Unofficial Translation
Plaza Centers N.V.
Watch Report- August 2011

Author:

Nadav Goren, Senior Analyst
nadavg@midroog.co.il

Contacts:

Ran Goldstein, Attorney
(Accounting)
Real Estate Segment Leader
rang@midroog.co.il

Avital Bar-Dayan, Senior VP,
bardayan@midroog.co.il

Plaza Centers N.V.

Rating of series (issue)	A3	Rating Outlook : Negative

Midroog gives notice where it lowers the rating of bonds in circulation of Plaza Centers (Plaza Centers and/or the Company) from A2 to A3 and leaving the negative rating outlook. In addition, Midroog gives notice on the removal of the rating out of the watch list.

Series of bonds included in this rating activity:

Bond Series	Number of security	Date of Initial issuance	Par value of bonds as of the report date	Annual interest rate	Linkage	Maturity of bonds
Series A	1109495	6/2007	353,423	4.5%	Index	2011-2017
Series B	1109503	2/2008	1,139,275	5.4%	Index	2011-2015

The lowering of the rating is continuous to the negative outlook placed already in March 2011 and reflects the material worsening in the Company's access to capital raising sources from the capital market and the Company's exposure to challenges facing the parent company – Elbit Imaging to increase its liquidity sources.

Midroog shall review in the coming months the performance of the Company's business plans.

Worsening in the Company's access to capital raising sources from the capital market

Over the years, the capital market was a material source of credit for the Company, similar to the activity of Elbit Imaging. As of the date of this report, the bond debt of Plaza Centers amounted to circa NIS 1.7 billion. For several months, the Company's access is of high sensitivity to the capital market, which is reflected in high yields of the traded bonds of the Company. The duration and the level yields reached by some of the bonds impede the Company's ability to carry out capital raisings in the short term and possibly the midterm.

Exposure to the parent company

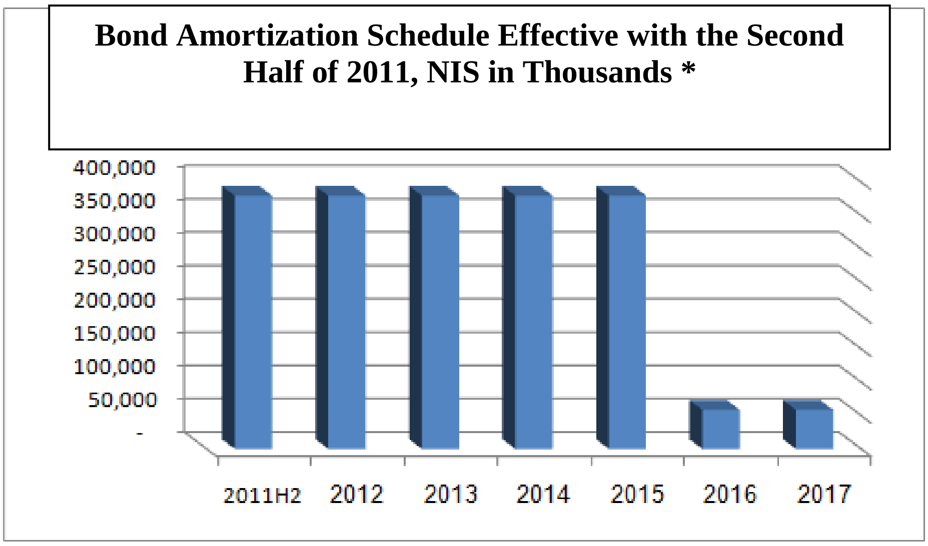
Although Elbit Imaging enjoys from diversified various operating segments, the Company was a significant cash flow source for Elbit over the years. The material impairment in Elbit Imaging access to the capital market, in Midroog's opinion, increases the Company's exposure to the cash flows needs of Elbit, an exposure that recently has grown in view of the financing procedures occurring in Europe Israel Ltd.

Lowering the rating by one level is supported by high liquidity level of the Company and on the other hand embodies the increased exposure of the Company to Elbit Imaging, the rating of which was lowered to A3 in negative rating outlook as a result of an increase in the overall risk profile. The Company acts to realize assets according to the operating strategy as an entrepreneurial company. On one hand, these measures will strengthen substantially the liquidity and the financial solvency of the group and will even reduce the dependency on the capital market for the purposes of debt refinancing. On the other hand, after the completion of the realizations, the Company's activity will include inventory of land and projects under establishment in countries with relatively low ratings and with no substantial income producing arm.

Leaving negative rating outlook stems from the challenges facing the Company and Elbit Imaging 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 that have recently occurred, which may have an impact on the ability to realize the plans according to the designed outline. Non completion of such measures may result, as per Midroog, in a continued negative direction of Elbit Imaging activity and increased exposure of the Company to Elbit.

Plaza Centers - Main Financial Data (Euro in thousands)

	31.03.2011	31.12.10	31.12.2009	31.12.2008	31.12.2007
Total revenues	14,620	37,641	16,045	98,613	507,843
Gross profit	7,678	16,788	3,075	42,679	241,184
Gross profit rate	53%	45%	19%	43%	47%
EBITDA net of revaluations	5,566	1,108	-14,507	21,434	218,974
Financial income (expenses)	6,057	-21,177	-18,120	58,088	9,347
Net profit (loss)	8,011	14,248	-64,712	67,684	226,967
Liquidity balances (cash, short term deposits and securities for sale – bonds)	222,817	164,899	140,225	154,634	67,414
Malls under construction	817,911	807,887	707,287	575,334	298,339
Investment property, net	228,173	238,702	13,399	12,970	12,970
Financial debt	812,243	761,069	447,532	302,817	79,098
Financial debt, net	589,426	596,170	307,307	148,183	11,684
Shareholders' equity and minority interest	618,700	624,449	574,709	609,531	603,471
Total balance sheet	1,475,933	1,426,296	1,059,621	958,556	761,211
Cap	1,431,857	1,386,474	1,024,678	918,539	683,121
Cap, net	1,209,040	1,221,575	884,453	763,905	615,707
Shareholders' equity and minority interest to total balance sheet	41.9%	43.8%	54.2%	63.6%	79.3%
Debt to CAP	56.7%	54.9%	43.7%	33.0%	11.6%
Net debt to CAP, net	48.8%	48.8%	34.7%	19.4%	1.9%



*) The bond repayment amount for 2011 H2 includes NIS 321 million which were actually paid.

The rating outlook

Factors that might improve the rating or the rating outlook:

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

• Significant improvement in the scope of permanent cash flows and its stability.

Factors that might impair the rating:

• A significant decline in the level of the Company’s liquidity and the financial profile of the Company resulting from investment policy adopted by the Company.

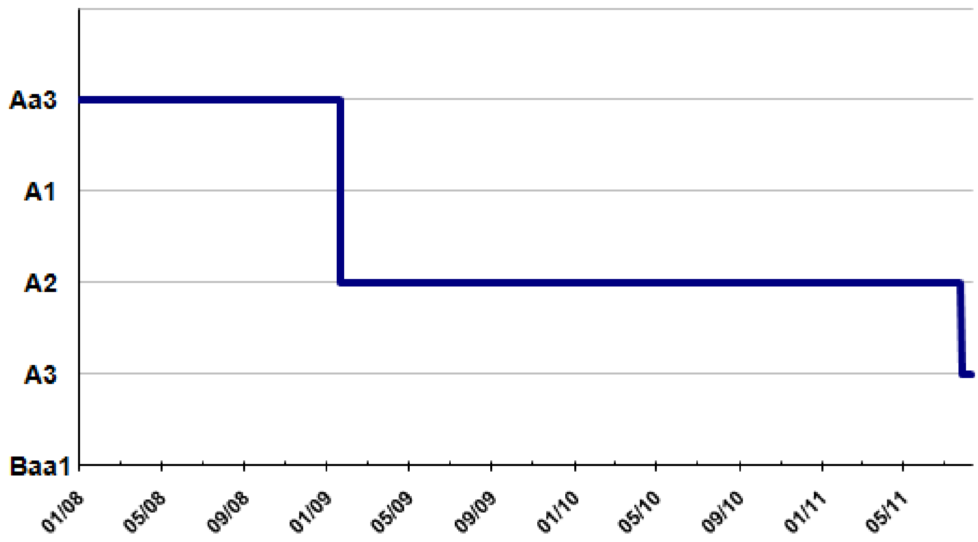
• Deterioration of Elbit Imaging financial position, which will increase the exposure level of the Company.

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

• The distribution of dividends in significant amounts, which would impair the Company’s financial solvency and its liquidity.

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

Rating History Diagram



Details of the issuer

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

The Company specializes in the initiation, marketing, occupying and sale of commercial centers and it operates in the real estate development field (primarily commercial centers) in developing countries and has been doing so for more than a 15 years. Initially, the Company was engaged in development projects for commercial centers in Hungary and following that it gradually expanded its activities into additional Eastern European countries and also into India. In 2010, the Company commenced its activity in income producing real estate segment in the U.S under a holding in an investment fund, which among others, Elbit Imaging is a partner in that fund. As of the date of this report, the Company operates in 8 countries across Central and Eastern Europe and also in India and the U.S.

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 shares in the Company are held by the public.

<u>Methodological reports:</u>

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 statement of income
Cash interest expenses	Financing expenses from the statement of income after adjustments to non cash flow financial expenses from cash flow statements.
EBIT	Profit before taxes and 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.

Report No.: CRE110811000M

Midroog Ltd., Millennium Tower, 17 Ha'Arba'a Street, Tel-Aviv 64739

Tel: 03-6844700, Fax: 03-6855002, www.midroog.co.il

All information contained herein on which Midroog relied was submitted to it by sources it believes to be reliable and accurate. Midroog does not independently check the correctness, completeness, compliance, accuracy or reliability of the information (hereinafter: the "Information") submitted to it, and it relies on the information submitted to it by the rated Company in order to determine the rating.

The rating is subject to change as a result of changes in the information received and/or as a result of receiving new information and/or for any other reason. Updates and/or changes in rating appear in Midroog's website whose address is www.midroog.co.il. The ratings assigned by Midroog express a subjective opinion, and they do not constitute a recommendation to buy or not to buy bonds or other rated instruments. The ratings assigned by Midroog should not be construed as confirmation of the data or as any opinions or attempts to make a self evaluation of the financial condition of any company or to testify to this and they are not to be construed as an opinion on the attractiveness of their price or the return of bonds or other rated instruments. Midroog's ratings relate directly only to credit risks and not to any other risk, such as the risk that the market value of the rated debt will drop due to changes in interest rates or due to other factors impacting the capital market. Any other rating or opinion given by Midroog must be considered as an individual element in any investment decision made by the user of the Information contained in this document or by someone on his behalf. Accordingly, any user of the information contained in this document must conduct his own investment feasibility study on the issuer, guarantor, debenture or other rated document that he intends to hold, buy or sell. Midroog's ratings are not adapted to the needs of a particular investor and the investor should obtain professional advice in connection with investments, with the law or with any other professional matter. Midroog hereby declares that the issuers of bonds or of other related documents, in connection with which the rating was assigned, undertook to pay Midroog even prior to assigning the rating for the evaluation and rating services provided by Midroog.

Midroog is a subsidiary of Moody's Investors Service Ltd. (hereinafter: "Moody's) which owns 51% of Midroog. Still, the rating procedures of Midroog are independent and separate from those of Moody's, and are not subject to Moody's approval. While Midroog's methodologies are based on those of Moody's, Midroog has its own policies and procedures and independent rating committee.

For additional information on the rating of Midroog or on its rating committee, you are directed to the relevant pages in Midroog's website.