

August 25, 2016

Azrieli Group: Results for Q2/2016

FFO totaled NIS 232 million, up 7% compared to Q2/2015

NOI totaled NIS 321 million, up 5% compared to Q2/2015

Financial Highlights

- **NOI increased by 5%, and totaled NIS 321 million**, compared with NIS 306 million in Q2/2015.
- Same Property NOI from properties in Israel grew by 4% versus the same quarter last year.
Same Property NOI rose to NIS 313 million compared with NIS 306 million in Q2/2015.
- **FFO attributed to real estate activity grew by 7% and totaled NIS 232 million**, compared with NIS 217 million in Q2/2015.
- **During the quarter, the Group invested a total of NIS 1.1 billion in investment properties**, the purchase of new properties, redevelopment of existing properties, and development of new properties.
- **Net profit in the quarter totaled NIS 244 million, compared with NIS 246 million** in the same period last year. Net profit was slightly affected from a one-time tax expense due to the purchase of the Lodzia land in Holon.

Yuval Bronstein, CEO of Azrieli Group: "We are pleased to report another strong quarter for Azrieli Group with impressive growth in all of the operating parameters which were supported, among others, by the continued rise in tenant sales alongside an increase in rents. We presented progress in projects under development which are expected to contribute to the continued growth in the NOI in the coming years. Significant lease-up was recorded in the flagship project of Azrieli Sarona in Tel Aviv, and in Azrieli Town, which is already significantly preleased' four years before expected completion. Azrieli Sarona is continuing to attract considerable interest among potential tenants and is expected to be opened in the second half of 2017. The building is expected to generate an annual NOI of more than NIS 200 million, which will make it the highest-value building in Israel. During the quarter, and after the balance sheet date, we completed the offering of a new and significant bond series and a private debt allocation at an average interest rate of 1.4%. These moves alongside our early redemption of liabilities at higher interest rates are expected to contribute to the continued growth in FFO. We recently reported the sale of Sonol, an important step in our focus on our core business of income-producing real estate operations. We believe that this business focus is an important goal in our Group's strategy".

Highlights

- **NOI** rose by 5% compared with the corresponding quarter, mainly from the lease-up of new projects, primarily Azrieli Holon center, Ramla mall, acquisition of Palace Tel Aviv and due to an increase in rents.
- **Same Property NOI in the Israeli portfolio rose by 4%** compared with Q2/2015 and was affected by an increase in income from rents in the malls and offices segments and from continued lease-up of new projects.
Same Property NOI for the entire portfolio (incl. US assets) rose by 2% compared with Q2/2015.
- **Occupancy rate** in the malls segment was 96% and in the offices segment was 99% (discounting the 2 buildings at phase B in Azrieli Holon center which are at initial lease-up stages).
- In the first half of 2016, a 5% increase in **sales turnover** was recorded in Azrieli's malls, compared with the corresponding period. Discounting Ramla mall and the second floor of Ayalon (opened in March 2015), growth in sales turnover was 2%.

Marketing Status

- **Azrieli Town** – the Company signed two significant lease contracts for a total of 26,000 sqm (out of 50,000 sqm) with accounting firm PWC and law firm Fischer Behar Chen. The building is expected to be completed in 2020.
- **Azrieli Sarona** – agreements have been signed for the lease of 58,500 sqm of the office space (out of 115,000 sqm). The first tenants are expected to begin occupying in the second half of 2017. At full occupancy, the property is expected to yield an annual NOI of NIS 200-210 million.

Purchases and Sale Closures

- In August, the Company purchased **an office building in Austin, Texas**, for \$40.5 million. The property is leased to a single tenant under a long-term contract. The property was purchased at an average yield rate for the lifetime of the contract of 8% and at 55% LTV.
- **The sale of Sonol was closed** with no material effect on the Company's results.
- **The purchase of the Lodzia land in Holon**, 53,000 sqm of land in proximity to the Azrieli Holon center, with mixed industry and commercial building rights at a scope of 193,000 sqm, was closed for NIS 280 million.
- **The purchase of the senior home Ahuzat Bayit** in Raanana and the adjacent "Park Mall" retail center was finalized this quarter for NIS 55 million. In the short time since the closing of the transaction, the Company has successfully marketed a significant number of vacant units and is acting to renovate the property in the near future.
- The Company **finalized the purchase** of the eCommerce business from BUY2 Networks for NIS 62 million. The Company expects to soon disclose its plans for this sector.

Financing and Rating

- **Rating** – in July Midroog Moody's ratified the Company's Aa1 rating.
- During the quarter and after the balance sheet date, **the Company raised loans of NIS 3.3 billion at an average interest rate of 1.4%** and prepaid debts at higher interest rates.

Raising of **Series D bonds** – the Company raised NIS 2.2 billion of marketable bonds at an interest rate of 1.34% and with an average duration of 7.6 years.

Raising of NIS 1 billion of private loans from institutional bodies and at an average interest rate of 1.5%.

After the balance sheet date, The Company prepaid some of its outstanding debt due on March 2017, and reduced financing costs by NIS 8.5 million, for the period.

Summary of the NOI and the FFO for Q2 and H1 of 2016:

NIS in Millions						
	<u>Q2 2016</u>	<u>Q2 2015</u>	<u>Change</u>	<u>H1 2016</u>	<u>H1 2015</u>	<u>Change</u>
NOI	321	306	5%	637	602	6%
Malls and retail centers	193	187	3%	383	367	4%
Offices	92	85	8%	183	168	9%
Offices in the U.S.	30	34	(12%)	59	67	(12%)
Senior housing	6	-		12	-	
FFO from real estate activity	232¹	217	7%	460¹	422	9%

¹The FFO calculation changed such that deposits of the tenants in the senior housing shall be deemed as received or as repaid on the lease-up or leave date, as the case may be.

Balance Sheet (extended standalone) as of June 30, 2016

- The Group has **cash, securities and deposits** in the amount of NIS 471 million.
- **Net debt** totaled NIS 7.2 billion.
- **The value of income-producing properties (excluding construction)** owned by the Group totaled NIS 19.2 billion, compared with NIS 17.2 billion on June 30, 2015.
- **The value of investment properties under construction** totaled NIS 3.5 billion, compared with NIS 2.2 billion on June 30, 2015.
- **Equity to assets ratio** is 55% and **net debt to assets ratio** is 27%.
- **Unencumbered** assets amount to NIS 18 billion.
- **EPRA NAV per share** was NIS 142 per share, compared with NIS 134 per share on June 30, 2015.

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