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in real estate

Cofinimmo

PRESS RELEASE

REGULATED INFORMATION

Brussels, embargo until 13.05.2014, 08:00 AM CET

**- SALE OF THE SHARES OF GALAXY PROPERTIES SA/NV,
OWNER OF THE NORTH GALAXY OFFICE BUILDING
- RESTRUCTURATION OF INTEREST RATE HEDGES**

Cofinimmo, leading Belgian listed real estate company, announces:

1. The sale of 100% of the shares of its subsidiary Galaxy Properties SA/NV, owner of the North Galaxy building, head office of the Belgian Ministry of Finance (“Service Public Fédéral Finances”/ “Federale Overheidsdienst Financiën”) in Brussels, **the value of the building** being set at **€475 million** for the purpose of the transaction.
2. The restructuration of certain **interest rate hedges** relating to the period 2014-2017, for a notional amount of **€600 million**. This restructuration involves an immediate outlay of €57 million (€3.17 per share), which will be compensated by significantly lower interest charges during the following four years.

These two transactions will result in:

1. a €1.39 reduction of the **intrinsic value** of the Cofinimmo share due to an accounting loss of €25 million;
2. a €145 million reduction of the consolidated debt of Cofinimmo, so that the **debt ratio** now forecasted for the end of 2014 stands at 47.10% (compared to 49.05% as published in the 2013 Annual Financial Report);
3. an unchanged forecast of the **net current result** (excluding IAS 39 items) for the financial year 2014 of €6.61 per share;
4. an impact on the **current cash flow** (excluding IAS 39 items) for the financial year 2014 of €+0.64 per share (€+1.00 per share annualised, i.e. if the transaction had taken place on 01.01.2014) due to a lower debt level and a lower average cost of debt.

More fundamentally, the exit of the North Galaxy building from the consolidated portfolio of the Cofinimmo Group enables it to significantly reduce its share of offices, as foreseen in its strategy. The proportion decreases from 45.6% at 31.12.2013 to 41.7% today. The Group now has an **investment capacity of around €200 million¹** which will be applied mainly to other segments, so that the share of offices should come closer to 40%.

Moreover, in the absence of any unforeseen events, the transactions announced today **sustain the forecast of the dividend** announced for the financial year 2014 and payable in 2015 (€5.50 gross per ordinary share).

¹ With respect to a theoretical debt ratio of 50%.



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1. Disposal of the North Galaxy building by the Group

Cofinimmo has sold 100% of the shares of the company Galaxy Properties SA/NV, owner of the North Galaxy building, located in the Brussels North District (Central Business District), which houses the Belgian Ministry of Finance. 90% of the shares were acquired by ATP, the largest Danish pension fund, and 10% by AXA Belgium. The value agreed between the parties for the building amounts to **€475 million**. It makes this real estate transaction the largest realised on the Belgian office market for a single building. The corresponding agreed value for the property at the time of acquisition by Cofinimmo in 2005 stood at **€ 390 million**.

Based on a passing rent in 2014 of €26.8 million (€229/m² of office space), this value of €475 million represents a gross yield of 5.64%. The facility counting 104,998m² of offices, it also represents a value ratio of €4,524/m² of office. The building also comprises 16,383m² of archives and 611 inside parking spaces.

The sale price of 100% of the shares of Galaxy Properties SA/NV amounts to €7 million; the difference between this and the agreed value of the building mainly consists of debts taken over by the buyers.

Over the nine-year period during which it owned the building, Cofinimmo realised an **average annual Internal Rate of Return (I.R.R.) of 14.9%**. This high I.R.R. was made possible by the way in which the 2005 acquisition was structured. The structure significantly reduced the net amount invested by Cofinimmo since it involved the immediate sale to BNP Paribas Fortis (at the time, Fortis Bank) of the future rents of the 18-year lease contract for €344 million, i.e. 88% of the €390 million that needed to be financed. The lease contract was extended in 2012 for an additional nine years, ending in 2031.

This I.R.R. calculation cannot be compared to traditional market data, the basis of the calculation being different. However, for information and pro forma, if the future rents had not been sold in 2005 and if no extra debts had been contracted (i.e. on an unleveraged basis), the I.R.R. would have stood at 7.1% over the same period of nine years.

The transaction involves a **realised accounting loss for Cofinimmo of €25 million²** (€1.39 per share). This results mainly from the difference between the price received by Cofinimmo for the shares of Galaxy Properties SA/NV and their book value and, incidentally, from the cancellation in Cofinimmo's income statement of the writeback of lease payments sold and discounted accounted for between 01.01.2014 and 12.05.2014.

The operation involved the payment of **registration duties for €27 million**.

The Board of Directors views **this property transaction as beneficial for Cofinimmo and its shareholders**. Firstly, since 2005, the contractual rent increased by 11% in a difficult rental market and the capitalisation rate decreased by 0.55%³ even though the building has aged ten years. Secondly, this transaction brings Cofinimmo closer to its objective of reducing the share of office buildings in its portfolio to 40%. This share now stands at 41.7%, compared to 45.6% at 31.12.2013. Finally, given its significant size, the removal of this building from Cofinimmo's office portfolio will improve the balance of risks in this part of the global portfolio.

² This is accounted for in the calculation of the I.R.R. of 14.9%.

³ The exit yield stands at 5.64%, compared to an acquisition yield of 6.1875%.



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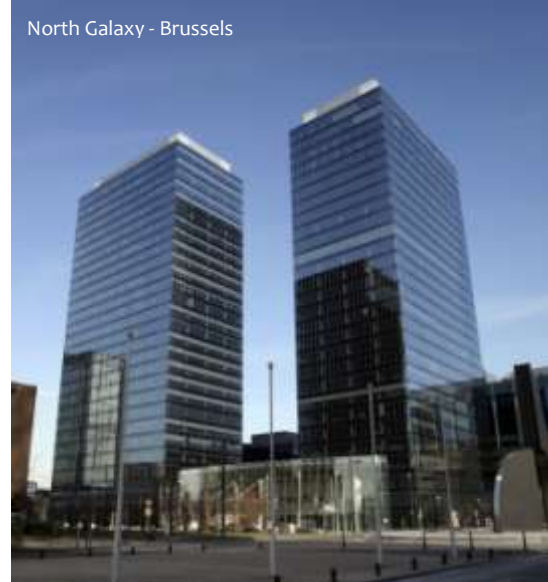
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Main characteristics of the North Galaxy building:

- Location: Brussels North District (Central Business District)
- Surface area: 104,998m² above ground
- Year of construction: 2005
- Tenant: Buildings Agency (Belgian Federal State)
- Occupant: Belgian Ministry of Finance
- End of lease: 30.11.2031 - Initial 18-year lease extended for nine years in July 2012
- Annual rent: €26.8 million (€229/m² of office space)



Cofinimmo was advised by **Goldman Sachs** with regard to this transaction.

2. Restructuration of interest rate hedges

Given the continuing very low interest rates, Cofinimmo took the opportunity of this property transaction to cancel certain interest rate hedging positions. This operation results in an **outlay of €57 million**.

The cancelled positions are **FLOOR options sold** with a strike rate of 3% for a notional amount of **€600 million**, which extended until (and including) 2017. The negative value of the positions cancelled was already recognised under shareholders' equity, so that this cancellation has no effect on the intrinsic value of the Cofinimmo share.

The outlay of €57 million will result in a significant decrease of interest charges in later years.

To avoid that a future increase of interest rates would compromise this decrease of future interest charges, Cofinimmo also fixed new hedges via **Interest Rate Swaps** over the same period and for a notional amount of **€400 million**. The average rate of these new IRS stands at 0.51%⁴.

⁴ The bank margin will be added to this rate to establish the effective borrowing cost.



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3. Impact on 2014 results

The sale of the shares in Galaxy Properties SA/NV and the restructuring of the interest rate hedges has the following impact on the consolidated accounts:

- a) A reduction of the **debt ratio** forecasted for the end of 2014, which will amount to 47.10% rather than 49.05%⁵, all other things being equal. Cofinimmo thus has sufficient headroom to meet its investment programme for 2015 and 2016. It maintains its objective to keep its consolidated debt ratio below 50%.
- b) The impact on the **current cash flow** (excluding IAS 39 impact) for the financial year 2014 stands at €+0.64 per share (€+1.00 per share annualised, i.e. if the transaction had taken place on 01.01.2014).
- c) The item "**Changes in fair value of financial assets and liabilities**" (IAS 39) will incorporate in 2014 the recycling under the income statement of the negative value of the cancelled positions for €57 million (€3.17 per share), until now deferred under reserves.

The forecast of the **net current result** (excluding IAS 39 impact) remains unchanged at €6.61 per share⁶, given that the reduction of the (non-cash) income "Writeback of lease payments sold and discounted" resulting from the sale of the North Galaxy building is offset by an equivalent reduction (cash amount) of the net interest charges.

In the absence of any unforeseen events, the **dividend level** announced for 2014 of €5.50 gross per ordinary share can be reconfirmed.

The **net result per share** (of which no forecast is published) will be impacted by the result on the disposal of the shares of Galaxy Properties SA/NV (€-1.39) and by the restructuring of the interest rate hedges (€-3.17). As a reminder, the latter has no impact on the intrinsic value of the Cofinimmo share.

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⁵ Forecast published in the 2013 Annual Financial Report.

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About Cofinimmo:

Cofinimmo is the foremost listed Belgian real estate company specialising in rental property. The company owns a property portfolio worth over €3.1 billion, representing a total area of 1,755,000m². Its main investment segments are offices and healthcare properties, and property of distribution networks. Cofinimmo is an independent company, which manages its properties in-house. It is listed on Euronext Brussels (BEL20) and benefits from the fiscal REIT regime in Belgium (Sicafi/Bevak), in France (SIIC) and in the Netherlands (FBI). Its activities are controlled by the Financial Services and Markets Authority (FSMA). At 31.03.2014, its total market capitalisation stands at €1.5 billion.

www.cofinimmo.com

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