

November 23, 2016

Azrieli Group: Results of Q3/2016

FFO totaled NIS 244 million, up 8% from Q1/2015

NOI totaled NIS 328 million, up 4% from Q1/2015

Financial Highlights

- **NOI increased by 4%, and totaled NIS 328 million**, compared with NIS 315 million in Q1/2015.
- **Same Property NOI from properties in Israel grew by 3%** versus the same quarter last year.
Same Property NOI in all of the properties rose to NIS 320 million compared with NIS 315 million in the same quarter last year.
- **FFO attributed to real estate activity grew by 8% and totaled NIS 244 million**, compared with NIS 226 million in the corresponding quarter.
- **During the quarter, the Group invested a total of NIS 500 million in investment properties**, the purchase of new properties, the betterment of existing properties, and the construction of properties under development. During 2016, the investments totaled **NIS 2.3 billion**.
- **Net profit in the quarter totaled NIS 279 million, compared with NIS 102 million** in the same period last year. In the first nine months of 2016, the net profit totaled NIS 1,198 million.
- **The comprehensive income in the quarter totaled NIS 292 million compared with NIS 83 million** in the same period last year. In the first nine months of 2016, the net profit totaled NIS 1,221 million.

Yuval Bronstein, CEO of Azrieli Group: "We are pleased to report another strong quarter of Azrieli Group with impressive growth in all of the operating parameters. During and after the quarter we were witness to the continued rise in the tenants' revenues which contributed to the impressive growth in the results. The Company is continuing the construction and development activity and presents progress in all of the projects, according to the timetables that were set. This significant activity is expected to contribute to growth in the NOI and in the FFO already from 2017, during which the Azrieli Sarona center and Azrieli Rishonim are expected to open. Significant lease-up of 10,000 sqm was recorded recently in the projects Azrieli Rishonim, which is expected to open in March 2017, and in buildings C and D in Azrieli Holon center. Azrieli Sarona is attracting considerable interest from potential tenants and is expected to be opened towards the end of 2017 with a projected annual NOI of more than NIS 200 million. During the quarter we received possession of the Azrieli Town land, and demolition and development work has begun at the site. We are excited about the Company's expected developments in the upcoming year and believe in our ability to continue to create value for our shareholders".

Investor Relations Ltd.

Highlights:

- The **NOI** rose by 4% compared with the same quarter last year.
- The **Same Property NOI in Israel rose by 3%** as a result of a real rise in income from rent in the malls and offices segments and from continued lease-up of new projects.
The Same Property NOI including the office buildings overseas rose by 2%.
- The **occupancy rate** in Israel in the malls segment was 97% and in the offices segment was 99% (discounting the 2 buildings at phase B in Azrieli Holon center which are at lease-up stages).
- In the first nine months of 2016, **increases in revenues** in Azrieli's malls were recorded at the rate of 5% compared with the corresponding period. In the **third quarter** of the year growth in revenues of Azrieli Group of 6% was recorded.
- In this quarter, the Company performed valuations for the first time for the Azrieli Town land and the Azrieli Rishonim project, and accordingly a **profit was recorded from the fair value adjustment of the real estate of NIS 127 million.**

Marketing of Properties under Construction and Properties whose Construction was Recently Completed

- **Azrieli Rishonim** – thus far agreements have been signed for the lease of 15,000 sqm of the office space (around 50%). The project is expected to open in March 2017. Thus far the majority of the space in the mall, which is expected to open with full occupancy, has been leased
- **Azrieli Holon center** – the Company signed two significant lease contracts in buildings C and D, for 5,000 sqm, which brings the lease-up rate in the center to 80%.

Acquisitions and Sale Agreements

- 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 term of the contract of 8% and at a leverage rate of 55%.
- In July 2016, **the sale of Sonol was closed** with no material effect on the Company's results.
- In August, **the purchase of the land intended for the Azrieli Town project was closed**, the Company paid the balance of the consideration and possession of the lot was handed over thereto.

Financing and Rating

- **Rating** - in July Midroog Moody's ratified the Company's Aa1 rating.
- During the quarter, **the Company completed moves for improving the financing terms** by raising public debt on the capital market and prepaying high interest rate debts.
 - **Raising of Series D bonds** – the Company raised NIS 2.2 billion of marketable bonds at an interest rate of 1.34% and with a duration of 7.6 years.
 - Refinancing of the loans will lead to a savings in the interest expenses in annual terms of NIS 34 million on the same gross debt amount.

Summary of the NOI and the FFO for Q3 and for the first nine months of 2016:

NIS in Millions						
	Q3 2016	Q3 2015	Change	1-9/2016	1-9/2015	Change
NOI	328	315	4%	965	916	5%
Malls and retail centers	196	190	3%	579	556	4%
Offices	92	86	7%	275	254	8%
Offices in the U.S.	32	34	(6%)	91	101	(10%)
Senior housing	8	5	60%	20	5	
FFO from real estate activity¹	244	226	8%	704	648	9%

¹ See Section 1.3.5 of the Board of Directors' Report for details regarding the manner of calculation of the FFO.

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

- The Group has **cash, securities and deposits** in the amount of NIS 1,511 million.
- **Net debt** totaled NIS 7.4 billion.
- **The value of income-producing properties (excluding construction)** owned by the Group totaled NIS 19.4 billion, compared with NIS 17.8 billion on September 30, 2015.
- **The value of investment properties under construction (including land and advance payments on account on land)** totaled NIS 3.9 billion, compared with NIS 2.3 billion on September 30, 2015.
- **Equity to assets ratio** is 53% and **net debt to assets ratio** is 27%.
- **Unencumbered assets** amount to NIS 19 billion.
- **EPRA NAV per share** was NIS 145 per share, compared with NIS 136 per share on September 30, 2015.

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