18-I-0045
November 5, 2018

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit rating.

CPI Property Group S.A. (security code: -)

<Assignment>

Foreign Currency Long-term Issuer Rating:	A-
Outlook:	Stable

Rationale

(1) CPI Property Group (CPIPG) is a real estate group formed as a result of the combination in June 2014 of CPI Group, the leading real estate player in the Czech Republic, and the GSG Group, which mainly engaged in leasing of offices in Berlin, Germany. It undertakes a wide range of business with a focus on Central and Eastern Europe and Germany, including leasing of offices and retail properties, operation of hotels, acquisition and management of land and buildings, and development of real estate assets. The group's parent holding company, CPI Property Group S.A. (CPIPG S.A.) is headquartered in Luxembourg, and nearly 92% of its shares are indirectly held by CPI Group’s founder, Mr. Radovan Vitek. CPIPG S.A. is the targeted entity of the rating, but its rating reflects the credit standing of the entire group, considering the factors including the integrated management of subsidiaries. The rating is supported by the favorable business environment in the regions in which the group operates, the group’s leading position in its core target markets, the diversification of its portfolio with limited development risks, and its commitment to strengthening its financial structure. On the other hand, the rating is constrained by the relative level of interest-bearing debt and the rigid debt structure. The outlook of the rating is Stable.

(2) CPIPG considers Germany and the Czech Republic as "core target markets" and Poland, Hungary and Slovakia as the target markets. Berlin, where the CPIPG’s business in Germany concentrates, had been stagnant for about 10 years since the merger of East and West Germany in 1989. However, in recent years, it has enhanced its functions as the capital of Germany, and inflows of IT companies have expanded, and demand for offices has steadily increased. In recent years, office rent has also been rising, but since the rent level still remains lower than other cities in Europe, demand is expected to continue to increase for the time being. The economies of the Czech Republic, Poland, Hungary, and Slovakia are all in good condition, and the real GDP growth rate of 3-4% is expected to continue, while the inflation rate is expected to remain around 2% in the next few years. Exports of automobiles, electric appliances, and other products have steadily increased in these four countries, and FDI inflows from foreign countries have also been steadily expanding. Wages are also rising moderately, and private consumption is also firm. As a result, demand is expected to increase in the office, retail properties, and housing sectors, and rent growth is forecast to slightly exceed inflation rate. In Prague, it is not easy to acquire a new construction permit, so there will be no rapid increase in the supply of new offices, and it is not expected that the market conditions for office rent will deteriorate rapidly. Overall, the business environments for CPIPG, which operates in Central and Eastern Europe with particular focus upon Germany and the Czech Republic, are favorable, and JCR expects that this favorable business environment will be maintained for the next few years.

(3) CPIPG is a regionally-rooted real estate group focused on long-term investments in income-generating properties with active asset management. The business is currently divided into four business segments: the Czech, Berlin, Hotel & Resorts, and Other Businesses. The Czech and Berlin businesses are the mainstream. In the Czech Republic, CPIPG stands at a leading position as the largest holder of office and retail landlords and the second largest holder of residential landlord. In Berlin, it is the largest holder of office landlord. The portfolio value, which has been increasing due to new acquisitions including buyouts and revaluation of the existing assets, is 6,994 million euros (as of the end of June 2018) for 418 properties (excluding residential properties). It ranks first in terms of the portfolio value in comparison with the peers in Central and Eastern Europe. Looking at the composition of portfolios by area, 78% (on a portfolio value basis) is the Czech and Berlin business, where the group has strong business bases. In terms of asset type, 70% (on a portfolio value basis) is office and retail. The diversification of areas, asset types, or tenants can be highly evaluated. To minimize development risks, the group limits the share of

land bank and development (development of real estate including for sale, acquisition and management of land and buildings for development) less than 10% of the portfolio value. Control on the risk of tenant replacement concentration is well addressed by diversifying the lease maturity structure. In addition to these efforts, robust track records (on occupancy rate, rents, KPI of the hotels) in each business segment have been observed against backlog of the good real estate market conditions in the Central and East European countries. Based upon these factors, JCR considers that CPIPG will be able to secure stable cash flows in the coming years. JCR continues to watch as to whether CPIPG will be able to improve profitability by capturing upside potential through rent revision.

(4) The group earns most of its revenue from the rental business. Its limited exposure to development risks makes its earnings relatively resilient to a deterioration of market conditions, although a valuation loss on the properties may be incurred in the short term. Fluctuations in earnings of the group's rental business are mitigated by the large size of its portfolio with a wide geographical diversification and no concentration of asset types or tenants. JCR believes that the risk of a sharp deterioration in cash flow is contained as the group also controls the risk of rent reduction through the terms of contracts with its tenants. In recent years, the group's earnings have been steadily growing against the background of the stable business environment in the Czech Republic as well as rising rents and a continued decline in vacancy rates for the existing properties in Berlin.

(5) CPIPG has been promoting a conservative financial policy with an emphasis on strengthening its financial structure. It targets a net LTV (net debt/market value of total property portfolio) below 45%, with the ratio at the end of June 2018 standing at 39.1% (around 45% if calculated using gross debt). As for the funding structure, 53% of the group's debt was bank loans, 46% was bonds and 1% was leasing and non-bank loans as of the end of June 2018. The group's debt structure has some rigidity because bank loan has historically been provided fully on a secured basis. Since 2017 however, the group has been diversifying its funding sources by securing the EMTN program and the unsecured revolving credit facilities. The share of unencumbered assets in total assets remained relatively low at 45% as of the end of June 2018. Nevertheless, the group has made certain progress in reducing secured debts and increasing unencumbered assets mainly through refinancing. Even based on the current level of asset encumbrance, JCR views that the group has additional collateral margin considering the factors such as the volumes of high-quality assets in the pool of unencumbered assets. The group's debt/EBITDA ratio was around 12 times on an annualized basis in the first half of 2018, which is relatively high compared with Japanese real estate companies rated in the A range by JCR (the ratios are calculated in accordance with JCR's definitions). On the other hand, the equity ratio and the net debt-to-equity ratio had steadily improved since 2015 and stood relatively sound at 48.1% and 0.71 times, respectively, at the end of June 2018. In addition to the steady increase in equity due to the accumulation of retained earnings, the capital increases and the issuance of hybrid bonds in the first half of 2018 also contributed to the improvement of these ratios. The group intends to maintain financial discipline and keep refinancing and repaying its debt. JCR will monitor whether the group will be able to achieve continuous improvement in its financial structure.

Atsushi Masuda, Nobuyasu Matsuda, Haruna Saeki

Rating

Issuer: CPI Property Group S.A.

<Assignment>

Foreign Currency Long-term Issuer Rating: A- Outlook: Stable

Rating Assignment Date: November 1, 2018

The criteria used for identifying matters which serve as assumptions for the assessment of the credit status, and the criteria used for setting of grades indicating the results of the assessments of the credit status are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Information about JCR Ratings on JCR's website (https://www.jcr.co.jp/en/).

Outline of methodology for determination of the credit rating is shown as "JCR's Rating Methodology" (November 7, 2014), "Real Estate" (July 13, 2011) and "J-REIT" (July 3, 2017) in Information about JCR Ratings on JCR's website (https://www.jcr.co.jp/en/).

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JCR

INFORMATION DISCLOSURE FORM

Japan Credit Rating Agency, Ltd.

Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer:	CPI Property Group S.A.
Rating Publication Date:	November 5, 2018

1 The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

- Please see the news release.

2 The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

- Please see the news release.

3 The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

- The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.
- The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

A) Business Bases
The likelihood of a given debt payment is highly conditional to its issuer's business bases - how they can be maintained/ expanded into the future and thereby secure earnings and cash flows in adequacy and in a sustainable way.

B) Financial Grounds and Asset Quality
The likelihood of debt payment is highly dependent on the degree of the issuer's indebtedness and loss absorption capacity in terms of equity capital. Also notable is that a financial institution might see a significant loss of financial grounds as a result of changes in value of the assets under its possession.

C) Liquidity Positions
The likelihood of debt payment is highly dependent on the adequacy of the issuer's cash and other sources of repayment (liquidity positions).

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The likelihood of debt payment is affected one way or the other by the issuer's related parties such as parent company, subsidiary, guarantor, and the government of the issuer's business domicile, etc. - by their own conditions and/ or position of support/ assistance for the issuer.

E) Order of Seniority in Debt Payment

The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuer's discretion, and/ or its rank relative to other debts of the same issuer in the order of seniority in principal/ interest payment which is determined by design as financial product or by laws, etc.

4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.
- The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

- The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

- There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

- There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule17g-7

- The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.

A) Audited financial statements presented by the rating stakeholders

B) Explanations of business performance, management plans, etc. presented by the rating stakeholders

9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

- JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the audit by an independent auditor, the publication by the issuer or some independent media or, otherwise, JCR analyst's scrutiny, etc.
- JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.

10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

- JCR receives payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.
- JCR did not receive in the last fiscal year in the past payment of compensation from the same party for any kind of JCR's service other than the determination of credit rating, such as one in the ancillary business.

11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

A) Business Bases

The credit rating is subject to alteration if there is improvement or deterioration of the issuer's business bases, since its revenue, etc. may improve or deteriorate by the change in its business management policies, clients' preferences, competitive situation, or a technological innovation. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the business bases is large.

B) Financial Grounds and Asset Quality

The credit rating is subject to alteration if the issuer increases/ decreases its debt/ capital or vice versa and thereby makes its individual debt payment liability less or more bearable and its loss absorption capacity into the future decreased or increased. Also, the changes in the quality of asset under the issuer's holding may affect the credit rating, since such changes could raise or lower the likelihood of future loss of the issuer's financial grounds. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the financial grounds and/ or asset quality is large.

C) Liquidity Positions

The credit rating is subject to alteration if there is a change in the issuer's financial management policy or in the relations with fund procurement sources and the change thereby makes its liquidity positions improve or deteriorate. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The credit rating is subject to alteration if there is a change in the issuer's parent company or subsidiary, guarantor or other provider of credit enhancement, or the government of the issuer's business domicile, or other related parties' own conditions and/ or position of support/ assistance for the issuer, and the change thereby makes its business bases, financial grounds and/ or liquidity positions improve or deteriorate, and/ or making the effectiveness of guarantee and other credit enhancement improve or deteriorate. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

E) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract

The credit rating is subject to alteration if there is a change in the rated debt's status in the order of seniority relative to other debts caused by the improvement/ deterioration of the issuer's financial condition. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large. Also, in case of the financial products for which non-payment of interest/ principal is contractually permissible, the credit rating is subject to alteration if and when the likelihood of such non-payment is projected to increase or decrease. The resultant alteration of the credit rating could be by a notch but often as much as a few notches.

F) Rise and Fall in General Economy and Markets

The credit rating is subject to alteration if there is a rise/ fall in the general economy and/ or the markets inducing the issuer's revenues/ expenses to increase/ decrease and vice versa, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

G) Various Events

The credit rating is subject to alteration on occurrence of various events, such as change in the issuer's major shareholders, M&A and other organizational change, accident, violation of the law, litigation, legal/ regulatory change, natural disaster, etc., which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer's business bases, financial grounds, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

12 Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:

https://www.jcr.co.jp/en/service/company/regu/nrsro/

13 Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

A) Business Bases

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's business bases and powers of earning or cash flow generation, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's business bases on some drastic change in the operational environments, etc.

B) Financial Grounds and Asset Quality

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's financial grounds and asset quality. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's financial grounds and/ or asset quality on some drastic change in its business bases.

C) Liquidity Risks

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's liquidity positions. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's liquidity positions on some drastic change in its financial management policy or relations with fund procurement sources, etc.

D) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the order of seniority in repayment of interests and principal. JCR assumes the resultant change of the credit rating is most likely by a notch. The change could be as much as a few notches if the issuer's financial structure differs so much and thereby the balance between debts shifted so greatly. Rating change is also possible in case of the financial products for which non-payment of interest/ principal is contractually permissible, if and when the assumptions made at the time of its determination turns out to be inaccurate. The change of the credit rating is assumed to be by a notch but often as much as a few notches.

E) Rise and Fall in General Economy and Markets

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the prospects of general economy and markets. JCR expects the change should be most likely by a notch but could be as much as a few notches, should the economy or the markets change so greatly.

14 Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

- The credit rating herewith presented is not for an ABS product, and hence no relevant issue.

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Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Atsushi Masuda, have responsibility to this Rating Action and to the best of my knowledge:

A) No part of the credit rating was influenced by any other business activities.

B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.

C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

Atsushi Masuda
General Manager of International Rating Department

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