



**Disposal of the North
Galaxy office building
&
Restructuration of
hedging instruments**

*Analyst call
May 13th, 2014*

*together
in real estate*

0. Background

- **2005:** Acquisition of the North Galaxy building for €390 million (leasehold granted to Galaxy Properties SA/NV, 100% Cofinimmo) and sale of the 18-year lease receivables to BNP Paribas (ex-Fortis) for €344 million
- **2012:** Extension of the lease contract for 9 years, in exchange of a rent reduction representing an annual cash out of €2 million
- **12.05.2014:** Disposal of the North Galaxy building for €475 million (sale of all shares in Galaxy Properties SA/NV), the largest single asset transaction in the Brussels office market
- Acquirers: ATP for 90% and AXA Belgium for 10%

Main characteristics of the North Galaxy building:

- *Location: North District of Brussels (Central Business District)*
- *Surface area: 104,998m²*
- *Year of construction: 2005*
- *Tenant: Buildings Agency (Belgian Federal State)*
- *Occupier: Ministry of Finance (Service Public Fédéral Finances/Federale Overheidsdienst Financiën)*
- *End of lease: 30.11.2031 – Initial lease of 18 years extended for 9 years in July 2012*
- *Annual rent: €26.8 million, of which €229/m² of offices*



1. Disposal of the North Galaxy Building (1)

▪ Details of the operation:

- Sale of all shares in Galaxy Properties SA/NV, owner of the NG building, for an amount of €7 million
- Price agreed for NG building of €475 million, above the investment value of the expert at 31.12.2013 and 22% above acquisition value (€390 million in 2005)
- Realised book loss (Result on portfolio) of €25 million, due mainly to transfer duties paid
- Past non-cash writebacks of sold and discounted receivables are now cashed in: €105 million
- IRR of 7.1% over 2005-2014 (includes book loss)
- IRR amounts to 14.9% when including the financing mode of the acquisition (see appendices)

▪ The operation is advantageous for Cofinimmo because:

- Pricing:
 - Exit yield of 5.64% vs. acquisition yield of 6.1875%, meaning compression of 0.55%
 - Applied to passing rent of €229/m² of offices, 11% above rent at inception of lease
 - Valuation per m² above ground: €4,524 (investment value)
- Cofinimmo is closer to its objective to bring the office segment down to 40%: it now stands at 41.7% (vs. 45.6% at 31.12.2013)
- Reduction of leverage: forecasted debt ratio at end 2014 is reduced to 47.10% (vs. 49.05% published in the 2013 Annual Financial Report)

1. Disposal of the North Galaxy Building (2)

▪ Transaction structure

- 2005: Galaxy Properties SA/NV was granted by Cofinimmo SA/NV a 27-year long lease (“emphytéose/erfpacht”) ending in 2032 whilst Cofinimmo retained the residual interest (“tréfonds/naakte eigendom”)
- 12.05.2014:
 - Cofinimmo SA/NV sells for €214 million its residual interest to Galaxy Properties SA/NV; a transfer duty of 12.5% is paid, i.e. €27 million
 - Cofinimmo SA/NV sells all shares in Galaxy Properties SA/NV to ATP and AXA Belgium

▪ The €-25 million difference between the conventional value and the expert’s valuation lie in:

- €-22 million due to the difference between the effective transfer taxes paid on exit ($12.5\% * €214 = €27$) and the transfer taxes used by the expert ($2.5\% * €214 = €5$)
- €-3 million: transaction costs (advisory, legal and notarial)
- Accounting wise this loss crystallized mainly in the difference between the price paid for the Galaxy Properties shares and their value in the Cofinimmo SA books immediately prior to closing.

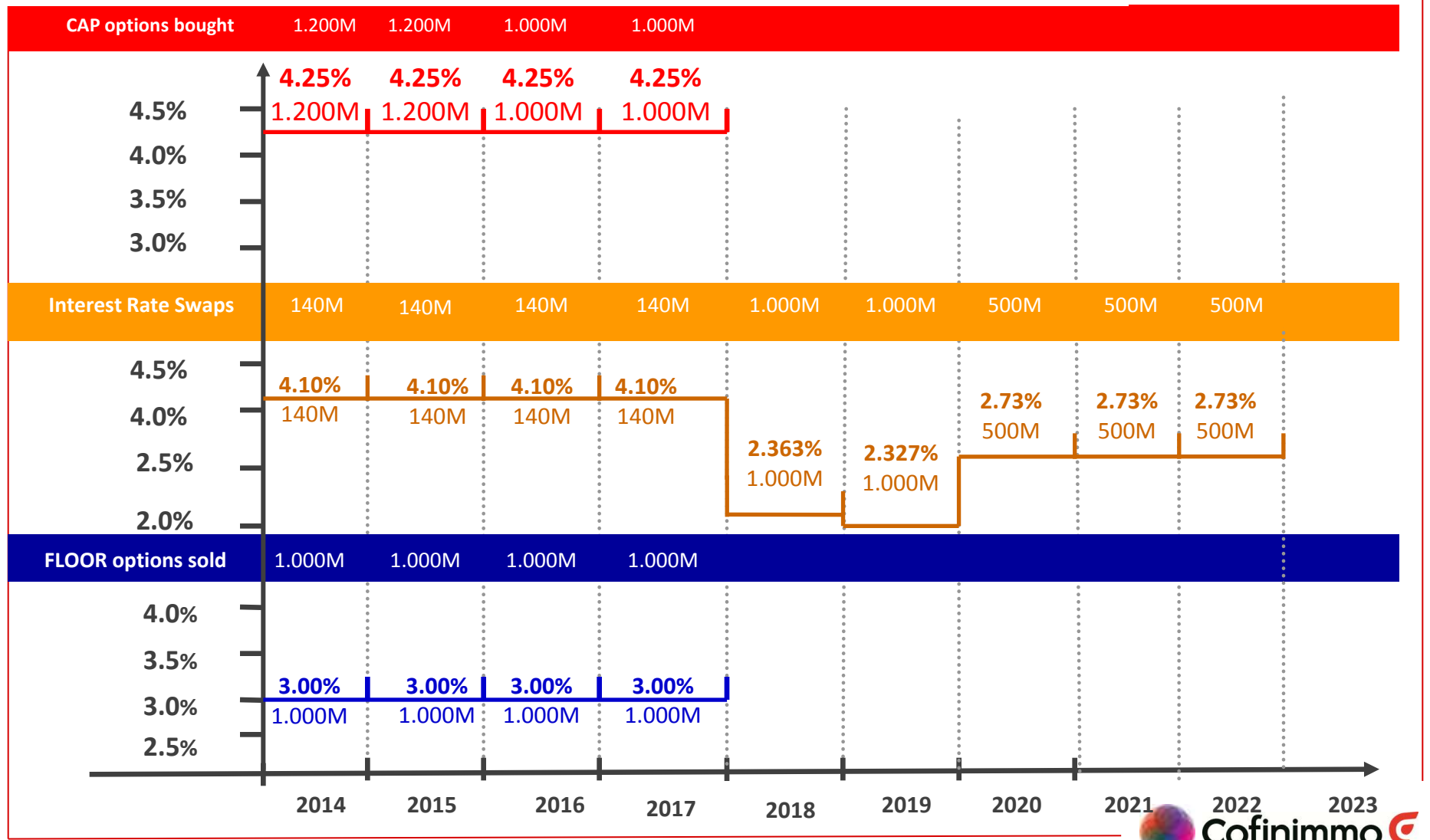
2. Restructuration of hedging instruments (1)

In a context of a persisting low interest rates environment, opportunity to arbitrate an immediate cash out against lower future interest charges.

- **Collars, consisting of CAPs and FLOORS, were cancelled for the period 2014 – end 2017 :**
 - FLOORS sold with a strike of 3% were cancelled for a notional amount of €600 million
 - Cash out: €57 million to be recognized in the income statement under the item “Revaluation of derivative financial instruments (IAS 39)”
 - No impact on NAV
- **New IRS have been taken for the period 2014-2017:**
 - IRS at 0.51% for a notional amount of €400 million

2. Restructuration of hedging instruments (2)

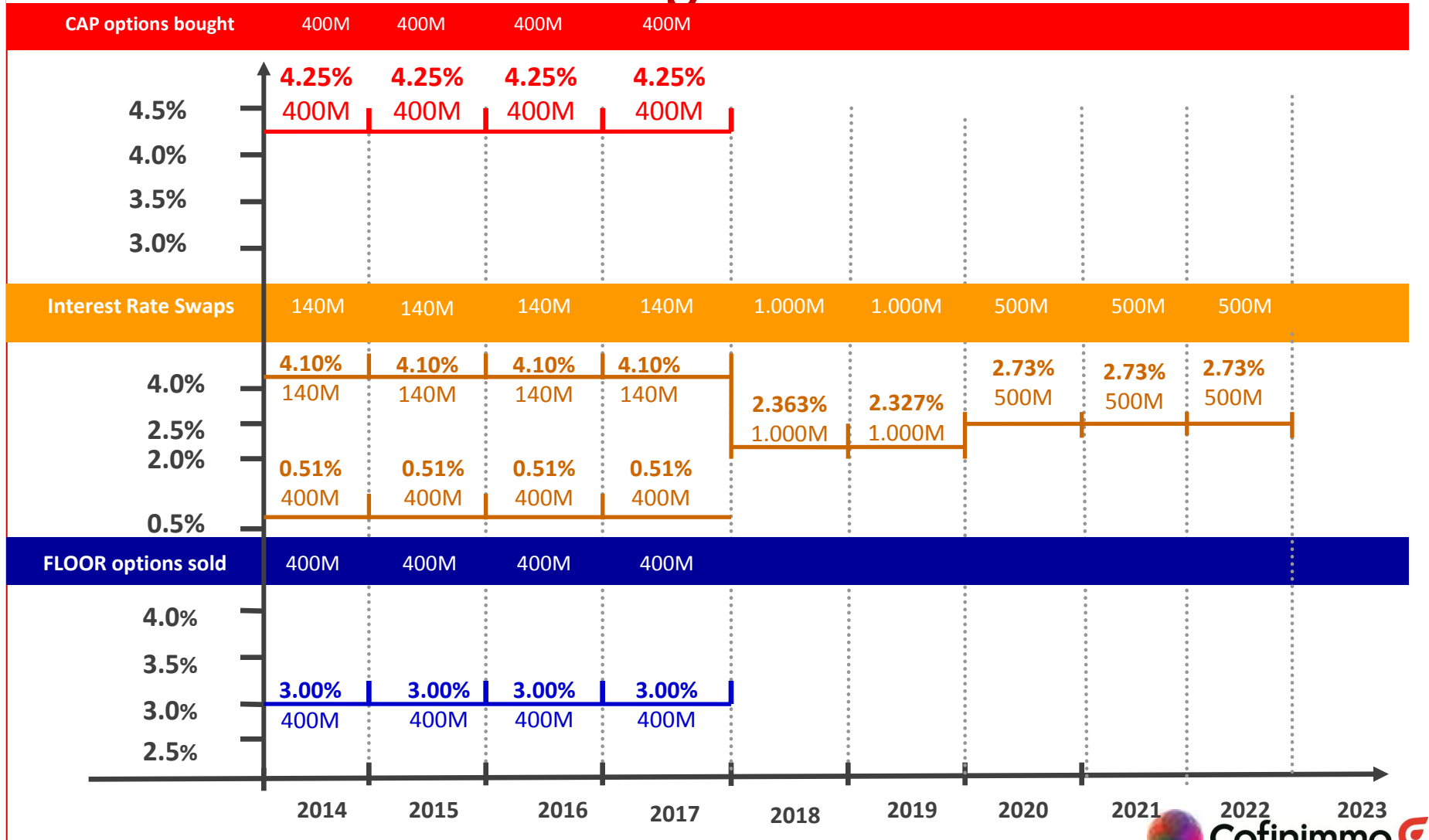
Position as at 31.03.2014



Between 2018 and 2022 the published IRS rate represents the weighted average for the year

2. Restructuration of hedging instruments (3)

Position after restructuring



Between 2018 and 2022 the published IRS rate represents the weighted average for the year

3. Impact on 2014 consolidated results

- Reduction of forecasted debt ratio from 49.05% to 47.10% at end 2014
- Estimated impact on forecasted current cash flow (excluding IAS 39 impact)
 - for 2014 : €+0.64 per share
 - €+1.00 per share on an annual basis, i.e. if the operation had taken place at 01.01.2014
- 2014 full year forecasted net current result (excluding IAS 39 impact) unchanged at €6.61 per share
 - Reduction of the “Writeback of the lease payments sold and discounted (non cash)” : €-0.65 per share
 - Reduction in the “Financial charges (excluding IAS 39)” (cash): €+0.64 per share
- € -57 million to be recognised in the income statement under “Revaluation of derivative financial instruments (IAS 39)”
 - No impact on NAV
- €-25 million realised loss on portfolio or €1.39 per share

4. Conclusions

- The office segment is now at 41.7% (vs. 45.6% as at 31.12.2013)
- Cofinimmo has sufficient headroom to finance its 2015 and 2016 investment programme while maintaining a level of debt below 50% (“fire power” of €200 million)
- The objective for the net current result – Group share (excluding IAS 39 impact) of €6.61 per share for FY 2014 is maintained
- Barring any unforeseen events , Cofinimmo reconfirms the target gross dividend of €5.50 per ordinary share announced for 2014, which the transactions announced today confirm.

Sale North Galaxy & Restructuration of hedging instruments	2014 Forecast published in the Annual Financial Report 2013	2014 Forecast after the sale of North Galaxy
Debt ratio at 31.12.2014	49.05%	47.10%
Net current result per share – Group share (excluding IAS 39)	€6.61	€6.61
Gross dividend	€5.50	€5.50

Appendices

- IRR on North Galaxy
- Update of the guidance for the writeback of lease payment sold
- Investment pipeline
- Cofinimmo properties portfolio



IRR on North Galaxy (1)

With the sale of initial lease receivables:
average annual IRR of 14.9% over the period 2003-2014

	A	B	C	D	E	F	G	H	I	J	K
	Shareholding in North Galaxy SA	Property acquisition & disposal	Lease receivables sale & purchase	Cash income from lease	Commercial Lease	Maintenance & insurance expenses	Escrow account for maintenance & insurance	Rental discount	Transfer duties	Transaction costs	Total
2003	-19,99										-19,99
2004	-6,40										-6,40
2005	26,38	-389,83	343,95	5,89			-17,47				-31,08
2006						-0,83					-0,83
2007					0,07	-0,77	16,47				15,77
2008					0,11	-0,78					-0,67
2009					0,11	-0,78					-0,67
2010					0,11	-0,75					-0,63
2011					0,11	-0,68					-0,57
2012					0,10	-0,52		-2,00			-2,41
2013					0,10	-0,73		-2,02			-2,65
2014		475,00	-237,22	-10,72	0,04	-0,13	1,00	-0,74	-26,69	-3,04	197,50
	0,00	85,17	106,73	-4,83	0,75	-5,96		-4,76	-26,69	-3,04	147,38

IRR on North Galaxy (2)

Without the sale of initial lease receivables:
average annual IRR of 7.1% over the period 2003-2014

	A	B	D	E	F	H	I	J	K
	Shareholding in North Galaxy SA	Property acquisition & disposal	Cash income from lease	Cash Income Commercial lease	Maintenance & insurance expenses	Rental discount	Transfer duties	Transaction costs	Total
2003	-19,99								-19,99
2004	-6,40								-6,40
2005	26,38	-389,83	16,60						-346,84
2006			24,27		-0,83				23,43
2007			24,72	0,07	-0,77				24,02
2008			25,33	0,11	-0,78				24,66
2009			26,22	0,11	-0,78				25,55
2010			26,19	0,11	-0,75				25,56
2011			26,87	0,11	-0,68				26,30
2012			27,75	0,10	-0,52	-2,00			25,34
2013			28,33	0,10	-0,73	-2,02			25,68
2014		475,00	10,34	0,04	-0,13	-0,74	-59,38	-3,04	422,10
	0,00	85,17	236,63	0,75	-5,96	-4,76	-59,38	-3,04	249,42

IRR on North Galaxy (3)

- **Column A - Shareholding in North Galaxy SA/NV:** Cofinimmo acquired successively in 2003 and 2004 shareholdings of 25% and 8% in North Galaxy SA/NV, the company that developed the building. Upon completion of the construction, it acquired on 21.04.2005 the remainder of the shares and absorbed that company. For the sake of clarity in the presentation (see also next column), we assume Cofinimmo resold the North Galaxy shares in 2005 at the same price.
- **Column B - Property acquisition & disposal:** Reflects the entry (acquisition) and exit (disposal) prices of the property in/from Cofinimmo's consolidated books respectively in 2005 and 2014. The acquisition price was settled in the form of a purchase price paid for the shares in North Galaxy SA/NV (here for clarity 100%) and of that company's indebtedness taken over, the two elements equalling the agreed value for the property. Entry and exit prices are in investment value (transfer duties not deducted). See also column I hereunder.
- **Column C - Lease receivables sale & purchase:** Represents the April 2005 sale price of the lease receivables from the original 18-year lease (2005-2022) and the May 2014 purchase price of the remaining lease receivables (2014-2022). The amounts are determined by the mid-swap forward interest rate curve, a margin and the expected Belgian CPI inflation rate.
- **Column D - Cash income from the lease with the Buildings Agency:** Rent due under the lease was payable twice yearly in advance on 1 April and 1 October. The figures reflect (i) the rent received for the period from 21.04.2005 to the 1st following payment date (which instalment was sold to BNP) and (ii) the rent for the period between 13.05.2014 and 30.09.2014 which was accrued (in favour of the purchasers) in calculating the price of the shares of Galaxy Properties SA/NV.
- **Column E – Cash income from commercial leases:** Income from the leases of 2 small retail areas on the ground floor of the complex.
- **Column F – Maintenance & insurance expenses:** Maintenance expenses and insurance premiums incurred during 2005-2014.
- **Column G – Escrow account for maintenance & insurance:** Amount originally deposited in escrow for BNP to cover future maintenance and insurance. The largest part of it was released when all maintenance contracts were finalized at the end of the commissioning period of the HVAC equipment, and the remainder when the lease receivables were bought back at closing.
- **Column H – Rental discount:** Reduction in rent conceded in 2012 in exchange for a 9-year extension of the lease until 2031.
- **Column I – Transfer duties:** 2014 Represent 12.5% of the price paid immediately prior to closing when Galaxy Properties SA/NV, owner of a 27-year (2005-2032) leasehold right on the property, bought from Cofinimmo SA/NV the residual interest in order to recombine full ownership. Galaxy Properties was set up in 2005 as a bankruptcy remote vehicle which shares were pledged in favour of BNP. 2005 No transfer duties applied as the deal was purely in shares.

Writeback of lease payments sold (guidance update)

(x €1,000,000)	2013	2014		
	Actual	Initial forecast(1)	New forecast(2)	Pro forma(3)
North Galaxy	17.03	18.43	6.67	0.00
Others	8.25	9.20	9.20	9.20
Total	25.28	27.63	15.86	9.20

(1) Forecast published in the 2013 Annual Financial Report.

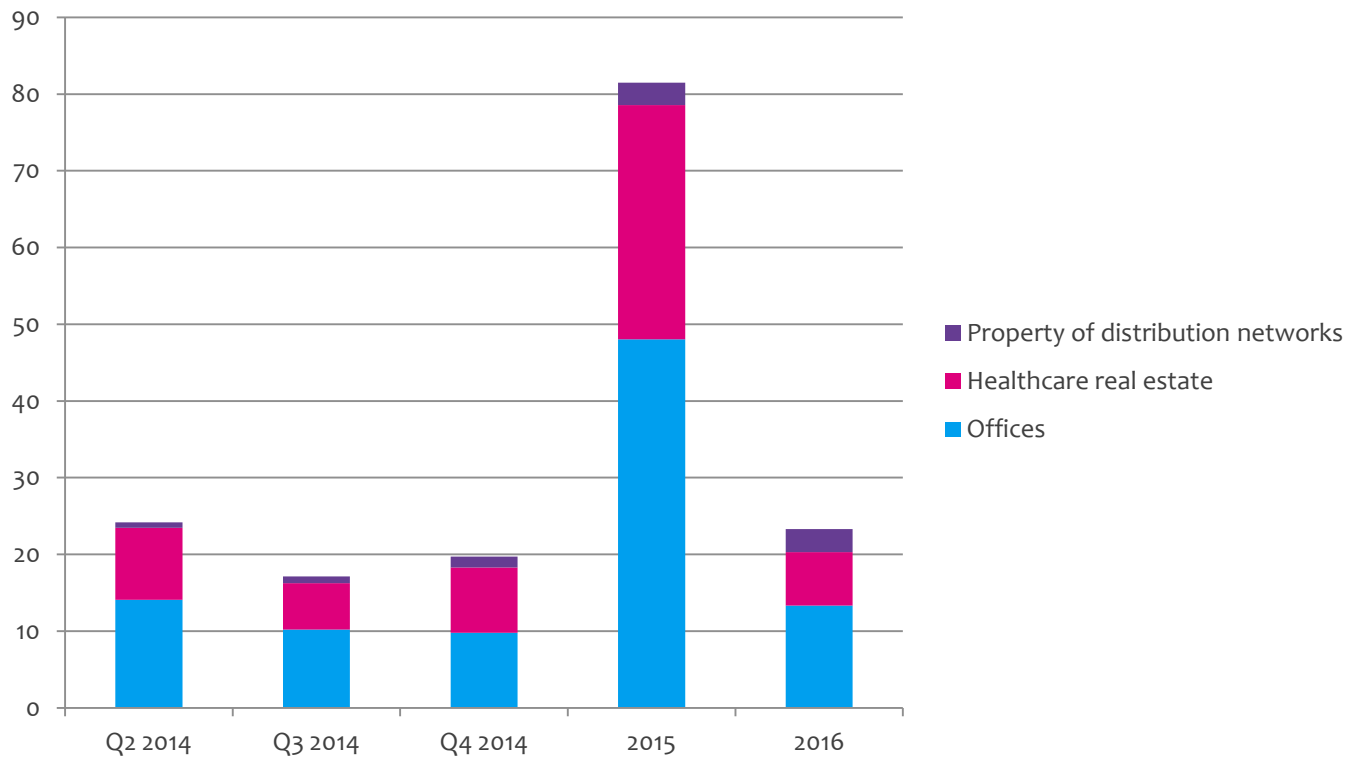
(2) Forecast taking into account the impact of the transaction as of 12.05.2014.

(3) Had the transaction taken place on 01.01.2014.

Investment pipeline (update)

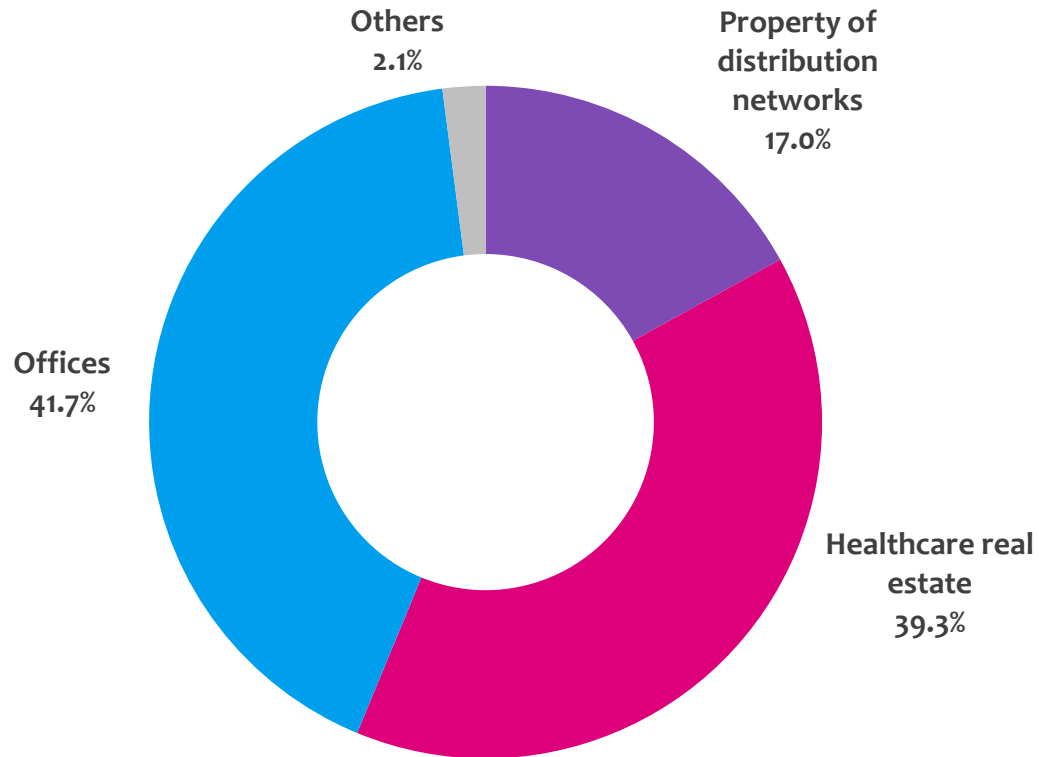
Investment pipeline of €166 million over Q2 2014 – 2016, of which:

- €95 million for office renovations/reconversions
- €61 million for constructions/extensions/renovations of healthcare properties.



Cofinimmo properties portfolio after NG transaction

Offices now represent 41.7% of the total portfolio,
closer to the goal of 40%.



Disclaimer

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