



March 18, 2015

## **Azrieli Group: Fourth Quarter and 2014 Results**

**FFO from real estate activity totaling approx. NIS 787 million, up approx. 4% from 2013**

**FFO from real estate activity<sup>1</sup> totaling approx. NIS 207 million in the quarter, compared with NIS 197 million in the same quarter last year, up approx. 5%**

**NOI totaling NIS 1,134 million in 2014, up approx. 3% from 2013**

### **2014 Highlights**

- **NOI in 2014 increased by approx. 3%, totaling NIS 1,134 million**, compared with approx. NIS 1,105 million last year.
- **Same-property NOI totaled approx. NIS 1,117 million** compared with approx. NIS 1,101 million last year.
- **FFO attributed to real estate activity totaled approx. NIS 787 million**, compared with approx. NIS 759 million last year, up approx. 4%.
- **Shareholders' equity** totaled approx. NIS 13.3 billion, compared with approx. NIS 12.6 billion on December 31, 2013.
- **During 2014, the Group invested approx. NIS 1.3 billion in investment property**, betterment of existing properties and advancement of the construction of properties under development. In the last quarter of 2014, the Group's investments totaled approx. NIS 416 million.
- **Net profit for shareholders** totaled NIS 850 million, compared with approx. NIS 930 million in 2013, down approx. 7.5%.
- **Comprehensive income for shareholders** totaled NIS 899 million, compared with approx. NIS 1,026 million in 2013.
- **Dividend** – The Group declared the distribution of a NIS 320 million dividend (NIS 2.64 per share).

**Yuval Bronstein, CEO of Azrieli Group:** "The Group continues to present good performance also this year, which reflects continued growth and improvement in the NOI, in the FFO and in all of the operating parameters. The Group's growth strategy, which focuses on improving the income-producing property and developing new projects, is expressed both in these results and in the significant progress in the development projects: continued lease-up of the Azrieli Holon Center, where we have signed, thus far, contracts for approx. 71,000 sqm, the opening of the Azrieli Ramla mall and of the second floor of the Ayalon mall several days ago, both of which are in fact fully leased-up. The Group is continuing its development momentum in Israel, manifested by the significant projects in Sarona and Rishonim. Alongside the development activity in the Group's core segments, we continue to develop the senior housing segment, in which in this quarter, we won a tender of the ILA for the purchase of land for the development of

<sup>1</sup> Part of the FFO increase, in the amount of approx. NIS 7 million, is due to one-time tax effects. For details see Section 1.1.8 of the Board of Directors' Report as of December 31, 2014.

a senior housing facility in Lehavim. We see this sector as another growth engine and as synergetic with the Company's traditional business."

### **Summary Financials for Q4/2014:**

| NIS in millions               |                |                |               |              |             |               |
|-------------------------------|----------------|----------------|---------------|--------------|-------------|---------------|
|                               | <u>Q4 2014</u> | <u>Q4 2013</u> | <u>Change</u> | <u>2014</u>  | <u>2013</u> | <u>Change</u> |
| NOI                           | <b>293</b>     | 278            | 5%            | <b>1,134</b> | 1,105       | 3%            |
| Same property NOI             | <b>288</b>     | 278            | 3.6%          | <b>1,117</b> | 1,101       | 1.5%          |
| FFO from real estate business | <b>207</b>     | 197            | 5%            | <b>787</b>   | 759         | 4%            |
| EPRA NAV per share            | <b>132</b>     | 126            | 5%            |              |             |               |

### **Core Business Operations:**

#### Retail centers and malls in Israel segment

- The NOI in the quarter totaled approx. NIS 178 million – an increase of 0.6% compared with the same quarter last year.
- The same property NOI in the quarter increased by approx. 0.6% compared with the same quarter last year.
- The occupancy rate in this segment remained extremely high at approx. 98% at the end of the quarter.

This quarter saw a moderate rise in the NOI, which was partially 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 83 million in the quarter, up about 6% from the same quarter last year.
- Same property NOI increased by approx. 6% 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. Weighting in the office buildings in Holon and the office building in Kiryat Ata, which were recently completed and are currently under lease-up, the occupancy rate is approx. 98%.

The increase in the NOI and in the same property NOI mainly derives from an increase in rent and operational streamlining at the management companies.

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

- NOI totaled approx. NIS 32 million in the quarter, up about 39% from the same quarter last year, mainly due to the purchase of an asset in Houston and a rise in the occupancy rate.
- The same property NOI totaled approx. NIS 27 million in the quarter, up about 18% from the same quarter last year.
- The occupancy rate in this segment was approx. 94% at the end of the quarter.
- In September 2014, the Group closed a transaction for the purchase of an income-producing property (8 West Center) of about 21,100 sqm in Houston, Texas, in consideration for approx. \$76 million.

The increase in the NOI mainly derives from the purchase of the asset in Houston, and the increase in the same property NOI mainly derives from the weakening of the NIS against the dollar (down by around 1.9% in this period). Net of exchange rate changes, the overseas segment NOI rose by approx. 31%.

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## **Acquisitions, Development and Redevelopment of Property**

- **During the quarter, the Group invested approx. NIS 416 million in investment property**, betterment of existing properties, acquisition of new properties and advancement of the construction of properties under development. **In 2014, it invested approx. NIS 1.3 billion.** In 2013, the investments in real estate totaled NIS 1.04 billion.
- **The Company has 9 development projects of around 484,500 sqm, with a total investment of approx. NIS 5.8-6.0 billion.** Their book value is approx. NIS 2.5 billion (excluding capitalizations), and cost-to-completion is approx. NIS 3.3-3.6 billion.
- **Lease-up of Azrieli Holon Center** - To date, lease agreements have been signed for around 71,000 sqm: around 51,000 sqm of offices in Stage A (~92% of the space), around 4,900 sqm of retail space (~60% of the space) and around 15,000 sqm of offices in Stage B (~27% 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.
- **Winning of a tender for the purchase of land for senior housing in Lehavim:** 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 housing facility in Lehavim in consideration for approx. NIS 20 million (including development).  
  
The Company intends to build and operate a senior housing facility with around 360 senior housing units as well around 2-4 long-term care wings (with around 72-144 beds), on a total area (main and service areas) of around 44,000 sqm.  
  
The projected building costs (excluding the costs of purchasing the land and development) are approx. NIS 230-250 million.  
  
The Group intends to develop, build and operate new, high standard projects in high-demand areas nationwide.

## **Financing**

In February 2015, the Group issued marketable bonds on the Tel Aviv Stock Exchange, in an amount of approx. NIS 623 million, for a period of 10 years, with a duration of around 5.5 years. The bonds were rated AA+ by S&P Maalot for an issuance of up to NIS 700 million.

The interest rate set in the tender was 0.65%, and the series is not secured by a pledge.

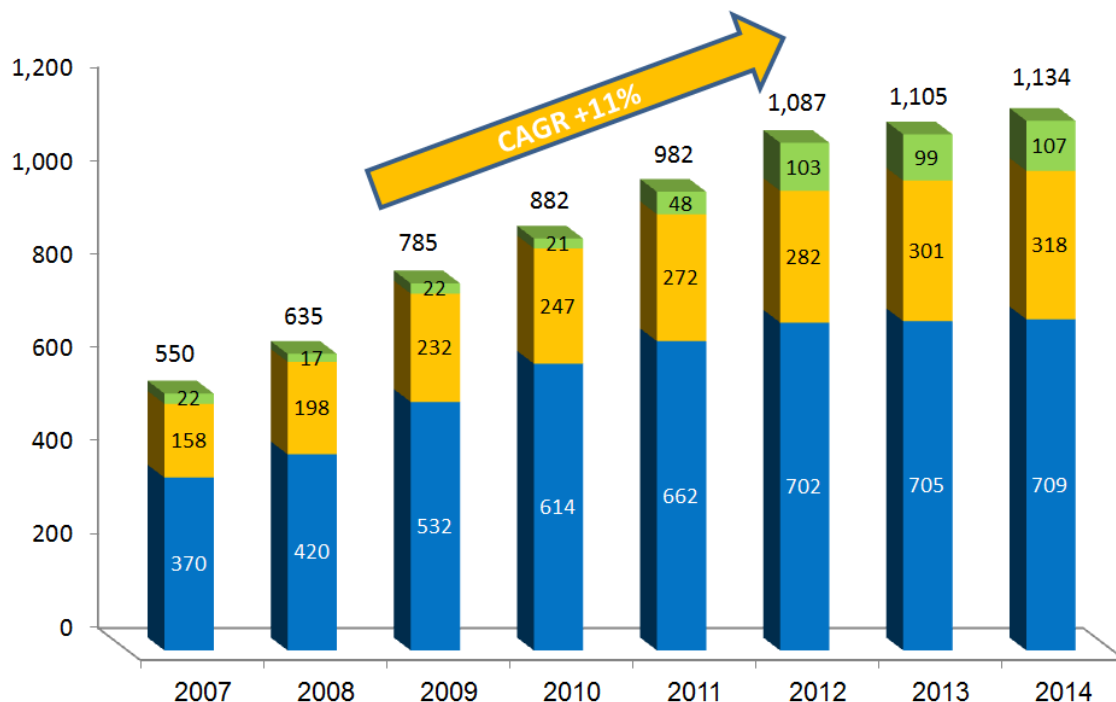
## **Balance Sheet (on an extended standalone basis) as of December 31, 2014**

- The Group has **cash and financial assets held for trade** of approx. NIS 111 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 5.2 billion.
- **The value of income-producing property (excluding construction)** owned by the Group totaled approx. NIS 16.3 billion, compared with NIS 15.5 billion on December 31, 2013.
- **The value of investment property under construction** totaled approx. NIS 2.5 billion, compared with approx. NIS 1.7 billion on December 31, 2013.

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- **The shareholders' equity** totaled approx. NIS 13.3 billion, compared with approx. NIS 12.6 billion on December 31, 2013.
- **The equity per share** is approx. NIS 109.3, compared with approx. NIS 104.2 on December 31, 2013.
- **Equity to assets ratio** of approx. 61% and **net debt to total assets ratio** of approx. 24%.
- **Unmortgaged properties** of approx. NIS 14.7 billion.
- **EPRA NAV per share** was NIS 132, compared with NIS 126 on December 31, 2013.

### NOI development in recent years



- Shopping malls and commercial
- Offices and others
- Assets in the US.

### Non-Core Business Operations

**Granite Hacarmel (100% held)** – In Q4/2014, Granite recorded a net profit of approx. NIS 20 million, compared with approx. NIS 22 million in the same quarter last year.

In 2014, it recorded a net profit of approx. NIS 158 million compared with a net profit of approx. NIS 130 million in 2013. The increase is attributed, *inter alia*, to the capital gain from the sale of Tambour which closed in Q2/2014 in consideration for approx. NIS 500 million.

In January 2015, Granite received the consideration for the sale of Supergas' solar business in the sum of approx. NIS 174 million, and recorded a capital gain (net of tax) of approx. NIS 30 million that was recognized in Q4/2014.

## **Financial Holdings**

**Bank Leumi (4.8% holding)** – In Q4/2014, the share price on TASE declined by approx. 10%, a decrease of approx. NIS 80 million in the value of the holding in the bank, after tax.

The value of the Group's holding in the bank, as of December 31, 2014, is approx. NIS 945 million.

**Leumi Card (20% holding)** – In 2014, a net profit of NIS 200 million was recorded, similarly to the net profit recorded in 2013. 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, 2014, was approx. NIS 593 million, compared with a value of NIS 588 million on December 31, 2013, 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, 2014, the Company has an equity market capitalization of about \$4 billion. The Company operates mainly in Israel, and owns and manages properties with a gross leasable area of approx. 807,000 square meters; the Company holds 14 malls and shopping centers comprising 268,000 square meters of leasable space across Israel, 10 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 9 projects under development comprising around 484,500 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](http://www.azrieli.com).

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## Disclaimer

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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 December 31, 2014, Sections 1.1.7 and 1.1.8, 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.