Free Translation Only
Plaza Centers N.V.
Watch Report- August 2012

Interim Valuation

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Plaza Centers N.V.

Rating of series (issue)	Baa1	Rating Outlook : Negative

Midroog gives notice where it lowers the rating of seriesbonds in circulation of Plaza Centers NV N.V. ("Plaza Centers" and/or "the Company") from A3 to Baa1 and leaving the negative rating outlook.

Bonds resriesseries included in this rating activity:

Bond Series	Number of security	Date of Initial issuance	CPI adjusted Par value of bonds as of the report date (in NIS millions)	Annual interest rate	Linkage	Maturity of bonds
Series A	1109495	6/2007	347	4.5%	Index	2012-2017
Series B	1109503	2/2008	960	5.4%	Index	2013-2015
Total			1,327			

*) Part of the bonds debt is presented in the Company's books at market value.

The downgrade of the rating is based, among others, on the Company's lack of access to capital raising sources alongside a burden of material bond repayment which may result in a rapid erosion of the Company's liquid balances (Euro 180 million on the solo level as of the first quarter); the Company's ability to meet the expected repayment burden in the mid and long term is contingent upon the feasibility to realize existing income producing assets and develop other assets in weak economies, which sets a challenge to the Company; During the elapsed period since the date of the last report, the Company did not meet the targets presented to Midroog regarding the activity in India and future forecasts have worsened to a certain extent. This fact combined with the significant exposure of the Company to the activity in this country, which is characterized by challenging credit market and business culture and impeding the feasibility of material cash flows from this activity, all these negatively impact the rating; the Company developed most of the lands that are located in areas with an economic potential, however, although the Company has a material land inventory, a substantial part of the Company's lands that were not yet developed, are located in markets that were severely harmed by the economic crisis (such as Romania and Hungary) such that the continued development activity is materially contingent upon the improvement of the economic climate in these countries; after the realization of assets in The U.S and in spite of the opening of 3 shopping centers (Poland, Serbia and India) the Company holds a relatively small income producing asset portfolio that includes 7 shopping centers in India and eastern Europe that generate for the Company low FFO; the Company's financial flexibility is relatively low, as reflected in the fact that all of its income producing assets are pledged to lending banks .

Indeed, the Company holds unpledged lands at a scope of over Euro 500 million, but the fact that most of them are located in countries undergoing economic crisis, reduces their contribution to financial flexibility. The Company's rating was badly affected by its exposure to the cash flow needs of Elbit Imaging (the parent company) whose rating was downgraded to Baa3 with negative outlook. Nevertheless, Midroog believes that this exposure is limited in scope in view of Elbit Imaging strategy of placing emphasis on improving the Company's value and in view of the agreement reached with the bond holders, which limits, in the short and midium term, the dividend amounts for distribution. The limited scope of this exposure is reflected, among others, in the current rating differentials; the rating also took into account the improvement in liquid balances (even if this improvement is temporary in nature) following the successful realization of assets in the U.S and the improvement in the Company's financial solvency which is reflected, among others, in the shareholders' equity to balance sheet ratio (over 40%) and debt to CAP (circa 52%). Nevertheless, since a material part of the assets derives from lands located in countries suffering from economical crisis, it impairs the quality of these ratios.

Leaving negative rating outlook stems from the challenges facing the Company to execute various measures for creating significant cash flow sources. These measures are expected to be performed in a challenging operating environment in view of the financial markets' condition and the economic changes; In Midroog opinion, the continued delays in the activity in India alongside with the failure to realize shopping and entertainment centers in the requested dates and prices, may result in the continued downturn of the Company's activity; as far as a material change shall not take place in the Company's condition in all that concerns its access to the capital market, the erosion in liquidity and financial flexibility may continue such that it shall negatively impact the rating; the continued erosion in Elbit imaging activity may negatively impact the Company's condition, although, as per Midroog's rating, this exposure is limited to certain extent.

In spite of the improvement in liquidity following the realizations in the U.S., the lack of access to the capital market, bond repayment burden and the exposure to the liquidity needs of the parent company by distribution of dividends, may erode the liquid balances of the company, thereby creating high dependency on asset realization.

Over the recent years, the capital market was a key credit source for the Company. So, as of the report date, the bond debt (according to the CPI adjusted par value) of Plaza Centers amounts to circa NIS 1.3 billion (of which circa NIS 200 million is held by the Company). Truly, in 2012, sale transaction of income producing assets in the U.S was successfully consummated, which increased the liquid balances of the Company and improved its financial solvency, nonetheless, the Company remained with no access to the capital market, which is reflected in high yields of the company’s traded bonds. In view of the above, the significant bond maturities of the company that include an annual repayment of NIS 380 million in 2013-2015 with no ability of refinancing, may result in rapid erosion in liquid balances. Meanwhile, the Company's exposure to the cash flow needs of Elbit Imaging continues, mainly through annual dividend distribution (out of proceeds from asset realization). In view of the above, Midroog estimates that the Company's ability to maintain significant liquid balances and comply with the bond amortization schedule in the mid and long term depends on realization of income producing assets as well as land realization (the Company intends to realize lands in the amount of Euro 40-50 million).

It is indicated that the Company carried out several measures of purchasing its own bonds in order to take advantage of the low bond prices in the market, while reducing the burden of future principal and interest payments, however, at this stage, these purchases did not significantly reduce the burden.

The development pace in the coming years is expected to be slow since the majority of the development sources derives from lands located in economies under crisis; although the shopping and entertainment centers portfolio was expanded, realization of shopping centers in the U.S reduced the scope of the income producing portfolio and impaired the company's business profile.

Over the past year, the Company launched three new shopping and entertainment centers (Torun Plaza in Poland, Kragujevac Plaza in Serbia and Koregaon Park Plaza in India) which increase the company's asset portfolio and the ability to generate cash flows from asset realization. Nevertheless, Midroog estimates that no further significant increase in the income producing portfolio is expected in the coming two years since as of the report date, the Company is in construction stages of one shopping center only (Lodz, Poland). Moreover, also in the mid and long term, Midroog expects difficulties to expand the income producing portfolio since most of the company's land reserves are located in countries that were badly harmed by the last economical crisis (Romania and Hungary) and therefore, future development is contingent, among others, on the ability of these economies to recover. Although the Company managed to expand its activity in a rather complex economical climate, the asset realization in the U.S, which conforms to the Company's strategy not to hold income producing assets for a long time, reduced the scope of the income producing asset portfolio and decreased the current cash flows of the Company. In addition, this realization changed the activity mixture by increasing the relative portion of the assets located in crisis economies and in India (about 50% of the Company's asset value and about 75% of the value of land is attributed to Romania, Hungary and India). Midroog views this direction as harmful to the Company's business profile. It is indicated that the asset realization that improved the liquid balances and its financial solvency was necessary, in view of the Company's condition (and Elbit's condition) and especially in light of the sale price which fully embodied the enhancement of the value that has been carried out.

The Company does not meet the original timetables to promote the residential projects in India, which represent a material part of the activity in the country. This fact raises concern as to the Company's ability to generate significant residual cash flow from this activity in the short and midterm.

Over the years, the Company has invested hundreds of millions of NIS in purchasing lands and in developing projects in India and turned the activity in this country into a significant component of its activity (circa 18% of the total asset value). Indeed, in the last year the Company launched its first shopping center in India (Koregaon Park Plaza) and is in advanced stages of negotiations to sell its share in several lands, but the Indian credit market, which is characterized by high debt service costs, and the business culture in the country, make it difficult for the Company to realize its business and operating strategy, especially with all that concerns to residential development. Since the residential segment is a material component of the Company's activity in India, the above difficulties result in the Company's inability to meet prior forecasts.

In view of the above, Midroog estimates the activity in India as having high risk characteristics relative to the other company activities. As more as the Company realizes other assets and India's share in the company activity shall increase, the overall risk level shall increase as well as the Company's dependency on the success of projects in India.

Low financial flexibility in view of exhausting the financing capabilities

All of the Company's income producing assets, except Torun Plaza, pledged in favor of financial entities at leverage rates that leave no margin for obtaining additional financing on the assets. Accordingly, Midroog views the Company's financial flexibility as low compared to other real estate companies with similar rating. Truly, the Company owns lands which are not enslaved with an estimated value of over of Euro 500 million, which may serve as cash flow source by realization, when necessary (although it is probable that in the coming years some of these lands shall be pledged in the context of construction agreements), but as previously indicated, most of them are located in crisis economies, which may hinder their realization, in both the timing and in terms of requested price aspects.

The Company's exposure to cash flow needs of Elbit Imaging constitutes a negative factor in the rating; notwithstanding, Midroog views this exposure as limited in scope as reflected in the rating differentials between the companies

Despite the arrangement achieved regarding the bank financing issue in Europe Israel Ltd. (the parent company of Elbit Imaging) and despite completion of several significant realizations by Elbit Imaging that holds 62% of the shares of Plaza Centers, including its share in assets in the U.S and hotels in the Netherlands, Elbit Imaging access to capital market remained blocked. In view of the above and given the absence of additional significant cash flow sources, the Company remained as the key liquidity source of Elbit Imaging. Thus, the deterioration in Elbit Imaging financial condition, as reflected in the downgrading of the its rating to Baa3 with negative outlook, negatively impacts the risk level of the Company. Nevertheless, Midroog believes that the scope of this exposure is limited both in light of Elbit Imaging's strategy placing emphasis on enhancing the Company's value and in view of the agreement reached with the bond holders, which limits, in the short and midium term, the dividend amounts for distribution. The limited scope of this exposure is reflected, among others, in the current rating differentials. Notwithstanding the above, the continued deterioration of Elbit imaging may have a negative impact on the Company's rating.

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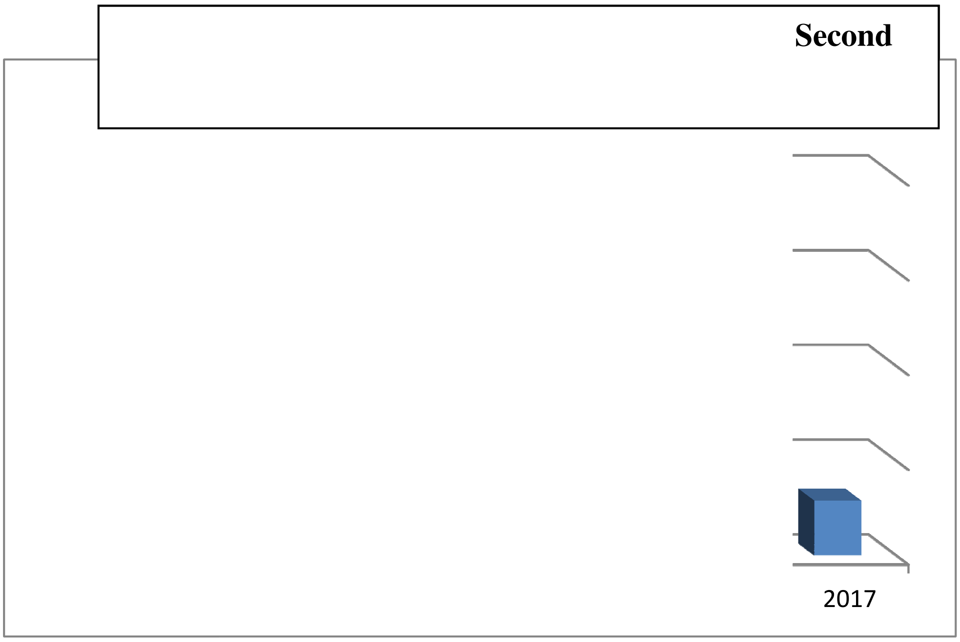


Repayment of bonds for 2013 includes bonds that were issued in Poland at a scope of Euro15 million. These bonds are not rated by Midroog.

The rating outlook

Factors that might improve the rating or the rating outlook:

• Generating significant cash flows from selling the Company's assets, including land, whilst maintaining the financial strength

• Improvement in the economies of Eastern Europe, mainly Romania and Hungary that will lead the Company to develop its activity.

Factors that might impair the rating:

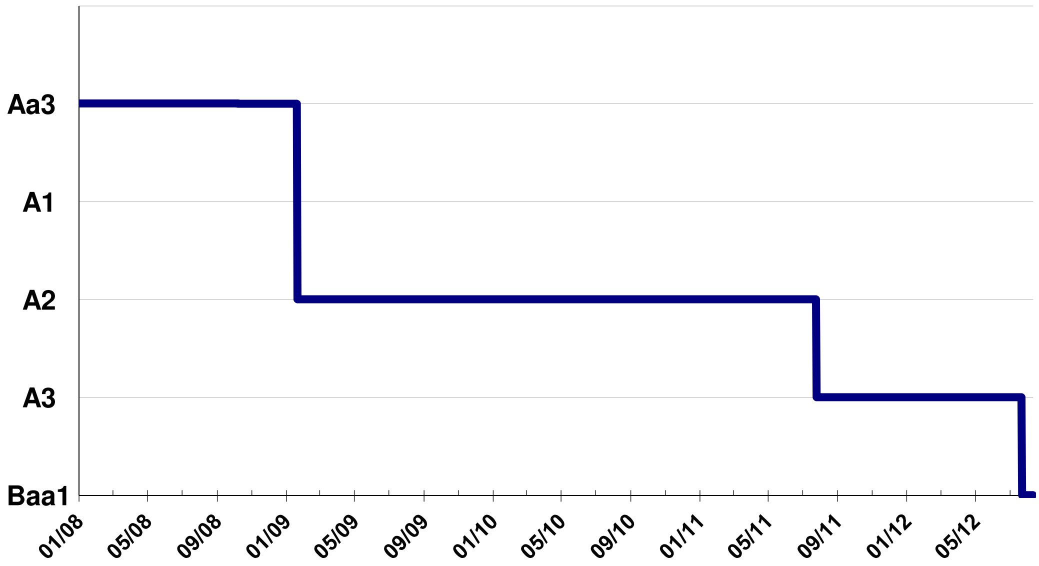
• A significant decline in the Company's liquidity level and its financial profile caused by investment policy adopted by the Company.

• Deterioration of Elbit Imaging financial position, which will increase the exposure level of the Company, among others, by dividend distribution in material amounts that shall impair the financial solvency and liquidity of the Company.

• Continued sensitivity of the Company to the raising ability in the capital market.

• Adverse changes in the markets, in which the Company operates, including continuing slow-down in the real estate sector, in general, and in particular commercial centers.

Rating History Diagram



Details of the issuer

The Company, Plaza Centers N.V. (hereinafter: "**the Company**") is a subsidiary of Elbit Imaging Ltd. (hereinafter: "Elbit"), and isis part of the "Europe Israel Group", which is controlled by its Founder, Mr. Mordechay Zisser. The Company incorporated in Netherlands and its Ordinary shares listed for trading on the main board of the London Stock Exchange (LSE) as well as on the Warsaw Stock Exchange (WSE).

The Company specializes in initiation, marketing, letting and sale of commercial centers and it operates in the real estate sector (primarily commercial centers) in developing countries for more than 16 years. Initially, the Company was engaged in development projects for commercial centers in Hungary and substantially expanded its activities into additional Eastern European countries and also into India. In 2010, the Company commenced its activity in income producing real estate sector in the U.S by establishing an investment fund, in which, among others, Elbit Imaging is a partner. Two years later, the Company has realized its holdings in the U.S with high profits so as of today the Company has no holdings in the U.S. As of the date of this report, the Company operates in 8 countries across Central and Eastern Europe and also in India.

The main shareholder in the Company, indirectly, is Mr. Moti Zisser, who holds the Company through the parent company Elbit Imaging Ltd., which holds approximately 62% of the shares in the Company. The rest of the Company's shares are held by the public.

Methodological reports:

Analysis of real estate companies - Methodological report – August 2009

Real estate companies Methodology, November 2008

The reports are published in the website of Midroog: www.Midroog.co.il

Key Financial Terms

Term	Definition
Interest expenses	Financing expenses from the P&L
Cash interest expenses	Financing expenses from the P&L after adjustments to non cash flow financial expenses from cash flow statements.
EBIT	Profit before taxes + financial +non-recurring expenses (income)
EBITA	EBIT + amortization of intangible assets
EBITDA	EBIT + depreciation + amortization of intangible assets
EBITDAR	EBIT + depreciation + amortization of intangible assets + rental fees +operating lease fees
Assets	The total of the Company's assets in the balance sheet.
Financial Debt	Short-term debt + current maturities of long-term loans + long-term debt +operating leasing liabilities.
Net Financial Debt	Financial debt – cash and cash equivalents – short-term investments.
Capitalization (CAP)	Debt + shareholders' equity (including minority interests) + long term deferred taxes in the balance sheet.
Capital Expenditures (Capex)	Gross investments in equipment, machinery and intangible assets.
Funds from Operations (FFO) (*)	CFO before changes in working capital and before changes in asset and other liability items
Cash flow from Operations (CFO) (*)	Cash flows from operating activities from the consolidated cash flow statements.
Retained Cash Flow * (RCF) (*)	Funds from operations less dividends paid to shareholders
Free Cash Flow (FCF) (*)	Cash flows from operating activities (CFO) – capital investments - dividends

(*) We draw your attention that payments and receipts of interest, tax and dividend received from investees contained in the IFRS statements will be included in the calculation of operating cash flows even if not recorded as operating cash flows.

Rating scale of liabilities

Investment Grade	Aaa	Liabilities that are rated with a rating of Aaa are, in Midroog's judgment, of the best quality and involve a minimal credit risk.
	Aa	Liabilities that are rated with a rating of Aa are, in Midroog's judgment, of a high quality and involve a very low level of credit risk.
	A	Liabilities that are rated with a rating of A considered by Midroog to be in the upper part of the middle grade and involve a low level of credit risk.
	Baa	Liabilities that are rated with a rating of Baa involve a moderate level of credit risk. They are considered to be liabilities with a medium grade, and as such they might possess certain speculative characteristics.
Speculative Investment Grade	Ba	Liabilities that are rated with a rating of Ba possess, in Midroog's judgment, speculative elements, and involve a significant level of investment risk.
	B	Liabilities that are rated with a rating of B are considered by Midroog to be speculative, and involve a high level of credit risk.
	Caa	Liabilities that are rated with a rating of Caa have, in Midroog's judgment, a weak status and involve very high credit risk.
	Ca	Liabilities that are rated with a rating of Ca are very speculative and may be in a state of insolvency or it may be close to that state, with some sort of chance of the repayment of the principal and the interest.
	C	Liabilities that are rated with a rating of C are rated at the lowest grade and generally are in a state of insolvency, where the chances that the payments of the principal or the interest being paid are weak.

Midroog applies numerical modifiers 1, 2 and 3 in each of the rating categories from Aa to Caa in each of the categories. Modifier 1 indicates that the bonds are to be found at the higher end of the rating category in which it belongs, which is denoted in letters. Modifier 2 indicates that the bonds are to be found in the middle of the rating category; whereas modifier 3 indicates that the bonds are to be found in the lower end of its rating category, which is denoted in letters.

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