

Rating Action: Moody's changes outlook on NEPI's Baa3 rating to positive from stable; affirms ratings

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London, 31 May 2017 -- Moody's Investors Service ("Moody's") has changed to positive from stable the outlook on the ratings of New Europe Property Investments plc ("NEPI"), Romania's largest retail property owner and its subsidiary NE Property Cooperatief U.A. At the same time, Moody's has affirmed the Baa3 long-term issuer rating of NEPI and the Baa3 senior unsecured rating of NE Property Cooperatief U.A. Today's rating actions follow NEPI's plan to merge with Rockcastle Global Real Estate Company Limited ("Rockcastle", unrated), a Mauritius-based commercial property company and investor owning shopping centres in Poland and the Czech Republic.

"The positive outlook primarily reflects the significantly larger property portfolio and improved geographical diversification of the combined entity", says Roberto Pozzi, a Moody's VP - Senior Credit Officer and lead analyst for NEPI. "Upon completion of the transaction, the combined entity will own a diversified portfolio of direct properties valued at approximately EUR3.9 billion with strong market positions in Romania, Poland and Slovakia".

The merger is expected to complete by the end of July 2017. NEPI and Rockcastle will issue relevant documentation requesting shareholders' approval for the transaction and noteholders' approval for the change of Guarantor. Upon completion of the merger, NEPI Rockcastle plc ("NEPI Rockcastle") will be the new Guarantor under both companies' notes and bank loans, including the outstanding EUR400 million senior unsecured notes issued by NE Property Cooperatief U.A.

RATINGS RATIONALE

The positive outlook reflects Moody's view that the rating of NEPI pro forma for the merger could be a notch higher than that of the Romanian government (Baa3/Stable) because the concentration of properties in Romania, although still high, will decrease significantly to 48% from 71% of total investment property portfolio. Additionally, Moody's expects the proceeds from the disposal of Rockcastle's large holdings in listed securities to be reinvested in acquisitions of shopping centres in Poland (A2), and other CEE countries.

Pro forma for the merger with Rockcastle and based on 31 March 2017 figures, we estimate that the combined entity will have total assets of around EUR5.3 billion, including physical investment properties worth an estimated EUR3.9 billion and a portfolio of listed securities with a market value of around EUR1.0 billion, and annualised rental income of EUR257.0 million. Around 90% of the direct property portfolio will be focused on retail properties (mainly shopping centers), with the remainder represented mainly by office buildings. Assets located in Romania will represent around 48% of combined direct property portfolio (excluding listed securities), down from 71% before the merger, Poland (A2 stable) around 30% and Slovakia (A2 positive) 10%. In Moody's view NEPI Rockcastle will become a leading owner of shopping centres in Eastern Europe, strengthening its ability to provide retail space to international retailers.

Counterbalancing these positives, Moody's estimate an increase in combined entity's effective leverage, as measured by gross debt to total assets, to around 32%, compared with NEPI's 26% as of 31 December 2016 (including the implied gross debt related to the gross exposure of Rockcastle to a portfolio of listed stocks representing 20% of combined total assets). We also expect a deterioration in the amount of unencumbered assets to 63% from 87% (Moody's adjusted, excluding joint ventures) because of Rockcastle's debt structure which is mostly made up of mortgages. Although pro-forma leverage will increase and it is likely to be volatile due to a significant component of listed stocks in total assets, it remains appropriate for the rating.

NEPI's Baa3 issuer 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 occupancy rates (98% as of end of December 2016), (iv) steady cash flows from contractual rental income with limited tenant concentration risk, and (v) supportive shareholders.

The rating is mainly constrained by the company's (i) reliance on the Romanian economy whose sovereign rating is currently Baa3/Stable (albeit reduced for the combined entity), (ii) a declining but still sizeable

development pipeline, (iii) the currency risk ensuing from the mismatch between the company's euro-denominated leases and tenants' local currency revenues.

RATIONALE FOR POSITIVE OUTLOOK

The positive outlook reflects Moody's expectation that if the merger is successful NEPI will benefit from improved geographical diversification and market position. The outlook also incorporates the expectation of a gradual reduction in the portfolio of listed securities as well as the company's public commitment to maintain its loan-to-value ratio below 35% on a reported basis. Moody's could consider stabilizing the outlook should the merger fail or present material differences from what NEPI has outlined in its public announcements.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Successful execution of the envisaged merger, as evidenced by sustained occupancy rates, positive like for like rental growth and a gradual reduction in the portfolio of listed securities, and
- Gross debt to total assets sustained below 35% and
- Fixed charge coverage sustained above 4.0x, and
- Maintaining a conservative approach with regard to the company's development pipeline, and
- Sound liquidity.

FACTORS THAT COULD LEAD TO A DOWNGRADE

- A deterioration in the economic outlook for the Romanian or Polish economy, or
- A deterioration in the operating performance of the company, as evidenced by reduced occupancy rates, negative rental growth or reduced profitability/cash flow generation; or
- Gross debt to total assets sustainably above 40%, or
- Fixed charge coverage below 3.0x, or
- Increasing development risk such that the committed development pipeline rose sustainably above 10% of the property portfolio,
- Failure to maintain an adequate liquidity profile.

Debt is measured as Moody's adjusted gross debt.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Global Rating Methodology for REITs and Other Commercial Property Firms published in July 2010. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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, Slovakia, Croatia, Czech Republic and Serbia. As of 31 March 2017, NEPI's total assets totalled EUR2.8 billion and reported net rental and related income for the last twelve months was EUR160.8 million. The company had a market capitalisation of EUR3.6 billion as of 29 May 2017.

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