events, the materialization of which is uncertain and is beyond the Company's control, is forward-looking information, as defined in the Securities Law, 5728-1968, including in connection with revenues forecast, the value of the Group's holdings, costs of and profit from projects, the development and construction thereof, modification of a zoning plan, receipt of permits and the underlying concept of the projects. Forward-looking information is based merely on the Company's subjective assessment, based on facts and figures with respect to the present position of the Company's business and macroeconomic figures and facts, all as are known to the Company on the date of preparation of this document. The Company does not undertake to update and/or modify any such forecast and/or assessment in order that they shall reflect events and/or circumstances that occur after the date of preparation of this presentation. The materialization or non-materialization of the forward-looking information will be affected, *inter alia*, by risk factors that characterize the Company's business, as well as by the developments in the general environment and in the external factors which affect the Company's business, such as representations of third parties which do not materialize, a delay in the receipt of permits, termination of contracts, a decline in the value of shares on the stock exchange, which cannot be estimated in advance and which are beyond the Company's control. The Company's results of operations may be materially different to the results estimated or implied by the aforesaid, *inter alia* due to a change in any one of the above factors.
- The terms "FFO attributed to the real estate activity" and "weighted average cap rate" – refer to the Group's income-producing property business only. Any person reading the document should read these figures in conjunction with the explanations of the Board of Directors in the Board of Directors' Report as of June 30, 2015, Sections 1.1.5 and 1.1.6, including the calculation methods and the assumptions underlying the same.
- The financial figures in this document are attributed to the extended standalone statement (Annex C to the Board of Directors' Report), unless stated otherwise, and are unaudited. This report presents a summary of the Company's financials according to IFRS, with the exception of the Company's investment in Granite Hacarmel which is presented based on the carrying value method in lieu of consolidation of the figures thereof into the Company's statements.