STANDARD
&POOR'S
Maalot

Unofficial translation
Plaza Centers N.V.

May 21, 2012

Change of the rating to stable from negative; ratification of the "ilBBB+" rating.

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Summary:

- We positively view the portfolio realization in the U.S which improves the liquidity of the Company, and the increase the number of active properties upon the opening of four new projects with relatively high rental rates, resulting in our view, in a better business flexibility of the Company.

- We view the agreement recently reached with the debenture holders, which imposes restrictions on dividend distribution, a positive factor that reduces the burden on Plaza Centers and to a certain extent, the threat of uncontrolled dividend distribution.

- We ratify the ilBBB+ rating of Plaza Centers N.V. which mainly operates in the segment of initiating commercial centers in eastern and central Europe and India and update the rating outlook to stable from negative.

- The stable rating outlook reflects our estimate that the Company shall act to realize properties in order to maintain the current liquidity balances and leverage levels and higher feasibility of positive cash flows compared to prior periods, simultaneously with certain protections against dividend distribution following the agreement signed recently with the debenture holders.

The Rating Activity

On May 21, 2012, Standard & Poor's Maalot ratified the ilBBB+ rating of Plaza Centers N.V., which mainly operates in the segment of initiating commercial centers in eastern and central Europe and India and updated the rating outlook to stable from negative.

Major Considerations for the Rating

Changing the rating of Plaza Centers, N.V. to stable reflects our estimate of higher feasibility of positive cash flows compared to prior periods and that is based on property realization plan according to the business model of the Company.

In recent months the Company increased the number of active properties upon completing the development and opening four new properties: Torun Plaza mall in Poland, Kragujevac Plaza mall in Serbia, first stage of the office project Kharadi Plaza in Puna, india, and new mall Koregaon Park Plaza in Puna, India. The high occupancy rates in these properties reflect the Company's ability to attract tenants and better the properties it develops even in a challenging business environment of economic uncertainty.

The Company's development plan for the coming years focuses on properties situated in Poland, Serbia, Romania and India. In our estimate, the economic environment in India, Poland and Serbia and the interest shown by international investors in the type of properties held by the Company in these countries, support the Company's ability to raise capital to develop the properties and realize them in the short and medium range and increase the feasibility of more positive cash flows compared to prior periods.

In our base scenario, we assume that the company shall realize 2-3 active properties and some of its land reserves that do not represent its core business, mainly those that are designated for residential construction, in a time period of one to two years. According to the base scenario, the Company is expected to present operating income (after adjustments) in a cumulative scope of €90 – €100 million and cumulative net operating cash flows (net of debt repayment on properties) of €100 – €160 million.

Nonetheless, the scope of realizations is materially effected by the economic environment prevailing in central and eastern Europe and the availability of financing sources, which may change rapidly. This dependency is embodied in the overall rating of the Company, which reflects the speculative construction, the high volatility of operating cash flows and the weak coverage ratios characterizing the business model. As previously shown, in the last four years, the Company was engaged in property development and did not make even one sale, except for the transaction in the U.S.

In the financial aspect, according to the above base scenario, the Company shall maintain the debt ratio and debt to debt and net equity ratio (adjusted) of up to 50%. In addition, upon the realization of certain EPN properties in the U.S (Plaza's share is 22.7%) the Company's liquidity is expected to improve. However, in our opinion, the existing cash balances in addition to the proceeds from realization in the U.S and current cash flows from the operations of the active centers are insufficient to cover the repayment of debts in the coming year and a half and the current investments in the development of new properties.

The rating of Plaza Centers is effected also by the rating of the parent company, Elbit Imaging Ltd. (ilBBB+/Negative) and that is in view of the tight linkage among them, especially in the period in which the parent's ability to refinance debts is limited. Nevertheless, we view the agreement with the debenture holders, which imposes restrictions on dividend distribution in 2012 – 2013 a positive factor that reduces the burden on Plaza Centers and to a certain extent, the threat of realization of properties and uncontrolled withdrawal of funds for dividend distribution. In view of the above, we view the rating Plaza Centers more stable than the rating of the parent company.

Liquidity

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

The main financing sources of the Company for 2012 – 2013, on a cumulative basis, as per our estimate, include:

- Opening balance of cash, short term deposits and investments amounting to circa €99 million.
- Cash flows from the realization of Plaza Centers' share in the U.S portfolio amounting to circa €96 million (pre tax)
- And cash flows (after debt repayment) from realization of properties in addition to forecasted cash flows from property operation and sale of units in India are estimated at circa € 100 – 160 million (after deducting security coefficients).

At this stage, in which sale contracts did not yet reach the signing phase, the burden of proof is imposed on the Company. On the other hand, the Company's main uses for 2012- 2013 are:

- Repayment of debentures and banks in a total amount of circa €175 million;
- Cash flow interest expenses and investing needs in new projects (other than bank accompaniment for construction) of circa €80 million;
- And dividends amounting to circa € 60 million contingent upon the Company's performance.

The Rating Outlook

The stable rating outlook reflects our estimate of higher feasibility of positive cash flows compared to prior periods, simultaneously with certain protections against uncontrolled dividend distribution and sale of properties following the agreement signed recently with the debenture holders. According to our base scenario, the Company shall maintain the debt ratio and debt to debt and net equity ratio (adjusted) of up to 50%, which conforms to the current rating.

The Company's rating is strongly effected by our estimate on liquidity. We assume that although there is an interest of investors to purchase activities similar to those of the Company, such willingness and ability may vanish, given the adverse changes in the financial markets. In the event that we shall not see positive change in operating cash flows in the short term, as described in the base scenario, and/or we shall not see increase in the debt to debt ratio and net equity above 50%, a negative rating activity shall be considered.

In addition, 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+/ Stable**	**ilBBB+/ Negative**
Series A	**ilBBB+**	**ilBBB+**
Series B	**ilBBB+**	**ilBBB+**

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It is hereby clarified that S&P Maalot rating does not reflect risks associated and/or deriving from violations, action, or default of any commitment contained in the debentures' documents and/or incorrectness or inaccuracy in the representations contained in the documents relating to issuance the debentures, in respect of which this rating is rendered, S&P Maalot report or the facts underlying the opinion, which were conveyed to S&P Maalot, as a condition for the rating, actions, or defaults that were committed fraudulently, or deceitfully or any other action contrary to the law. The ratings may change as a result of changes in the information, or for any other reasons. The rating should not be construed as an opinion relating to price of security in the primary or secondary market. The rating should not be construed as an opinion relating to the profitability of purchase, sale or holding any security whatsoever.

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