



November 18, 2015

Azrieli Group: Results of the Third Quarter of 2015

FFO¹ totaled approx. NIS 225 million, up approx. 15% from the same quarter last year

NOI totaled approx. NIS 315 million, up approx. 11% from the same quarter in 2014

Q3/2015 Highlights

- **NOI increased by approx. 11%, totaling approx. NIS 315 million**, compared with approx. NIS 285 million in the same quarter last year.
- **Same-property NOI increased by approx. 5% and totaled approx. NIS 298 million** compared with approx. NIS 284 million in the same quarter.
- **FFO grew by approx. 15% and totaled approx. NIS 225 million**, compared with approx. NIS 195 million in the same quarter.
- **Net financing expenses** amounted to approx. NIS 31 million, similarly to the same quarter last year. The decrease in the average interest on the debt as a result of debt refinancing was counterbalanced by a rise in the net debt due to the purchase of the property in Houston last year.
- **Shareholders' equity** totaled approx. NIS 13.5 billion, compared with approx. NIS 13.1 billion on September 30, 2014.
- In the report period, the Group's **Total Investment Property** and investment property under construction grew by approx. NIS 722 million thanks to the purchase, development and construction of new properties and due to the upgrade and improvement of existing properties. Since the beginning of 2015, total Investment properties grew by approx. NIS 1,324 million.
- **Net profit for shareholders** totaled NIS 101 million, compared with approx. NIS 170 million in the same quarter in 2014. The net profit net of Granite's results is NIS 191 million compared with approx. NIS 162 million in the corresponding quarter. In this quarter, in view of indications arising in discussions regarding the possible sale of Sonol, the Group reduced the value of its holding of Sonol, in accordance with GAAP, by about NIS 80 million.
- **Rating upgrade** – In November 2015, Moody's/Midroog raised the rating of the Group's Series A bonds from Aa2 to Aa1. The Group distributed a NIS 320 million dividend (NIS 2.64 per share).

Yuval Bronstein, CEO of Azrieli Group: "We are continuing 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, and this quarter alone, the Company's total real estate investment property grew by around NIS 722 million thanks to the purchase and construction of new properties and the improvement of existing properties. This quarter we established the Azrieli Palace senior housing chain, we purchased Palace Tel Aviv and we began marketing the senior housing in Modiin. In terms of financing, we completed a raising of marketable bonds at a scope of around one billion shekels, which constitutes another step in reducing interest expenses. We are also continuing to act for the disposition of non-real estate holdings, and this quarter we performed an impairment of the goodwill attributed to Sonol".

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

Summary of Financials for Q3/2015:

NIS in millions					
-	<u>Q3 2015</u>	<u>Q3 2014</u>	<u>Change</u>	<u>2014</u>	<u>2013</u>
NOI	315	285	11%	1,134	1,105
Same property NOI	298	284	5%	1,117	1,101
FFO from real estate business	225	195	15%	787	759
EPRA NAV per share	136	130	5%		

Core Business Operations:

Retail centers and malls in Israel segment

- The NOI in the quarter totaled approx. NIS 190 million – an increase of 7% compared with the same quarter last year.
- The same property NOI rose by approx. 3% 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 86 million in the quarter, up about 8% from the same quarter last year.
- Same property NOI increased by approx. 8% 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 26% 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 12% from the same quarter last year.
- The occupancy rate in this segment was approx. 94% 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 11% in this period). Net of exchange rate changes, the overseas segment NOI rose by approx. 16%.

Senior housing operations

- This quarter, the operations of Azrieli Palace Tel Aviv senior housing facility, which was purchased in July 2015, were consolidated for the first time.
- The NOI in the quarter was approx. NIS 5 million and the FFO in the quarter was NIS 7 million.

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Acquisitions, Development and Redevelopment of Property

- During the quarter, the Group's **Total Investment Property** and investment property under construction grew by approx. NIS 722 million thanks to the purchase, development and construction of new properties and due to the upgrade and improvement of existing properties. Since the beginning of 2015, total Investment properties grew by approx. NIS 1,324 million.
- **The Company has 8 development projects of around 507,500 sqm, with a total investment of approx. NIS 5.3-5.5 billion.** Their book value is approx. NIS 2.2 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 82,700 sqm: in stage A – around 55,900 sqm of offices (~100% of the space) and around 6,000 sqm of retail space (~77% of the space) and in stage B - around 20,800 sqm of offices (~38% 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 Azrieli Rishonim Center:

1. Azrieli Sarona Center – to date, contracts have been signed for approx. 21,500 sqm for a hotel, a law firm and a high-tech company.
 2. Azrieli Rishonim Center – signed contracts for approx. 7,800 sqm of office space.
- **Acquisition of the Palace Tel Aviv Senior Housing Home** – in this quarter (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 September 2015, the Group raised a new series of index-linked marketable bonds (Series C) at a scope of around NIS 1,005 million. The bonds were rated AA+ by S&P Maalot. The duration of the series is 6.9 years, it bears stated interest of 1.64% per year, and is not secured by a pledge.

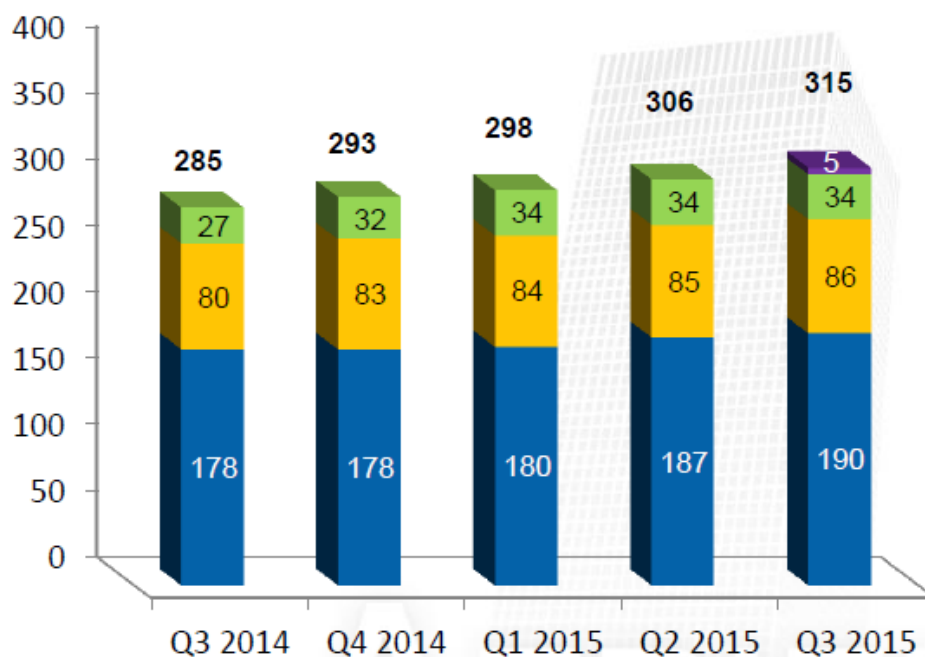
Balance Sheet (on an extended standalone basis) as of September 30, 2015

- The Group has **cash and financial assets held for trade** of approx. NIS 1,015 million.
- The Group has **financial investments** (mainly Bank Leumi and Leumi Card) with a fair value of approx. NIS 1.66 billion.
- **The net debt** totaled approx. NIS 5.7 billion.
- **The value of income-producing properties (including construction)** owned by the Group totaled approx. NIS 20.1 billion, compared with NIS 18.2 billion on September 30, 2014.
- **Investment properties under construction** totaled approx. NIS 2.2 billion, compared with approx. NIS 2.1 billion on September 30, 2014.

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- **Shareholders' equity** totaled approx. NIS 13.5 billion, compared with approx. NIS 13.1 billion on September 30, 2014.
- **Equity per share** is approx. NIS 111.7, compared with approx. NIS 107.9 on September 30, 2014.
- **Equity to assets ratio** of approx. 56% and **net debt to assets ratio** of approx. 24%.
- **Unmortgaged properties** of approx. NIS 16.7 billion.
- **EPRA NAV per share** was NIS 136, compared with NIS 130 on September 30, 2014.

NOI development in the last 5 quarters



• Malls and retail centers • Offices and others • Assets in the US • Senior Housing

Non-Core Business Operations

Granite HaCarmel (100% held) – In Q3/2015, Granite recorded a net loss of approx. NIS 8 million, compared with a profit of approx. NIS 9 million in the same quarter last year. During the quarter, the Group reported that negotiations with Tadiran Holdings had not matured into a binding agreement, and the parties agreed to end the negotiations in connection with Supergas's shares.

In this quarter, Azrieli Group performed an impairment in the goodwill attributed to Sonol at a scope of approx. NIS 80 million.

Financial Holdings

Bank Leumi (4.8% holding) – In Q3/2015, the share on TASE weakened by approx. 8.3%, a decline of approx. NIS 68 million in the value of holding in the bank, after tax.

The value of the Group's holding in the bank, as of September 30, 2015, is approx. NIS 1,034 million.

Leumi Card (20% holding) – In this quarter, Leumi Card distributed a NIS 50 million dividend (the Company's share was NIS 10 million).

The value of the holding in the statements as of September 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 September 30, 2015, the Company has an equity market capitalization of about NIS 18 billion. The Company operates mainly in Israel, and owns and manages properties with a gross leasable area of approx. 870,000 square meters; the Company holds 15 malls and shopping centers comprising 301,000 square meters of leasable space across Israel, 11 office properties comprising 353,000 square meters of leasable space and a senior housing facility including 30,000 sqm all 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.

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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 September 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 September 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.

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