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Plaza Centers N.V.

March 2, 2016

Rating Update

Changing the rating outlook from stable to negative due to delays in the realization plan

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Summary:

- The asset realization rate of the Company in 2015 is significantly lower compared to the business plan presented to us last year. Respectively, the cash flows in 2015 are lower than the previous scenario and the projected net debt at the end of 2015 is higher than the previous forecast.

- In addition, the market conditions in the operating countries and the exchange of management raise concerns about the Company's ability to successfully implement its strategic plan for asset realization in a scope sufficient to service the high maturities in 2017.

- The current liquidity level of the Company for the coming year is less than adequate, based on the volume of cash in hand compared to the principal and interest payments of bonds in 2016

- We ratified the rating of ilBBB- for Plaza Centers N.V which is engaged in the planning, development and construction of shopping centers in Central and Eastern Europe and update the rating outlook from stable to negative.

- The negative rating outlook reflects our estimate regarding the many challenges the Company faces for the successful implementation of its business strategy which includes the realization of shopping centers and plot of lands in Central and Eastern Europe.

The Rating Activity

- On March 2, 2016, Standard & Poor's Maalot ratified the rating of ilBBB- for Plaza Centers N.V, which is engaged in the planning, development and construction of shopping centers in Central and Eastern Europe and updated the rating outlook from stable to negative.

Major Considerations for the Rating

Changing the rating outlook to negative reflects our assessment that there are many challenges facing the Company to successfully implement its business strategy including the realization of shopping centers and plot of lands in Central and Eastern Europe. The scope of asset sale by the Company in 2015 was significantly lower than the business plan presented to us last year and for some of the properties additional impairments were recorded beyond those that have already been recognized in previous years. The Company's performance last year, with the change of management and the change in the composition of the Board, raise concerns regarding the Company's ability to generate cash flows in the timing and extent adequate to service the debt, according to the repayment schedule set forth in the debt arrangement performed in the Company in 2014.

Failure to comply with the business plan may give rise, in our opinion, to deterioration in the liquidity status considering the high dependency on asset realization compared to the high level of principal and interest payments of bonds (Series A and B and bond series issued in Poland) particularly in 2017.

Nevertheless, we hereby indicate that since the approval of the debt arrangement at the end of 2014, the Company achieved a number of goals, including improvement of occupancy and NOI (net operating income) in most of the active shopping centers and a reduction in headquarters expenses and sold several assets, including lands, for which it received a free cash flow of approximately EUR 30 million.

The Company's business profile is characterized by a low volume of diversification of assets, and in view of the nature of its operations, 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 light of the nature of the assets, large-scale malls and shopping centers) the number of the Company's potential customers is relatively limited and consists mainly of large entities which can finance large-scale transactions. In addition, the macro-economic conditions prevailing in Central and Eastern Europe may reduce the appetite of the investors for the type of assets the Company holds, particularly lands in Eastern European countries and therefore challenge the Company's ability to execute its plan. It is indicated that EUR 108 million represent 29% of the value of the plot of lands and assets are attributed to a material asset – Casa Radio in Bucharest – which the Company intends to develop in the upcoming years.

The Company's financial risk is characterized with high leverage level and weak and volatile coverage ratios. In the first nine months of 2015 the Company showed an increase in the balance sheet leverage level that was reflected in the adjusted ratio of debt to debt and equity of 72.3% as of September 30, 2015 (compared to 70.7% as of December 31, 2014). The increase in the leverage level mainly derives from the capital erosion due to loss, inter alia, from negative revaluations and high financial costs. The activity scope is limited and the business model of the asset development and sale creates exposure to volatility in revenues and cash flows and adversely affects our estimate of the financial profile.

Liquidity

Based on our criteria, the liquidity level of the Company is "less than adequate". We estimate that the ratio between the sources with high level of certainty and the uses of the Company in 2016 is lower than x 1.2 and the Company's access to the capital market is low.

The following is the table of the Company's sources and uses for 2016:

Major sources	Major uses
• Cash and cash equivalents of EUR 20 Million (as of January 2016). • Annual net cash flows of EUR 10 million from rental of active assets (after deducting operating expenses and debt service relating to the	• Headquarters expenses of EUR 6 million. • Interest payments of EUR 13 million. • Principal payments for bonds of EUR 13 million It is indicated that it was determined in the debt arrangement that if the Company achieves a certain target of early repayments until December 1, 2016, it will be entitled to defer the remaining repayments by one year and the principal payment of EUR 13 million will not take place in 2016. However, our estimate of the liquidity level did not take into account the possible deferment.

Under the debt arrangement principles, 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, however on the other hand, net cash flows from leasing assets was taken into account. In addition, the Company has plans for developing new assets and it expects investments in projects under construction in the amount of EUR 8-17 million. It is indicated that most investments are not obligatory or that there is flexibility as to the performance of such investments and therefore, we did not include these amounts in our liquidity analysis.

It is indicated that as of today, there are 2 bank loans amounting to circa EUR 29 million in which financial covenants were breached due to impairment of assets or the expiry of loan agreements. 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. It is stressed that under the debt arrangement the banks' ability to use the recourse right was deferred by four years and even then at limited conditions. In view of the above, we estimate that the exposure in respect of the above loans is immaterial.

We hereby comment positively the loan reduction for Liberec mall in the amount of EUR 12 million which reduces the debt burden (the loan was with recourse right).

The rating outlook

The negative rating outlook reflects our estimate regarding the many challenges the Company faces for the successful implementation of its business strategy which includes the realization of shopping centers and plot of lands in Central and Eastern Europe and India and regarding the impact they may have on the performance of asset realization and the proceeds expected to be received and consequently the Company's ability to meet future repayments according to the outline determined in the debt arrangement.

The negative scenario

We will examine downgrade rating if we estimate that the Company's liquidity level deteriorates while coming close to repayment dates with no adequate solution from the standpoint of asset realization. We intend to review the Company's progress in its business plan in the upcoming months.

The positive scenario

On the other hand, we will consider changing the rating outlook from negative to stable should we estimate that a considerable progress took place in the Company's business plan and its liquidity status has improved significantly. We will review the Company's progress in asset realization compared with its liquidity needs in 2016 and 2017, in which we forecast, at this stage, material gaps between the available sources and the uses.

Rating adjustments

Business dispersion: neutral

Capital structure: neutral

Liquidity: neutral

Financial policy: neutral

Management strategy and corporate governance: neutral

Comparison to reference group: neutral

Methodology and related articles

- Criteria for rating issuances of non-financial companies in the local scale of Standard & Poors Maalot, September 22, 2014.
- General methodology: credit rating in local scales, September 22, 2014.
- Opinions and interpretation: the link between the global rating scale and the Israeli rating scale, January 25, 2016.
- General methodology: conversion tables of S&P among ratings in global scale and ratings according to local scales, January 19, 2016.
- General methodology: rating definitions of S&P, February 1, 2016.

- General methodology: timing of payments, grace period, guarantees and using the ratings of D' (insolvency) and SD (selective insolvency), October 24, 2013.
- Methodology: key factors in rating real estate developers, August 19, 2014.
- Methodology core articles: general methodology for rating corporations, November 19, 2013.
- Methodology core articles: methodology for assessing the liquidity profile of corporations, December 16, 2014;
- Methodology: the rating of companies: - financial ratios and adjustments, November 19, 2013
- Methodology for assessing the management and corporate governance of corporations and insurers, November 13, 2012;
- Methodology: rating a group of companies, November 19, 2013
- Methodology: updating the matrices for business risk and financial risk, September 18, 2012.

General Details (March 2, 2016)	
Plaza Centers N.V	
The issuer's rating	ilBBB-/Negative
Unsecured senior debt	
Bonds Series A and B	ilBBB-
The issuer's rating history	
February 25, 2016	ilBBB-/Negative
February 20, 2015	ilBBB-/Stable
November 14, 2013	D/-
July 19, 2013	ilB/Negative
March 21, 2013	ilBB+/Negative
December 27, 2012	ilBBB-/Watch Neg
May 21, 2012	ilBBB+/Stable
August 31, 2011	ilBBB+/ Negative
May 25, 2011	ilA/ Watch Neg
September 20, 2010	ilA/ Negative
March 2, 2009	ilA/ Stable
May 25, 2008	ilA+/ Watch Neg
February 6, 2008	ilA+/ Positive

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