STANDARD & POOR'S

RATINGSDIRECT®

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Befimmo S.C.A.

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Table Of Contents

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Befimmo S.C.A.

Major Rating Factors

Corporate Credit Rating
BBB/Stable/A-2

Strengths:

- Low industry risk, with quality assets that produce stable cash flows and retain value well
- A large proportion of prime assets in the relatively resilient Brussels central business district, leased on long-term contracts
- Low exposure to speculative developments
- A SICAFI tax-transparent vehicle, which lends itself to low-risk property ownership and rent collection

Weaknesses:

- Concentration of assets in the weaker Brussels office market
- Some customer concentration, albeit on tenants with very high credit quality
- A weakened financial profile following recent large acquisitions

Rationale

The ratings on Belgium-based property investment company Befimmo S.C.A. reflect the strong quality of the company's portfolio of commercial real estate, which produces resilient cash flow streams. This is the result of the good quality of the company's assets, which are leased on long contracts to strong tenants; overall positive indexation in the lease portfolio; and limited exposure to speculative developments over the cycle. These strengths are tempered by the cyclical nature of the office real estate market, the low-yield nature of real estate assets, and the company's slightly more aggressive capital structure and investment activity.

Befimmo's €1.8 billion property portfolio comprises office assets mainly focused on the Brussels market. Since December 2006 and the acquisition of a 90% stake in Fedimmo, a real estate company with a portfolio of 62 properties rented to the Belgian state with an average lease term of 17 years, Befimmo's business risk profile has improved. Befimmo now has a larger and more diversified property portfolio; average lease maturity of about nine years; and a tenant base with strengthened credit quality--about two-thirds of rental income now comes from the public sector (mainly the Belgian state). Standard & Poor's Ratings Services believes that Befimmo's improved business risk profile can support slightly higher leverage while retaining a 'BBB' rating. We expect the company's loan-to-value (LTV) ratio to remain at about 50% (it was 47% on Sept. 30, 2007).

Befimmo's short-term debt structure exposes the ratings to interest rate hikes. Although rated peers have a more comprehensive hedging package relying heavily on pure interest rate swaps with longer average durations, Befimmo still has a satisfactory hedging strategy consisting of:

- A cap (EURIBOR-based) at 5% for a notional amount of €368 million until year-end 2008;
- Two caps at 4.75% and 4.57% for a total notional amount of €368 million until end-2008, with a knock-out at 5%;
- Callable interest rate swaps at 3.73% for a notional amount of €200 million, and at 3.9% for €100 million; and

- A 3.5%–5% twin cap for €400 million from 2009 until end-2011.

Overall, Befimmo's interest rate hedging policy is to have 50%-75% of total debt fixed or hedged over three to five years.

Befimmo's tax-exempt status as a SICAFI (a Belgian tax-transparent vehicle) currently imposes maximum gearing of 65% (recently revised up from 50%). Befimmo is nevertheless aiming to operate at about 50% over the cycle, although leverage could temporarily increase slightly following large acquisitions.

Liquidity

Befimmo's liquidity is adequate, consisting primarily of a €350 million syndicated bank facility due in 2012. Part of this syndicated facility is likely to remain permanently undrawn and used as a backup line (€300 million was undrawn at Dec. 31, 2007) for the company's heavy short-term drawings (€258 million outstanding at Dec. 31, 2007).

Short-term debt also includes €326 million corresponding to the remaining part of the bridge loan financing the Fedimmo transaction and maturing in December 2008. The company plans to refinance this bridge loan with long-term debt during the year.

Befimmo's liquidity is further strengthened by its proven ability to access the equity market, as illustrated by the successful €260 million capital increase in June 2007.

Lower rents for new or extended lease contracts, combined with increasing expenses for new leasing activity in the form of tenant improvements, are set to lead to a slight reduction in Befimmo's operating margin and cash flows in the near term. Since Befimmo's free cash flows are distributed to shareholders, existing and future debt is likely to be refinanced rather than repaid. Maintenance of adequate backup liquidity resources is therefore important.

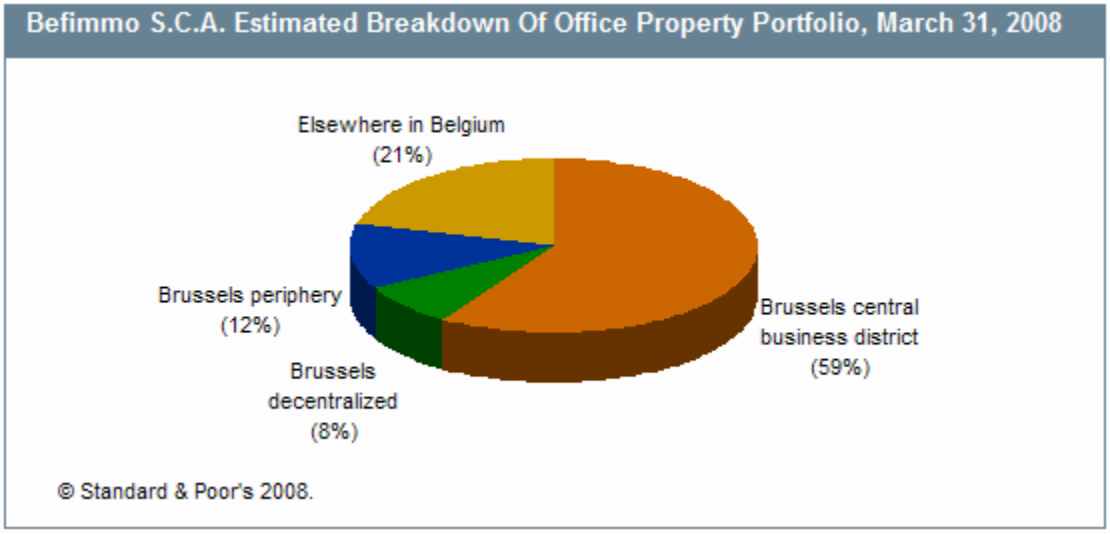
Outlook

The stable outlook reflects the stability provided by Befimmo's good-quality and relatively large real estate portfolio. We expect that Befimmo will maintain an EBITDA interest-coverage ratio of more than 2x and a ratio of debt to EBITDA of a maximum of 10x. The company's LTV is likely to remain at about 50% and we expect Befimmo to maintain adequate hedging and backup credit lines to limit any interest-rate-related risks in the medium to long term.

Rising interest rates, low economic growth, increasing vacancies, or deteriorating rents in Brussels could put pressure on the ratings as they would have an adverse impact on both cash flows and asset values. On the other hand, rating upside is limited by the company's financial policies.

Business Description

Befimmo is Belgium's second-largest property investment company after Cofinimmo S.A./N.V. (BBB/Stable/A-2), with about €1.8 billion of property assets, principally offices in Brussels. Befimmo is listed on Brussels stock exchange. Its main shareholder is Fortis AG, which held 16.2% of Befimmo's share capital at Sept. 30, 2007.



Business Risk Profile: Strong, Supported By A High Quality Office Property Portfolio

Befimmo's strong business profile is underpinned by the low risk of its portfolio of office real estate; the good quality of the company's assets, which are leased on long contracts to strong tenants; overall positive indexation in its lease portfolio; and limited exposure to speculative developments over the cycle. These strengths are tempered by the cyclical nature of the office real estate market and the low-yielding nature of real estate assets.

Operating strategy

Befimmo's strategy is mainly focused on the long-term holding and long-term letting of real estate assets, which, from a credit standpoint, are associated with passive low-risk property ownership and rent collection. The geographic focus is Brussels, and the lower-risk central business district in particular. Befimmo has recently extended its operations abroad, however, through the acquisition of an office building in Luxemburg. Further international growth could become a concern, given the lack of both management resources and in-depth knowledge of other real estate markets. Befimmo is currently hiring, however, to expand its staff.

Befimmo recently announced the disposal of its remaining semi-industrial assets as well as some office assets in the Brussels periphery. This announcement, combined with the acquisition of a 90% stake in Fedimmo N.V. for €576 million in December 2006, reflects the group's ongoing strategy to focus on the office segment in prime locations. These transactions helped to improve Befimmo's asset diversification, lease maturity profile, and occupancy rate over the past two years.

Although Befimmo's development strategy remains relatively cautious, it has recently become more aggressive, with increasing investment activity, as evidenced by the Fedimmo transaction and the more speculative development project in Luxemburg. Future extensive renovation projects are likely over the next few years, but these are backed by long-term lease commitments from strong tenants, which offset renovation and letting risks.

High asset quality

Befimmo's assets are generally of high quality and in prime or good locations, supporting high occupancy over the cycle. The vacancy rate in the company's portfolio declined to 5.5% at Dec. 31, 2007, but is expected to decrease to 3% after the recently announced disposals. This vacancy rate was much better than the market vacancy rate in central Brussels, which was about 9.5% on average in 2007.

Furthermore, about 57% of assets are in the Brussels central business district, which has shown higher resilience in the current economic downturn thanks to strong, albeit decreasing, demand from the public sector. This should support good occupancy levels over the cycle.

A small player, but with solid operating stability supported by long lease maturities with strong tenants

Lack of diversification remains a risk factor for Befimmo, as about 99% of rental income comes from the more cyclical office segment, predominantly in Brussels. Although the Fedimmo transaction clearly improved Befimmo's diversification in terms of number of assets and size, which increased to 100 and €1.8 billion from 40 and €1 billion, respectively, the company's portfolio remains relatively small compared with larger rated European peers.

Customer concentration is substantial, but this is offset by the high credit standing of the largest customers, which are public entities. The biggest tenants are the government of the Kingdom of Belgium (AA+/Stable/A-1+), the Belgian postal services provider De Post-La Poste, the Community of Flanders (AA+/Stable/--), and the European Commission, which together account for about two-thirds of Befimmo's rents.

The company's assets are leased either on standard three-, six-, or nine-year index-linked leases or on longer individually negotiated leases of up to 27 years. The average unexpired lease maturity at first break option increased significantly with the Fedimmo transaction, which included an average lease duration of 17 years. Overall portfolio lease maturity is therefore fairly long, at about nine years.

Brussels office real estate market

The large share of demand stemming from EU institutions and public entities creates a very stable demand situation in Brussels' central business district. In addition, demand from the private sector has increased in 2007 and should remain relatively high in 2008. Nevertheless, high levels of construction--a large part of which is speculative--could continue to put pressure on rent levels and to increase vacancies going forward. Furthermore, Brussels' periphery and noncentral areas display very high vacancy rates, at 10%-20%, and it will likely take time before rents recover, creating pressure for rent renewals in the near term.

Profitability

As expected, net yield (2007 net rental income divided by the average 2006-2007 market values of the portfolio) fell to 6.4% in 2007, from 7% in 2006. This decline results mainly from the integration of the Fedimmo portfolio, which had an initial yield of 5.5%. In addition, like-for-like rents increased by only 0.5% in 2007, due to still-limited potential increase in rent levels and despite a reduction in incentives for tenants. Potential additional investments at low yields could also put pressure on margins.

Portfolio revaluation results have been relatively small over the past few years, due to falling yields offset by declining rents.

Financial Risk Profile: Weak, With Stable Cash Flow Only Partially Offsetting High Leverage

The weak financial risk profile results from the group's relatively high leverage, its short-term debt structure, and its less comprehensive interest rate hedging package. This is nevertheless partly mitigated by the resilience and the stability of its cash flows and its good access to capital markets.

Accounting

Standard & Poor's makes no major adjustments to Befimmo's reported numbers. Befimmo transferred to IFRS-based accounting from Oct. 1, 2005. Under IFRS, investment property assets (assets generating rental revenues) and renovation projects are accounted for at market value. Market value appraisals are typically made by independent entities. To calculate market value, a capitalization (yield) rate is applied, which is a ratio used to estimate the value of income-producing properties and is determined by evaluating the financial data of similar properties that were recently sold in a specific market.

SICAFI corporate status.

SICAFI status is very similar to that of the U.S. real estate investment trust (REIT). SICAFIs are regulated by the Belgian Banking and Finance Commission. Key characteristics and qualifying criteria for SICAFI status are:

- Exemption from income and capital-gains tax;
- A maximum 20% of the total portfolio can be invested in any one asset;
- A minimum distribution of 80% of net profits;
- Asset revaluation by an independent appraiser every quarter; and
- A 65% gearing limit (financial liabilities and current liabilities less accruals and total assets), up from 50% previously following a change in regulation in 2006.

The restrictions imposed by the SICAFI regulation became less important to the credit risk assessment of Befimmo following the relaxation of the gearing limit.

Corporate governance/Risk tolerance/Financial policies

Befimmo is incorporated as an S.C.A. (Société en commandite par actions). Befimmo's managing agent is Befimmo S.A., 100%-owned by Fortis Real Estate, which in turn is owned by the Fortis group, Belgium's largest real estate asset manager. Befimmo S.A. has unlimited liability for Befimmo's obligations. The unlimited liability is restricted only to Befimmo S.A., however, and does not extend to its shareholders (other than to the equity invested). Although the majority of the directors of Befimmo S.A. are independent from its unlimited shareholders, limited shareholders' powers are slightly more restricted in this type of company because the unlimited shareholders carry out the management of the company. Furthermore, to have any effect, most shareholder decisions at the S.C.A. also need the managing partner's approval, hence the importance of having a majority of independent directors on the board of the managing partner (as is the case in Befimmo S.A.). This is to ensure that material decisions are taken independently of the managing partner's shareholders.

Under the SICAFI legal framework, the legal gearing limit is set at 65%, enabling the company to increase its leverage from current levels. Although Befimmo may temporarily reach such a high gearing level to finance large transactions like the Fedimmo acquisition, the company intends to operate at around 50% over the cycle. This gearing target remains higher than in the past, however, and reflects both a less conservative financial policy and

increasing investment activity.

Befimmo's financial policies are also governed by its covenants in the loan documentation. The covenant package includes a minimum EBITDA net interest coverage ratio of 2.25x and a minimum unencumbered asset portfolio of €800 million.

Due to Befimmo's short-term debt structure, the cash flow credit measures are exposed to interest rate hikes. The company is expected to maintain adequate hedging and backup credit lines to limit any such risks. Befimmo's bank loan covenants also stipulate that it must hedge at least 60% of its net interest rate exposure.

Cash flow adequacy

Befimmo benefits from stable cash flows from its property portfolio, which is a key rating driver. Due to increased leverage and higher cost of debt (about 3.3% in 2006), EBITDA gross interest coverage fell to 2.5x in the fiscal year ended Sept. 30, 2007, from 4.0x in 2006. This coverage ratio is expected to remain at around 2.5x in the coming years. In addition, Befimmo remains exposed to margin pressure, the pace of new investments and, to some extent, interest rates.

Due to the SICAFI distribution requirements, discretionary cash flow is minimal, which means that there is normally very little cash flow available for new investments or debt reduction. Nevertheless, the flexibility under the SICAFI regulation to divert ordinary dividend distributions toward debt reduction is a positive rating factor compared with other REIT-type structures. Financial flexibility is further strengthened by the largely unencumbered asset portfolio.

Due to Befimmo's short-term debt structure, the ratings are exposed to interest-rate hikes. Befimmo's satisfactory hedging policy should provide it with some headroom to weather any medium-term increase in EURIBOR interest rates. Overall exposure to rising interest rates (EURIBOR-based) is effectively hedged by:

- A cap (EURIBOR-based) at 5% for a notional amount of €368 million until year-end 2008;
- Two caps at 4.75% and 4.57% for a total notional amount of €368 million until end-2008, with a knock-out at 5%;
- Callable interest rate swaps at 3.73% for a notional amount of €200 million, and at 3.9% for €100 million; and
- A 3.5%–5% twin cap for €400 million from 2009 until end-2011.

Overall, Befimmo's interest rate hedging policy is to have 50%-75% of total debt fixed or hedged over three to five years. This hedging package does retain some exposure to interest rate rises, however, which would still lead to a material deterioration of interest coverage ratios.

Capital structure/Asset protection

We do not expect the company to repay debt, but rather to refinance existing debt, and so it is important for Befimmo to retain adequate balance-sheet headroom and to manage its debt maturity structure. The company's historically conservative capital structure, a key ratings driver, has become more aggressive with the recent investments.

In order to partly refinance the Fedimmo acquisition, Befimmo successfully completed a €260 million capital increase in June 2007 and reduced its leverage to below 50%, a level commensurate with its 'BBB' rating. This acquisition is nevertheless still currently financed by a €326 million bridge loan maturing in December 2008 and which will need to be refinanced.

The company's debt-maturity structure is short, with debt at short-term tenors accounting for 73% of total debt in September 2007. The commercial paper (CP) coverage package is fair, with short-term CP drawings of €258 million at Dec. 31, 2007, which is just covered by €300 million available under its long-term committed bank line.

Table 1

Befimmo S.C.A. -- Peer Comparison

	Befimmo S.C.A.	Cofinimmo S.A./N.V.	Klepierre S.A.
Rating at March 31, 2008	BBB/Stable/A-2	BBB/Stable/A-2	BBB+/Positive/A-2
Country	Belgium	Belgium	France
Date of financials	Sept. 30, 2007	Dec. 31, 2007	Dec. 31, 2007
Financial statistics (mil. €)			
Net rental income	105	157	548
EBITDA	88	131	539
Total debt	850	1,611	4,840
Market value of portfolio	1,813	2,948	11,313
Net rental income/interest (x)	3.0	2.8	3.0
EBITDA/interest (x)	2.5	2.3	3.0
EBITDA/(interest + dividends) (x)	1.1	1.0	1.5
Debt/EBITDA	9.7	12.3	8.5
Funds from operations/debt (%)	7	6	7
Loan-to-value ratio (%)	47	55	43
Secured debt as a proportion of total assets (%)	0	0	<10
Net yield on investment portfolio (%)	6.4	6.7	5.5
Weighted average cost of debt service (%)	4.1	4.5	4.4
Proportion of debt fixed or capped (%)	81	100	79
Length of fixed/capped period	3-5 years	3-5 years	4.8 years
Weighted average debt maturity (years)	4.9	5.4	5.4
Weighted average lease maturity (years)	8.9	11.9	Retail~5 (maturity)
Portfolio quality			
Asset quality (High, medium, low)	High	High	Medium/High
Tenant quality (High, medium, low)	High	High	High
Tenant concentration	High	Medium	Low
EBITDA contribution of nonrental activity (%)	0	0	0
Proportion of assets under development (%)	0	2	N/A
Pre-letting/selling of development properties (%)	High	High	High
Vacancy rate for investment properties (%)	4.9	3.5	0.6

Table 2

Befimmo S.C.A. -- Financial Summary

	--Year ended Sept. 30--			
(Mil. €)	2007	2006	2005	2004
Financial statistics				
Net rental income	104.6	76.0	78.8	73.0
EBITDA	88.1	62.5	66.1	65.7

Table 2

Befimmo S.C.A. -- Financial Summary(cont.)				
Gross interest charges	34.8	15.8	17.5	15.4
Asset revaluation	38.7	18.0	1.3	0.0
Gains on disposals	1.3	0.5	13.6	4.9
Net income	91.8	66.0	64.9	44.9
Funds from operations (FFO)	56.8	46.4	49.5	49.8
Investments	33.4	0.3	0.2	72.7
Dividends	48.2	47.0	45.3	45.3
Total debt	850.2	408.8	413.7	468.9
Market value of property portfolio	1,812.9	1,078.0	1,060.0	1,129.0
Financial ratios				
Net rental income/interest (x)	3.0	4.8	4.5	4.7
EBITDA/interest (x)	2.5	4.0	3.8	4.3
EBITDA/(interest+dividends) (x)	1.1	1.0	1.1	1.1
Debt/EBITDA (x)	9.7	6.5	6.3	7.1
FFO/debt (%)	6.7	11.3	12.0	10.6
Loan-to-value ratio (%)	46.9	37.9	39.0	41.5

Ratings Detail (As Of March 31, 2008)*	
Befimmo S.C.A.	
Corporate Credit Rating	BBB/Stable/A-2
Senior Unsecured	
Local Currency	BBB
Short-Term Debt	
Local Currency	A-2
Corporate Credit Ratings History	
18-Jun-2007	BBB/Stable/A-2
27-Dec-2006	BBB/Watch Neg/A-2
25-Feb-2004	BBB/Positive/A-2
Business Risk Profile	Strong
Financial Risk Profile	Weak
Debt Maturities	
(At Sept. 30, 2007) 2008: €657 mil. 2009-2012: €149 mil.	

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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