STANDARD & POOR'S

CORPORATE RATINGS

Befimmo S.C.A.

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Major Rating Factors

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 weakening Brussels office market
- Some customer concentration, albeit on tenants of very high credit quality
- A weakened financial profile following recent large acquisitions

Rationale

The 'BBB' long-term and 'A-2' short-term corporate credit ratings on Belgium-based property investment company Befimmo S.C.A. remain on CreditWatch with negative implications, where they were placed on Dec. 27, 2006, following Befimmo's successful bid for a portfolio of Belgian government buildings.

Although the additional properties strengthen Befimmo's business profile, the company's historically strong financial profile is significantly weakened by the €576 million largely debt-funded transaction.

Befimmo acquired a 90% stake in Fedimmo NV, a newly created real estate company with a portfolio of 62 properties rented to the Belgian government with an average lease term of 17 years. This transaction increased Befimmo's property market value to €1.8 billion as of Dec. 31, 2006, from €1.06 billion a year earlier. The acquisition was initially financed through short-term debt, increasing

Befimmo's LTV ratio to 62% (versus 40% in the fiscal year ended Sept. 30, 2006), well above the 50% maximum expectation for the current ratings. To partially fund the transaction and strengthen the capital base, Befimmo is considering issuing equity. This capital increase (about €250 million) is expected to reduce leverage to be in line with the 'BBB' rating. The timing and successful execution of an equity issue is still uncertain, however.

The ratings on Befimmo reflect 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 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, the low-yielding nature of real estate assets, and the company's increasing investment activity.

Standard & Poor's expects to resolve the CreditWatch status within the next two months, after fully analyzing the transaction's impact on Befimmo's credit profile. Issuing new equity or other measures to restore the company's financial profile will be critical to maintain the current ratings. Any potential downgrade is likely to be limited to one notch.

The company'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 around 50% over the cycle, although leverage could temporarily increase following large acquisitions. Gross financial debt was about €1.1 billion at Dec. 31, 2006.

Liquidity

The 'A-2' short-term rating could be lowered following our review, if the long-term rating is lowered or the outlook is revised to negative.

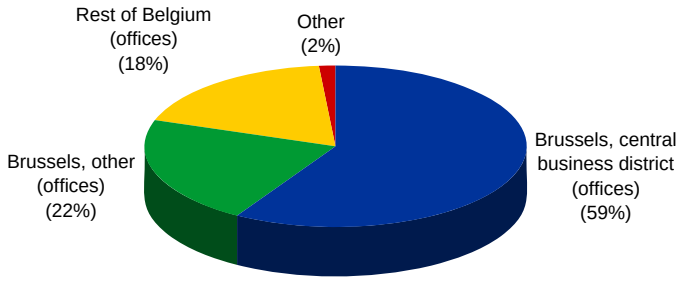
Lower rent levels for new or extended lease contracts, combined with increasing expenses for new leasing activity (in the form of tenant improvements, incentives, and commissions) are set to lead to a slight reduction in the operating margin and cash flows in the near term. Since Befimmo's free cash flows are required to be distributed to shareholders, existing and future debt is likely to be refinanced rather than repaid. Maintaining adequate backup liquidity resources is therefore important. Befimmo's liquidity is adequate, consisting primarily of a €350 million syndicated bank facility due in 2012. Part of this syndicated facility is expected to remain permanently undrawn and used as a backup line (€300 million was undrawn at Sept. 30, 2006) for the company's heavy CP drawings (€297 million outstanding at Sept. 30, 2006). Short-term debt maturities were €317 million at Sept. 30, 2006—adequately covered by undrawn committed facilities, bilateral credit lines, and €15 million in cash on balance sheet.

Due to Befimmo's short-term debt structure, the ratings are exposed to interest-rate hikes. We expect Befimmo to maintain adequate hedging and backup credit lines to limit any interest rate-related risks in the medium to longer term. Overall exposure to rising interest rates (EURIBOR-based) is effectively capped at 5% until year-end 2008. Befimmo also recently improved its hedging package by acquiring 3.5%-5% twin caps for the period from January 2009 to December 2011 (for a notional amount of €400 million) and by entering into interest rate swap contracts (for a notional amount of €200 million). Although satisfactory, Befimmo's hedging package is slightly less comprehensive than those of rated peers, which rely more heavily on pure interest-rate swaps with a longer average duration.

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 (following the Fedimmo transaction and net of estimated transfer tax) 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, 2006.

Befimmo S.C.A. Asset Portfolio At Dec. 31, 2006



Business Risk Profile: Strong Thanks To Low-Risk 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, is 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.

In December 2006, Befimmo increased significantly its size by acquiring a 90% stake in Fedimmo NV for €576 million. Fedimmo is a newly created real estate company with a portfolio of 62 properties rented to the Belgian government with an average lease term of 17 years. This transaction increased Befimmo's property market value to €1.8 billion as of Dec. 31, 2006, from €1.06 billion one year earlier. In addition, this acquisition improves Befimmo's asset diversification and lease maturity profile. The Fedimmo portfolio is, however, scattered over Belgium and is therefore more management intensive, which could weigh on Befimmo's profitability.

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.

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 3.2% at Dec. 31, 2006, from 6.7% one year earlier, partially owing to the integration of the Fedimmo property portfolio, which is fully let. This vacancy rate was much better than the market vacancy rate in central Brussels, which was about 9.7% on average in 2006.

Furthermore, about 58% of the 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.

Improved diversification and operating stability following the Fedimmo transaction

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 its 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 66% 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, having increased to 8.8 years from 5.6 years previously.

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. Nevertheless, high levels of construction—a large part of which is speculative—could lead to pressure on rent levels and to increased vacancies in 2007. 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

Profitability has been good compared with that of industry peers over the past few years. Befimmo generated a healthy net yield (2006 net rental income divided by the average 2005-2006 market values of the portfolio) of about 7% in 2006. Profitability is expected to decline, however, as a result of lower yield from the Fedimmo transaction (initial yield is 5.5%), falling rent levels and higher costs for letting—including higher personnel expenses and 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.

Table 1

Befimmo S.C.A. Business Profile Peer Comparison

	Befimmo S.C.A	Cofinimmo S.A./N.V.	Klepierre	Unibail
Corporate credit rating at March 29, 2007	BBB/Watch Neg/A-2	BBB/Stable/A-2	BBB+/Positive/A-2	A-/Stable/A-2
Country	Belgium	Belgium	France	France
Date of financials	Dec. 31, 2006	Dec. 31, 2006	Dec. 31, 2006	Dec. 31, 2006
Geographical diversity			(malls only)	
Assets in capital city centre (%)	59	46	N.A.	N.A.
Assets in capital (%)	80	85	N.A.	N.A.
Assets in home market (%)	100	100	61	100
Portfolio quality				
Asset quality (High, medium, low)	High	High	Medium	High
Tenant quality (High, medium, low)	High	High	High	High
Sector diversity				
Office (%)	98	94	11	36
Retail (%)	0	1	89	51
Industrial (%)	2	0	0	0
Hotel, leisure, exhibition, and convention centers (%)	0	5	0	14
Proportion of assets under development (%)	0	2	N.A.	5
Vacancy rate for investment properties (%)	3.2	4.9	1.4	6.9

N.A.—Not available.

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 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.

Financial Risk Profile: Less Conservative Following Fedimmo Transaction

Accounting

No major adjustments are made to Befimmo's reported numbers by Standard & Poor's. 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.

Risk tolerance/Financial policies

The less stringent restrictions now set by the SICAFI legal framework, and especially the increased legal gearing limit to 65% from 50%, enable the company to debt-finance acquisitions which were more constrained previously. Although Befimmo can 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, illustrating 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 back-up 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.

Corporate governance

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.

Cash flow adequacy

Befimmo benefits from stable cash flows from its property portfolio, which is a key rating driver. Partially as a result of a low cost of debt (about 3.3% in 2006), EBITDA gross interest coverage was strong at 4.0x in fiscal year ended Sept. 30, 2006. This coverage ratio is expected to decrease in fiscal 2007 due to the large increase of debt following the Fedimmo transaction. In addition, it 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 capped at 5% until year-end 2008. Befimmo also recently improved its hedging package by acquiring 3.5%-5% twin

caps for the period from January 2009 to December 2011 (for a notional amount of €400 million) and by entering into interest rate swap contracts (for a notional amount of €200 million). 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.

The recent Fedimmo acquisition was fully financed by short-term debt, increasing Befimmo's LTV ratio to 62%, well above the 50% maximum for the current ratings. To partially fund the transaction, Befimmo is considering issuing equity. This capital increase (about €250 million) is expected to reduce leverage to be in line with the 'BBB' rating.

The company's debt-maturity structure is short, with debt at short-term tenors accounting for 77% of total debt in September 2006, with long-term debt maturing within a year accounting for 5%. The CP coverage package is fair, with short-term CP drawings of €297 million at Sept. 30, 2006, which is just covered by €300 million available under its long-term committed bank line.

Table 2

Befimmo S.C.A. Financial Profile Peer Comparison

	Befimmo S.C.A		**Cofinimmo S.A./N.V.**	**Klepierre**	**Unibail**
Country	**Belgium**		Belgium	France	France
Corporate credit rating at March 29, 2007	**BBB/Watch Neg/A-2**		BBB/Stable/A-2	BBB+/Positive/A-2	A-/Stable/A-2
Date of financials	Dec. 31, 2006	Sept. 30, 2006	Dec. 31, 2006	Dec. 31, 2006	Dec. 31, 2006
Portfolio market valuation (mil. €)	1,805	1,078	2,507	9,127	10,856
Net yield on investment portfolio (%)	N.A.	7.0	5.3	5.8	5.0
Weighted average cost of debt service (%)	N.A.	3.3	3.4	4.3	3.5
Interest rate exposure hedging					
Proportion of debt fixed or capped	High	High	High	High	High
Weighted average debt maturity (years)	N.A.	4.9	5.3	5.9	4.7
Weighted average lease maturity (years)	8.8	5.6	8.4	around 5 (retail)	4.7 (offices)
Net rental income/gross interest	N.A.	4.8	3.6	3.6	3.2
EBITDA/gross interest	N.A.	4.0	3.6	3.4	3.3
Funds from operations/debt	N.A.	11	7	7	N.A.
Debt/portfolio market value	62	38	46	44	27
Debt/EBITDA	N.A.	6.5	8.9	8.7	6.9

N.A.—Not available.

Table 3

Befimmo S.C.A. Financial St (cont.'d)

	—Year ended Sept. 30—		
(Mil. €)	**2006**	**2005**	**2004**
Financial statistics			
Net rental income	76.0	78.8	73.0
EBITDA	62.5	66.1	65.7
Gross interest charges	15.8	17.5	15.4
Asset revaluation	18.0	1.3	0.0
Gains on disposals	0.5	13.6	4.9
Net income	66.0	64.9	44.9
Funds from operations (FFO)	46.4	49.5	49.8
Investments	0.3	0.2	72.7
Dividends	47.0	45.3	45.3
Total debt	408.8	413.7	468.9
Financial ratios			
Net rental income/interest (x)	4.8	4.5	4.7
EBITDA/interest (x)	4.0	3.8	4.3
EBITDA/(interest + dividends) (x)	1.0	1.1	1.1
Debt/EBITDA (x)	6.5	6.3	7.1
FFO/debt (%)	11	12	11
LTV (%)	38	39	42

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