

VASAKRONAN AB

Initiating coverage

Our BBB+ rating of Vasakronan reflects the company's strong position in the Swedish commercial real estate market with a high-quality portfolio in Sweden's largest and fastest-growing cities. It also reflects its moderate debt leverage compared to Nordic real estate peers, with net loan-to-value at 49%. The rating includes a one-notch upgrade due to 100% ownership by the government-owned AP Funds 1-4.

Rating summary. Our BBB+ rating on Vasakronan reflects its strong business risk profile and its significant financial risk profile in rating agency terminology. It is Sweden's largest commercial real estate company with a strong market position within the office and retail letting segment in Sweden. It owns and manages a portfolio of high-quality properties in the central business district and other prime locations in Stockholm, Gothenburg, Øresund, and Uppsala. It has a diversified tenant base with 25% public sector tenants and an average lease duration of 4.5 years at end-Q2. The loan-to-value (LTV) is 49%, relatively low compared to other Nordic commercial real estate peers. At 12x, the debt to EBITDA is weaker than peers, partly due to low-yielding properties. The company also has a relatively large share of short-term debt (20%), which constitutes considerable refinancing risk; however, the risk is mitigated in our view by the large revolving credit facility (RCF) of SEK18bn and a proven track record of very good access to capital markets.

Credit strength. 1) high-quality properties; 2) strong ownership through government pension funds with a change-of-control clause in bond loan agreements; 3) a moderate debt level compared to peers (LTV of 49%); and 4) well-diversified and financially solid tenants.

Credit weaknesses 1) a high portion of short-term funding (commercial papers represent around 20% of total funding), with high interest rate sensitivity; 2) limited geographic diversification and high concentration in the office segment; and 3) high interest-bearing debt to EBITDA partly due to relatively low-yielding assets.

Key financial figures - Vasakronan AB (EOY in SEKm)

	2013	2014	2015	2016e	2017e	2018e	2019e
Total revenues	6,032	5,899	6,009	6,497	6,313	6,502	6,698
EBITDA	4,192	4,079	4,186	4,638	4,390	4,514	4,641
TIBD	45,274	46,839	50,750	57,011	58,175	60,188	62,688
Total assets	93,242	97,184	109,786	117,798	120,947	124,984	129,548
EBITDA margin (%)	69.5	69.1	69.7	71.4	69.5	69.4	69.3
TIBD/EBITDA (x)	10.8	11.5	12.1	12.3	13.3	13.3	13.5
TIBD/total capital (%)	55.5	57.2	55.2	57.0	56.4	56.1	56.1

Source: Company (historical figures), DNB Markets (estimates)

Issuer: BBB+/Stable

ISSUER RATING

DNB Markets	BBB+/Stable
Moody's	NR
S&P	NR
Fitch	NR

BLOOMBERG IDENTIFIERS

Equity ticker	
Bond ticker	FASTIG Corp

CAPITAL STRUCTURE

Market cap. (SEKm)	
NIBD (SEKm)	53,243
Enterprise value (SEKm)	
Bond debt outstanding (SEKm)	29,014

MANAGEMENT

CEO	Fredrik Wirdenius
CFO	Christer Nerlich

RATINGS CRITERIA (1-6)

Country	Very low (1)
Industry	Low (2)
Country & Industry	Low (2)
Competitive position	Satisfactory (3)
Business risk	Strong (2)
Financial risk	Intermediate (3)

BONDS OUTSTANDING

NOK bonds 3,200m	BBB+
SEK bonds 25,814m	BBB+

ANALYSTS

Kristina Solbakken
kristina.solbakken@dnb.no
+47 24 16 90 51

Please see the last two pages for important information. This research report was not produced in the US. Analysts employed by non-US affiliates are not registered/qualified research analysts with FINRA in the United States.

Group overview

Vasakronan is the largest property company in Sweden. It owns and manages 181 properties valued at SEK109bn as of 30 June 2016. The company focuses mainly on the office and retail segment, which constitutes 79% and 17% of the property portfolio, respectively. 4% of revenues come from residential properties and other services. Its operations are concentrated in Stockholm, including suburbs (62%), Gothenburg (18%), Öresund (13%), and Uppsala (7%). The current structure of the company was formed on 3 July 2008 when AP Fastigheter, controlled by the state-owned AP funds, acquired all of the shares in Vasakronan from the Swedish government. The new company continued to use the name Vasakronan and has become one of the largest property management companies in Europe.

Owned by the government-controlled Swedish National Pension Funds AP 1-4

Business Risk Profile

We view Vasakronan's business risk profile as strong, reflecting our view that the business risk is low. Vasakronan has a strong market position in the Swedish commercial real estate market. The space vacancy rate in the market is moderately low and was reduced in Q2, to 6.4%. The portfolio is of relatively high quality with diversified tenants and very stable owners through the state-owned AP pension funds.

Large size and high-quality portfolio with prime locations

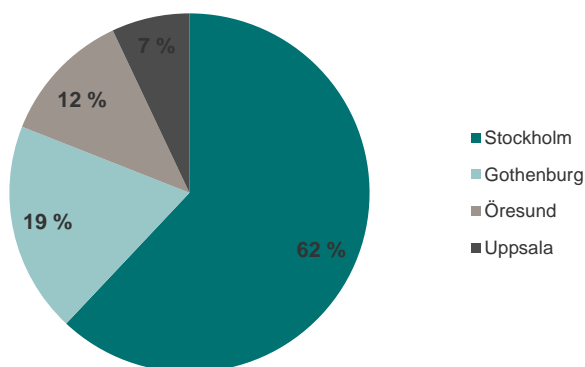
The large portfolio size compared to other Nordic peers provides a competitive advantage in the Swedish commercial market and strengthens the company's business risk profile in our view. The company's investment portfolio size was SEK109bn at end-Q2, significantly larger than for example Olav Thon Eiendomsselskap's investment portfolio of NOK43.8bn. Compared to many Nordic real estate peers, Vasakronan has high asset quality with prime locations in Sweden's largest and fastest-growing cities. As a consequence, the yield is relatively low at an average of 4.8%, and the value per square metre is high.

Sweden's largest real estate company with a property portfolio of SEK109bn at end-Q2

Compared to international peers, the company has an advantage due to its exposure in the stable Swedish real estate market and its long-term, state-controlled owners. Additionally, the company has a considerable portfolio size also compared to international peers. However, the company has higher leverage and a shorter debt and lease maturity profile than many international peers. We also consider the high concentration in the Swedish office segment a risk compared to other more diversified international real estate companies.

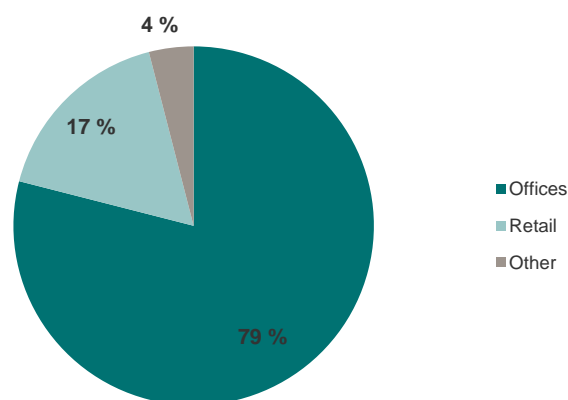
Higher leverage and shorter debt and lease maturity profile than many international peers

Figure 1: Contracted rent by geographic market



Source: Company

Figure 2: Contracted rent by segment



Source: Company

High-quality tenants, diversified lease maturities and lower vacancy

Vasakronan's tenant base is quite diversified and 25% of rental income comes from the public sector. The ten largest tenants account for 19% of the rental income and the single largest tenant; SEB, accounts for only 3% of rental income. We view the tenant base as diversified and of high quality, including many of Sweden's largest retail and hotel chains. The space vacancy rate has historically fluctuated around 7.5%, but in Q2, it was reduced to 6.4%, which we consider moderately low.

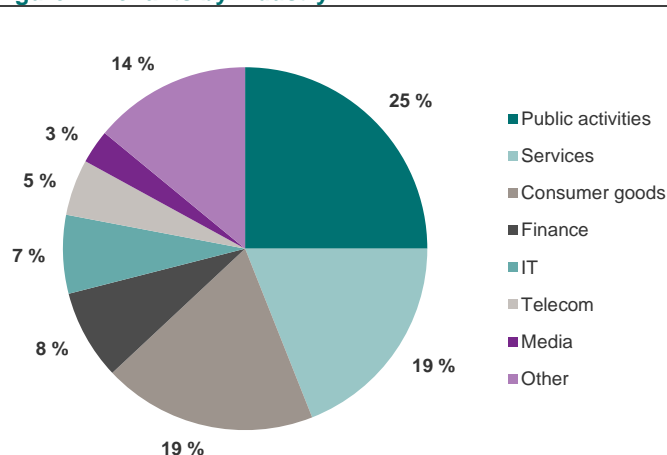
25% public sector tenants

Figure 3: 10 largest tenants

	Share (%)
SEB	3 %
Rikspolisstyrelsen	3 %
Ericsson Sverige	3 %
H&M	2 %
Kriminalvården	2 %
Försäkringskassan	2 %
Domstolsverket	1 %
Åhléns	1 %
Scandic Hotels	1 %
Sony Mobile Communications	1 %
Total	19 %
Others	79 %

Source: Company. Note: Figures rounded.

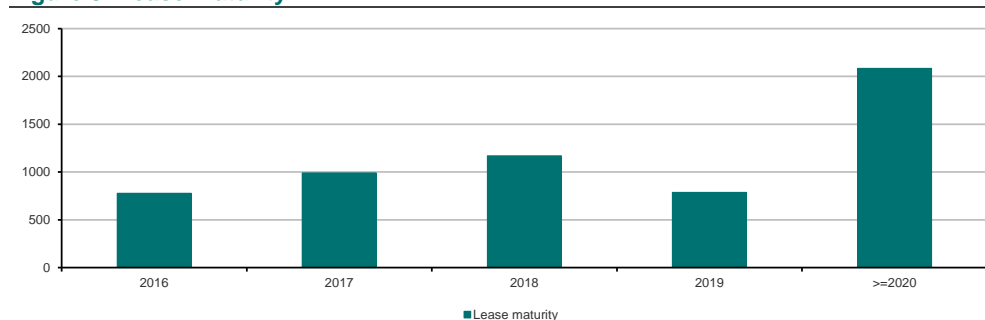
Figure 4: Tenants by industry



Source: Company. Note: Figures rounded.

At end-Q2, the commercial real estate portfolio had an average contract period of 4.5 years. As illustrated in the lease maturity profile below, the concentration risk of maturing leases is low. 36% of the leasing contracts mature after 2019. The highest portion of lease maturities over the next three years is in 2018, when 20% of the rental contracts mature.

Figure 5: Lease maturity



Source: Company

Strong ownership with funding commitment of SEK18bn

Vasakronan is owned by the government-controlled Swedish National Pension Funds AP 1-4 with 25% ownership through Vasakronan Holding AB for each of the four funds. The AP Funds are reviewed by the Ministry of Finance and are, according to S&P's methodology, considered Government Related Entities (GRE) where the Swedish government still has some indirect influence. We believe the AP Funds would most likely provide some financial support to Vasakronan, its wholly-owned subsidiary, if necessary. Note, however, that the state ownership is indirect and that the AP Funds only has commercial objectives for its ownership (not regulatory or political objectives). The bond loan agreements include a "change of control clause" that states that investors will have the right to sell the bonds back to Vasakronan at par plus accrued interest if 51% or more of the shares are acquired by entities other than the AP 1-4 Funds.

We have assigned a one-notch uplift of the rating from BBB to BBB+ due to the strong ownership and funding commitment

In Q3 2014, the Swedish National Pension Funds 1-4 further strengthened ownership support when it entered into a funding commitment with Vasakronan to purchase up to SEK18bn in

commercial papers if requested by the company. The funding commitment is valid until 31 August 2017, with a notice period of 24 months, and significantly strengthens the liquidity of the company. As a result of the strong ownership and funding commitment, we have assigned a one-notch uplift from the BBB stand-alone rating to BBB+.

Financial Risk Profile

We view the financial risk profile as significant in rating agency terms. LTV has improved in the last couple of years, although debt to EBITDA and cash flow ratios are slightly weaker. The high share of short term-funding increases the refinancing risk; however, it is mitigated by the large undrawn RCF of SEK18bn, the well-diversified funding sources, and a proven track record of access to capital markets.

Strong liquidity with undrawn RCF of 18bn

Well-diversified funding sources

The interest-bearing debt in the company is diversified between bonds, bank loans, and commercial papers. Net interest-bearing debt increased to SEK53.2bn at end-Q2. The average loan to maturity was 3.3 years (not including the SEK18bn RCF). The proportion of debt maturing within 12 months was 33%, well within the company's financial policy which states a maximum of 40%. At end-Q2, the share of capital markets financing (bonds and commercial papers) was 69% and the share of bank financing was 31%. During Q2, Vasakronan diversified its funding further by issuing a loan with the Nordic Investment Bank (NIB) of SEK445m with a maturity of 10 years. During H1, the company issued bonds worth SEK3.8bn in the Swedish market and NOK1.5bn in the Norwegian market.

33% of debt matures within 12 months

Figure 6: Debt overview

SEKm	Loan limit	Amount utilised (30 June 2016)
Commercial papers	20,000	11,074
Bonds	30,000	20,269
Green bonds	-	4,716
Inflation linked bonds	-	820
NOK bonds	5,000	2,532
Bank loans, with collateral	-	17,178
Bankloans, without collateral	-	445
RCF	18,000	-
Total	-	57,034

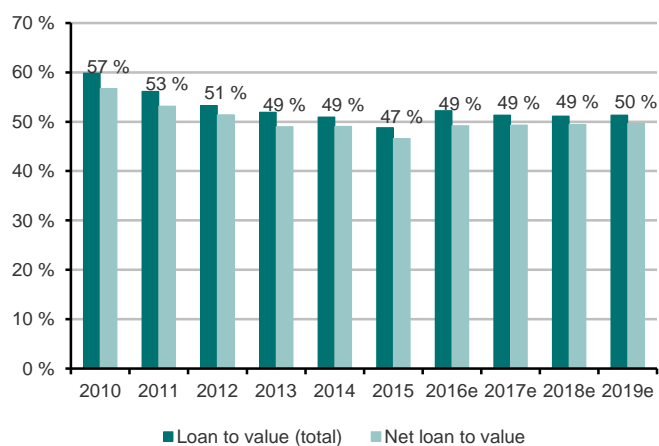
Source: Company

Net LTV below 50%

The net LTV was 49% at end-Q2, an increase from 47% at end-2015. The LTV ratio of Vasakronan is relatively low compared to other Scandinavian commercial real estate peers and has improved since 2010. The FFO/debt has fluctuated between 5% and 6% and debt to EBITDA between 10x and 12.0x. This is slightly weaker, compared to other officially rated international commercial real estate peers. However, due to Vasakronan's low yield properties, it does not constitute a concern for the current rating, in our view.

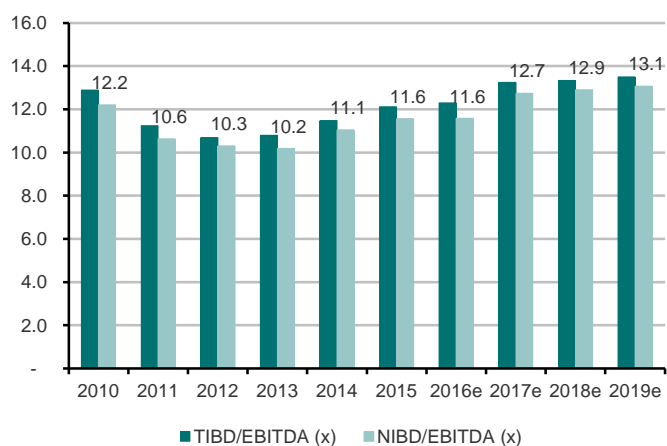
Net LTV has improved since 2010 was below 50% at end-Q2

Figure 7: Net loan-to-value



Source: Company (historical figures), DNB Markets (estimates)

Figure 8: Debt to EBITDA



Source: Company (historical figures), DNB Markets (estimates)

The share of secured debt is relatively low compared to most Norwegian commercial real estate peers at 15% of total assets at end-Q2. The financial policy states that collateralised loans must not exceed 20% of the total assets.

Covenants and financial policy

Vasakronan's loans and bonds are subject to a change-of-control clause if 51% or more of the shares are acquired by others than the AP 1-4 Funds. In addition, the company has an ICR (EBIT/net interest expense) level of minimum 1.5x. As illustrated in figure 9 below, we estimate that Vasakronan will be well above the minimum level of the ICR covenant in the modelling period. The secured funding in the company was only 14% at end-Q2, also well below the maximum covenant level of 20%. We consider the risk of covenant breach in the company as very low.

We consider the risk of covenant breach as low

Figure 9: Covenants

	2015	2016e	2017e	2018e	2019e
Minimum ICR					
Covenant (x)	1.5	1.5	1.5	1.5	1.5
Model output (x)	3.7	4.2	3.8	3.8	3.8

Source: Company (historical figures), DNB Markets (estimates)

Figure 10: Financial targets

	Policy	Actual 30 June 2016
Financing risk		
Loan maturity	>2 years	3.3 years
Loan maturing 12 months	< 40 %	33 %
RCF and cash/loan maturity 12 months	>100 %	117 %
Interest rate risk		
Interest coverage ratio	>1.9x	3.8
Fixed-interest term	1–6 years	4.2 years
Fixed-interest maturity within 12 months	>70%	46 %
Credit risk		
Counterpart's rating	at least A-	fulfilled
Currency risk		
Currency exposure	not allowed	fulfilled

Source: Company

Strong liquidity

We consider the company's liquidity to be strong. Cash and undrawn credit facilities, including the certificate guarantees by the owners, were equal to 117% (129% in 2015) of debt maturities in the next 12 months. As illustrated in graph 10, the company's financial policy has set a minimum of 100%. To strengthen the liquidity of the company, and reduce the refinancing risk, it entered into an agreement with its owners regarding a funding commitment in Q3 2014. The agreement includes a commitment from the AP Funds 1-4, upon request from the company, to purchase commercial papers issued by Vasakronan amounting to a maximum of SEK18bn. It is valid until 2017, with a 24-month cancellation period. The company had SEK11bn in commercial papers outstanding at end-Q2.

Funding commitment from owners to purchase commercial papers of maximum SEK18bn

Increased property development

As a consequence of the compressed yield in the Central Business Districts (CBD) of Sweden's largest cities, Vasakronan has recently focused increasingly on property development. Ongoing property projects have a total investment value of SEK3.4bn (SEK2.95bn), of which SEK1.64bn has been capitalised. Overall, the projects appear to have a low level of risk due to the high occupancy rate. For major projects, the total occupancy rate was 73%.

Ongoing property projects have a total investment value of SEK3.4bn

Figure 11: Large investments in property projects (H1 2016)

Location	Property	Investments (SEKm)	Capitalized (SEKm)	Share capitalized (%)	Area of premises	Est. date of completion	Occ. rate (%)
Stockholm, City	Uggleborg 12, Klara C	1,190	681	57	34,000	Dec 2016	83
Gothenburg	Inside Vallgraven 8:18,	200	127	64	10,600	May 2016	90
Uppsala	Kronåsen 1:1	490	25	5	12,850	Dec 2017	78
Tot. major property projects		1,880	833	44			83
Other projects		603	390				
Total		2,483					

Source: Company

Recovery

Total secured debt in the company was only 14% of total assets at end-Q2. Its treasury policy also states that collateralised loans must not exceed 20% of the company's total assets. Due to the low portion of priority debt in the company, we expect a recovery of 30-70% in the event of default. Consequently, we give the senior unsecured bonds the same rating as the corporate credit rating (BBB+).

We rate the senior unsecured bonds the same as the corporate credit rating, BBB+.

Summary of financial accounts - Vasakronan AB (EOY in SEKm)

Profit & Loss	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e	2019e
Total operating revenues	5,508	6,048	5,969	6,032	5,899	6,009	6,497	6,313	6,502	6,698
Total operating costs	-1,901	-1,928	-1,778	-1,840	-1,820	-1,823	-1,859	-1,923	-1,988	-2,056
EBITDA	3,607	4,120	4,191	4,192	4,079	4,186	4,638	4,390	4,514	4,641
Depreciation & amortisation	2	-3	-1	0	-1	-1	-1	-1	-1	-1
EBIT	3,609	4,117	4,190	4,192	4,078	4,185	4,637	4,389	4,513	4,640
Income from associates	0	0	0	0	0	0	0	0	0	0
Sale of assets	4,120	2,815	639	3,052	542	10,739	1,000	1,000	1,000	1,000
One-offs, write-downs, impairments	0	0	0	0	0	0	0	0	0	0
Net interest	-1,274	-1,649	-1,577	-1,503	-1,256	-1,121	-1,110	-1,146	-1,174	-1,216
Net other financials	0	0	0	0	0	0	0	0	0	0
Pre-tax profit	6,455	5,283	3,252	5,741	3,364	13,803	4,526	4,243	4,339	4,424
Tax	-1,647	-1,345	671	-923	-642	-2,859	-951	-891	-911	-929
Net profit	4,808	3,938	3,923	4,818	2,722	10,944	3,576	3,352	3,428	3,495

Balance sheet	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e	2019e
Tangible fixed assets	77,688	82,422	84,117	87,195	91,940	103,952	109,182	113,336	117,623	122,047
Investments in associates										
Intangible assets	2,419	2,393	2,330	2,280	2,259	2,188	2,178	2,178	2,178	2,178
Other non-current assets	671	505	505	497	529	550	503	503	503	503
Cash & cash equivalents	2,445	2,480	1,616	2,570	1,757	2,301	3,309	2,278	2,002	2,114
Other current assets	943	846	751	700	699	795	2,626	2,652	2,679	2,706
Total assets	84,166	88,646	89,319	93,242	97,184	109,786	117,798	120,947	124,984	129,548
Interest-bearing long-term debt	31,992	31,786	31,599	31,534	34,640	34,984	38,385	39,549	41,562	44,062
Other non-current liabilities	7,275	9,199	8,616	8,363	12,142	14,423	14,423	14,423	14,423	14,423
Interest-bearing short-term debt	14,498	14,508	13,234	13,740	12,199	15,766	18,626	18,626	18,626	18,626
Other current liabilities	3,718	3,437	3,210	3,248	3,109	3,368	3,368	3,368	3,368	3,368
Total liabilities	57,483	58,930	56,659	56,885	62,090	68,541	74,802	75,966	77,979	80,479
Equity	26,683	29,716	32,660	36,357	35,094	41,245	42,996	44,981	47,005	49,069
Total equity and liabilities	84,166	88,646	89,319	93,242	97,184	109,786	117,798	120,947	124,984	129,548
Net interest-bearing debt	44,045	43,814	43,217	42,704	45,082	48,449	53,702	55,897	58,186	60,574
Total interest-bearing debt	46,490	46,294	44,833	45,274	46,839	50,750	57,011	58,175	60,188	62,688

Cash flow	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e	2019e
EBITDA	3,607	4,120	4,191	4,192	4,079	4,186	4,638	4,390	4,514	4,641
Dividends from associates										
Net cash tax	-16	-17	-17	-13	20	-15	-951	-891	-911	-929
Net cash interest	-1,347	-1,687	-1,728	-1,577	-1,309	-1,323	-1,110	-1,146	-1,174	-1,216
Funds from operations (FFO)	2,244	2,416	2,446	2,602	2,790	2,848	2,577	2,353	2,429	2,496
Changes in working capital	203	288	-91	202	113	355	1,831	26	27	27
Other cash flow from operations	374	-226	-34	-8	-1	7	0	0	0	0
Cash flow from operations (CFO)	2,821	2,478	2,321	2,796	2,902	3,210	4,408	2,379	2,456	2,523
Investments	-7,662	-2,042	-5,176	-4,128	-2,830	-3,162	-3,248	-3,157	-3,251	-3,349
Divestments										
Other cash flow investments	5,391	1,064	4,733	2,988	1,557	1,387	1,977	1,977	1,977	1,977
Free operating cash flow (FOCF)	550	1,500	1,878	1,656	1,629	1,435	3,137	1,200	1,182	1,151
Debt instalments	0	0	-1,469	0	0	0	0	0	0	0
Debt principal	0	0	0	0	0	0	0	0	0	0
Dividends	-4,156	-1,465	-1,273	-1,177	-4,000	-4,924	-4,119	-3,395	-3,472	-3,539
Funding surplus	-3,606	35	-864	479	-2,371	-3,489	-982	-2,194	-2,290	-2,388
New debt	6,051	0	0	475	1,558	4,033	1,990	1,164	2,013	2,500
New equity	0	0	0	0	0	0	0	0	0	0
Other cash from financing	0	0	0	0	0	0	0	0	0	0
Net cash flow	2,445	35	-864	954	-813	544	1,008	-1,030	-277	112
Other adjustments										
Change in cash	2,445	35	-864	954	-813	544	1,008	-1,030	-277	112

Source: Company (historical figures), DNB Markets (estimates)

Key credit metrics - Vasakronan AB (EOY)

	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e	2019e
FFO/TIBD (%)	4.8	5.2	5.5	5.7	6.0	5.6	4.5	4.0	4.0	4.0
TIBD/EBITDA (x)	12.9	11.2	10.7	10.8	11.5	12.1	12.3	13.3	13.3	13.5
NIBD/EBITDA (x)	12.2	10.6	10.3	10.2	11.1	11.6	11.6	12.7	12.9	13.1
EBITDA/interest (x)	2.7	2.4	2.4	2.7	3.1	3.2	4.2	3.8	3.8	3.8
CFO/TIBD (%)	6.1	5.4	5.2	6.2	6.2	6.3	7.7	4.1	4.1	4.0
FOCF/TIBD (%)	1.2	3.2	4.2	3.7	3.5	2.8	5.5	2.1	2.0	1.8
DCF/TIBD (%)	-7.8	0.1	1.3	1.1	-5.1	-6.9	-1.7	-3.8	-3.8	-3.8
TIBD/total capital (%)	63.5	60.9	57.9	55.5	57.2	55.2	57.0	56.4	56.1	56.1

Source: Company (historical figures), DNB Markets (estimates)

Profitability - Vasakronan AB (EOY)

	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e	2019e
EBITDA margin (%)	65.5	68.1	70.2	69.5	69.1	69.7	71.4	69.5	69.4	69.3
EBIT margin (%)	65.5	68.1	70.2	69.5	69.1	69.6	71.4	69.5	69.4	69.3
Profit margin (%)	87.3	65.1	65.7	79.9	46.1	182.1	55.0	53.1	52.7	52.2
EBIT/assets (%)	4.3	4.6	4.7	4.5	4.2	3.8	3.9	3.6	3.6	3.6

Source: Company (historical figures), DNB Markets (estimates)

26 September 2016

IMPORTANT/DISCLAIMER

This note (the "Note") must be seen as marketing material and not as an investment recommendation within the meaning of the Norwegian Securities Trading Act of 2007 paragraph 3-10 and the Norwegian Securities Trading Regulation 2007/06/29 no. 876.

The Note has been prepared by DNB Markets, a division of DNB Bank ASA, a Norwegian bank organized under the laws of the Kingdom of Norway (the "Bank"), for information purposes only. The Note shall not be used for any unlawful or unauthorized purposes. The Bank, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (individually, each a "DNB Party"; collectively, "DNB Parties") do not guarantee the accuracy, completeness, timeliness or availability of the Note.

The analyst hereby certifies that (i) the views expressed in this report accurately reflect that research analyst's personal views about the company and the securities that are the subject of this report, and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in this report. DNB Markets employees, including research analysts, may receive compensation that is generated by overall firm profitability.

DNB Parties are not responsible for any errors or omissions, regardless of the cause, nor for the results obtained from the use of the Note, nor for the security or maintenance of any data input by the user. The Note is provided on an "as is" basis. DNB PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE NOTE'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE NOTE WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall DNB Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Note, even if advised of the possibility of such damages. Any opinions expressed herein reflect the Bank's judgment at the time the Note was prepared and DNB Parties assume no obligation to update the Note in any form or format. The Note should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. No DNB Party is acting as fiduciary or investment advisor in connection with the dissemination of the Note. While the Note is based on information obtained from public sources that the Bank believes to be reliable, no DNB Party has performed an audit of, nor accepts any duty of due diligence or independent verification of, any information it receives.

Conflict of interest

Confidentiality rules and internal rules restrict the exchange of information between different parts of the Bank, and between the Bank and other parts of the DNB Group, and this may prevent employees of DNB Markets who are preparing the Note from utilizing or being aware of available information that may be relevant to the recipients of the Note. The Bank and the DNB Group have incorporated internal rules and regulations in order to avoid any potential conflicts of interest.

DNB Markets/DNB group may have its own portfolio of financial instruments issued by the company.

The analyst or any close associates do not hold any positions in financial instruments issued by the company.

The analyst does not receive any compensation related to a specific assignment or credit research report.

The Note is not an offer to buy or sell any security or other financial instrument or to participate in any investment strategy. Distribution of material like the Note is in certain jurisdictions restricted by law. Persons in possession of the Note should seek further guidance regarding such restrictions before distributing the Note.

The Note is for clients only, and not for publication, and has been prepared for information purposes only by DNB Markets - a division of DNB Bank ASA registered in Norway with registration number NO 984 851 006 (the Register of Business Enterprises) under supervision of the Financial Supervisory Authority of Norway (Finanstilsynet), the Monetary Authority of Singapore, and on a limited basis by the Financial Conduct Authority and the Prudential Regulation Authority of the UK, and the Financial Supervisory Authority of Sweden. Details about the extent of our regulation by local authorities outside Norway are available from us on request. Information about DNB Markets can be found at dnb.no.

Additional information for clients in Singapore

The Note has been distributed by the Singapore Branch of DNB Bank ASA. It is intended for general circulation and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. You should seek advice from a financial adviser regarding the suitability of any product referred to in the Note, taking into account your specific financial objectives, financial situation or particular needs before making a commitment to purchase any such product.

You have received a copy of the Note because you have been classified either as an accredited investor, an expert investor or as an institutional investor, as these terms have been defined under Singapore's Financial Advisers Act (Cap. 110) ("FAA") and/or the Financial Advisers Regulations ("FAR"). The Singapore Branch of DNB Bank ASA is a financial adviser exempt from licensing under the FAA but is otherwise subject to the legal requirements of the FAA and of the FAR. By virtue of your status as an accredited investor or as an expert investor, the Singapore Branch of DNB Bank ASA is, in respect of certain of its dealings with you or services rendered to you, exempt from having to comply with certain regulatory requirements of the FAA and FAR, including without limitation, sections 25, 27 and 36 of the FAA. Section 25 of the FAA requires a financial adviser to disclose material information concerning designated investment products which are recommended by the financial adviser to you as the client. Section 27 of the FAA requires a financial adviser to have a reasonable basis for making investment recommendations to you as the client. Section 36 of the FAA requires a financial adviser to include, within any circular or written communications in which he makes recommendations concerning securities, a statement of the nature of any interest which the financial adviser (and any person connected or associated with the financial adviser) might have in the securities.

Please contact the Singapore Branch of DNB Bank ASA at +65 6212 0753 in respect of any matters arising from, or in connection with, the Note.

The Note is intended for and is to be circulated only to persons who are classified as an accredited investor, an expert investor or an institutional investor. If you are not an accredited investor, an expert investor or an institutional investor, please contact the Singapore Branch of DNB Bank ASA at +65 6212 0753.

26 September 2016

We, the DNB group, our associates, officers and/or employees may have interests in any products referred to in the Note by acting in various roles including as distributor, holder of principal positions, adviser or lender. We, the DNB group, our associates, officers and/or employees may receive fees, brokerage or commissions for acting in those capacities. In addition, we, the DNB group, our associates, officers and/or employees may buy or sell products as principal or agent and may effect transactions which are not consistent with the information set out in the Note.

Additional information for clients in the United States

Each research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the views expressed in this report accurately reflect that research analyst's personal views about the company and the securities that are the subject of this report; and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in this report.

The research analyst(s) named on this report are foreign research analysts as defined by NASD Rule 1050. The only affiliate contributing to this research report is DNB Bank through its DNB Markets division ("DNB Markets/DNB Bank"); the foreign research analysts employed by DNB Markets/DNB Bank are named on the first page; the foreign research analysts are not registered/qualified as research analysts with FINRA; foreign research analysts are not associated persons of DNB Markets, Inc. and therefore are not subject to the restrictions set forth in FINRA Rules 2241 and 2242 regarding restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

This is a Third Party Research Report as defined by FINRA Rules 2241 and 2242. Any material conflict of interest that can reasonably be expected to have influenced the choice of DNB Markets/DNB Bank as a research provider or the subject company of a DNB Markets/DNB Bank research report, including the disclosures required by FINRA Rules 2241 and 2242 can be found above.

This report is being furnished solely to Major U.S. Institutional Investors within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934 and to such other U.S. Institutional Investors as DNB Markets, Inc. may determine. Distribution to non-Major U.S. Institutional Investors will be made only by DNB Markets, Inc., a separately incorporated subsidiary of DNB Bank that is a U.S. broker-dealer and a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation ("SIPC").

Any U.S. recipient of this report seeking to obtain additional information or to effect any transaction in any security discussed herein or any related instrument or investment should contact DNB Markets, Inc., 200 Park Avenue, New York, NY 10166-0396, telephone number +1 212-551-9800.