STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

Research

Summary:

Befimmo S.A.

Primary Credit Analyst:
Marie-Aude Vialle, London (44) 20-7176-3655; marie-aude.vialle@standardandpoors.com

Secondary Contact:
Franck Delage, Paris (33) 1-4420-6778; franck.delage@standardandpoors.com

Table Of Contents

Rationale

Outlook

Standard & Poor's Base-Case Scenario

Business Risk

Financial Risk

Liquidity

Other Modifiers

Ratings Score Snapshot

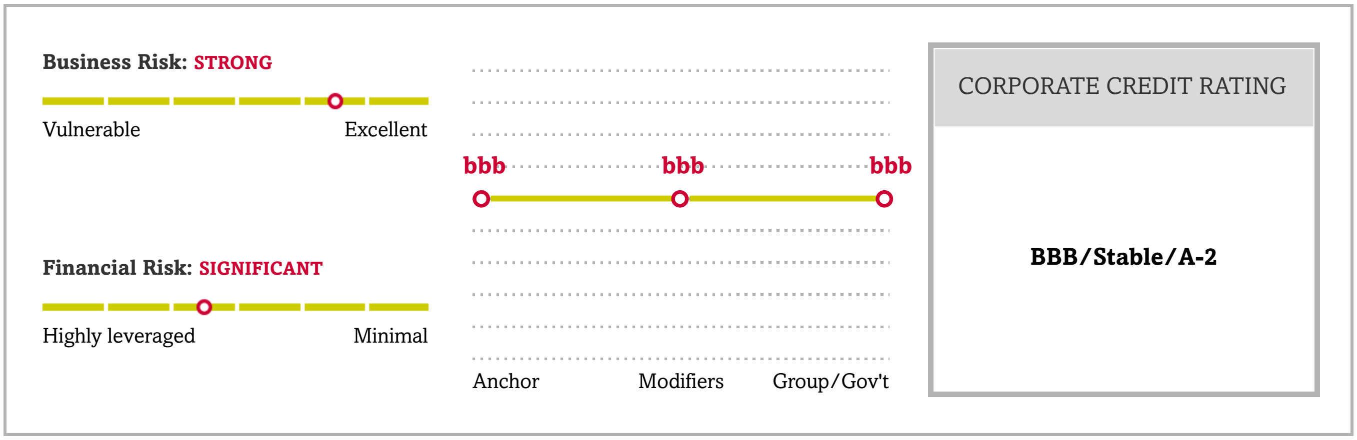
Related Criteria And Research

© Standard & Poor's. All rights reserved. No reprint or dissemination without Standard & Poor's permission. See Terms of Use/Disclaimer on the last page.

1316448 | 300642892

Summary:

Befimmo S.A.



Rationale

Business Risk: Strong	Financial Risk: Significant
• Good quality assets that generate stable and recurring cash flows. • Long-term leases to creditworthy tenants. • Low exposure to development activities. • High exposure to the cyclical office segment and still oversupplied Brussels market. • Some concentration risks among public sector tenants.	• Resilience and predictability of cash flows, although the cash flow base is fairly low. • Significant leverage, with a Standard & Poor's-adjusted ratio of debt to debt plus equity of between 45% and 50%. • Low financing costs, supported by Befimmo's good access to capital markets.

© Standard & Poor's. All rights reserved. No reprint or dissemination without Standard & Poor's permission. See Terms of Use/Disclaimer on the last page. 1316448 | 300642892

Outlook: Stable

The stable outlook reflects our view of Belgium-based property investment company Befimmo S.A.'s good-quality office property portfolio and long-term leases, which will likely enable it to continue generating stable and predictable income. We anticipate that Befimmo will be able to maintain an EBITDA interest-coverage ratio of more than 2.5x and a Standard & Poor's-adjusted ratio of debt to debt plus equity of between 45% and 50% over the next two years.

Downside scenario

We might consider lowering the ratings on Befimmo if we see a material shift in the supply and demand characteristics in the Brussels office market, leading to a significantly lower forecast for cash flows than we currently expect from the leased portfolio in properties. Specifically, we could lower the ratings if we forecast adjusted debt to debt plus equity persistently above 50% and an EBITDA interest coverage ratio below 2.5x. This is not part of our central assumptions, however.

Upside scenario

An upgrade would depend on a step change in the company's earnings base that would allow it to generate funds from operations (FFO) of more than €200 million. In considering raising the ratings, we would also look for growing returns on capital and improved free cash flow, leading to an improvement in credit metrics to levels consistent with an "intermediate" financial risk profile.

Standard & Poor's Base-Case Scenario

We consider GDP growth, unemployment rates, and consumer price index (CPI) inflation to be the most relevant macroeconomic indicators of market conditions in real estate, and we forecast those as broadly stable for the Belgian market in 2014.

© Standard & Poor's. All rights reserved. No reprint or dissemination without Standard & Poor's permission. See Terms of Use/Disclaimer on the last page. 1316448 | 300642892

Assumptions	Key Metrics
• We forecast limited like-for-like growth in rental income in the next two years (0.5%-1%). Our forecasts are slightly lower than inflation, assuming that compulsory rent indexation will be partly offset by marginally weaker pricing for renewal of rental agreements or new tenancies. • We forecast that occupancy rates in 2014 and 2015 will stay broadly stable at about 94%. This assumes still-high vacancies in the periphery of Brussels (15%-20%), while vacancy rates remain low for Befimmo buildings in the Central Business District (CBD) of Brussels, Flanders, and Luxembourg. • Overall, we forecast total revenue, including asset rotation, to increase by 1%-2% in the next two years. • We assume stable like-for-like portfolio valuation. This is also supported by our view of real estate supply and demand as becoming more balanced in Belgium in the next two years. • About €100 million of investments in total in 2014 and 2015, including office refurbishment and new development projects. • Our forecasts do not include material acquisitions or disposals in 2014.	• Strong interest coverage ratio of about 3.6x-3.8x in the next two years. • A Standard & Poor's-adjusted debt to debt-plus-equity ratio remaining at the low end of the 45% to 50% range. • Stable EBITDA margins at about 82%.

Business Risk: Strong

The business risk profile of Belgium-based property investment company Befimmo is "strong," as defined in our criteria. This reflects our view of the "low" country risk of Belgium and our assessment of the industry risk for real estate companies as "low."

We view Befimmo's competitive position as "strong," supported by the company's good-quality assets, long-term leases to creditworthy tenants, and limited exposure to development activities. The portfolio totaled €2.2 billion on Dec. 31, 2013, up by about €200 million compared to the year before, as a result of two main acquisitions in 2013 (AMCA Building in Antwerp and Blue Tower Building in CBD Brussels). Befimmo's portfolio consists of offices assets, of which 58% are located in the center of Brussels and the remainder mostly in Brussels' peripheries (about 11%), Luxembourg, and Flanders.

Our assessment is partly offset by Befimmo's high exposure to the oversupplied Brussels office market and risks from the concentration of public sector tenants. However, Befimmo benefits from better a occupancy rate (95.2% as of Dec. 31, 2013) than the market average (about 89%) and has high weighted-average leases of about 9.1 years (11 years with

© Standard & Poor's. All rights reserved. No reprint or dissemination without Standard & Poor's permission. See Terms of Use/Disclaimer on the last page.1316448 | 300642892

public tenants), mostly with creditworthy tenants. Approximately 90%-95% of the rental income is contracted for the next two years.

We believe that Befimmo should retain a high degree of rent predictability, which should help mitigate risks stemming from rent concentration in a single regional market and the concentration of its tenants in the Belgian public sector and EU Commission.

Financial Risk: Significant

Our assessment of Befimmo's financial risk profile as "significant" is based on the company's relatively high level of debt, with an adjusted debt/EBITDA ratio of 8.6x as of Dec. 31, 2013. Mitigating factors are the resilience and the predictability of cash flows from Befimmo's mostly long-term tenancies and its good access to capital markets. The rating also captures the company's low cost of debt (3.2% in 2013) and good EBITDA interest coverage ratio that is higher than 3.5x.

We forecast that the adjusted ratio of debt to debt plus equity should be around 45%-47% over the next two years, while debt to EBITDA should remain in the 8x-9x range thanks to stable cash flow generation. This is in line with management financial policy to maintain leverage between 45% and 50%.

Lastly, we believe that Befimmo will likely maintain adequate hedging and backup credit lines to limit any interest rate-related risks in the medium-to-long term.

Liquidity: Adequate

We assess Befimmo's liquidity as "adequate" under our criteria, supported by our forecast that the company's liquidity sources will exceed its funding needs by more than 1.2x over the next 12-24 months. This is supported by the undrawn committed bank lines and the limited debt maturities over the next two years.

Principal Liquidity Sources	Principal Liquidity Uses
We forecast that Befimmo will have the following liquidity sources over the 12 months to March 31, 2015: • About €168 million of committed credit lines; • Funds from operations of about €80 million-€85 million; and • €50 million of proceeds from a new debt facility.	We forecast that Befimmo will have the following liquidity uses for the 12 months to March 31, 2015: • Small debt maturities of less than €10 million; • About €75 million of capex related to office refurbishment and new development projects; and • Dividend payment of about €70 million-€75 million in 2014. For the purpose of our liquidity analysis, we assume that the dividend will be fully paid in cash, although a portion may be paid in shares in line with previous years.

© Standard & Poor's. All rights reserved. No reprint or dissemination without Standard & Poor's permission. See Terms of Use/Disclaimer on the last page. 1316448 | 300642892

Other Modifiers

Modifiers do not have an impact on the ratings on Befimmo.

Ratings Score Snapshot

Corporate Credit Rating

BBB/Stable/A-2

Business risk: Strong

- **Country risk:** Low
- **Industry risk:** Low
- **Competitive position:** Strong

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: bbb

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Financial policy:** Neutral (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Related Criteria And Research

- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios and Adjustments, Nov. 19, 2013
- Key Credit Factors For The Real Estate Industry, Nov. 19, 2013
- Methodology And Assumptions: Liquidity Descriptors for Global Corporate Issuers, Jan. 2, 2014

© Standard & Poor's. All rights reserved. No reprint or dissemination without Standard & Poor's permission. See Terms of Use/Disclaimer on the last page.1316448 | 300642892

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	**bbb**	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Additional Contact:
Industrial Ratings Europe; Corporate_Admin_London@standardandpoors.com

© Standard & Poor's. All rights reserved. No reprint or dissemination without Standard & Poor's permission. See Terms of Use/Disclaimer on the last page. 1316448 | 300642892

Copyright © 2014 by Standard & Poor's Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc.All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.