# Free Translation Only
# Plaza Centers N.V.
# Watch Report- March 2013

**Authors**:

Nir Yosef, Analyst

Contacts:

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

# Plaza Centers N.V.

| Rating of series (issue) | Ba1 | 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 Baa1 to Ba1 and leaving the negative rating outlook.

Series of bonds included in this rating activity:

| Bond Series | Number of security | Date of Initial issuance | Balance adjusted to Bonds index February 2013 NIS in millions *) | Annual interest rate | Linkage | Maturity of bonds |
|---|---|---|---|---|---|---|
| Series A | 1109495 | 6/2007 | 293 | 4.5% | Index | 2013-2017 |
| Series B | 1109503 | 2/2008 | 971 | 5.4% | Index | 2013-2015 |
| **Total** | | | 1,263 | | | |

*) Without neutralizing self holdings of the Company in the amount of NIS 210 million.

The lowering of the rating is based, among others, on the continued erosion of the liquid balances of the Company alongside the lack of access to the capital market which increase the Company's dependency on the realization of assets in the mid – short range. Midroog estimates that the realization of assets may be challenging for the Company since the Company's sources include lands in weak economies and income producing commercial centers whose their value potential was not yet exhausted in view of a delay in improving the operational parameters, stemming among others from market conditions; the current land bulk, which is mainly located in markets that have not yet recovered from the economic crisis impedes the Company's ability to expand the array of income producing assets, and particularly, analysis of the land composition indicates a material exposure to lands in Romania, which the most material is "Casa Radio" and an exposure to activity in India, where the Company has not yet proven the ability to exercise the potential in this activity, including deriving cash flows;  Midroog estimates the financial flexibility of the Company as low since the unencumbered assets are lands located in areas, where realization and/or obtaining financing are difficult to achieve and in view of the fact the income producing assets are charged in LTV, which does not enable to increase the debt substantially for the purpose of creating residual cash flow (except Torun Plaza project);

The Company presents good solvency ratios compared to the rating, but the fact that a major part of shareholders' equity is in lands located in economies exposed to crisis and due to the fact that the Company is delayed in improving the operational parameters, increase the likelihood of declines and decrease in value for part of the lands and even for some of the income producing assets, including the ability to generate significant cash flows from their realization.

**Leaving negative rating outlook** stems from the challenges facing the Company to execute its plans for the purpose the bond debt service, which are to be carried out in a challenging environment, such that there is a risk for additional delays in the Company's plan, especially in its activity in India and in the realization of commercial centers and lands at the requested dates and prices; and consequently, the Company's rating may be effected adversely from the position of the parent company – Elbit Imaging Ltd. (Elbit) which is in settlement procedures and may expose the Company to strategic and managerial changes.

**Itemization of key factors in the rating**

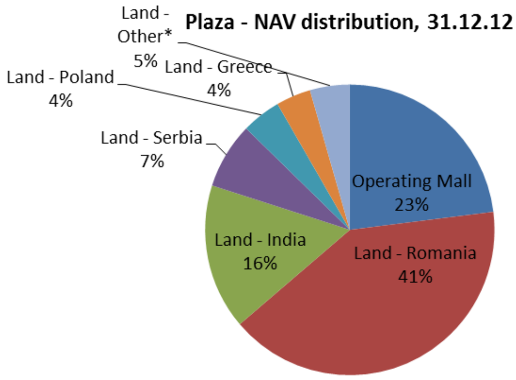
**The bond burden of repayments, with no refinancing capability, requires the Company to realize assets in a challenging activity environment; Midroog estimates the Company's financial flexibility as low;**

The company’s amortization table for 2013-2015 includes bond repayment (net of self holdings) in amount of EUR 65 million per year (approximately EUR 77 million without neutralizing self holdings). In addition, in 2013, the Company must repay a corporate debt of approximately EUR 30 million, deriving from bonds (unrated) that were issued in Poland and a debt to a foreign bank. As long as the Company continues to carry out self acquisitions, the bond maturities are expected to decrease, however, on the other hand, the liquid balances as well. In view of the fact that the Company lacks access to the capital market and since the Company has a negative FFO cash flow, Midroog estimates that the cash balances amount to EUR 60 million (out of which EUR 10 million are restricted) and cash in U.S. subsidiaries totaling about EUR 30 million, are insufficient for repaying the bond principal in the mid – short range and therefore the Company depends highly on asset realization. It is indicated that in the course of the previous period from the previous watch report, the Company attempted to issue bonds in foreign markets, however with no success. As of 30.9.2012, the Company owns 7 commercial centers (in India, Latvia, Serbia, the Czech Republic and 3 centers in Poland) at a net value of approximately EUR 170 million[1] but Midroog estimates that this net value is at risk of decline. Although the Company estimates that the realization of income producing assets is adequate for the bond service at the short – mid range, Midroog estimates that realizing the assets at the proper date and price, may be challenging for the Company, mainly because in some of the assets the company has not yet stabilized the operational parameters (see more detailed information later) and in view of their exposure to challenging economies.

Aside from the array of income producing assets, the Company owns a considerable amount of lands valued at millions of EUR, most of which is unencumbered.

[1]Based on a valuation as of 31.12.2011

However, since the lands are located in markets that were severely harmed by the economic crisis (like Romania and Hungary), such fact impedes the realization of the lands or their (lien) with respect to the debt. Only one income producing asset of the Company is charged in LTV level that enables a material refinancing (Torun, Poland), therefore, Midroog estimates the Company's financial flexibility as low. In addition, due to the fact that the Company has continuous repayment burden until 2015, the Company should use part of its liquid balances for investing its equity to develop and establish projects that will turn the lands and projects "liquid" for realization in the repayment burden period.




**Although the solvency ratios are good compared to the rating, they are at risk of worsening in view of declines in value and additional losses**

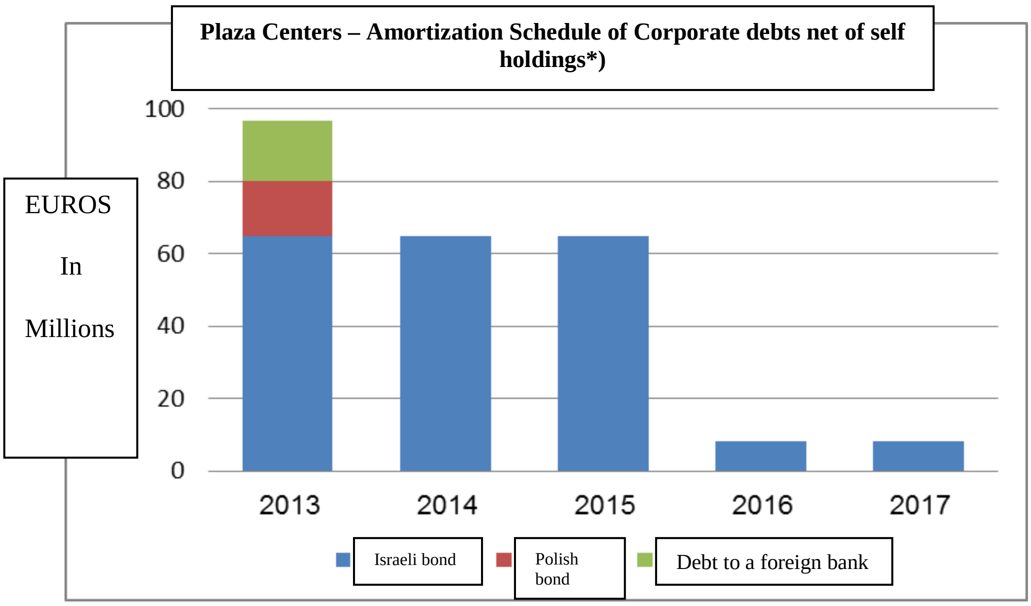
The Company presents good solvency ratios compared to the rating. As of 30.9.2012, the ratio of equity to balance sheet is 50% and the debt ratio to CAP is 47%. Nonetheless, Midroog estimates that the quality of the assets, including mainly lands, exposes the equity and financial ratios to erosion. Midroog estimates that as long as the economies in which the lands are situated remain in the crisis, declines in value shall continue. Moreover, the equity analysis on NAV basis shows that the Company has an exposure to a material land in Bucharest, Romania – “Casa Radio”. Midroog estimates that the cost of land along with the project establishment is substantial relative to the projects that can be carried out in this economy, which may impede obtaining financing for developing the project and finding investors and partners.

**There is an exposure to the liquidation purposes of the parent company, which is limited**

Situation has worsened for the parent company – Elbit Imaging, since the last watch date. As of the report date, Elbit Imaging (rated Ca with negative outlook), fails to meet its obligations toward its bond holders, following which negotiations took place to reorganize the ownership structure. This deterioration took place, among others, because of the Company's management decision to respond to the objection of Plaza's bond holders to distribute dividends. Accordingly, Midroog estimates that Elbit's ability to derive cash from the Company in an adverse manner to Plaza's bond holders has declined; nonetheless, Midroog believes that a certain exposure does exist to the cash needs of the parent company and the uncertainty concerning the control of Ebit – and consequently the control of Plaza.

**Slow improvement of the operational parameters of the income producing assets impedes the enhancement of the assets' value and realization of such assets; low development pace in view of the fact that the Company's land bulk is located in crisis economies; exposure to activity in India, which is characterized with high level of risk**

Although a light improvement in the operational parameters of most of the income-producing assets has occurred since the last watch date, occupancies are still not high. As of the report date, the average occupancy rate of the Company is 87%, where in 2 assets, as previously mentioned, the occupancy rate is higher than 90%, a fact that makes it difficult to realize assets at high price and may even result in decline in value, as above-mentioned. In addition, the Company's commercial asset in India (Koregaon Park) was damaged from a fire. Although the majority of the revenue loss and renovation costs are covered by insurance, this fire hinders the improvement of the operational parameters and stabilizing the mall towards its realization. Moreover, Midroog estimates that no material increase in the income producing asset portfolio is expected in the short-mid range since most of the lands are situated in countries that were severely harmed by the crisis and therefore, future development is contingent upon the recovery of those economies. As of the report date, the Company is not in construction stages of any commercial center but expects to commence during the year the construction of at least 2 commercial centers - Lodz Plaza in Poland and Sportstar Plaza in Serbia. In addition, as indicated in previous rating reports, during the years, the Company invested many resources in purchasing lands and promoting projects in India, when the Company did not meet its targets for several times, as presented to Midroog. In view of the above, Midroog estimates the activity in India as having high level of risk relative to the other activities of the Company and negatively impacts the Company's rating and its ability to derive cash flows.




*) the Polish bond is not rated by Midroog.

## Plaza Centers – Selected Financial Ratios as of 30.6.2012 (000' EUR)

| | 30.06.2012 | 31.12.2011 | 31.12.2010 | 31.12.2009 |
|---|---|---|---|---|
| Total revenues | 33,650 | 57,074 | 37,641 | 16,045 |
| Gross profit | 15,346 | 31,276 | 16,788 | 3,075 |
| Gross profit rate | 46% | 55% | 45% | 19% |
| EBITDA net of revaluations | 7,035 | 14,257 | 1,108 | -14,507 |
| Financial income (expenses) | -12,868 | 65,346 | -21,177 | -18,120 |
| Net profit (loss) | -7,150 | 13,864 | 14,248 | -64,712 |
| Liquidity balances | 176,908 | 86,931 | 164,899 | 140,225 |
| Malls under construction | 857,871 | 850,229 | 807,887 | 707,287 |
| Investment property, net | 13,652 | 272,348 | 238,702 | 13,399 |
| Financial debt | 541,269 | 716,352 | 761,069 | 447,532 |
| Financial debt, net | 364,361 | 629,421 | 596,170 | 307,307 |
| Shareholders' equity and minority interest | 534,374 | 550,162 | 624,449 | 574,709 |
| Total balance sheet | 1,139,866 | 1,348,526 | 1,426,296 | 1,059,621 |
| Cap | 1,085,189 | 1,282,187 | 1,386,474 | 1,024,678 |
| Cap, net | 908,281 | 1,195,256 | 1,221,575 | 884,453 |
| Shareholders' equity and minority interest to total balance sheet | 46.9% | 40.8% | 43.8% | 54.2% |
| Debt to CAP | 49.9% | 55.9% | 54.9% | 43.7% |
| Net debt to CAP, net | 40.1% | 52.7% | 48.8% | 34.7% |
| Shareholders' equity to total balance sheet, net of cash | 55.5% | 43.6% | 49.5% | 62.5% |
| FFO | -2,080 | -21,678 | -18,616 | -10,623 |

## The rating outlook

**Factors that might improve the rating or the rating outlook:**

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

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

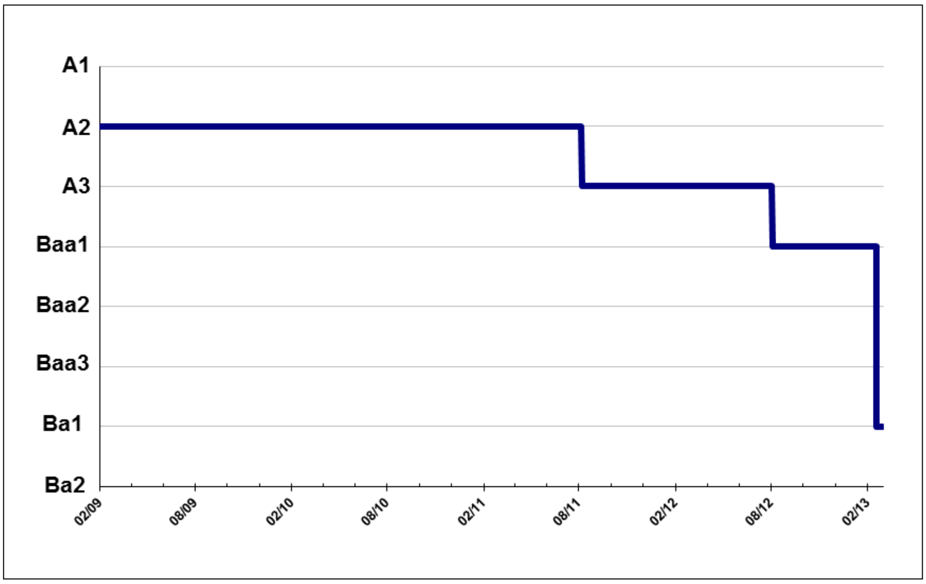
**Factors that might impair the rating:**

• A significant decline in the level of the Company’s liquidity and the financial profile of the Company.

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

• 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 17 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. After two years, the Company realized its holdings in the U.S with high profits so 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 shares in the Company 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

**Previous report: August 2012 watch report**

**Date: March xx 2013**

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

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



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