



March 23, 2016

Azrieli Group: Results of 2015 and the Fourth Quarter

FFO from real estate activity in 2015 was up approx. 11% compared with last year, totaling approx. NIS 874 million

FFO from real estate activity was up approx. 10% in the fourth quarter compared with last year totaling approx. NIS 227 million

The Same Property NOI was up approx. 5% in 2015 compared with last year. The Same Property NOI was up around 5.5% in the fourth quarter

2015 and Q4/2015 Highlights

- **NOI increased in 2015 by approx. 9%, totaling NIS 1,238 million**, compared with approx. NIS 1,134 million last year.
- **NOI increased in the quarter by approx. 10% totaling approx. NIS 323 million**, compared with approx. NIS 293 million in the same quarter last year.
- **Same Property NOI increased in 2015 by approx. 5% totaling approx. NIS 1,183 million** compared with approx. NIS 1,127 million last year.
- **Same Property NOI increased in the quarter by approx. 5.5% totaling approx. NIS 309 million** compared with approx. NIS 293 million in the same quarter last year.
- **FFO attributed to real estate activity increased in 2015 by approx. 11% totaling approx. NIS 874 million**, compared with approx. NIS 787 million last year.
- **FFO attributed to real estate activity increased in the quarter by approx. 10% totaling approx. NIS 227 million**, compared with approx. NIS 207 million in the same quarter last year.
- **Shareholders' equity** totaled, on December 31, 2015, approx. NIS 13.8 billion, compared with approx. NIS 13.3 billion on December 31, 2014.
- **During 2015, the Company's total investment property and investment property under construction grew by approx. NIS 1.7 billion**, mainly thanks to the acquisition, development and construction of new properties and due to the upgrade and betterment of existing properties and revaluations.
- **Net profit for shareholders, net of Granite**, increased in 2015 by approx. 26% totaling approx. NIS 904 million, compared with approx. NIS 719 million last year.
- **Net profit for shareholders, net of Granite, increased in the quarter by approx. 48% totaling approx. NIS 293 million**, compared with approx. NIS 198 million in the same quarter last year.
- **Comprehensive income and net profit for shareholders** including Granite¹ totaled, in 2015, approx. NIS 846 million, compared with approx. NIS 913 million in 2014 and NIS 828 million compared with NIS 860 million, respectively.

¹ The decrease in the net profit, including Granite, mainly derives from the sale of (1) Tambour, (2) Supergas' solar business, and (3) the Palmachim desalination plant, and from impairment of the goodwill attributed to Sonol in view of indications received in the course of the attempts to sell Sonol in recent months.

- **Comprehensive income and net profit for shareholders** including Granite¹ totaled, in the quarter, approx. NIS 227 million, compared with approx. NIS 179 million in the same quarter last year and NIS 288 million compared with NIS 218 million, respectively.
- **Dividend** – The Group declared the distribution of a NIS 400 million dividend (NIS 3.30 per share), growth of approx. 25% compared with the previous year.

Yuval Bronstein, CEO of Azrieli Group: "The Group continues to present good performance in 2015 and in the fourth quarter of the year. This performance is well reflected in the continued growth in the NOI, the FFO and the other operating parameters. The Group's growth strategy, which focuses on improving the income-producing property and developing new projects, is expressed in the results and in the significant progress in the development projects. Azrieli Rishonim and Azrieli Sarona are enjoying considerable interest on the part of tenants. At Sarona, in the last two months, contracts have been signed for approx. 25,000 sqm of office space, and in total, to date, contracts have been signed for approx. 45,000 sqm of office space, more than 18 months before the planned opening date. In the coming weeks we also expect to complete the construction of the Azrieli Holon Center, which has high occupancy rates by a wide variety of leading companies in the Israeli market. The Group is continuing to grow, also in the senior housing activity, and is looking into additional transactions in this segment, and recently won a tender for additional land in Rishon Lezion for the construction of a senior home near to the Rishonim project. The development momentum and growth will ensure continued growth in revenues and profitability, as expressed this year."

Summary Financials for Q4 and for 2015:

NIS in millions						
	<u>Q4 2015</u>	<u>Q4 2014</u>	<u>Change</u>	<u>2015</u>	<u>2014</u>	<u>Change</u>
NOI	323	293	10%	1,238	1,134	9%
Same Property NOI	309	293	6%	1,183	1,127	5%
FFO from real estate business	227	207	10%	874	787	11%
EPRA NAV per share	138	132	5%			

Core Business Operations:

Retail centers and malls in Israel segment – significant growth in the NOI

- The NOI in the quarter totaled approx. NIS 192 million – an increase of approx. 8% compared with the same quarter last year.
- The Same Property NOI in the quarter increased by approx. 3.4% compared with the corresponding quarter and in 2015 grew by approx. 2.3% compared with 2014.
- The occupancy rate in this segment remained extremely high at approx. 98% at the end of the quarter.

This year saw a significant rise in the NOI following the opening of the Ramla mall and the second floor of the Ayalon mall.

The majority of the rise in the Same Property NOI may be attributed to the opening of the second floor in the Ayalon mall.

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

- NOI totaled approx. NIS 94 million in the quarter, up about 13% from the same quarter last year.
- The Same Property NOI increased by approx. 13.3% in the quarter, compared with the same quarter last year and in 2015 grew by approx. 9.1% compared with 2014.

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- The occupancy rate in this segment was approx. 99% at the end of the quarter.

The increase in the NOI and in the Same Property NOI mainly derives from the continued lease-up of the offices in the Azrieli Holon Center and from the rise in rent in the office buildings in general and in the Azrieli Herzliya and Azrieli Tel Aviv towers in particular.

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

- The NOI in 2015 totaled approx. NIS 132 million, a rise of approx. 23% compared with 2014. The NOI totaled approx. NIS 31 million in the quarter, down about 3% from the same quarter last year.
- The Same Property NOI in 2015 totaled approx. NIS 112 million, a rise of approx. 11% compared with 2014. The Same Property NOI in the quarter totaled approx. NIS 31 million, down about 3% from the same quarter last year.

The increase in the annual NOI is mainly due to the purchase of the West 8 property during 2014 and due to the strengthening of the average rate of the dollar, and the decline in the quarterly NOI and Same Property NOI mainly derives from a main tenant leaving the Galleria property in Houston, while part of the space which it vacated has been leased to another tenant at higher rent.

Senior housing activity

- The NOI in the quarter totaled approx. NIS 6 million, and in 2015 approx. NIS 11 million (half-year figure).

Acquisitions, Development and Redevelopment of Property

- **During the quarter, the Company's total investment property and investment property under construction grew by approx. NIS 375 million**, as a result of betterment of existing properties, acquisition of new properties, construction of properties under development and revaluations. **In 2015**, the investment property grew **by approx. NIS 1.7 billion**, further to growth of approx. NIS 1.6 billion in 2014.
- **The Company has 8 development projects of around 475,500 sqm** which include Azrieli Sarona, Azrieli Rishonim, Azrieli Town, Palace Modiin, Palace Lehavim, and building C in the Azrieli Holon center, as well as expansion of the Azrieli Tel Aviv center on Yedioth Ahronoth land and land in Holon (12,400 sqm) designated for development of office and retail space.
- **Azrieli Sarona Center** - To date, lease agreements have been signed for **around 45,000 sqm of the leasable office space**. In the last two months, lease contracts were signed for approx. 25,000 sqm with leading high-tech companies. The lease agreements were signed for periods of 7-20 years plus options and include also the lease of parking spaces in the tower's underground parking lot which includes around 1,400 parking spaces.
- **Azrieli Holon Center and Azrieli Rishonim** – at Azrieli Holon, to date, contracts have been signed for around **90,000 sqm** of the leasable space, and at Rishonim, to date, contracts have been signed for **around 10,000 sqm** of the leasable office space.
- **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 approx. NIS 22 million). The Company intends to build and operate a senior home with

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around 250 senior housing units and 3,000 sqm of retail space, on a total area of around 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.

- After the report period, a contingent agreement was signed **for the acquisition of land in Holon from Lodzia**, near Azrieli Holon center. The land extends over approx. 53,000 sqm, with building rights of up to approx. 193,000 sqm above ground and parking basements, for development of office and retail space. In consideration for the property, the Company will pay approx. NIS 280 million.

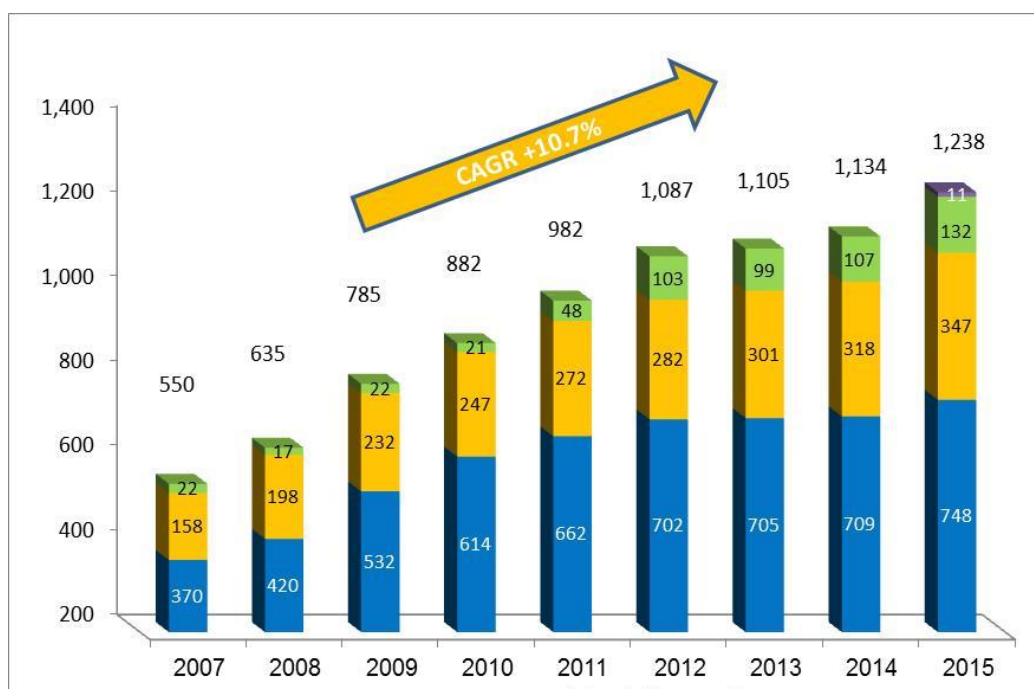
Financing

During 2015, the Company raised approx. NIS 2.2 billion in public bonds (Series B and C), and reduced the average interest expenses on the debt from 3.1% at the end of 2014 to 2.44% at the end of 2015.

Balance Sheet (on an extended standalone basis) as of December 31, 2015

- The Group has **cash and financial assets held for trade** of approx. NIS 861 million.
- The Group has **financial investments** (mainly Bank Leumi and Leumi Card) with a fair value of approx. NIS 1.6 billion.
- **The net debt** totaled approx. NIS 5.7 billion.
- **The value of income-producing property (excluding construction)** owned by the Group totaled approx. NIS 18.4 billion, compared with approx. NIS 16.3 billion on December 31, 2014.
- **The value of investment property under construction** totaled approx. NIS 2.1 billion, compared with approx. NIS 2.5 billion on December 31, 2014.
- **The shareholders' equity** totaled approx. NIS 13.8 billion, compared with approx. NIS 13.3 billion on December 31, 2014.
- **The equity per share** is approx. NIS 113.6, compared with approx. NIS 109.3 on December 31, 2014.
- **Equity to assets ratio** of approx. 57% and **net debt to total assets ratio** of approx. 23%.
- **Unencumbered assets** of approx. NIS 16.9 billion.
- **EPRA NAV per share** was NIS 138, compared with NIS 132 on December 31, 2014.

NOI development in recent years



Shopping Malls and Retail

Offices and Others

Assets in the US

Senior Housing

Non-Core Business Operations

Granite Hacarmel (100% held) – In Q4/2015, Granite recorded a net profit of approx. NIS 17 million, compared with approx. NIS 21 million in the same quarter last year. In 2015, it recorded a net profit of approx. NIS 80 million compared with a net profit of approx. NIS 158 million in 2014. The decrease in profit in 2015 is attributed, *inter alia*, to the capital gain from the sale of Tambour and Supergas' solar business in 2014, as well as due to the discontinuation of the operations of these companies in 2014. In addition, in June 2015, the sale of the Palmachim desalination plant was closed, which constitutes an additional factor for the decrease in Granite Hacarmel's profits in 2015.

In addition, in Q4/2015, Azrieli Group recorded an impairment of goodwill attributed to Sonol at a scope of approx. NIS 23 million, and an impairment of approx. NIS 103 million in 2015, in view of indications received in the course of the attempts to sell Sonol in recent months, which is not in the Group's core business.

Financial Holdings

Bank Leumi (4.8% holding) – In 2015, the share price on TASE strengthened by approx. 0.9%, a rise of approx. NIS 9 million in the value of the holding in the bank.

The value of the Group's holding in the bank, as of December 31, 2015, is approx. NIS 954 million.

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Leumi Card (20% holding) – In 2015, a net profit of approx. NIS 180 million was recorded compared with NIS 197 million in 2014. In the report period, the Group received a dividend of NIS 10 million from Leumi Card.

The value of the holding on the books as of December 31, 2015, was approx. NIS 603 million, compared with a value of NIS 593 million on December 31, 2014, according to an external assessor.

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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 December 31, 2015, the Company has an equity market capitalization of about NIS 17.6 billion. The Company operates mainly in Israel, and owns and manages properties with a gross leasable area of approx. 907,000 square meters; the Company holds 15 malls and shopping centers comprising 300,000 square meters of leasable space across Israel, 11 office properties comprising 390,000 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 475,500 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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- 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 December 31, 2015, Sections 1.1.8 and 1.1.9, 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.