STANDARD
&POOR'S
Maalot

Unofficial translation
Plaza Centers N.V.
September 6, 2011

Lowering the rating to "ilBBB+" from "ilA" and removing it from the credit watch with negative ramifications; the rating outlook is negative.

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Summary:

- The rating is adversely effected from the weakening of the financial profile, including the increase in leverage and lack of stable cash flows from operating activities in recent years. That is due to the extended business cycle and the sharp decrease in the realization of properties developed by the Company.

- The Company's rating is closely connected and even limited to the rating of the parent company, Elbit Imaging, and that is in view of the tight, financial, business and managerial linkage seen among the companies.

- We lower the rating of Plaza Centers N.V. which mainly operates in the segment of initiating commercial centers in eastern and central Europe and India and holding income producing real estate properties in the U.S, to ilBBB+ from ilA. The rating outlook is negative.

- The negative rating outlook reflects the uncertainty as to consummating the realization plan of the Company that may be effected from the volatile state of the markets.

The Rating Activity

On September 6, 2011, Standard & Poor's Maalot lowered the rating of Plaza Centers N.V., which mainly operates in the segment of initiating commercial centers in eastern and central Europe and India and holding income producing real estate properties in the U.S, to ilBBB+ from ilA. The rating outlook is negative.

Major Considerations for the Rating

Lowering the rating of Plaza Centers, N.V. reflects the increased financial risk, which in our opinion, is shown in increased leverage and the weakening of coverage ratios, which directly stems from extended business cycle and deferral of property realization.

Plaza Centers, N.V. is mainly engaged in establishing shopping centers in eastern and central Europe and selling them after construction is complete. This operating model is very speculative and volatile, whether in the revenue component and cash flow component, as it can be seen in the relatively weak financial ratios of the Company in the last four years, during which period it did not sell any property. This operating model is highly effected by market conditions that were quite challenging in the last four years and may continue to be challenging in the coming years in view of the instability in Europe and the U.S. In addition, we estimate that the Company's will to optimize its profits from selling the existing shopping centers averted the realization at an earlier stage.

In recent years, due to investments in its main operating segment and investing jointly with its parent company, Elbit Imaging Ltd. in India and the U.S. the Company's debt increased sharply alongside with erosion in its liquidity and financial strength; in this period, the debt coverage ratios were extremely weak. In the second quarter of 2011, the debt ratio to EBITDA rose to 41 x (in 2010 EBITDA was negative) from 0.1x in 2007 and the financial leverage increased to 52% from 5% in 2007.

Nonetheless, the Company's management is well aware of the importance of liquidity and financial flexibility and managed to refinance its maturities in recent years and maintain cash balances. The management's experience and the long term planning of operations while maintaining high cash balances over the years along with options to convert construction loans to long term loans and currency and interest hedging on the debt, manage to moderate at a certain extent the volatility embodied in the Company's business model.

The Company formulated a plan for the next two years that includes the sale of commercial centers in central and Eastern Europe and the operations in the U.S. If the plan is fully implemented, the approximate sum of € 300 million is expected to flow to the Company along with a reduced debt of the sold properties in the approximate amount of additional € 130 million. These realizations are expected to bring the Company to debt to CAP ratio of 40% and debt to EBITDA ratio of 4.5x. In our estimate, the management's experience supports the plan's implementation however; it is subject to market conditions. Recently, the yield on bonds of the Company and the parent company have raised, this, among others, is due to disputes between the owners of the parent company, Europe Israel Co. and its financing bank. The high rate of yield on the bonds and the low share price impede the Company's access to the capital market and increase its dependency on the need for realizations.

The rating of Plaza Centers is effected also by the rating of the parent company and that is in view of the tight linkage among them, as seen by us. Nevertheless, we see no difference between the assessment of its independent strength and its rating. As to the information on the relations between the parent company and the Company, see the methodological article on this topic.

Liquidity

We estimate that the Company's liquidity is less than adequate.

As of June 30, 2011, the Company maintained cash amounting to circa € 230 million, against maturities of bond principal and banks of circa € 140 million, interest payments of circa € 60 million and investment needs of circa € 50 million until the end of 2012. However, we see, in addition, the needs of the parent company for dividend distribution from Plaza.

In the coming year, the Company plans to carry out realizations, among which, are several commercial centers developed and operated in prior years and a realization of the investment in REIT fund in the U.S, in which it invested jointly with the parent company. Should the realizations plan be fulfilled according to the Company's plan, its liquidity shall be strengthened. At this stage, in which sale contracts did not yet reach the signing phase, the burden of proof is imposed on the Company.

The Rating Outlook

The negative rating outlook reflects our concerns that the execution of the realization plan, as devised for the next two years, shall be effected by the volatile condition of the markets, credit availability and the investors' willingness to assume risks. We assume that although financing and willingness to purchase the type of activity like the Company's do exist, such financing and willingness may vanish given that negative changes occur in the financial markets in Europe and the U.S

A successful performance of a substantial part of the plan within six months may result in positive rating activity, as long as the realizations are translated into a significant reduction of debt and a considerable improvement of coverage ratios. In the event that we see no positive change in operating cash flows, an additional negative rating activity will be considered.

At this stage, we see a strong linkage between the rating of the parent company and the rating of the Company and therefore, there is a forceful effect that may derive from changing the rating of the parent company also without a direct change in the Company's activity.

Related study

Methodology – reciprocal relations between debt rating of a "strong" subsidiary and debt rating of "weak" parent company.

The aforesaid methodological article may be found in the website of S&P Maalot:

http://www.maalot.co.il/content.asp?PageId=309

List of debentures

	Current rating	From previous rating
Plaza Centers N.V	**ilBBB+/ Negative**	**ilA/Watch Negative**
Series A	**ilBBB+**	**ilA/Watch Negative**
Series B	**ilBBB+**	**ilA/Watch Negative**

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