

May 25, 2016

Azrieli Group: Results of Q1/2016

FFO totaled NIS 232 million, up 13% from Q1/2015

NOI totaled NIS 319 million, up 7% from Q1/2015

Q1/2016 Highlights

- **NOI increased by 7%, and totaled NIS 319 million**, compared with NIS 298 million in Q1/2015.
- **Same Property NOI totaled NIS 304 million** compared with NIS 295 million in Q1/2015.
- **FFO attributed to real estate activity totaled NIS 232 million**, compared with NIS 205 million in Q1/2015.
- **Shareholders' equity totaled NIS 14 billion**, compared with NIS 13.2 billion on March 31, 2015.
- **During the quarter, the Group invested a total of NIS 665 million in investment properties**, the betterment of existing properties, and the construction of properties under development. In 2015, such investments totaled NIS 1.6 billion.
- **Shareholders' net profit** totaled NIS 672 million, compared with NIS 188 million in Q1/2015, mainly resulting from the revaluation of investment properties and a decrease in the income tax rate. **Net of IFRS valuation profits and the tax rate decrease**, the shareholders' net profit amounted to NIS 244 million, presenting an increase of 24% from Q1/2015.
- **Shareholders' comprehensive income** totaled NIS 674 million, compared with NIS 275 million in Q1/2015.
- During the quarter and after the balance sheet date, **the Company raised loans in the amount of NIS 1.5 billion at an average 1.5% interest rate**. In the coming year, **loans in the amount of NIS 1.1 billion will be repaid** with an average interest rate of 5%.
- Results of the quarter include **an IFRS valuation profit of NIS 357 million** (net of tax) in respect of land designated for investment property and investment property under construction in Israel.
- After the balance sheet date, the Company signed agreements **for the sale of Sonol's operations**, including real estate assets in Pi Gllot, for NIS 494 million.
- **Dividend** – The Group distributed a dividend of NIS 400 million (NIS 3.30 per share) in May 2016.

Yuval Bronstein, CEO of Azrieli Group: "We are pleased to report an excellent quarter for the Group, as reflected in the continued growth in all parameters along with the progress in the Company's development projects. In addition, we are presenting a profit that is 20% higher than Q1/2015, net of a significant increase in the fair value of investment properties. We consider this an additional testimony to the exceptional quality of the Company's existing properties and properties under development. The Azrieli Sarona project, which is becoming an integral part of Tel Aviv's cityscape, continues to stir great interest among potential tenants and its construction progress pace is according to plan. We have recently reported a transaction, as part of the process of disposition of properties that are not in our core business in the income-producing real estate sector. This business focus is an important goal for the continued unlocking of value for all shareholders of Azrieli Group. We are continuing to act for the closing of the Buy2 transaction and believe that this leading platform will add significant strength to our operations".

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Summary of Financials for Q1/2016:

NIS in millions					
	<u>Q1/2016</u>	<u>Q1/2015</u>	<u>Change</u>	<u>2015</u>	<u>2014</u>
NOI	319	298	7%	1,238	1,134
Same Property NOI	304	296	3%	1,138	1,117
FFO from real estate business	232	205	13%	874	787
EPRA NAV per share	140	132	6%	138	132

Core Business Operations:

Retail centers and malls in Israel segment – constant NOI growth

- NOI in the quarter totaled NIS 191 million – up 6% from Q1/2015.
- Same Property NOI totaled NIS 182 million – up 2% from Q1/2015.
- Occupancy rate in this segment remained extremely high and was 97% at the end of the quarter.
- This quarter saw a rise in NOI compared with Q1/2015, mainly thanks to Azrieli Ramla Mall and the 2nd floor of Ayalon Mall, which were opened in the course of Q1/2015.

Office and other space in Israel segment – increase in demands and in rent

- NOI and Same Property NOI in the quarter totaled NIS 92 million, up 10% from Q1/2015.
- Occupancy rate in this segment was 99% at the end of the quarter, excluding the 2 Phase B buildings in Azrieli Holon Business Center, which are in initial lease-up stages.

The increase in NOI and Same Property NOI mainly derives from a rise in rent and continued lease-up joined by an increase in the occupancy of Azrieli Holon Business Center.

Income-producing property in the U.S.A. segment – adverse effect on NOI due to departure of tenant

- NOI and Same Property NOI in the quarter totaled NIS 30 million, down 23% from Q1/2015, due to a key tenant leaving the Galleria property in Houston. Some of the vacated space was leased to another tenant (Citi Bank) for significantly higher rent than the terminated contract. The contribution to the NOI will be reflected later in the year.
- Occupancy rate in this segment was 82% at the end of the quarter, and will rise to 85% after the new tenant moves into the Galleria property.

Senior housing segment – expansion of the operation through development and acquisitions

- NOI from the Palace Tel Aviv senior housing home amounted in the quarter to NIS 6 million.
- During the quarter, the Company signed an agreement for the purchase of the Ahuzat Bayit senior housing home in Ra'anana.
- During the quarter, the Company won a tender for the purchase of land for construction of a senior housing home in HaRakafot neighborhood, Rishon LeZion. This land joins the land plots in Modi'in and Lehavim, on which senior housing homes of the Palace chain will be constructed.

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Highlights and Developments in the Quarter

- **During the quarter, the Company's total investment properties and investment properties under construction grew by NIS 953 million**, as a result of the betterment of existing properties, acquisition of new properties, construction of properties under development and revaluations. **In 2015, investment properties increased by NIS 1.7 billion.**
- **The Company has 9 development projects**, which include Azrieli Sarona, Azrieli Rishonim, Azrieli Town, Palace Modi'in, Palace Lehavim, and Palace Rishonim, as well as the expansion of Azrieli Tel Aviv Center on the land of Yedioth Ahronoth, and land in Holon (12,400 sqm) and a property in the industrial zone in Holon (55,000 sqm), which are designated for the development of office and retail spaces.
 - **Azrieli Sarona Center** - To date, lease agreements have been signed for **46,000 sqm of the leasable office space**. As has been reported, during the first quarter, large-scale lease contracts were signed with leading high-tech companies. The lease agreements were signed for periods of 7-20 years plus options and also include the lease of parking spaces in the tower's underground parking lot which includes 1,400 parking spaces.
 - **Azrieli Holon Center and Azrieli Rishonim** – At Azrieli Holon, to date, contracts have been signed for **92,000 sqm** of the leasable space, and at Rishonim, to date, contracts have been signed for **10,000 sqm** of the leasable office space. In April 2016, Building C in Azrieli Holon Business Center (the fourth and final building in the project) was opened and lease-up was initiated.
- **Sale of Non-Core Business Operations** – In April 2016, the Company signed a (contingent) agreement for the sale of the entire holdings of Sonol by Granite Hacarmel (100%) to a partnership headed by businessman Dudi Weissman. Total proceeds amount to NIS 363.5 million. This sale does not include the real estate in Pi Giliot (including shares in Pi Giliot), for which separate sale agreements have been signed with a third party for NIS 130 million. Bringing the total sale value of Sonol to NIS 494 million.

The sale of Sonol and the sale of Sonol's real estate are a further step in the execution of the Group's strategy of focusing on its core business in the income-producing real estate sector. **Total dispositions of Granite Hacarmel assets**, including the sale of Tambour, Sonol, Via Maris, the solar operations of Supergas and the present transaction, **are expected to amount to NIS 1.6 billion**. Following the closing of these transactions, Granite Hacarmel will remain with additional operations, chief of which are Supergas and GES.
- **Agreement for the purchase of Ahuzat Bayit, a senior housing home in Ra'anana** – In this quarter (March 2016), Azrieli Group signed an agreement for the purchase of the Ahuzat Bayit senior housing home and the Park Mall retail center in Ra'anana. In consideration for the shares of the acquired company, the Company will pay **a total consideration of NIS 55 million**.

Ahuzat Bayit is an operating senior housing complex on Ahuza Street, Ra'anana, near the path of Route 531, which includes 325 senior housing units and LTC Units. Park Mall is an operating retail center adjacent to the senior housing home, which has 20 tenants on an area of 4,500 sqm and yields an annual NOI of NIS 5 million.

- **Winning of a tender for the purchase of land for senior housing in Rishon Lezion:** The Group announced that it won a tender of the Israel Land Authority (ILA) for the purchase of land for the construction of a senior home in Rishon Lezion, close to the Azrieli Rishonim center, in consideration for NIS 26 million (excluding development costs of NIS 22 million). The Company intends to build and operate a senior home with **250 senior housing units and 3,000 sqm of retail space, on a total area of 30,000 sqm**. This land is the Group's third property that is designated for the development of a senior home and joins Palace Modiin, which is currently under construction, and Palace Lehavim, whose marketing is now beginning.
- During the quarter (March 2016), **the Company purchased land in Holon from Lodzia**. The land spans 55,000 sqm, with building rights of up to 193,000 sqm aboveground and parking basements, for development of office and retail space. The location of the land, adjacent to Azrieli Holon Business Center is a direct continuation of the existing business center and will be used by the Company for the continued development of the business and retail area in Holon, as reflected in its recently constructed project in Holon. Total cost of the property is NIS 280 million.
- At the end of the quarter, **the Company closed the purchase of the Yediot Aharonot land, which is adjacent to Azrieli Tel Aviv Center**. The property, in the area of 8,400 sqm, will be used by the Company for the expansion of Azrieli Tel Aviv Mall and for the construction of a mixed-use tower in Tel Aviv. The Company is presently in the process of a zoning plan change for additional rights and uses, and has already begun the initial work on the complex.
- Further to the indices reform announced by the Tel Aviv Stock Exchange, **Azrieli Foundation (Canada), an interested party in the Company, sold 5% of the Company's shares**, thereby increasing the public holdings to 30.1%.
- After the end of the quarter (May 2016), the Company signed **an agreement with BUY2, for acquisition of its e-commerce operations** in consideration for NIS 62 million. The Group's entry into this sector will provide it a new growth engine and a substantial basis for the development of the Group's digital commerce operations.

Financing

After the end of Q1/2016, the Group took a long-term loan in the amount of NIS 550 million, linked to the index, with the duration of 6.7 years, at a 1.4% annual interest rate (as of this time) from an institutional body. The Company also took a short-term loan from an institutional body, in the amount of NIS 300 million, at a Shekel interest rate of Prime minus 0.1%.

In the coming year, **loans will be repaid in the amount of NIS 1.1 billion**, at an average interest rate of 5%.

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Balance Sheet (extended standalone) as of March 31, 2016

- The Group has **cash and financial assets held for trade** in the amount of NIS 576 million.
- The Group has **financial investments** (mainly Bank Leumi and Leumi Card) with a fair value of NIS 1.6 billion.
- **Net debt** totaled NIS 6.2 billion.
- **The value of income-producing properties (excluding construction)** owned by the Group totaled NIS 21.5 billion, compared with NIS 19.2 billion on March 31, 2015.
- **The value of investment properties under construction** totaled NIS 3 billion, compared with NIS 2 billion on March 31, 2015.
- **Shareholders' equity** totaled NIS 14.0 billion, compared with NIS 13.2 billion on March 31, 2015.
- **Equity per share** is NIS 115.65, compared with NIS 108.9 on March 31, 2015.
- **Equity to assets ratio** is 56% and **net debt to assets ratio** is 25%.
- **Unmortgaged properties** amount to NIS 18 billion.
- **EPRA NAV per share** was NIS 140 per share, compared with NIS 132 per share on March 31, 2015.

Non-Core Business Operations

Granite Hacarmel (holding: 100%) – In Q1/2016, Granite recorded a net profit of NIS 20 million, compared with NIS 21 million in Q1/2015.

Financial Holdings

Bank Leumi (holding: 4.6%) – In Q1/2016, the share price remained nearly unchanged.

The value of the Group's holding in the bank, as of March 31, 2016, is NIS 953 million.

Leumi Card (holding: 20%) – In Q1/2016, a recorded net profit of NIS 47 million compared with a recorded net profit of NIS 45 million in Q1/2015.

The value of the holding in the reports as of March 31, 2016, was NIS 603 million.

About Azrieli Group

Azrieli Group Ltd. owns and operates one of Israel's largest groups of malls, retail centers and office properties. The Company is listed on the Tel Aviv Stock Exchange 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 real estate companies. As of March 31, 2016, the Company's market cap is NIS 18.2 billion. The Company operates mainly in Israel, and owns and manages properties with a gross leasable area of 912,000 sqm; the Company holds 15 malls and retail centers comprising 302,000 sqm of leasable space across Israel, 11 office properties comprising 393,000 sqm of leasable space across Israel, a senior housing property of 30,000 sqm of leasable space in Israel and 6 properties overseas (mainly in Houston, Texas) that comprise 187,000 sqm of leasable space. In addition, the Company has 9 projects under development. 90% of the fair value of investment properties and properties under development represents properties in Israel.

Over the past 30 years, the Group has specialized in the development, acquisition and management of retail centers and office spaces. For additional information, please visit the Company's website at www.azrieli.com.

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- 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 March 31, 2016 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.
- All figures are approximate.