

August 15, 2018

Azrieli Group Releases Strong Results in Q2/2018:

The NOI in the quarter totaled NIS 380 million, up 11%

FFO attributed to real estate business for retail and offices up 10%

and for the entire real estate business including senior housing, the FFO is up 5%

From the beginning of the year until the date of release of the report, the Group made investments exceeding NIS 1.3 billion in development, purchases and in improvement and betterment of existing properties

Financial Highlights for Q2/2018

- **NOI increased by 11%, totaling NIS 380 million**, compared with NIS 343 million last year.
- **Same Property NOI up 2%** compared with the same quarter last year.
- **FFO attributed to the real estate activity excluding senior housing grew by 10%**, totaling NIS 268 million, compared with NIS 243 million last year. **FFO for the entire real estate activity grew by 5%** and totaled NIS 271 million, compared with NIS 258 million last year.
- **From the beginning of the year until the report release date, the Company invested more than NIS 1.3 billion in investment property, of which some NIS 920 million during the first half of the year**, 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 4%** and totaled NIS 214 million, compared with NIS 205 million last year.

* Net profit, net of the effect of property revaluations and dividends net of tax.

Eyal Henkin, CEO of Azrieli Group: "We are summing up a strong quarter with impressive growth in all of the operating parameters. Demand for our offices remains high, and we are in the midst of leasing the last remaining blocks of vacant office space alongside massive lease-up in the Azrieli Saron tower. Another good quarter was recorded in the retail business. The Israeli public continues to frequent the shopping centers, and we are constantly investing in upgrading the malls and adapting them to the changing tastes of visitors and tenants, including expanding the leisure, entertainment and dining elements. We are continuing to simultaneously promote several development projects of a leasable area of close to 700 thousand sqm, which will constitute a significant addition to our property portfolio, in addition to some 280 thousand sqm of expansions for the income-producing properties. In this context, we have invested, since the beginning of the year, more than NIS 1.3 billion in development, the purchase of new properties and in upgrading and improving existing properties, which we regard as substantial evidence of the Group's strength. We recently announced a significant development in one of the Group's flagship properties, Azrieli Jerusalem mall, in the framework of which we have made progress with obtaining the necessary approvals for a significant expansion of the property, while adding additional services such as the addition of a senior home, the Group's sixth, and expansion of the office and retail areas. At the end of July, we announced the signing of an agreement for the

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sale of our holding in Leumi Card. This transaction constitutes for us another step in the Group's strategy to focus its activity on the income-producing real estate sector through the sale of the businesses which are not in its core business, as the Group has successfully been doing in recent years."

Occupancy rates and sales turnover

- **The occupancy rate** in the malls segment was 98% and in the offices segment in Israel 99% (discounting office space in projects which are at lease-up stages).
- **During the four months of March-June, a 2.6% increase in sales turnover was recorded** in Azrieli malls compared with the same period last year. The Company is presenting the sales turnover figures in Q2 including March in order to include the period of the Passover holiday in the two periods (last year the holiday fell in April, this year in March). During the first half of the year, the sales turnover in Azrieli malls grew by some 3.1% compared with the same period last year, and growth of 1.6% was recorded in the same property 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 June 30, 2018, around 93,000 sqm, which constitute 77% 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. During the last 12 months, the Sarona tower has generated NOI of NIS 68 million, while at full occupancy the property is expected to generate NOI of NIS 200-210 million.
- **Purchase of land rights in Menachem Begin Road in Tel Aviv** – in April 2018, the Company announced that it had signed an agreement for the purchase of land rights in 148 Menachem Begin Road in Tel Aviv, which include a 4-story building above a retail ground floor of a total area of approx. 5,500 sqm, the majority of which is leased for the purpose of offices in consideration for NIS 260 million. The property includes unused building rights in accordance with the zoning plan that applies to the land at a scope of approx. 21,000 sqm above-ground area and the sellers' rights to lease underground areas in the adjacent parcel which are designated for expansion of the building's parking basements. On May 14, 2018, the Company announced that the transaction had been closed.
- **Expansion of the Azrieli Tel Aviv center** – after receiving the approval of the District Committee for the publication of the plan (zoning plan) at the end of 2017 for validation for the construction of the fourth tower in the Azrieli Tel Aviv project and increasing the building rights to 150 thousand sqm of offices, retail, hotel space and residences, the excavation and shoring work has begun at the site. In the near future, the Company intends to reveal the unique project, whose distinctive design will redefine the Tel Aviv skyline.
- **Azrieli Palace Modiin** – as of the report release date, around 65% of the residential units in the project have been marketed, exceeding the business plan targets. In July, the necessary approvals were received and the Company is expected to begin lease-up during the fourth quarter of this year.
- **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 \$100.5 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,

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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 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 (up to 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.

Summary of the NOI and the FFO for Q2/2018:

NIS in Millions			
	<u>Q2 2018</u>	<u>Q2 2017</u>	<u>Change</u>
NOI	380	343	11%
Malls and retail centers	205 ²	207	(1%)
Offices	130	95	37%
Offices in the U.S.	34	30	13%
Senior housing	11	11	-
FFO from real estate activity¹	271	258	5%
FFO from the real estate activity excluding senior housing¹	268	243	10%

¹ For details regarding the manner of calculation of the FFO, see Section 2.7 of the Board of Directors' report.

² Including the effect of vacation of an income-producing area as part of preparations for the excavation work at the Lodzia site.

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

- The Group has **cash, deposits and short-term investments** in the amount of NIS 1.1 billion.
- **Net debt** totaled NIS 8.6 billion.
- **The value of investment property and investment property under construction** totaled NIS 26.2 billion.
- **Equity to assets ratio** is 53% and **net debt to assets** ratio is 28%.
- **Unmortgaged properties** amount to NIS 21.8 billion.
- **EPRA NAV per share** was NIS 160 per share, compared with NIS 153 per share on June 30, 2017.

Conference call

The conference call to review the quarter's results will be held today, Wednesday, August 15, 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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