

November 21, 2018

Azrieli Group Releases Strong Results in Q3/2018:

The NOI in the quarter totaled NIS 386 million, up 11%

FFO up 12% compared with the same quarter last year

Sales turnover in Azrieli malls (same properties) are up 3.5% in the quarter

Financial Highlights for Q3/2018

- **NOI increased by 11%, totaling NIS 386 million**, compared with NIS 349 million last year.
- **Same Property NOI up 9%** compared with the same quarter last year.
- **FFO up 12%** and totaled NIS 280 million, compared with NIS 251 million last year.
- **In the first nine months of the year, the Company invested NIS 1.6 billion in investment property**, in development, the purchase of new properties and the betterment and improvement of existing properties, compared with investments of NIS 1.2 billion in the whole of 2017.
- **Adjusted* net profit was up some 8%** and totaled NIS 241 million, compared with NIS 224 million last year.

* Net profit, net of the effect of property revaluations, profit from the sale of Bank Leumi shares and dividends net of tax.

Eyal Henkin, CEO of Azrieli Group: "We are pleased to close a strong quarter with impressive growth in all of the operating parameters. The office sector continues to see keen demand and its increasing contribution to results is expected to continue thanks to the pace and quality of the lease-up and performance which are exceeding expectations in the new and existing properties. We are moving ahead towards the launch of the flagship project of expansion of the Tel Aviv Azrieli center, which is expected to be in a class of its own in Israel. The retail sector continues to demonstrate strong performance thanks to a strong and diverse mix, the quality of the properties and strong locations, which create relevant high-volume and high-quality traffic, and impressive growth in sales turnover. We consider this to be further evidence that Azrieli malls are the Israeli consumer's preferred entertainment venue. During the quarter, we continued the significant investments that we are making in the upgrade of the malls, which includes, among other things, moving and adapting space for tenants, strengthening the mix and increasing the leisure components to create properties with a stronger and higher quality cash flow. We recently launched Palace Modiin, the first senior home planned and built from the ground up by Azrieli Group, and which has seen fast lease-up since its opening. We consider the senior housing sector to be strategic activity which is one of the growth engines in the Group's core business. We are continuing to vigorously promote several projects in parallel, which are expected to increase the Group's total leasable space by some 60%. Since the beginning of the year we have invested more than NIS 1.6 billion in development, the purchase of new properties and the upgrade and improvement of existing properties. I believe that the double-digit growth in the main current parameters, combined with the intensive development at the Group and the pace and quality of the lease-up of the properties, are tangible evidence of the strength of Azrieli Group, and of the fact that the Group is working tirelessly for improvement of the results and continued growth and the creation of value for the shareholders."

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Occupancy rates and sales turnover

- **The occupancy rate** in the malls segment was 98% and in the offices segment in Israel 99% (excluding space in properties whose construction has been completed and are at lease-up stages for the first time).
- **During the quarter, a 3.5% increase in sales turnover was recorded** in Azrieli malls (same properties) compared with the same quarter last year. During the first nine months of the year, the sales turnover in Azrieli malls grew by some 3.3% compared with the same period last year, and growth of 2.2% was recorded in same properties in the same period.

Developments during and after the quarter

- **Azrieli Sarona** – the process of lease-up of the building is moving ahead as planned, and as of September 30, 2018, around 98,000 sqm, which constitute 82% of the office space, have been leased-up. There are a few last remaining blocks of space for lease in the building, while as of the report release date, around 98% of the leasable office space in the building, including options and advanced drafts, has been leased. In the last 12 months, the Sarona tower generated NOI of around NIS 97 million, while at full occupancy the property is expected to generate NOI of NIS 200-210 million.
- **Purchase of an office building in Austin, Texas, U.S.** – in July 2018, the Company announced that it had purchased a five-story office building in Austin, Texas, U.S., of an area of 23,200 sqm, in consideration for \$100.4 million. The purchased property is situated in the south-west of the city, near a central transportation artery, around 20 minutes' drive from the city center, in an area that is considered to be a high-end office area due to its proximity to luxury residential neighborhoods and due to the unique nature and scenery in the area. The city of Austin is characterized by one of the highest job growth rates in the U.S. in recent years. The city's economy is varied and based on several growth engines, including high-tech, education, government and medical services. The building is the newest of all of the office buildings in this area and also includes 970 parking spaces, most of which are located in an adjacent parking building. The building is fully leased, with the lease agreements including fixed mechanisms for rent increases throughout the term of the said agreements, such that the average annual NOI of the lease agreements is expected to be around \$6.7 million, which is a yield of some 6.7%.
- **Expansion of Azrieli Jerusalem mall** – in July 2018, the Company updated that the Jerusalem District Planning and Building Committee had approved its application for the deposit of a plan for expansion of the areas of the Azrieli Jerusalem mall by 100 thousand sqm gross, above-ground, which include retail, commercial and senior housing areas and a building to be built for the City of Jerusalem. The committee approved, in the context of the discussion, the expansion of the retail areas in the mall by 22 thousand sqm gross (15 thousand sqm of leasable space) to a total of around 55 thousand sqm (leasable space). The committee approved expansion of the commercial areas, which are situated above the mall, by another 36 thousand sqm gross to 39 thousand sqm. The construction of a senior home and an LTC unit adjacent to the mall was also approved, with an area of 40 thousand sqm gross (300 housing units). The expansion of the areas of Azrieli Jerusalem mall will be performed in two phases. The first phase will mainly include the retail and the senior housing, and the second phase will mainly include the commercial areas.
- **The sale of Leumi Card** – in July 2018, the Company reported that it had entered into an agreement together with Bank Leumi for the sale of all of their holdings in Leumi Card (the Company's share is 20%) to the investment fund Warburg Pincus in consideration for NIS 2.5 billion. The Company's share in the proceeds is NIS 500 million (subject to adjustments).

- **The launch of “Palace Modiin”** – in October 2018, the Company launched the “Palace Modiin” project, the first senior housing complex in the city of Modiin and its vicinity. The complex, in which NIS 390 million were invested, extends over 11,000 sqm, with a built-up area above-ground of 35 thousand sqm, and includes 239 housing units and 136 Medical beds. This is the first senior home planned and built from the ground up by Azrieli Group, and the high percentage of contracts signed on the opening date is considered to be exceptional, relative to the market for the opening of a new home.

Balance Sheet (extended standalone) as of September 30, 2018

- The Group has **cash, deposits and short-term investments** in the amount of NIS 0.6 billion.
- **Net debt** totaled NIS 8.9 billion.
- **The value of investment property and investment property under construction** totaled NIS 26.9 billion.
- **Equity to assets ratio** is 54% and **net debt to assets** ratio is 29%.
- **Unmortgaged properties** amount to NIS 22.2 billion.
- **EPRA NAV per share** was NIS 163 per share, compared with NIS 156 per share on September 30, 2017.

Conference call

The conference call to review the quarter's results will be held today, Wednesday, November 21, 2018 at 11:00. Those wishing to participate in the call are invited to call several minutes before the said time – 03-9180650

For further details:

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