

**Credit Opinion: New Europe Property Investments plc**

Global Credit Research - 20 Oct 2015

Isle of Man

**Ratings**

<b>Category</b>	<b>Moody's Rating</b>
Outlook	Stable
Issuer Rating -Dom Curr	Baa3

**Contacts**

<b>Analyst</b>	<b>Phone</b>
Roberto Pozzi/London	44.20.7772.5454
Maria Maslovsky/London	
Patrick Mispagel/London	

**Key Indicators**

[1]New Europe Property Investments plc	6/30/2015(L)	12/31/2014	12/31/2013	12/31/2012	12/31/2011
FFO Payout	18.0%	14.5%	10.7%	33.0%	100.8%
Amount of Unencumbered Assets	67.0%		31.5%	4.4%	6.0%
Debt / Gross Assets [2]	15.6%	12.6%	22.9%	30.5%	38.7%
Net Debt / EBITDA	2.6x	1.3x	4.4x	2.9x	4.1x
Secured Debt / Gross Assets	13.9%	12.6%	22.9%	30.5%	38.7%
Gross Assets (USD Million)	\$1,986.0	\$1,860.1	\$1,430.4	\$821.6	\$550.7
Development Pipeline	6.4%	14.5%			
EBITDA Margin (YTD)	104.7%	103.2%	99.8%	122.0%	101.8%
EBITDA Margin Volatility	9.6%	9.6%	11.4%		
EBITDA / Fixed Charges (YTD) [2]	7.0x	6.0x	4.7x	4.1x	3.3x
Joint Venture Exposure (YTD)	5.7%		10.6%	13.8%	

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics [2] Fixed Charges includes capitalized interests explained in Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations revised December 2010.

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

**Opinion**

**Rating Drivers**

Romanian retail property - demand for modern retail and office space continues to exceed supply

Good quality buildings, high occupancy rates and a high quality and diversified tenant base

Committed development pipeline will continue to decline, thus further reducing business risk

Financial metrics are very strong for the rating level

Geographic concentration limits further rating upside and raises forex risk

## **Corporate Profile**

New Europe Property Investments plc ("NEPI") is an Isle of Man incorporated real estate investment company that acquires, develops and manages retail and office property investments located in Romania, with a foothold in Slovakia and in Serbia. NEPI is listed on the main board of the Johannesburg Stock Exchange (JSE), the Alternative Investment Market (AIM) of the London Stock Exchange and the regulated market of the Bucharest Stock Exchange; however, more than 90% of the shares are listed on the JSE. NEPI's three largest shareholders as at 15 August 2015 were South African property-focussed investment funds: Resilient Property Income Fund (unrated), with a 9.3% stake in the business, Fortress Income Fund (unrated) with 8.8%, and Capital Property Fund (rated A3.za - stable) with 8.7%. As of 30 June 2015, NEPI's total assets totalled EUR 1.82 billion (EUR1.57 billion in 2014) and reported net rental and related income for the last twelve months was EUR 84 million (EUR 66 million in 2014). The company had a market capitalisation of EUR2.7 billion as of 16 October 2015.

## **SUMMARY RATING RATIONALE**

NEPI's Baa3 rating factors in the company's (i) important franchise value as the largest retail property owner in Romania; (ii) very strong financial metrics for its rating level; (iii) good quality, modern assets with high (98% in H1 2015) occupancy rates; (iv) steady cash flows from contractual rental income with limited tenant concentration risk; and (v) supportive shareholders. However, the rating also takes into account NEPI's relatively small scale of operations compared with investment-grade rated peers in EMEA, its limited geographic diversification and reliance on the Romanian economy as well as a degree of currency risk due to the mismatch between the company's euro-denominated leases and tenants' local currency revenues.

NEPI has strong financial metrics for its rating category. The company's "effective" leverage as at 30 June 2015, as measured by adjusted debt/total assets, at 12.1% indicated generous asset cover for its debt. Over the same 6-month period, fixed charge coverage, as measured by EBITDA/interest expense + capitalised interest + ground rents, was high at approximately 7.0x. The company's financial policy is to maintain its loan-to-value ratio (defined as interest-bearing debt less cash/investment property and listed property securities) at around 30%-35%. Whilst leverage will increase from the currently very low levels, NEPI's financial targets are conservative and, in our opinion, sustainable over the rating horizon.

## **DETAILED RATING CONSIDERATIONS**

### **ROMANIAN RETAIL PROPERTY - DEMAND FOR RETAIL AND OFFICE SPACE CONTINUES TO EXCEED SUPPLY**

The Romanian retail sector is transitioning from traditional stalls and small shops towards modern, destination retailing, with online shopping providing little competition at this stage. NEPI has benefitted from this trend through the development and completion of several modern facilities over the past few years. The bulk of shopping centre space in Romania is located in the greater Bucharest area. Tenant demand for retail space continues to be focussed on the more populous cities in Romania, those with more than 150,000 inhabitants. NEPI reports that the catchment areas for its centres are more than double that number. The shopping centre pipeline in Romania remains low and there were only two retail centres delivered in 2015, one of which is NEPI's Mega Mall opened in May 2015, which should maintain supply and demand of modern retail space in balance and rents stable in the next 12-18 months.

Longer term, as new players enter the growing and profitable Romanian market, we believe that it will gradually become more difficult for NEPI to sustain the growth rates it has experienced over the past ten years, also evidenced by the company's declining development pipeline. Given the relative maturity NEPI has achieved in its domestic market, we expect it to pursue moderate expansion in neighbouring markets, likely through (lower risk) acquisitions of established assets rather than (higher risk) new developments.

### **GOOD QUALITY BUILDINGS, HIGH OCCUPANCY RATES AND A HIGH QUALITY AND DIVERSIFIED TENANT BASE**

NEPI owns 23 retail properties (mainly shopping malls), 5 office buildings and 2 industrial facilities, as well as 4 assets under development. Retail properties generated around 80% of the company's rental income in H1 2015. Properties located in Romania generated 82% of rental income, 15% in Slovakia and 3% in Serbia.

NEPI's retail and office properties are new, modern facilities that range from good- to high-quality. Many of its retail properties are situated in regional locations across Romania, but the company invests only where it can achieve dominance within each of its catchment areas. Most of its retail properties have land available for extension.

The company enjoys high occupancy rates, which as of 30 June 2015, was 98.2% for its retail portfolios and 98.5% for its office portfolio (occupancy rates have been consistently above 98% over the past two years).

NEPI's cashflow is underpinned by the quality of its top tenants. The top three retail tenants are well-known retailers: Carrefour (Baa1 stable), Auchan (unrated) and H&M (unrated). Together they account for 12.4% of NEPI's total rental income (H1 2015). The top three office tenants represent 4.4% of total rental income; they are PricewaterhouseCoopers (unrated), Wipro (unrated, an Indian multinational IT consulting and system integration services company) and Huawei Technologies (unrated, the world's largest telecommunications equipment maker). Tenant concentration risk overall is modest. The top 10 tenants represent 24.4% of NEPI's total rental income.

NEPI's weighted average remaining lease term is moderate at 5.2 years. The company has a dedicated in-house leasing team that has demonstrated its ability to renew leases and re-let space. In addition, management takes care to choose creditworthy tenants, as indicated by the negligible level of rental arrears.

#### COMMITTED DEVELOPMENT PIPELINE WILL CONTINUE TO DECLINE, THUS FURTHER REDUCING BUSINESS RISK

New development risk has significantly reduced during the last 12 months: NEPI's developments peaked at 14% of total assets in 2014 whilst decreasing to 6.4% in H1 2015 following the completion of Mega Mall in Bucharest. We expect that developments under construction as a percentage of total assets will continue to decrease over the next two years as the company's income producing portfolio grows. However, we note that the company's development pipeline remains sizeable including uncommitted projects and land bank, totalling around EUR500 million. We acknowledge the company's excellent track record in successfully completing its projects and the fact that company's development pipeline has been largely equity funded, given its low leverage.

Also, many of its existing developments are either extensions of existing successful shopping centres or are low-rise buildings on easily accessible sites

NEPI has a well-defined approach to development: in addition to having overcome the usual hurdles of design, planning permission, building regulations and arranging finance, each development project must also be sufficiently "anchored" with pre-lettings to appropriate tenants prior to commencing construction works. NEPI's developments are phased according to the capacity of its in-house teams that manage the process.

#### FINANCIAL METRICS ARE VERY STRONG FOR THE RATING LEVEL

NEPI has strong financial metrics for its rating category. The company's "effective" leverage as at 30 June 2015, as measured by adjusted debt/total assets, at 12.1% indicated generous asset cover for its debt. Over the same 6-month period, fixed charge coverage, as measured by EBITDA/interest expense + capitalised interest + ground rents, was high at approximately 7.0x. The company's financial policy is to maintain its loan-to-value ratio (defined as interest-bearing debt less cash/investment property and listed property securities) at around 30%-35%. Whilst leverage will increase from the currently very low levels, NEPI's financial targets are conservative and, in our opinion, sustainable over the rating horizon.

NEPI's property portfolio is valued on an annual basis by external, independent valuation firms and based on discounted cash flows and open market comparables, where available. In its financial accounts, NEPI reports land to be used in developments at fair value and buildings under construction at cost until the development is complete or its fair value can be reliably determined. There are few market comparables for prime retail assets in Romania. We understand that while there is investor demand, current owners are not willing to sell. We believe, however, that investor appetite for acquiring Romanian property assets, including the modern stock owned by NEPI, is likely to exhibit greater volatility over the course of an economic cycle compared to that for very large, prime shopping centres in Western Europe such as those owned by the large French and UK REITs.

On 7 August 2015, the previous CEO and COO resigned, and an experienced existing executive director was appointed CEO. The company's strategy, financial policy and ownership structure are not affected by the management change.

#### ADEQUATE BUT NOT AMPLE LIQUIDITY

NEPI has an adequate, though not ample, liquidity profile. At the end of June 2015, NEPI had cash balances of

EUR63.5 million and around EUR50.0 million available under its committed revolving facility agreements. NEPI's internal cash flow generation plus available liquidity, a planned bond issue and planned equity raising well in excess of dividends paid out should cover its cash requirements over the next 12 months, in our view, including capex well above maintenance levels and upcoming debt maturities.

. We also understand that NEPI can suspend its development activities at any time (and subsequently restart at any time) due to the flexible structure of its construction contracts (no general contractor). Lastly, given its non-REIT status, the company has no legal requirement to distribute dividends and, therefore, greater financial flexibility compared to other REITS.

#### **GEOGRAPHIC CONCENTRATION LIMITS FURTHER RATING UPSIDE AND RAISES FOREX RISK**

Given the sheer strength of its financial metrics and very strong market position in Romania's domestic retail property sector, we believe that NEPI's rating should more closely reflect the company's strengths, as evidenced by a grid implied rating (Baa1) and multiple Aa scorings in several sub-factors of our rating methodology. Although NEPI is increasingly strongly positioned on its own merits, further rating upside is constrained by the company's limited geographic diversification.

The outlook for Romania's rating is stable. It incorporates our expectations that recent growth, fiscal, and bank asset quality improvements will be sustained and regional integration will continue to provide trade benefits. Risks stemming from the country's relatively high external debt and contingent liabilities arising from the state-owned sector have been contained. Annual real GDP growth averaged around 5% in the decade leading up to the global financial crisis but the post-crisis growth rate has been significantly slower, averaging close to zero in 2009-2013. In 2014 real growth reached 2.6%, with household consumption contributing to growth for the first time since 2008 and replacing net exports as the main growth engine. We expect growth to remain close to 3% in the next two years, supported by a recovery in domestic demand but constrained by subdued demand in Romania's main trading partners in the euro area. GDP growth is unlikely to revert to pre-crisis levels as some of the exceptional conditions that led to a growth boom in the last decade - such as rapid domestic credit growth due to easy global credit conditions - are unlikely to return. Over the medium term, EU integration will continue to ensure gradual improvements in Romania's trade, investment and competitiveness metrics.

NEPI is exposed to a degree of currency risk. Although NEPI's debt and leases are denominated in Euros, its tenants typically earn revenues in local currency. We believe that this exposes the company to the risk of a devaluation of the local currency. That said, we acknowledge that the exchange rate of the Romanian currency versus the Euro has been relatively stable since 2009 and that the Romanian government's plan to join the Eurozone, though not near term, should somewhat support its currency.

#### **Rating Outlook**

The stable outlook reflects our forecast for continued positive GDP growth in Romania, which will support retail expenditure and, by extension, tenant demand for retail property. The stable outlook also reflects our belief that NEPI will continue managing its business to maintain high occupancy rates, similar levels of operational profitability and will manage its leverage in line with its conservative financial policy guidelines.

#### **What Could Change the Rating - Up**

An upgrade is unlikely in the near term and will depend on Moody's expectations for the Romanian economy, as evidenced by its sovereign rating, as well as on increased size and geographic diversification of the company's portfolio.

#### **What Could Change the Rating - Down**

Downward pressure on the rating could arise from (i) a deterioration in the economic outlook for the Romanian economy, (ii) a deterioration in the operating performance of the company, as evidenced by reduced occupancy rates, negative rental growth or reduced profitability/cash flow generation; (iii) increasing development risk such that the committed development pipeline rose sustainably above 10% of the property portfolio; (iv) adjusted debt/total assets sustainably above 35% or fixed charge coverage below 3.5x; or (v) a failure to maintain an adequate liquidity profile.

#### **Other Considerations**

GRID INDICATED RATING

The principal methodology used in rating NEPI was Moody's Global Methodology for REITs and Other Commercial Property Firms, published July 2010. The Baa3 final rating is three notches lower than the A3 grid outcome because more weight was placed upon the company's modest scale and the fact that its assets are primarily located in a developing property market where asset values could prove volatile given the limited number of market comparables for prime retail assets. Romania's Baa3 sovereign rating also constrains NEPI's rating.

## Rating Factors

### New Europe Property Investments plc

REITs and Other Commercial Property Firms Industry Grid [1][2]	Current LTM 6/30/2015		[3]Moody's 12-18 Month Forward ViewAs of 10/19/2015	
<b>Factor 1: Liquidity and Funding (24.5%)</b>	<b>Measure</b>	<b>Score</b>	<b>Measure</b>	<b>Score</b>
a) Liquidity Coverage	Baa	Baa	Baa	Baa
b) Debt Maturities	Ba	Ba	Aa	Aa
c) FFO Payout	18.0%	Aa	100% - 110%	B
d) Amount of Unencumbered Assets	67.0%	Baa	90% - 95%	A
<b>Factor 2: Leverage and Capital Structure (30.5%)</b>				
a) Debt / Gross Assets	15.6%	A	32% - 34%	Baa
b) Net Debt / EBITDA	2.6x	Aa	3.3x - 4x	A
c) Secured Debt / Gross Assets	13.9%	Baa	9% - 10%	A
d) Access to Capital	Baa	Baa	Baa	Baa
<b>Factor 3: Market Position and Asset Quality (22%)</b>				
a) Franchise / Brand Name	Baa	Baa	Baa	Baa
b) Gross Assets(USD Million)	\$1,986.0	Ba	\$2200 - \$2400	Baa
c) Diversity: Location / Tenant / Industry / Economic	Ba	Ba	Ba	Ba
d) Development Pipeline	6.4%	Baa	7% - 8%	Baa
e) Asset Quality	Baa	Baa	Baa	Baa
<b>Factor 4: Cash Flows and Earnings (23%)</b>				
a) EBITDA Margin (YTD)	104.7%	Aa	93% - 96%	Aa
b) EBITDA Margin Volatility	9.6%	Ba	9% - 11%	B
c) EBITDA / Fixed Charges (YTD) [4]	7.0x	Aa	3.8x - 4.2x	Aa
d) Joint Venture Exposure (YTD)	5.7%	A	2% - 5%	Aa
<b>Rating:</b>				
a) Indicated Rating from Grid		A3		A3
b) Actual Rating Assigned				Baa3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 6/30/2015(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures. [4] Fixed Charges includes capitalized interests explained in Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations revised December 2010.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on <http://www.moodys.com> for the most updated credit rating action information and rating history.

# MOODY'S INVESTORS SERVICE

© 2015 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS FOR RETAIL INVESTORS TO CONSIDER MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the

control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody.com](http://www.moody.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.

For Japan only: MOODY'S Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of MOODY'S Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000. MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.