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Plaza Centers N.V.

February 24, 2015

Rating Update

Determining the rating of ilBBB- following the performance of debt arrangement;

The rating outlook is stable

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Determining the rating of “ilBBB-“ following the performance of debt arrangement; the rating outlook is stable.

Summary:

- At the end of November 2014, Plaza Centers N.V (“Plaza Centers”), a real estate development company engaging in the initiation, development, occupancy and sale of commercial centers in Eastern Europe and India, consummated a debt arrangement process with its creditors resulting in the rescheduling of the amortization schedule of the Company simultaneously with injecting capital to the Company by its owners in the amount of EUR 20 million.

- In our estimate, following this arrangement, the Company's liquidity risks in the short term have been reduced significantly. We believe that the deferral of the payments to the bond holders shall enable the Company to reorganize for its asset realization from a preferable position and shall increase the consideration potential.

- Nevertheless, the Company's access to external financing sources is still weak and the future repayment of bond relies on its ability to realize its active assets and the plots pipeline it holds alongside the development and realization of new projects in challenging market conditions.

- The new rating reflects, in our opinion, the many challenges the Company is facing towards the implementation of its plans.

- Therefore, we determine the rating of “ilBBB-” for Plaza Centers N.V.

- The stable rating outlook reflects our estimate that in the short term the Company shall be able to focus on the implementation of its business strategy without high liquidity needs.

The Rating Activity

- On February 24, 2015, Standard & Poor's Maalot determined the rating of “ilBBB-“ for Plaza Centers N.V, engaging in the initiation, development, occupancy and sale of commercial centers in Eastern Europe and India and for the Company's bonds series A and B. The rating outlook is stable.

Major Considerations for the Rating

At the end of November 2014, Plaza Centers N.V. (“Plaza Centers” or “the Company”) a real estate development company engaging in the initiation, development, occupancy and sale of commercial centers in Eastern Europe and India, consummated a debt arrangement process with its creditors. Under the debt arrangement, the bonds' amortization (series A, B and the bond series issued in Poland) schedule was deferred for 3.5 (provided that early repayments are made in the amount of NIS 434 million until December 2016, the amortization schedule will be deferred for an additional year) years in return for an interest increase of 1.5%, capital injection followed by allocation of the Company's shares. Pursuant to the terms of the arrangement, the Company allocated to the bondholders 13.21% of its shares, listed its shares for trade in the Tel Aviv Stock Exchange and raised EUR 20 million by rights' issuance. Furthermore, the Company committed that 75% of the free net cash flows through asset realization, except Koregaon Park project in India, to take place prior to the new stated repayment schedule will be used for early repayment of the bondholders' debt.

We believe that, following this arrangement and the change of the amortization schedule of the bonds, the Company's liquidity risks in the short term have been reduced significantly. We believe that the payments deferral presents an opportunity for the Company to sell its active assets and the plots pipeline it holds in a controlled manner and at reasonable prices alongside the development of new projects and their realization.

In the fourth quarter of 2014, the Company consummated the sale of an active shopping center in Serbia for EUR 38.6 million. This amount represents the carrying value and according to the terms of the debt arrangement, the Company provided EUR 12.2 million out of the carrying amount for early repayment to bondholders. Furthermore, the Company sold two plots of land in Romania for EUR 4.7 million. In our opinion, such realizations indicate the Company's ability to realize assets in volatile market conditions. In addition, an improvement in occupancy rates in active assets and low interest rate environment prevailing in many markets, in our opinion, increase the sale potential of the assets.

Nevertheless, we believe that the Company still faces significant challenges. The business model of Plaza Centers is mainly based on the development and establishment of commercial centers until the final stages of the project occupancy and operation and subsequently – selling at prices that will provide the Company with capital gains and positive cash flows. In our estimate, the realizations' success depends, inter alia, on the appetite of potential buyers and the access to financial sources that are located at economies with unstable business environment. The long business cycle from the inception of the development until the end of the occupancy exposes the Company to significant uncertainty concerning the economic conditions that will prevail when the Company will conclude the process and choose to realize the assets. In our estimate, this risk is reflected, among others, in impairment of assets recorded by the Company in 2012 - 2014 that was translated to value write offs of EUR 330 million (of this amount, EUR 70 million, was recorded in the first nine months of 2014).

In our estimate, the Company's business model is characterized with low assets diversification and in view of its activity's nature; the Company is exposed to high volatility of cash flows affected by the timing of development and realization of the assets.

Moreover, we believe that in view of the assets' nature, (large malls and commercial centers) the number of the Company's potential clients is relatively low consisting mainly of large organizations that can afford the financing of large scale transactions. On the other hand, we believe that the Company possesses extensive experience in the development of assets in a high level and the location of the assets is good (mostly – at city centers).

As of today, the Company owns 6 active assets at an estimated value of EUR 252 million, including Koregaon Park in India (the net company's share net of a senior debt is estimated at EUR 80 million) and 4 projects in planning stage which are designated to be constructed in the coming years and several plots of land at estimated value of EUR 207 million. It is indicated that EUR 119 million representing 57% of the lands' value are attributed to a material asset – Casa Radio in Bucharest – that the Company plans to develop in the coming years.

On the other hand, as of today, the Company's liabilities to the bondholders amount to EUR 200 million the maturity date of which will commence in July 2017, although a deferral for an additional year subject to the terms of the arrangement is feasible. The Company's leverage level is high – 70% debt to debt and equity (after capital injection of EUR 20 million).

In our estimate, although the Company has no high liquidity needs in the coming years, it is ought to implement its realization plan efficiently and in a relatively short period. We believe that in order to service the bonds' debt, the Company will have to realize its active assets and a large part of its lands and at the same time, develop the projects that are in planning stages and realize them since the sale of the active assets only will not suffice.

Liquidity

Based on our criteria, we estimate the liquidity level of Plaza Centers as "less than adequate" mainly due to the weak access to capital market as of today, a short period after the conclusion of the debt arrangement. It is indicated that at the moment, the Company has financing sources exceeding the uses with relatively low liquidity needs in the coming years.

The following is the table of the Company's sources and uses for 2015:

Major sources	Major uses
• Cash and cash equivalents of EUR 41 Million (as of January 2015). • Annual cash flows of EUR 15 million from rental of active assets	• Investment in projects under construction in a scope of EUR 20 – 25 million.

In the event of asset realization (except Koregaon Park project in India), the Company will be required to transfer 75% of the free cash flows to the bondholders as an early repayment. The liquidity scenario did not take into account asset sale events.

It is indicated that as of today, there are 3 bank loans in which financial covenants were breached due to impairment of assets or the expiry of loan agreements (loan for Zgorzelec asset and 2 loans in Romania that are related to the dissolution of the partnership with Aura) aggregating to EUR 31 million. The Company negotiates with the financing banks to obtain a waiver and change of terms in the aforesaid loans. However, the above loans are non-recourse loans and the Company is exposed only up to the guarantee level that amounts to the interest payments only or alternatively, up to EUR 1.2 million in the case of Zgorzelec. It should be emphasized that the debt arrangement that was carried out deferred by 4 years the banks' ability to use the recourse right and even then at limited conditions. In view of the above, we estimate that the exposure in respect of the above loans is immaterial.

The rating outlook

The stable rating outlook reflects our estimate that the time space of the Company is reasonable for implementing its plans. In addition, the rating outlook is supported by the relatively low liquidity needs for the coming years.

The negative scenario

We may lower the rating should we notice a material deviation from the Company's abilities to execute its plans. We believe that that such a situation may result from material delays in selling the assets or carrying out a sale in values lower than those that were presented to us, from a further impairment of the assets or from delays in developing projects under construction.

The positive scenario

We shall consider a positive rating activity if the Company shall succeed implementing its plans at a rate exceeding the one we assumed in the base scenario and shall succeed lowering the debt burden significantly.

Rating adjustments

Business dispersion: neutral

Capital structure: neutral

Liquidity: neutral

Financial policy: neutral

Management strategy and corporate governance: neutral

Comparison to reference group: neutral

The group's effect: neutral

Methodology and related articles

- General methodology for rating corporations, November 19, 2013
- Methodology: rating a group of companies, November 19, 2013
- Methodology: the rating of companies: - financial ratios and adjustments, November 19, 2013
- Methodology: key factors in rating real estate companies, November 19, 2013.
- Methodology: key factors in rating real estate developers, February 3, 2014.
- Methodology for assessing the liquidity profile of corporations, December 16, 2014;
- Methodology for assessing the management and corporate governance of corporations and insurers, November 13, 2012;
- Criteria for the rating of issuances of non financial companies in the local rating scale of S&P Maalot, September 22, 2014.

The above articles may be found in the global website of S&P at www.standardandpoors.com or at the website of S&P Maalot at www.maalot.co.il

List of ratings

	Current rating	Previous rating
Plaza Centers N.V		
The issuer's rating	ilBBB-/stable	D
Series A Debentures	ilBBB-	D
Series B Debentures	ilBBB-	D

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