



NORWEGIAN PROPERTY

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**Sale of Norgani Hotels AS**

**Oslo, 24 August 2010**

# Norwegian Property in process of selling Norgani Hotels AS

## Preliminary Agreement with Pandox and its owners

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- Sale of Norgani delivers the most effective solution for separation of the hotel and office businesses
- Leaves Norwegian Property and the office business in a solid financial position, and with an industrial and focused competitive edge
- Strengthens the financial position
  - Based on current plans removes the need for another equity issue
  - Reduces Net Loan to Value including seller credit to 64.1 per cent
  - Total cash release of NOK 1.6 bn, of which NOK 1.0 bn will be immediate
    - OPAS acquisition financing will be repaid with NOK 0.7 bn
    - NOK 0.6 bn will remain as seller credit for a period of up to 5 years
- Norwegian Property finally emerges as well positioned to proactively explore value creating opportunities, with NOK 0.9 bn available (including Private Placement in 1Q2010).



## Key terms

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- **Buyer** Padox AB and the owners of Padox AB (Eiendomsspar AS and Sundt AS)
- **Commercial terms** Property Values: NOK 8,300 million  
Seller credit: Approximately NOK 600 million  
Market standard treatment of tax and other items
- **Timing** Closing in November 2010 (tentatively)
- **Major conditions** Buyer bank financing  
Sales and Purchase agreement  
Competition Authority approval





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# BACKGROUND



# Norwegian Property in transformation

## Process initiated in January 2010

### Strategy for value creation Norwegian Property today

- **Offices**
  - Norway, Oslo and Stavanger
  - Prime properties
  - Portfolio value: NOK 15.0 billion
  - Market in recovery
- **Hotels**
  - Norway, Denmark, Sweden and Finland
  - Mid segment hotels
  - Portfolio value: NOK 8.9 billion
  - Market recovery expected late 2010 / 2011
- **Limited synergies** realised between office and hotel operations
- Office and hotel business **separately operated** with dedicated organisations
- **Lag in recovery** (cycle) between office and hotel
- **Focused operations** enhance value creation



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### Strategy for value creation Targets separation during 2010



- **Businesses more effectively developed under separate structures and ownership**
  - Enhanced focus believed to benefit operations
  - Strategic opportunities available may be more efficiently realised with two separate companies
- **Both operations are self-contained and with critical mass, including in relation to the capital market**
- **ABG Sundal Collier engaged as financial advisor for the separation process**

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## Key targets

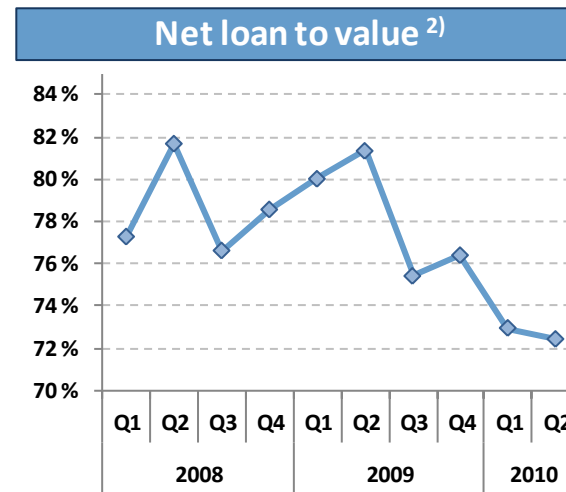
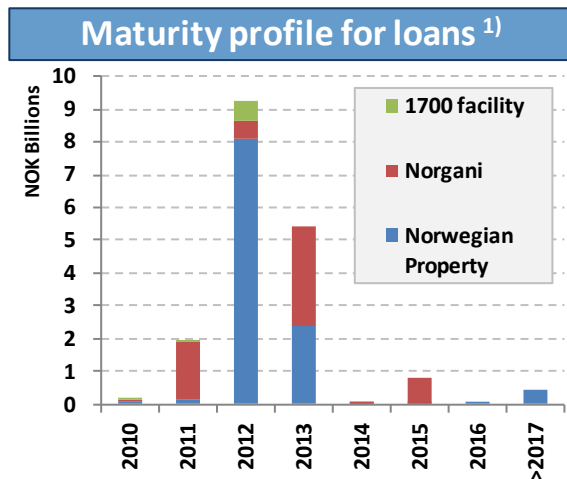
- **Separate Offices and Hotels to create focused businesses**
- Transform both businesses into **fully integrated property companies**
  - Focus on value drivers, Letting, Property Management, Development and Transactions and Financing
- **Reduce financial risk**
  - **Long term target** of Loan to Value in range 60 to 65 per cent



# Norwegian Property in transformation

## Refinancing

- Norwegian Property has high gearing and short duration on debt



- **Uncertainty in financial markets**

- Macro sentiment uncertain, multiple scenarios are possible, including “double dip”
- Banks still hesitant to assume risk, which impacts bank margins, duration on new debt and requirements to covenants including Loan To Value
- Hesitant property investor markets for other assets than Long Term Leases





# Norwegian Property in transformation

## Potential in office portfolio

### Investments needed to capture full potential;

#### Aker Brygge, Kaibygning I (DnB headoffice)

- Lease expiring 2013 and DnB NOR relocating
- Total office area appr. 25 000 sqm



#### Middelthunsgate 17, Nordea Headoffice, Oslo

- Lease expiring 2014
- Total area appr. 33 000 sqm
- Nordea evaluating possible relocation
- NPRO in process with Nordea to extend lease, but must commit to upgrade



#### Drammensveien 134

- Vacant office areas appr. 7 000 sqm
- Upgrade needed to let premises on market rent

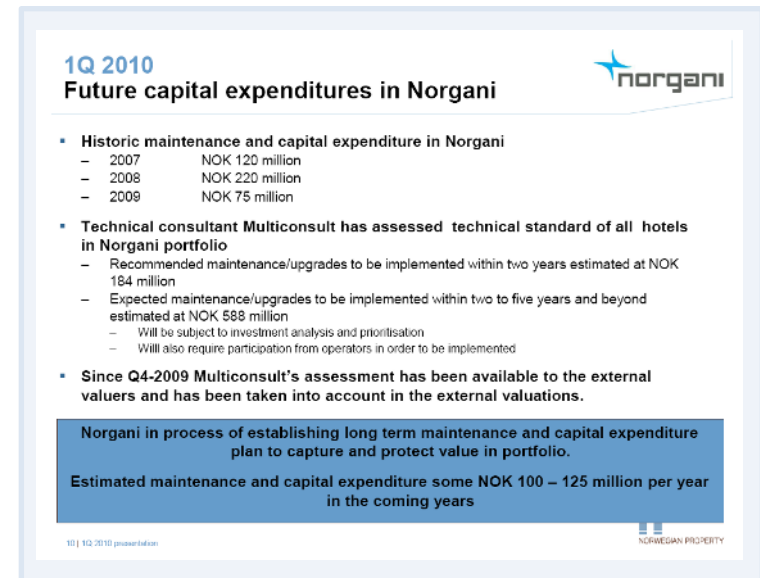


# Norwegian Property in transformation

## Investment needs

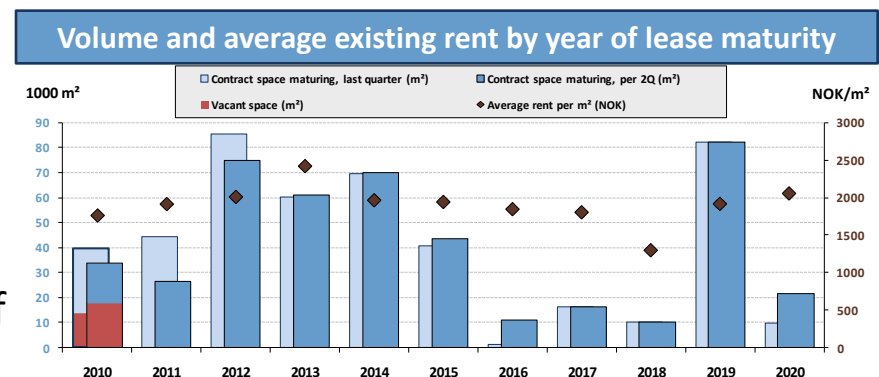
### Hotels

- Investment need assessed by Multiconsult to NOK 772 million over the next 5 to 7 years
- Expansion and profitable investments will further increase investments
- Market leading position requires proactive investments and even more capital



### Offices

- So far – priority to renew “as is”
- Significant potential in portfolio, but reviews performed confirm that “As is”-renewals not viable for large part of remaining renewals in the period 2012-2015





# Alternatives evaluated

### ■ **Stop or delay current processes**

- Meaningful costs to status quo
  - continued lack of operational focus
  - capital constraints for both business areas
  - speculation about our financial position
  - continued uncertainty of Norgani's ownership

### ■ **Separation**

- demerger/IPO
  - provide less proceeds to NPRO
  - if markets remain volatile or even deteriorate, valuation would be less favourable
- sale
  - the better alternative in view of our investment opportunities and needs
  - speedily establish the required balance sheet strength and operational focus
  - avoid accessing the equity market, which we believe would have a cost for our shareholders

### ■ **Pandox**

- Transaction market tested thoroughly
- Satisfactory price and other commercial terms





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# THE TRANSACTION



# Sale of Norgani– transaction structure – summary:

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- **Sales object:** - 100% of Norgani Hotels AS including all group subsidiaries
- **Buyer:** - Padox AB / the owners of Padox AB (Eiendomsspar AS and Sundt AS)
- **Due Diligence** (technical, legal, financial, environmental):
  - Completed
- **Mutual reservations:**
  - Bank financing (primarily change of control)
  - Sales and Purchase Agreement
  - Competition law authorities approval
- **Seller guarantees** for future rental income: - None
- **Signing date:** - End of October 2010 (tentative)
- **Closing date:** - Beginning of November 2010 (tentative)



# Sale of Norgani– commercial and financial terms:

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- **Gross property value:** - NOK 8,300 million (book value NOK 8,911 million)
- **Other assets & liabilities:** -Market standard treatment of settlement
- **Tax assets & liabilities:** - Market standard treatment of settlement
- **Derivatives portfolio:** - 'Marked-to-market' –market standard treatment.
- **Vendor financing:**
  - Subject to bank financing (change of control):
  - Approximately NOK 600 million
  - Up to five years tenor.
- **Transaction type:**
  - 'As-is' sale with no future income guarantees.
  - 'Fearnley' portfolio (4 Danish hotels) included.



# Summary of financial effects for remaining Norwegian Property

## ■ Cash release

- Appr. NOK 1.0 bn. before repayment of acquisition financing (OPAS)
- Appr. NOK 0.6 bn in addition will be released when seller credit is repaid

## ■ Equity effect

- Appr. NOK -0.8 bn\*)
- Corresponding to appr. NOK – 1.60 per share

## ■ Loan to Value effect

- |   |        |                      |
|---|--------|----------------------|
| • Gross LTV                             | 74.0 % | (NOK 11 108 million) |
| • Net LTV (gross debt less cash)        | 68.1%  | (NOK 10 224 million) |
| • Net LTV (net debt less seller credit) | 64.1%  | (NOK 9 624 million)  |

\*) Will be subject to adjustments (including exchange rate, performance Q3 and changes in values of financial derivatives)





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# APPENDIX





# Effects of sale – estimated balance sheet “post” sale

Interest bearing debt and hedging as of 30 Jun 2010		New Group	NPRO	OPAS <sup>1)</sup>
Total interest bearing debt	NOK mill.	<b>11 108</b>	11 108	0
Hedging ratio	%	<b>88.7%</b>	88.7%	-
Cash and cash equivalents	NOK mill.	<b>884</b>	568 + 300 <sup>2)</sup>	16
“Seller credit” <sup>3)</sup>	NOK mill.	<b>600</b>	-	-
Unused committed credit facilities (short and long term)	NOK mill.	<b>310</b>	310	-
Average remaining duration, hedging	years	<b>4.6</b>	4.6	-
Average interest rate (including margin)	%	<b>5.05</b>	5.05	-
Average margin	%	<b>0.75</b>	0.75	-
Average remaining duration, borrowing	Years	<b>2.3</b>	2.3	-
Property value (gross of deferred tax at acquisition)	NOK mill.	<b>15 018</b>	15 018	-
Loan to value (LTV)	%	<b>74.0%</b>	74.0%	-
Net Loan to value (LTV less cash)	%	<b>68.1%</b>	-	-
Net Loan to value <sup>1</sup> (LTV less cash and “seller credit”)	%	<b>64.1%</b>	-	-
Book equity per share	NOK	<b>appr. 9.40</b>	-	-

1) OPAS acquisition assumed repaid with cash proceeds

2) Net cash released after repayment of acquisition financing (and excluding “Seller Credit”)

3) Seller Credit running at 5% interest



## Office portfolio

# Overview and key figures



Key figures as of 30 June 2010		
Properties	#	47
Portfolio size	m <sup>2</sup>	622 201
Average size per property	m <sup>2</sup>	13 238
<b>Gross rent per year (run rate)</b>	<b>NOK mill.</b>	<b>1 016.5</b>
Operational expenses per year	NOK mill.	56.9
Net rent per year (run rate)	NOK mill.	959.6
Average gross rent per m <sup>2</sup> per year	NOK	1 634
<b>Gross market value</b>	<b>NOK mill.</b>	<b>15 018</b>
Average value per property	NOK mill.	320
Average value per m <sup>2</sup>	NOK	24 137
Gross yield, actual	%	6.8
<b>Net yield, actual</b>	<b>%</b>	<b>6.4</b>
Gross yield, market rent <sup>1)</sup>	%	7.1
Net yield, market rent <sup>1)</sup>	%	6.7
<b>Duration</b>	<b>years</b>	<b>5.3</b>
CPI adjustment per 1 Jan 2011	%	97.0
<b>Vacancy</b>	<b>%</b>	<b>3.6</b>



<sup>1)</sup> Total portfolio's market rent has been assessed by DTZ RealKapital and Akershus Eiendom to be 4.7% (weighted average) above current contractual rents



# Disclaimer

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