STANDARD & POOR'S

FULL ANALYSIS

Corporate Credit Rating

BBB/Negative/A-3

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Cofinimmo S.A./N.V.

Major Rating Factors

Strengths:

- Long-term lease maturity profile
- Relatively large and good quality real estate asset portfolio generating stable cash flows
- Good coverage against interest rate increases through comprehensive hedging package

Weaknesses:

- A focus on office assets, for which tenant demand is cyclical
- Growing share of portfolio in the untested nursing home segment
- High leverage and weak coverage ratios

Rationale

The ratings on Belgium-based property investment company Cofinimmo S.A./N.V. reflect its solid management team and fairly large portfolio of quality real estate assets located primarily in Belgium, which benefits from low vacancy rates (2.7%) and very long leases (about 11 years), providing highly predictable cash flows and high asset value retention. These strengths are partially offset by Cofinimmo's highly leveraged capital structure; its exposure to cyclical office assets, especially in volatile areas outside the Brussels central business district (CBD); and the relatively weak credit quality of some of its tenants, notably in the health care segment.With assets worth about €3.2 billion at end-September 2008, Cofinimmo is Belgium's largest listed property investment company. Office premises account for 65% of the portfolio. In recent years, Cofinimmo has diversified into other real estate asset classes, mainly health care (nursing homes, rehabilitation clinics, and psychiatric care) and corporate real estate outsourcing. Standard & Poor's Ratings Services expects the company to continue increasing its nontraditional real estate product activity while preserving its focus on offices.Cofinimmo's growth strategy focuses on making investments backed by long leases. However, the group is increasingly exposed to the relatively weaker credit quality of its tenants, particularly in the health care segment. This is partly offset by Cofinimmo's careful risk management and solid fundamentals in the nursing home sector in France and Belgium, provided by increasing demand and social security policies.Cofinimmo is entering the real estate market downturn with a relatively high loan-to-value (LTV) ratio of 54%. We continue to expect this ratio to remain below 55%. Although we expect only modest falls in valuations in the Brussels market, we believe Cofinimmo has little headroom to face a downturn scenario, especially given its committed investment pipeline. We anticipate that Cofinimmo will take the necessary steps to preserve headroom but remain concerned about the current additional pressure on the ratings.

Short-term credit factors

The 'A-3' short-term rating integrates the company's predictable revenue stream and adequate coverage through back-up credit facilities. On Sept. 30, 2008, total committed undrawn facilities amounted to about €192 million and some €30 million of cash exceeding fully backed short-term issues (€82 million) under the company's €500 million commercial paper (CP) program and 2009 debt maturities (€92 million). The maturities of Cofinimmo's long-term committed facilities are spread homogeneously over a 10-year period, with less than 17.5% maturing each year (average maturity of 5.1 years at Sept. 30, 2008).Cofinimmo's financial covenants include minimum EBITDA interest cover of 2.0x and a maximum LTV ratio of 55%, with this gearing allowed to go up temporarily to 60% for a period not exceeding one year. Financial flexibility does not substantially benefit from the nonencumbrance of the company's property portfolio, because negative-pledge clauses limit secured debt issues—at least without obtaining prior waivers from bank creditors.Cofinimmo's interest rate hedging package continues to be strong and supports the ratings. The group uses a mix of swaps and caps and has fixed or hedged more than 90% of total debt over the next three years, 50% over 2012-2013, and 25% until 2015.Debt stands to be refinanced rather than repaid, as the company does not usually generate free cash flow. Nevertheless, although Cofinimmo's SICAFI ("société d'investissement à capital fixe immobilier") tax regime requires the distribution of 80% of recurrent cash flow, SICAFI companies are entitled to use this for debt reduction rather than for dividends, thus leaving some potential flexibility to redeem, rather than refinance, debt.

Outlook

The negative outlook reflects the pressure on Cofinimmo's credit profile stemming from the company's current high leverage and increasingly tough conditions in the real estate and capital markets. These factors together could reduce the company's financial flexibility and weigh negatively on asset coverage and operating performance. We will continue to monitor developments in the untested nursing home segment.We could lower the ratings if the LTV ratio rises above 55%, or EBITDA interest cover falls below 2.0x, or rental performance weakens. Large, debt-financed acquisitions that push leverage higher could also pressure the ratings.Conversely, we could revise the outlook to stable if Cofinimmo maintains an EBITDA interest-coverage ratio well above 2x, a ratio of debt to EBITDA of about 10x-11x, and an LTV ratio strictly below 55%.

Business Description

Cofinimmo is Belgium's largest real estate company, with a property portfolio whose market value is estimated at about €3.2 billion, predominantly in office assets (about 65% of the portfolio) in Brussels, but also in nontraditional real estate products such as pubs (12.7%) and nursing homes (22%) in Belgium and The Netherlands. Along with a large free float (roughly 76%) the principal shareholders are institutional investors, the biggest of which is the Dexia group (Dexia Crediop SpA; A+/Watch Neg/A-1), with about 10% of the capital.

Business Risk Profile: Strong, Underpinned By A Portfolio Of Quality Assets And Long Lease Maturities

Cofinimmo's business risk profile is strong, underpinned by the high quality of its assets; long lease maturities; a prudent development policy; and the management team's solid track record. This is mitigated by the increasing share of portfolio being invested in untested, nontraditional real estate products, notably pubs and nursing homes.

Strategy focused on the long-term holding and renting of assets

Cofinimmo's strategy is geared toward the long-term holding and renting of assets. This is positive from a credit standpoint, as low asset turnover is associated with passive, low-risk property ownership and rent collection. The high stamp duty of 12.5% in Brussels makes property disposals expensive, which moderates higher risk asset turnover strategies.

Cofinimmo benefits from long-term leases (11 years on average), upward-only rents, and indexed-linked revisions, providing earnings stability over the cycle and good visibility on cash flows. Tenant diversification remains limited, with the five largest tenants representing 50% of the company's rental income. This is nevertheless partly offset by the fact that 24% is let to the European Union and other Belgian public entities, and another 6% is for the AXA group (A+/Stable/A-1). The other large tenants are Anheuser-Busch InBev N.V./S.A. (12.6%; BBB+/Stable/A-2) and nursing home operator Korian (8%; not rated).

Cofinimmo also undertakes office property developments on its own account. We view Cofinimmo's development policies as prudent overall, in terms of both size and risk exposure. Cofinimmo's large development projects are generally conducted cautiously, excluding any material exposure toward construction risk or rental risks (often fully pre-rented). Cofinimmo is willing, however, to accept construction and rental risks on smaller projects. Cofinimmo's policy is to cap exposure to developments at 10% of the total portfolio, although this exposure has been well within the established limit over the past five years (below 3.5%).

Strong position in the Brussels office market (65% of the portfolio)

A large part of Cofinimmo's real estate portfolio is focused on the office segment, one of the more cyclical real estate asset classes. This is partly offset by the size and quality of its office portfolio, coupled with its in-house asset management and strong local market knowledge, which are positive factors. The office portfolio broadens the company's product range and enhances its ability to retain customers that might wish to move to offices with a different size or location.

Cofinimmo's high office asset quality reflects:

- A portfolio of 111 office properties, with a majority being modern, large, and well-located.

- About 46% of office properties located in Brussels' CBD, where demand is primarily driven by the EU and Belgian administrations.
- An improving and below-market-average vacancy rate (2.6% at Sept. 30, 2008), which supports the ratings.

Occupier demand in Brussels CBD is still robust thanks to the EU and Belgian state bodies, and relatively well-diversified industry base. We expect to observe some resilience in valuations for the Brussels office market, notably in the CBD, where Cofinimmo has a large share of its portfolio.

Conversely, rental performance and valuations are likely to decline in the more challenging decentralized and periphery areas of Brussels, which still represent a meaningful proportion of the portfolio (23% and 5%, respectively). This fall will be due to weaker demand, currently high vacancy rates, and speculative projects that will be completed in the coming years. In addition, occupier demand is likely to reduce in these areas in an economic downturn.

Solid positions in the growing but untested nursing home segment (35% of portfolio)

Cofinimmo has diversified its investments into two additional segments: corporate partnerships and public-private partnerships. It has notably diversified into the ownership of nursing homes (about 22% of the portfolio) in Belgium and France, as well as pubs (12.7% of the portfolio) with its partnership with Belgium-based brewer Anheuser-Busch InBev N.V./S.A.

This diversification highlights Cofinimmo's strategy of seeking long-term leases, which supports the ratings. It also reflects the group's intention to continue increasing its property portfolio in the coming years through continued innovation.

The share of the nontraditional real estate products increased significantly over the past two years and now represents 35% of the property portfolio. We believe that the nursing home segment's share of the portfolio will continue to increase in the next few years, mainly due to long-term development partnerships agreed with existing tenants.

Standard & Poor's considers that these investments could add some risk to the group's business profile, as these nontraditional segments are immature and have not been tested in a downturn. Risks include the evolution of asset valuations as well as tenant credit risk management. However, Cofinimmo favors partnerships with the largest operators in Belgium and France rather than small companies. Risks are also partly offset by secured payments made by social security, and strict regulation, which limits the number of beds allocated by area. Therefore, if one operator defaults, product scarcity means Cofinimmo could rapidly find a new operator, although rents could fall in such a case.

In addition, this segment currently presents relatively low operating risks, given that:

- Cofinimmo enters into very long lease agreements, which significantly reduces commercial risks and costs;
- The group is only responsible for structural maintenance; and
- It generally signs contracts with corporates rather than individual operators, which transfers individual asset risks to the corporate operator.

Profitability: very high visibility and improved operating margins

Rents increased by 31% for the first nine months of 2008 compared with the same period last year, mainly resulting from ongoing acquisitions and portfolio refurbishment. The like-for-like rental increase was only 3.4%, a mixed performance combining the positive effects from indexation (about 4.5%) and maintenance of low vacancy rates, partly offset by negative rent reversion following re-lettings.

The adjusted EBITDA margin increased to 85.3% from 83.3% in 2007, thanks to continued growth combined with tight cost control and growing contributions from the more profitable nursing home segment.

We expect Cofinimmo's rent roll to be somewhat exposed to negative reversion, which could put some pressure on rent levels although the impact will likely be mitigated by a relatively long and well-staggered lease maturity schedule in all segments, as well as by still resilient CBD rents and overall positive indexation.

Financial Risk Profile: Aggressive, Due To High Leverage

Cofinimmo's aggressive financial profile is underpinned by its highly leveraged capital structure, especially as it enters a sector downturn; limited headroom under existing financial covenants; and the group's partly debt-financed growth strategy. These negative factors are mitigated by the high visibility of cash flows; the group's good and frequent access to equity and debt markets; and strong interest rate hedging package.

Accounting

Standard & Poor's adjustments to company reported results are explained below.

Preferred dividends

Cofinimmo's perpetual preferred shares are accounted for as equity by the company, while Standard & Poor's treats them as intermediate hybrid capital (50% equity and 50% debt). This adds about €80 million to Cofinimmo's debt and about €4.8 million to interest charge. We nevertheless believe there is a relatively strong likelihood for conversion into ordinary shares in May 2009, as the dividend on the ordinary shares exceeds that of preferred stock.

Income from North Galaxy S.A.

Standard & Poor's excludes the North Galaxy related annual noncash income from Cofinimmo's EBITDA and funds from operations (FFO), owing to its noncash nature. The income reflects the increasing net present value of this asset as 2023 nears.

Corporate governance/Risk tolerance/Financial policies

Cofinimmo is highly leveraged. The group operates at the upper range of its internal leverage guidelines (notably targeted LTV of 50%-55%) and is therefore entering the real estate market downturn with a relatively high LTV ratio. Although we continue to expect this gearing to remain below 55%, in accordance with financial covenants (maximum 60% for up to one year), we also believe Cofinimmo has little headroom to face a downward scenario, especially given its committed investment pipeline. We anticipate that Cofinimmo will take the necessary steps to preserve headroom but remain concerned about the current additional pressure on the ratings.

SICAFI corporate status.

The SICAFI status is very similar to that of U.S. REITs. SICAFIs are regulated and key characteristics include:

- Exemption from income and capital-gains tax;

- A maximum 20% of the total portfolio in any one asset;
- A minimum distribution of 80% of current cash flow; and
- A 65% gearing limit (all liabilities/total assets).

Cash flow adequacy

Cofinimmo benefits greatly from stable cash flows from its property portfolio, which is a key rating driver. The ratio of FFO to debt is set to remain above 6%, and EBITDA interest coverage above 2x (minimum bank loan covenant level). Due to the SICAFI distribution requirements, however, discretionary cash flow is minimal. Nevertheless, the flexibility to divert ordinary dividend distributions toward debt reduction is a positive rating factor.

Cofinimmo's hedging policy targets 50%-90% of hedged interest rate exposure over a rolling three- to five-year horizon. As of Sept. 30, 2008 the group nevertheless had more than 90% of its debt fixed or hedged, which is a positive rating factor. This is mainly achieved through interest rate caps. In addition, although there would be time lag of about two quarters, a potential rise in interest rates should be mitigated by positive indexation in Cofinimmo's rental portfolio.

Capital structure/Asset protection

As the company is not likely to repay debt but rather to refinance, it is important for Cofinimmo to retain adequate balance sheet headroom and to manage its debt maturity structure. If Cofinimmo's LTV ratio exceeds 55% it will likely be for a short period. The unadjusted LTV ratio was nevertheless high at about 54% at end-September 2008, providing very tight headroom (maximum under the covenants of 60% for up to one year).

The bond creditors benefit from a negative pledge but it is weak, as it would typically not prevent secured bank debt from being put in place without granting security to bond creditors. Stamp duty of 1.5% on mortgaged real estate makes secured lending uneconomical, however. Therefore, none of Cofinimmo's assets are currently encumbered, providing some comfort for unsecured lenders against legal subordination.

Table 1

Cofinimmo S.A./N.V. 2008 Peer Comparison

	—12 months to Sept. 30, 2008—		—12 months to June 30, 2008—
	Cofinimmo S.A./N.V.	***Befimmo S.C.A.***	***Klepierre S.A.***
(Mil. €)	BBB/Negative/A-3	BBB/Stable/A-2	BBB+/Stable/A-2
Financial statistics			
Net rental income	191	109	584
EBITDA	163	91	571
Gross interest charges	70	37	198
Net income	80	58	180
Funds from operations (FFO)	N.A.	66	376
Dividends	N.A.	50	N.A.
Total debt	1,739.4	863.4	5,279.4
Market value of portfolio	3,199.7	1,886.5	11,987.0
Financial ratios			

Table 1

Cofinimmo S.A./N.V. 2008 Peer Comparison (cont.'d)

	—12 months to Sept. 30, 2008—		—12 months to June 30, 2008—
	Cofinimmo S.A./N.V.	**Befimmo S.C.A.**	**Klepierre S.A.**
(Mil. €)	BBB/Negative/A-3	BBB/Stable/A-2	BBB+/Stable/A-2
Net rental income/interest (x)	2.6	2.9	3.0
EBITDA/interest (x)	2.3	2.5	2.9
EBITDA/(interest+dividends) (x)	N.A.	1.1	N.A.
Debt/EBITDA (x)	10.0	9.4	9.2
FFO/debt (%)	N.A.	7.7	7.1
Loan-to-value ratio (%)	54.1	45.8	44.0
Other statistics			
Weighted average cost of debt service (%)	4.6	4.8	4.0
Proportion of debt fixed or capped (%)	90.0	93.0	98.0
Length of fixed/capped period (years)	3-7	3-5	4.3
Weighted average debt maturity (years)	5.1	3.7	6.2
Weighted average lease maturity (years)	11.0	9.4	About 5
Vacancy rate for investment properties (%)	2.7	2.7	2.0

N.A.—Not available.

Table 2

Cofinimmo S.A./N.V. Financial Statistics

	—12 months to Dec. 31—			—12 months to Sept. 30—
(Mil. €)	**2005**	**2006**	**2007**	**2008***
Financial statistics				
Net rental income	147	147	157	191
EBITDA	119	120	131	163
Gross interest charges	36	44	56	70
Asset revaluation	3	36	26	(18)
Gains on disposals	3	14	35	4
Net income	89	133	146	80
Funds from operations (FFO)	86	87	120	N.A.
Dividends	77	72	82	N.A.
Total debt	1,150	1,256	1,611	1,739
Market value of portfolio	2,321	2,507	2,959	3,200
Financial ratios				
EBITDA margin (%)	80.8	81.9	83.3	85.3
Net rental income/interest (x)	4.1	3.3	2.8	2.7
EBITDA/interest (x)	3.3	2.7	2.3	2.3
EBITDA/(interest+dividends) (x)	1.1	1.0	0.9	N.A.
Debt/EBITDA (x)	9.7	10.5	12.3	10.7
FFO/debt (%)	7.5	6.9	7.4	N.A.

Table 2

Cofinimmo S.A./N.V. Financial Statistics (cont.'d)

	—12 months to Dec. 31—			—12 months to Sept. 30—
(Mil. €)	**2005**	**2006**	**2007**	**2008***
Loan-to-value ratio (%)	49.5	50.1	54.4	54.1

*2008 figures are unadjusted. N.A.—Not available.

Ratings Detail (As Of 10-Dec-2008)*	
Cofinimmo S.A./N.V.	
Corporate Credit Rating	BBB/Negative/A-3
Commercial Paper	
Local Currency	A-3
Senior Unsecured (2 Issues)	BBB
Corporate Credit Ratings History	
03-Dec-2008	BBB/Negative/A-3
03-Jan-2007	BBB/Stable/A-2
15-Sep-2006	BBB/Watch Neg/A-3
13-Jun-2006	BBB/Negative/A-3
Business Risk Profile	Strong
Financial Risk Profile	Aggressive
Debt Maturities	
2009: €92 mil. 2010: €223 mil. 2011: €250 mil. 2012: €272 mil. Thereafter: €1.1 bil.	

*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.