Bane NOR Eiendom AS

Norway, Construction and Real Estate

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Norwegian state-owned real estate company

Bane NOR Eiendom AS (BNE) is a Norwegian real estate company that owns, develops and manages properties and land surrounding railway hubs in Norway. The company is wholly owned by Bane NOR SF, which is categorised at the highest level (4) of strategic importance among government-related entities. We view the ownership structure, the large percentage of rental revenue from state-related entities and the one-of-a-kind properties as the main credit-positive aspects. The key risks include the impact of the costs of new developments, limited geographical diversity and investments not being value-accretive.

Focus on railway-related properties

BNE generates revenue through property rental, development and divestments, and the company is responsible for the management of railway-related properties in Norway, including stations, maintenance halls, offices, commercial premises and various other buildings, heavily weighted towards infrastructure and state operations. BNE's property portfolio is one of the biggest in Norway, valued at NOK 14.2bn (excluding partially-owned properties and land bank) as of year-end 2017, with approximately 70% of its rental revenues related to railway operations. The company's unique property portfolio means that it plays an important role in society. BNE was established/renamed in 2017 when ROM Eiendom was transferred from NSB to BNE, together with employees from Jernbaneverket. We see limited short-term downside, as we expect BNE to continue benefitting from solid demand for railway travel – essential for daily commuters and supported across the political spectrum. There is also downside protection from favourable regulatory framework and relatively low tenant risk. We think investors should consider the exposure to higher-risk development projects, however, and the likelihood of weakening government support, although we consider this highly unlikely for now.

Steady financial position due to state ownership

Our expectation is that BNE will maintain ample credit ratios, with an adjusted loan-to-value of around 40% and FFO/debt of 3-4% in 2018-20, which bodes well from a credit perspective. The strong state ownership and change-of-control covenant limit BNE's refinancing risk, but the earnings capacity is constrained by loss-making local/regional properties.

Fair value range

BNE is contemplating an issue of senior unsecured NOK bonds. In our view, the fair spread is: three-year 45-65 bp, five-year 55-80 bp, seven-year 65-95 bp.

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KEY INFO

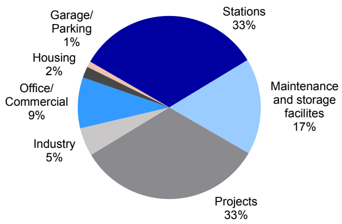
Country	Norway
Bloomberg debt	n.a.
Bloomberg equity	n.a.
Moody's	NR/---
S&P	NR/---
Market cap. (bn)	n.a.
Company website	Banenor.no/
Next report date	

FAIR SPREAD ASSESSMENT

Tenor	Fair value range
NOK 3 yr sen unsec note	45-65 bp
NOK 5 yr sen unsec note	55-80 bp
NOK 7 yr sen unsec note	65-95 bp

Source: Bloomberg and Nordea estimates

SEGMENT SPLIT BY MARKET VALUE, YEAR-END 2017



Source: Company data and Nordea

KEY CREDIT METRICS AND RATIOS NOKm

NOK	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Total revenues	569	633	641	713	684	746	829	845	871	914
NOI	356	381	430	479	415	511	633	645	665	698
- margin	62.6%	60.2%	67.1%	67.2%	60.6%	68.5%	76.4%	76.3%	76.3%	76.3%
EBITDA	447	913	335	1,318	744	536	479	485	1,210	533
Loan-to-value	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Equity ratio	17.3%	22.8%	22.8%	78.9%	44.0%	9.7%	10.4%	11.3%	12.8%	13.2%
Credit adjusted										
Debt/(Debt+Equity)	n.a.	n.a.	n.a.	n.a.	n.a.	42.0%	35.9%	37.5%	35.9%	36.7%
FFO/Debt	1.0%	1.2%	2.7%	26.8%	5.9%	3.2%	4.5%	3.7%	3.9%	4.0%
Loan-to-value	n.a.	n.a.	n.a.	n.a.	n.a.	49.3%	40.6%	42.1%	38.4%	38.6%
Equity ratio	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBITDA interest coverage	1.2	1.3	1.8	3.3	3.7	2.2	2.6	2.3	2.3	2.3
Fixed-charge coverage	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Company data and Nordea estimates

Summary: Bane NOR Eiendom AS

COMPANY PROFILE

Company overview

● Owner: Bane NOR SF, which in turn is wholly-owned by the Norwegian state and controlled by the Ministry of Transport and Communications.	● Founded: 1998 as ROM Property and renamed in 2017, when ROM Property and employees from Jernbaneverket were combined into Bane NOR Eiendom.
● Property value (MV), year-end 2017: NOK ~14.2bn (Provided by Newsec and C&W: the valuation only include 100 % owned properties and excludes i) JV e.g. OSU (33%), and ii) significant part of the company's "land bank").	● Adjusted loan-to-Value (LTV), year-end 2017: ~40% (We base our LTV calculation on the external valuation, but acknowledge that there may be significant surplus values beyond that).
● Number of properties: 960.	● Development potential: 2 million m2 (based on BNE's evaluation).
● Leases: 3,050 (around 50% of total rental revenues arise from state related entities).	● Headquarter: HQ is in Oslo, with regional offices in Kristiansand, Stavanger, Bergen, Skien and Trondheim.
● Railway-related revenues: around 70%.	● Stations: 330, ranging from large stations such as Oslo Central Station to smaller rural stations, with larger stations subsidizing the smaller ones.

SUMMARY OF KEY CREDIT FACTORS

Credit supportive factors	Credit constraining factors
One-of-a-kind properties. BNE plays an important role for the Norwegian society given its unique properties; this also gives a relatively low tenant risk, due to the property locations and strong competitive position derived from a favourable regulatory framework.	**The likelihood of weakening government support.** This could for example be the result of a partial privatisation, although we consider this highly unlikely at the moment, not least given the recently implemented railway reform.
Strong relationship with the top tenants. About 50% of the rental revenue from tenants in NSB, Bane NOR SF and other railway-related activities where the state is owner, this makes BNE less exposed to fluctuations in demand for commercial properties. The average lease term for the whole portfolio is 6.7 years.	**Earnings capacity is constrained by loss-making local/regional properties.** BNE has limited disposal opportunities due to the state ownership situation, which means that BNE has to consider factors other than only financials.
Government-influenced ownership structure. We consider the ownership structure positive, as it creates stable structure and minimises the refinancing risks. We expect the ownership structure to be stable given that travelling by rail is essential for daily commuters and widely supported by parties across the political spectrum.	**Exposure to higher-risk development projects.** The company's portfolio of developable land creates opportunities for future value improvements, but at the same time poses a risk, as investments often require relatively large upfront costs and the market situation can change during the development phase.
Solid capital structure. BNE is well-positioned with solid financial backing: FFO/debt >3% and LTV-ratio < 45%.	**Decline in railway traffic.** A decline in the underlying demand for railway travel/transportation could hamper BNE's top-line growth development and lead to margin deterioration.
Future expansion possibilities. BNE has 2 million m2 of unbuilt development potential, which could further increase the value of the property portfolio, attract new tenants and enable property sales.	**Geographical dependence on the Norwegian market.** There is a clear correlation for rental revenue development and the overall state of the Norwegian economy and GDP trend.

NORDEA MARKETS' FORECAST SUMMARY FOR THE BASE AND CREDIT CASES

Credit adjusted numbers				Base case			Credit case			Stress case		
	2015	2016	2017	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
Total revenues	1,161	939	911	925	1,671	1,014	888	1,488	868	796	1,221	654
Revenues, excl. property sales	684	746	829	845	871	914	808	788	768	746	671	604
growth y/y	*-4.1%*	*9.2%*	*11.1%*	*2.0%*	*3.0%*	*5.0%*	*-2.5%*	*-2.5%*	*-2.5%*	*-10.0%*	*-10.0%*	*-10.0%*
EBITDA	744	536	479	485	1,210	533	415	1,020	406	310	758	212
margin (% of total revenues)	*64.1%*	*56.4%*	*52.3%*	*52.4%*	*72.4%*	*52.5%*	*46.7%*	*68.6%*	*46.7%*	*38.9%*	*62.1%*	*32.4%*
EBITDA, excl. property sales	267	344	397	405	410	433	335	320	306	260	208	162
margin (% of adjusted turnover)	*39.0%*	*46.0%*	*47.9%*	*47.9%*	*47.1%*	*47.4%*	*41.4%*	*40.6%*	*39.8%*	*34.8%*	*31.0%*	*26.8%*
Debt	3,312	5,689	5,716	6,186	5,900	6,187	6,133	6,037	6,604	5,919	5,285	5,569
Total Equity	3,212	7,863	10,201	10,319	10,556	10,688	10,111	10,183	10,049	9,270	8,868	8,348
Funds from operations [FFO]	194	185	258	230	230	248	157	125	103	73	-5	-80
Net change in operating working capital [OWC]	648	533	215	0	0	0	0	0	0	0	0	0
Capital expenditure	589	442	411	1,200	1,100	900	900	950	700	800	650	600
Free operating cash flow [FOCF]	800	340	-45	-785	-1	-449	-548	-9	-381	-561	13	-513
Acquisitions	-20	-66	-193	0	0	0	0	0	0	0	0	0
Dividends paid	367	2,715	0	150	600	150	300	600	300	50	350	0
Paid interest	72	160	157	175	180	185	178	195	203	186	213	242
FFO/debt	5.9%	3.2%	4.5%	3.7%	3.9%	4.0%	2.6%	2.1%	1.6%	1.2%	-0.1%	-1.4%
FOCF/debt	24.2%	6.0%	-0.8%	-12.7%	0.0%	-7.3%	-8.9%	-0.2%	-5.8%	-9.5%	0.2%	-9.2%
DCF/debt	13.1%	-41.7%	-0.8%	-15.1%	-10.2%	-9.7%	-13.8%	-10.1%	-10.3%	-10.3%	-6.4%	-9.2%
Net debt/EBITDA, inlc. property sales	4.5x	10.6x	11.9x	12.7x	4.9x	11.6x	14.8x	5.9x	16.3x	19.1x	7.0x	26.3x
Net debt/EBITDA, excl. property sales	2.6x	12.4x	16.5x	15.3x	14.4x	14.3x	18.3x	18.9x	21.6x	22.8x	25.4x	34.4x
EBITDA/interest, incl. property sales	10.3x	3.4x	3.0x	2.8x	6.7x	2.9x	2.3x	5.2x	2.0x	1.7x	3.6x	0.9x
EBITDA/interest, excl. property sales	3.7x	2.2x	2.5x	2.3x	2.3x	2.3x	1.9x	1.6x	1.5x	1.4x	1.0x	0.7x
Loan-to-Value (LTV)	n.a.	49.3%	40.6%	42.4%	40.3%	40.1%	42.7%	41.4%	42.5%	44.7%	44.4%	47.2%
Equity ratio	49.2%	58.0%	64.1%	62.5%	64.1%	63.3%	62.2%	62.8%	60.3%	61.0%	62.7%	60.0%

Source for all tables: Company data, Standard & Poor's and Nordea estimates

Spread discussion

Bane NOR Eiendom AS is contemplating an issue of senior unsecured bonds maturing in three to seven years, with the proceeds to be used to refinance part of the outstanding bank debt and for general corporate purposes. Our fair spread assessment points to a spread range of 45-65 bp for a three-year bond, 55-80 bp for a five-year bond and 65-95 bp for a seven-year bond.

Proceeds from the issue will be used to refinance part of the outstanding bank debt

Fair spread range estimate

Our fair spread range takes into consideration the overall credit features of the company, the senior unsecured status of the proposed bond, the lack of public ratings, the company's operating performance, potential future prospects, the relevant alternative bond investments and the state ownership.

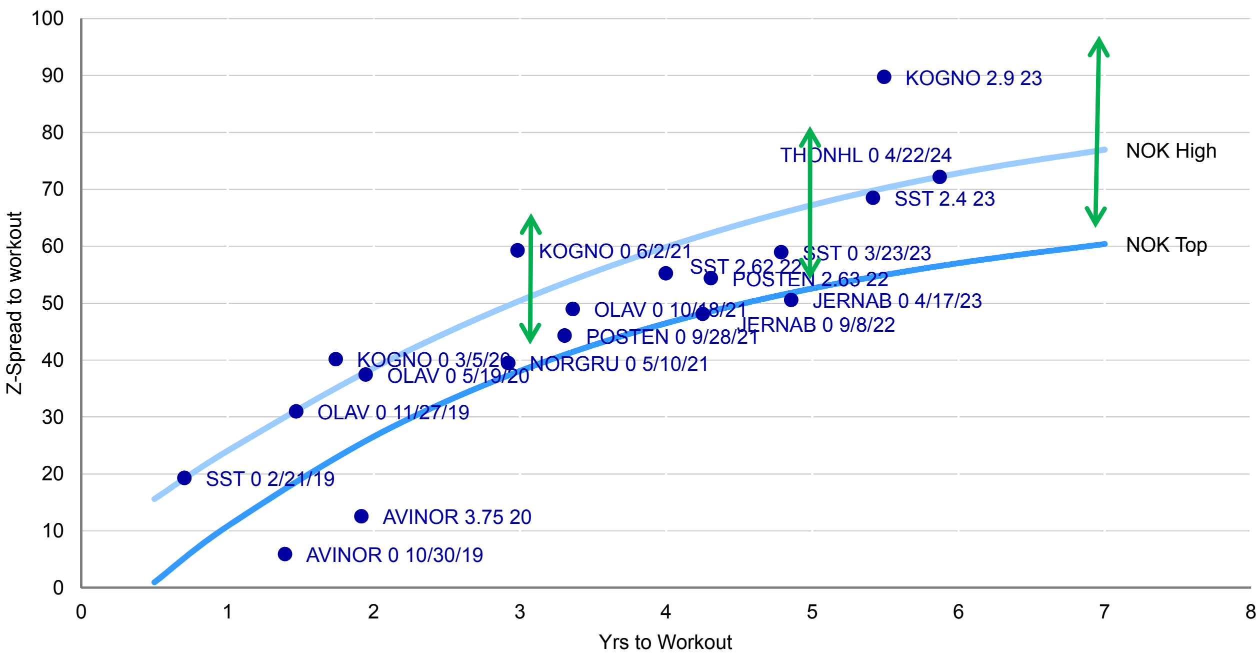
Our understanding is that the proceeds from the issue will be used to refinance part of the bank debt and for general corporate purposes. The company plans to eventually refinance all drawn bank debt.

Bond documentation stipulates that the company should remain state-owned

State ownership lowers the refinancing risk

BNE is a wholly owned subsidiary of Bane NOR SF, which is categorised as the highest level (4) of strategic importance among government-related entities. We see it as highly unlikely that the Norwegian government would consider privatising BNE, given its unique assets in the Norwegian railway sector and in light of the newly implemented railway reform. We note that Jernhusen, which is the most similar peer, in our view, has received three notches up from S&P for its state ownership, which we factor into our analysis. In addition, the company's bond documentation stipulates that the company should remain wholly owned (directly or indirectly) by the Norwegian state. Therefore, privatisation is not possible under these stipulations.

BANE NOR EIENDOM'S FAIR SPREAD RANGE



The reference curves represent a regression of bond spreads from a selection of NOK-denominated corporate bonds. We estimate the average credit quality of the bonds composing the NOK Top reference curve to be A and the average credit quality of the bonds composition the NOK HIGH reference curve to be BBB.

Source: Bloomberg and Nordea

Our fair spread for a specific bond is calculated by: 1) determining a reference bond curve for the bond, based on average spreads on bonds that we deem are relevant investment alternatives; 2) determining the spread of the reference curve for the same maturity as the specific bond; and 3) modifying that spread by adjusting for investment risk factors, including difference in credit quality, issuer performance trends and event risk, issuer rating status (publicly rated or unrated), bond liquidity, demand saturation, and ownership and other soft factors that we deem relevant to determine fair spread. The modification is made by adding or deducting spread elements to the reference curve spread as we deem applicable to reflect the relative investment risk.

KEY TERMS OF THE BOND

Proposed Terms and Conditions	
Isssuer	Bane NOR Eiendom AS
Initial amount	[*]
Tenor	[*]
Coupon	[*] + 3mN
Status	The Issuer's payment obligations under these Bond Terms shall rank ahead of all subordinated payment obligations of the Issuer and the Bonds shall rank pari passu between themselves and will rank at least pari passu with all other obligations of the Issuer (save for such claims which are preferred by bankruptcy, insolvency, liquidation or other similar laws of general application). The Bonds shall be unsecured.
Use of proceeds	The Issuer will use the net proceeds for partial repayment of existing debt and for general corporate purposes.
Financial undertakings	The Issuer shall not, and shall ensure that the Issuer's Subsidiaries do not, incur, create or permit to subsist any Security over any of its current or future assets or other rights for financial indebtedness which in aggregate exceed 15% (reduced by any use of the 15% allowance in the Financial Indebtedness covenant) of the Issuer's consolidated assets. The Issuer shall ensure that the Issuer's Subsidiaries do not incur, create or permit to subsist any financial indebtedness for which the principal debt in aggregate exceeds 15% (reduced by any use of the 15% allowance in the Negative Pledge covenant) of the Issuer's consolidated assets.
Other undertakings	A Change of Control Event occurs if at any time, the State of Norway ceases to own and be able to vote for, directly or indirectly, 100 % of the shares of the Issuer. If, at any time from the Settlement Date to the date falling 75 calendar days prior to the Maturity Date, a Change of Control Event occurs, each bondholder shall have a right of pre-payment ("Change of Control Put Option") of Bonds at 101 per cent of par value plus accrued interest during a period of 20 calendar days following the notice of a Change of Control Event (the "Put Period"). The settlement date will be 5 business days after the end of the Put Period.
Call Option	N/A
Put option	@ 101 upon CoC
Jurisdiction	Norway
Listing	Nordic ABM
Agent	TBD
Joint Bookrunners	Nordea and Danske

Source: Company data and Nordea

Recovery analysis

Recovery rate of between 100% and 51%

Based on property value haircuts of 20-50%, we arrive at a recovery rate of between 100% and 51%, which we factor into our analysis. We believe that a default and restructuring could be triggered by a severe macroeconomic downturn, causing a drastic fall or collapse in railway-related spending. This would clearly lower BNE's ability to refinance and cause severe impairment needs of asset valuations. In addition, BNE's bank loan agreements have covenants that stipulate a maximum loan-to-value ratio of 65%, a minimum interest coverage ratio of 1.4x and a minimum liquidity holding of NOK 300m.

RECOVERY ANALYSIS SCENARIOS

NOK(m)	Case 1	Case 2	Case 3	Case 4
Market Value (year-end 2017)	14,214	14,214	14,214	14,214
Haircut (-)	20%	30%	40%	50%
Value after haircut	11,372	9,950	8,529	7,107
Administration/ Legal costs (-)	100	100	100	100
Remaining Value	11,272	9,850	8,429	7,007
Unsecured bank debt (-)	5,000	5,000	5,000	5,000
RCF (-)	1,500	1,500	1,500	1,500
Remaining Value	4,772	3,350	1,929	507
Sr. Unsecured bond (-)	1,000	1,000	1,000	1,000
Recovery	**Greater than 100%**	**Greater than 100%**	**Greater than 100%**	**51%**

Source: Company data and Nordea estimates

State-owned real estate company

Bane NOR Eiendom AS is a Norwegian real estate company that owns, develops and manages buildings and land surrounding railway hubs in Norway. Its property portfolio include stations, maintenance halls, offices, commercial premises, workshops and various other buildings, heavily weighted towards infrastructure and state operations. The company is a wholly owned subsidiary of Bane NOR SF, which in turn is owned by the Norwegian state. As of year-end 2017, its properties were valued at NOK 14.2bn, excluding partly owned properties through JVs and subsidiaries and land bank, with around 750,000 m^2 of rentable area. We view its ownership structure, the favourable regulatory framework, the Norwegian government's strong focus on railway-orientated investments, a resilient competitive position and relatively low tenant risk due to its unique property locations as the main credit-positive factors.

Focus on railway-related properties

50% of rental revenue from tenants in NSB, Bane NOR and other rail-related activities where the state is owner

BNE generates revenue through property rental, development and divestments, and the company is responsible for the management of railway-related properties in Norway, including stations, maintenance halls, offices, commercial premises, workshops and various other buildings, heavily weighted towards infrastructure and state operations. Rental properties and development projects are strongly linked to railway infrastructure with about 50% of the rental revenue from tenants in NSB, Bane NOR SF and other railway-related activities where the state is owner. The proportion of revenue coming from this source has been relatively stable over the years, making BNE less exposed to fluctuations in the demand for commercial properties.

The vacancy rate is relatively low at around 7%, and the average contract length is almost seven years, with a high probability of renewal, according to the company. BNE has a diversified portfolio of tenants and properties, and is thus to a limited extent exposed to private, cyclical customers. In addition, when renting to outside tenants the tenants must meet certain requirements, and these checks lower the tenant risk. The company's headquarters are in Oslo, with regional offices in Kristiansand, Stavanger, Bergen, Skien and Trondheim.

Development potential is approximately 2,000,000 m^2

The total development potential is estimated at 2,000,000 m^2, which provides solid future development opportunities and additional room to acquire land from Bane NOR SF, if needed, which could lead to a positive revaluation of the company's portfolio. Development comprises housing, offices, hotels, retail properties and railway service facilities, either on their own or in partnership. We suggest that the use of partnerships where BNE provides land as capital injection reduces the overall risk associated with development projects. BNE views most developed commercial properties as natural divestment candidates under the right market conditions. Currently, the company has ~230 active property development projects, eg Bjørvika and Hollenderkvartalet, and has received several prizes related to the development of environmentally friendly and energy efficient buildings.

KEY FIGURES – BANE NOR EIENDOM AS

Properties	960
Land area	~3,000 hectares
Buildings	1,000
Stations	330
Leases	3,050
Development potential	2 million m^2
Market values	NOK ~14.2bn (excluding partially owned properties and land bank).
Rental revenues 2017	NOK 733 million
EBITDA 2017	NOK 479 million
Employees	200

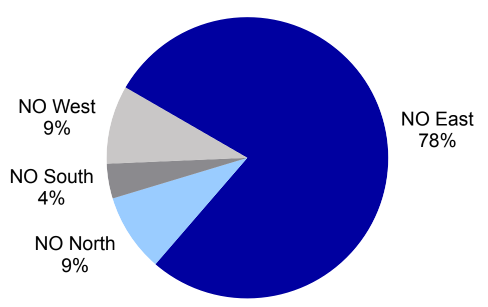
Source: Company data and Nordea

Market value of NOK 14.2bn at end-2017

Property portfolio value

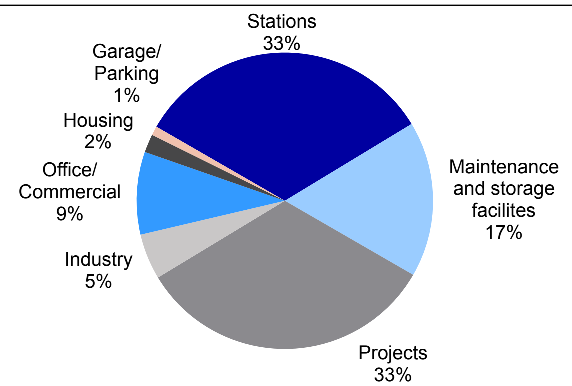
BNE reports its properties at acquisition minus depreciation, but the portfolio is valued externally by Newsec and Cushman & Wakefield (C&W), on an annual basis. The latest valuation, as of year-end 2017, gave an average valuation of NOK 14.2bn (Newsec: NOK 14.1bn, C&W: NOK 14.3bn): investment property of NOK 8,165m and development property of NOK 6,049m. The valuation only covers wholly owned buildings, and so, in our view, omits several significant values, related to: i) partially owned companies; and ii) the land bank. We base our analysis on the external analysis, but acknowledge that there may be significant surplus values beyond that. Looking at the property portfolio by value, we see that the Eastern region accounted for the lion's share of the company's total value and total rents in 2017, but this is somewhat affected by the more extensive use of JVs in other regions apart from the Eastern region.

GEOGRAPHICAL SPLIT BY MARKET VALUE, END-2017



Source: Company data and Nordea

SEGMENT SPLIT BY MARKET VALUE, END-2017



Source: Company data and Nordea

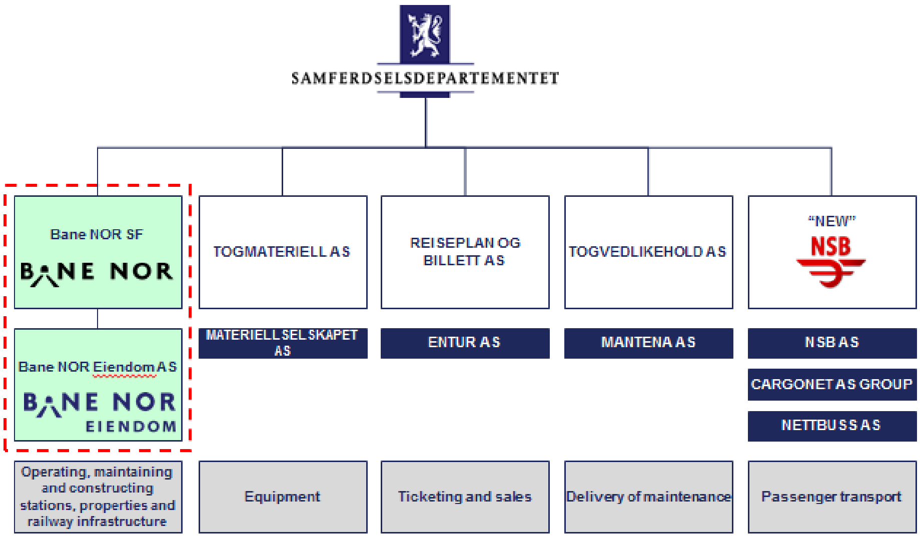
Wholly-owned by the Norwegian state, through Bane NOR SF

State-owned through Bane NOR SF

BNE is a wholly owned subsidiary of Bane NOR SF, categorised as the highest level (4) of strategic importance among government-related entities. A category 4 company fulfils national sectoral political objectives. The Norwegian government sets guidelines for a number of conditions, such as airport structure and duties imposed by society. BNE plays an important role in the Norwegian public transportation infrastructure and therefore plays an important role in society, but also in terms of providing the best possible socioeconomically development of key infrastructure transportation hubs.

BNE was established in 2017 when ROM Eiendom was transferred from NSB to BNE, together with employees from Jernbaneverket. Until then, railway properties had been owned by either NSB or Jernbaneverket. Since the reform Bane NOR SF is responsible for management of all railway property and related properties around the stations and maintenance halls, incentivising it to optimise future development. ROM Eiendom was originally established in 1998, and has, since its start, been wholly owned by the state.

OWNERSHIP STRUCTURE



Source: Company data and Nordea

Active in several segments

The company is active in four different segments:

Station operations. BNE owns and manages 330 railway stations and stops in Norway, ranging from large, well-known stations, such as Oslo Central Station, to small, unmanned stations, protected due to their cultural importance. These stations must be attractive and meet the needs of travellers, with functional public areas and a relevant service and information offering. Oslo Central Station handles approximately 250,000 passengers per day and BNE expects the traffic to increase by ~50% by 2030.

Railway property. BNE owns and manages ~1,000 buildings and ~3,000 leases. Most of the property portfolio is leased, and a lot of it is used internally by Bane NOR SF, which we view as credit positive given the perceived stability and predictability. External leasing outside Bane NOR accounts for NOK ~150m annually and leasing from other property owners is also managed, NOK ~300m annually.

Workshops. The company operates and maintains 13 train workshops, set up for a modern, well-run railway, all over the country with 230,000 m^2 of buildings. The capacity is being increased as a result of the railway reform, which aims to increase competition in the railway sector.

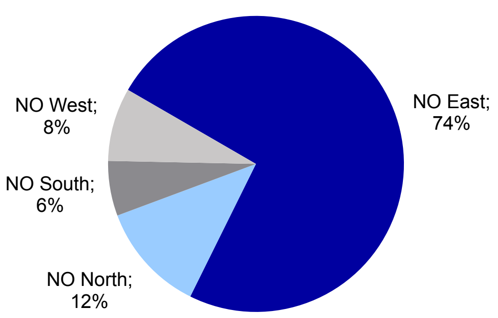
Property development. BNE is one of the biggest property developers in Norway, with housing, offices, hotels, commercial premises and railway service facilities in its portfolio. BNE plays an active role in every phase of the project development and the company is responsibility for clarifying where property can be developed for purposes other than railways. Projects constitute around 30% of the total market value of BNE's portfolio. Commercial properties are natural divestment candidates under the right market conditions, according to the company, and there has been greater focus over the past years on developing railway hubs in a commercial way.

BNE'S PROPERTY PORTFOLIO, END-2017

	Lettable area, m2	Not purpose-friendly, %	WAULT, years	Occupancy rate, %
Oslo South	119,847	10.3%	4.35	86.5%
Oslo North	39,457	12.1%	3.46	64.6%
North/Mid	53,548	8.7%	1.79	88.1%
South/West	85,334	7.9%	2.06	73.6%
Commercial properties	**298,186**	**9.6%**	**3.35**	**81.3%**
Oslo S	81,991	22.1%	6.30	99.1%
Stor-Oslo	43,801	11.3%	3.11	94.6%
East	79,181	18.5%	3.49	91.5%
North/Mid	75,103	15.5%	4.73	92.9%
South/West	59,212	13.1%	3.17	92.8%
Stations	**339,288**	**16.8%**	**5.00**	**95.8%**
Grorud	75,228	5.1%	12.56	96.9%
Lodalen	54,258	17.5%	4.25	98.8%
Sundland	21,052	0.0%	17.78	99.9%
Marienborg	29,698	0.4%	6.52	97.5%
Bergen	8,188	0.1%	0.47	94.8%
Skien	9,473	0.0%	24.13	100.0%
Workshops	**197,897**	**6.8%**	**12.64**	**98.4%**
Total	**835,370**	**11.9%**	**6.71**	**92.9%**

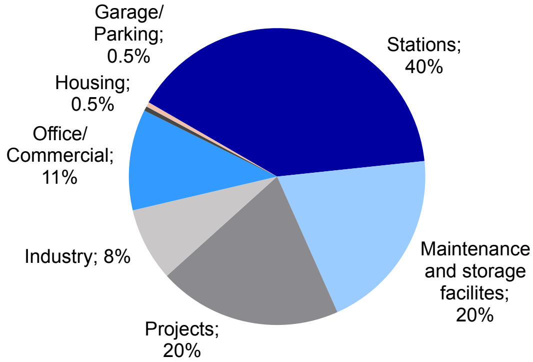
Source: Company data and Nordea

GEOGRAPHICAL SPLIT BY REVENUE, END-2017



Source: Company data and Nordea

PROPERTY SEGMENTS BY REVENUE, END-2017



Portfolio investments are key earnings drivers

We see a clear correlation between portfolio investments and revenue growth

BNE is one of the main property developers in Norway and the leading hub developer. We see a clear correlation between portfolio investments and revenue growth, as well as portfolio revaluation, with significant potential contribution to the company's revenue. Over the past eight years, BNE has sold 154 residents per year on average, through joint venture companies including Oslo S Utvikling AS (OSU).

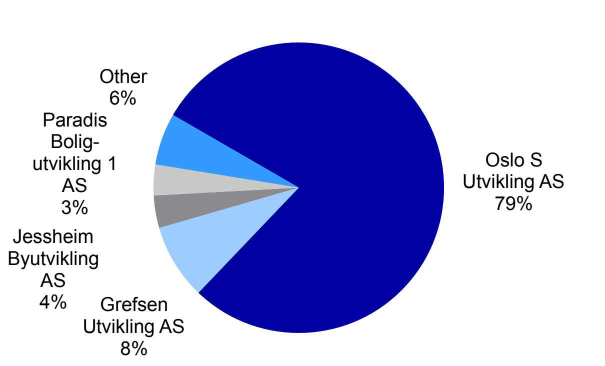
OSU is the most important of BNE's JVs, and the company is one of Norway's largest urban developers as of recent times. OSU is set to develop approximately 380,000 m^2 of the total some 900,000 m^2 of commercial and residential areas in Bjørvika. The company is owned by Bane NOR Eiendom, Linstow and Entra (see appendix 1 for total overview of BNE's subsidiaries and JVs).

230 active property development projects at hubs in Norwegian towns and urban areas

Currently, BNE is involved in more than 230 active property development projects at hubs in Norwegian towns and urban areas. These developments vary in size and complexity and so revenue from the sale of assets will vary from year to year, with potential for significant contribution in some years. However, many projects are complex and take a long time to develop owing to factors such as regulation issues or infrastructure challenges, which make it harder to give accurate estimates for the time of completion.

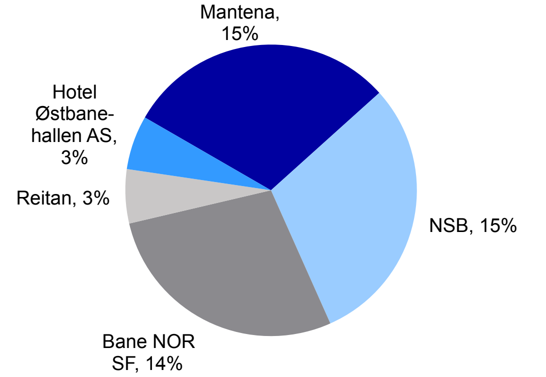
To keep the market risk low, as a general rule, the construction of new business premises or homes is not initiated until at least 50% of the project is leased or sold. In addition, the creation of SPVs with professional partners combined with unique locations make the company less exposed to a wider drop in demand. BNE will primarily sell properties without a link to railways or development potential so as to streamline and maximise the value potential of its portfolio.

JOINT VENTURES SPLIT BY MARKET VALUE, END-2017



Source: Company data and Nordea

LARGEST TENANT BY REVENUE, END-2017



Source: Company data and Nordea

Clean-up of portfolio

BNE plans to clean up in its portfolio

BNE intends to clean up in its portfolio to maximise the value and reduce costs, this will include:

i) **sale of closed railway stations** – non-operational stations, those along discontinued railways and protected buildings that require substantial maintenance and are financed by other activities
ii) **sale of leased land** – total portfolio of 1,200 land lease contracts, non-strategic land will be reviewed and considered sold
iii) **sale of closed operational properties** – sale of properties without a link to railways or development potential
iv) **leasing of closed railway stations and operational properties** – bare-house rental to municipalities, organisations and others.

We expect an increase in the demand for railway travel for the coming years

Railway travel and transportation

Railway travel is essential to daily commuters and widely supported by parties across the political spectrum. Norway's population is forecast to increase by at least 5% over the next five years, and we expect this to boost demand for railway travel. Population growth is to a larger extent expected in the towns and municipalities surrounding the larger cities. Economic growth in combination with ongoing urbanisation trends and a strong labour market in Oslo are likely to result in an increasing number of passengers on the railway system. This will increase the number of people passing through BNE's stations and increase demand for property and infrastructure development in the future. In addition, the Norwegian government has allocated a record-high NOK 320bn to railway purposes during a 12-year period in relation to the National Transport Plan (NTP), with eg the Inter-City Project. We consider this to be very credit-positive since it boosts the long-term clarity and overview of the investment needs for the foreseeable future.

Strategic priorities and targets seem prudent

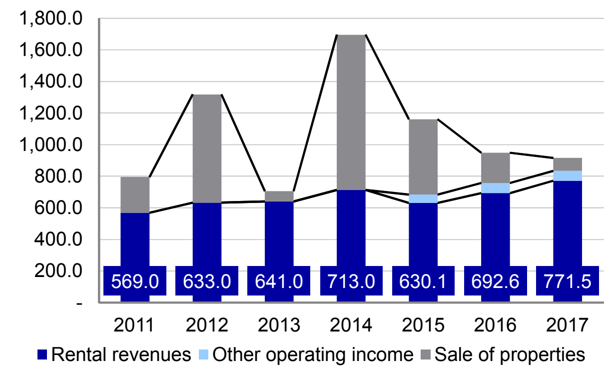
BNE's strategy entails the following features:

1. "More value for money"
   - Returns and development of assets with respect to property
   - Create more value than the market can supply
   - Cost-effective safeguarding of property assets
   - Structured processes that promote continuous improvement.

2. "Emphasis on customers"
   - Reinforce the attractiveness of rail travel and create traffic growth
   - High customer satisfaction levels and a good reputation
   - Attractive partner in the market and for Bane NOR
   - Collective culture that promotes positive interaction.

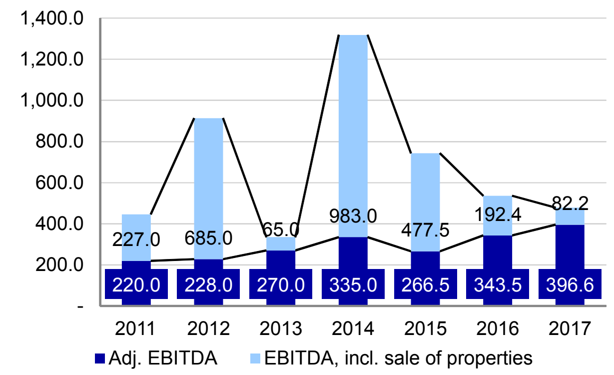
3. "Forward-thinking social stakeholder"
   - Europe's leading stakeholder in the development and administration of hubs
   - Create densification around hubs and rail traffic growth
   - Leading expertise in property and a knowledge of how property adds value to railways
   - Staff that are committed to and proud of their involvement in the community.

HISTORICAL RENTAL DEVELOPMENT, NOKm



Source: Company data and Nordea

HISTORICAL EBITDA DEVELOPMENT, NOKm



Source: Company data and Nordea

Railway reform

In the spring of 2015, the Norwegian parliament passed the government's proposals for significant changes to the railway sector in Norway. This resulted in ROM Eiendom AS being transferred from NSB to Bane NOR Eiendom, a subsidiary of Bane NOR SF, together with employees from Norwegian National Rail Administration (Jernbaneverket), in April 2017, with a full-year accounting effect. Bane NOR SF is controlled by the Ministry of Transport and Communications and the company's structure therefore remains under state ownership. Bane NOR SF is categorised at the highest level (4) of strategic importance among government-related entities. The Norwegian government has allocated NOK 320bn for railway purposes over a 12-year period in its National Transport Plan (NTP).

The railway reform

The reform aims to transform the structure of the sector

The reform aims to transform the structure of the sector by introducing a clearer division of responsibility, better coordination of service and infrastructure improvements, and better aligned incentives, and creating a more customer-focused industry, according to the government. The government envisages that more operational and maintenance services will be competitively tendered and have longer-term agreements in place. But the responsibility for maintenance of the railway will remain a state authority task.

The competition for passenger rail services is regulated through competitive tendering of public service obligations, in which the government ensures the further provision of attractive rail services on routes that are not necessarily economically viable on their own.

After the reform, Bane NOR is responsible for the management of all railway property, which increases the incentive for it to optimise property hub development

As part of the new reform, the railway's infrastructure will continue to be under the Norwegian state's ownership through the establishment of 'state company' Bane NOR Eiendom. The main responsibility is operating, owning, maintaining and building railway infrastructure. To ensure predictability, Bane NOR will enter into long-term concession agreements with the state. Until now, railway properties have been owned by either NSB or Jernbaneverket. However, after the reform, Bane NOR is responsible for the management of all railway property and also the related properties around the stations and maintenance halls, which improves its ability and incentive to optimise future property hub development.

RAILWAYS IN NORWAY

Source: Company data and Nordea

Performance and prospects

We view BNE's performance as supported by the owner's investments to improve asset quality; the ongoing work to renegotiate rental contracts, which already have average contract lengths of seven years; and the stable rental income, supported by the one-of-a-kind properties. BNE's total revenues tend to fluctuate over time due to changes in gains from sale of assets, approximately 90% of the company's revenues are contributed to rental income and property sales. Numbers from 2016 and earlier reflect the former ROM Eiendom AS structure.

CREDIT CASE SNAPSHOT OF BANE

	Our view	Trend	Comment
Headroom	● (green)	↗	BNE has above-average financial headroom and can take up additional debt while maintaining a relatively solid LTV ratio, although, we understand that the company do not intend to increase the debt leverage from current levels.
Performance trend	● (yellow)	→	The trend has been positive for BNE with increasing rental revenues, yield compression and strong progress for its project developments.
Performance outlook	● (yellow)	→	Modest market outlook for Norwegian real estate players, although, more stable for BNE given its one-of-a-kind properties and large percentage of rental income that arises from state related entities.
Strategy & event risk	● (green)	→	Low refinancing risk due to the state-ownership but higher dividend pay-outs than currently expected and debt-financed projects not being value-accretive could represent negative risks for the bondholders. However, large portion of capital injections into new joint development projects are covered by BNE providing land.

Source: Company data and Nordea estimates

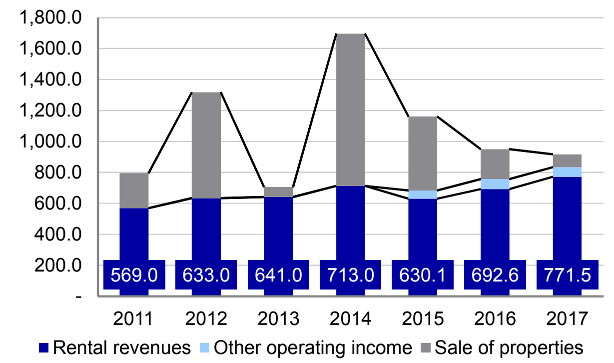
Steady rental revenues and stable margins

Steady growth in rental income

In 2017, BNE's adjusted turnover (excluding gains from the sale of assets) increased by 11.1% y/y to NOK 828.8m (2016: NOK 746.1m), we estimate that top-line revenues will be CPI adjusted for 2018. Adjusted turnover has been around NOK 2.3bn over the past three years and gains from sale of assets of approximately NOK 750m. The increase in turnover for 2017 is the result of higher overall rental income from the group's property portfolio – which is close to 100% CPI adjusted – and the takeover of the workshop operations from Mantena. Larger deviations to rental income are generally caused by increased assets under management. We expect BNE's rent levels to be sustainable in the long term given the company's refurbishment in its existing portfolio, newbuilds and stable tenant base, provided that the company's lease agreements are rolled forward, which we believe the owners can achieve.

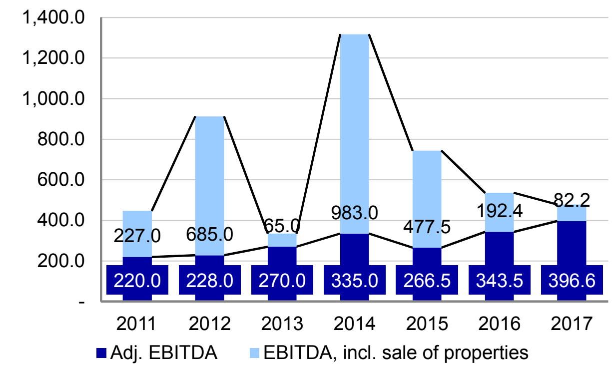
For 2017, reported EBITDA came in at NOK 478.8m with a 57.8%. margin and an adjusted EBITDA margin of 47.9%. The adjusted EBITDA margin is fairly resilient, in our view, underpinned by solid operating performance in the large stations, the expanding portfolio and the large percentage of rental revenues generated from the state. The company's earnings capacity is constrained by loss-making local/regional properties, however, with limited disposal opportunities, eg due to protected stations of cultural importance. The costs of scale are somewhat limited, but at the same time the downside risk is also limited, with high cost predictability for the existing portfolio and around 90% of all capex investments following multi-year plans.

REVENUE DEVELOPMENT, NOKm



Source: Company data and Nordea estimates

EBITDA DEVELOPMENT, NOKm



Source: Company data and Nordea estimates

According to the company, it will gain significant income from sales of assets for several years

Portfolio investments are key earnings drivers

BNE has a defined strategy of selling commercial properties and residential apartments in relation to its development projects, while keeping more pure railway-orientated properties, mainly to streamline its business and gain a more concentrated focus. The revenue stream from property sales reached NOK 82.2m in 2017. Gains (losses) on disposals are recognised as the difference between the selling price and the balance sheet value in the income statement. According to the company, it will gain significant income from asset sales for several years, especially in 2019 thanks to the sale of the headquarter in Oslo through a leaseback transaction. However, we have been conservative with our forecasts and included a somewhat smaller amount in expected gains. We see the company as having a successful record in project development, and believe that BNE will gain significant contributions from the sale of assets over time. That said, gains from the sale of assets tend to fluctuate more than rental income, making them harder to accurately estimate.

OVERVIEW OF PROPERTY DIVESTMENTS, NUMBER OF RESIDENTIAL UNITS

	2013	2014	2015	2016	2017	2018
Grefsen (50% ownership)	94	121	152	206	35	16
OSU (33% ownership)	42	68	57	241	130	43
Jessheim (50% ownership)	0	0	36	97	42	13
Bellevue (50% ownership)	28	17	6	0	0	0
Hollenderkvartalet (100% ownership)	0	0	0	60	2	0
Bellevue brygge (100% ownership)	0	0	0	0	20	9
Vikersund Utvikling (50% ownership)	0	0	0	0	21	2
Paradis Boligutvikling 1 (50% ownership)	0	0	0	0	38	7
Prof Smith Hages Utvikling AS (100% ownership)	0	0	0	0	14	6
Snipetorplia (100% ownership)	0	0	0	0	4	1
Total	**164**	**206**	**251**	**604**	**306**	**97**

Source: Company data and Nordea

Majority of properties are wholly owned

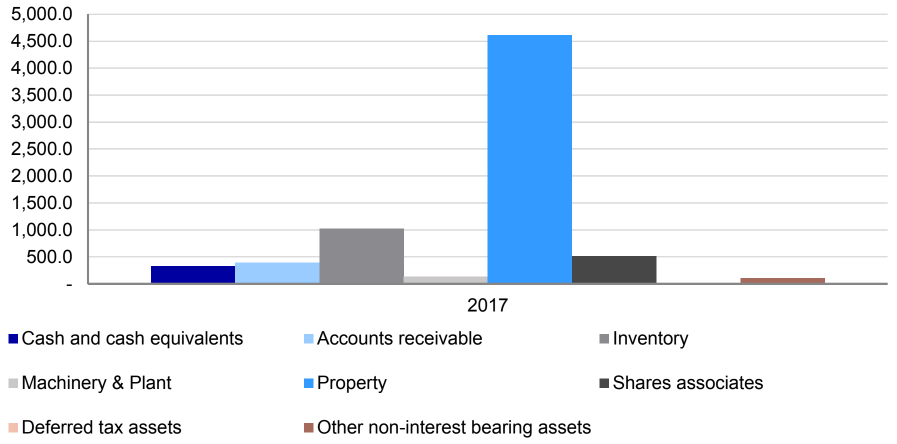
Looking at the property valuation distribution, the majority of the investments properties are owned wholly by BNE, while the company uses JVs for its development projects. The share of projects was around 30% of the portfolio's market values for 2017, which we expect to remain relatively stable ahead.

Estimated market-value of NOK 14.2bn as of year-end 2017

Properties valued at the acquisition on the balance sheet

BNE recognises its properties at the acquisition value less depreciation on the balance sheet, but the company also conducts external valuations on an annual basis through Newsec and Cushman & Wakefield. The valuation by the end of 2017 showed an average estimated market value of around NOK 14.2bn (Newsec: NOK 14.1bn, C&W: NOK 14.3bn), significantly above the book value. It is important to keep in mind that the valuation only covers wholly owned buildings, and thereby omits significant values related to: i) partially owned companies, eg OSU (33%); and ii) a significant "land bank". We base our calculations on the external valuation, but acknowledge that there may be significant surplus values beyond that.

ASSET SIDE COMPOSITION (BOOK VALUES), NOKm



Source: Company data and Nordea estimates

S&P methodology for the real estate industry

When analysing real estate companies, our focus is on recurring earnings. Although, it is part of the business model of many real estate companies to buy and sell properties and, arguably, gains or losses stemming from such transactions are therefore a part of normal operations, which is the case for BNE.

In our credit assessment, we do not take into account the companies' ability to realise value through portfolio management actions. This is in line with S&P's established methodology regarding real estate issuers. Still, when calculating the key credit and leverage ratios, we include gains and losses from real estate transactions to gain a clearer indication of the real potential of the underlying property portfolio and to facilitate comparability.

Loan-to-value (LTV) levels of around 40%

Market value-adjusted loan-to-value of ~40% at the end of 2017

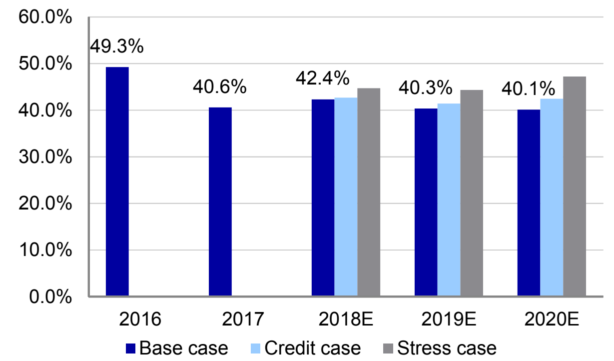
The adjusted loan-to-value ratio by the end of 2017 was around 40% compared with the non-adjusted LTV of above 100%. Our impression is that the company does not intend to increase its indebtedness and we do not estimate any significant changes for the company's LTV ratio from current levels. In our base case, we do not expect LTV and the debt capitalisation ratio to increase from current levels after refinancing. Instead, we expect the LTV to stay relatively stable around 40%, representing a sound asset buffer. However, the company could increase indebtedness temporarily if it had a compelling reason. A higher LTV ratio could also be due to higher-than-expected debt-funded projects or higher dividends than expected to Bane NOR SF. On the other hand, net debt could decrease if BNE decides to scale down on new development investments or increase dividends from associated companies, due to the completion of the properties.

Modest interest-bearing liabilities

Debt divided into a three-year term loan of NOK 5,000m and a five-year RCF of NOK 1,500m

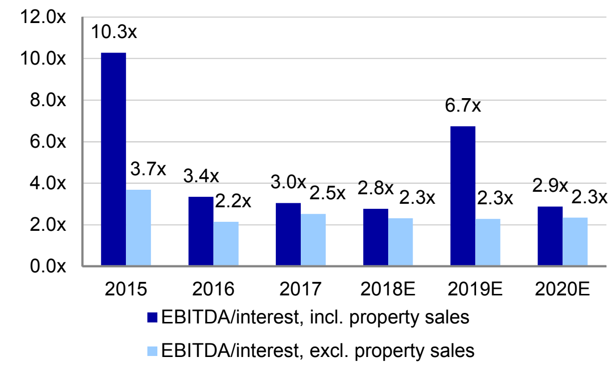
Apart from book equity (NOK 739.3m in 2017), the company's funding consists mainly of interest-bearing liabilities (NOK 5,962.5 in 2017) with short- and long-term bank debt divided into a three-year term loan of NOK 5,000m and a five-year RCF of NOK 1,500m (approximately NOK 500m has been utilised), NOK ~1.5bn of which are JVs (OSU amounts to NOK ~1.1bn). The group's bank deposits totalled NOK 329m in 2017, versus NOK 159m at the end of 2016 (net debt at NOK 5,633.5m, unchanged pro forma the proposed bond transaction), although, BNE does not have any actual cash holdings and the cash holdings is due to items recognised as related to the parent company. The company's current liabilities amount to 15.8% of total debt, versus 98.9% in 2016, immediately following the Railway Reform. The former short-term internal debt facility to NSB AS was refinanced with long-term debt in January 2017, in connection with the demerger of BNE from NSB and into Bane NOR SF. BNE's management considers the liquidity and capital situation satisfactory with sufficient access to future short-term liquidity, current available back-stop facility of NOK 1bn.

LOAN-TO-VALUE (LTV), %



Source: Company data and Nordea estimates

INTEREST COVERAGE RATIO (ICR), X



Source: Company data and Nordea estimates

Majority of debt maturing in 2019-20

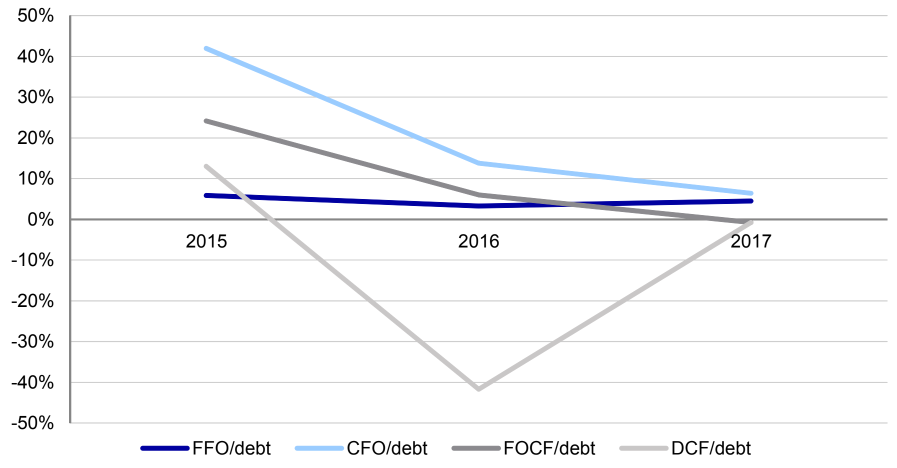
The majority of the company's debt will mature in approximately 1.5 years, giving the company some headroom to push forward maturities. The average interest rate for the loan portfolio has been around 2-3% and approximately more than 40% of loans have fixed rates through the use of derivatives. Our understanding is that parts of the proceeds from the issue will be used to refinance part of the bank debt in order to receive a more favourable debt leverage structure. The company will eventually refinance all drawn bank debt, but it is unclear exactly what the time span is. We consider this credit positive as it will most likely prolong the debt maturity structure.

Cash flow impacted by stable lease agreements

Solid visibility over cash flow

The company has steady operating cash flow but it is making significant capex investments into its development projects, which we view as a long-term positive but it requires considerable upfront payments. Capex has been on average around NOK 500m over the past three years. Moreover, the FOCF has been surpassed by dividend payouts, leading to a negative adjusted discretionary cash flows (DCF) for most years. We believe the cash flow is stable enough to meet bondholders' interest costs and still have enough room to pay out dividends to Bane NOR SF. We see ample opportunities for a solid cash flow ahead, not least given gains from the sale of assets. However, we take into account the likelihood of extra dividend pay-outs and/or increased investments as a result of considerable gains from property sales.

CREDIT METRICS, %



Source: Company data and Nordea estimates

Norwegian real estate: Clear skies

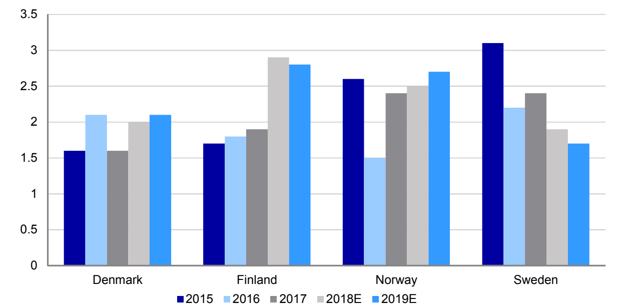
We believe that Norwegian commercial properties will benefit from the overall positive outlook for the Norwegian and Nordic real estate sector, supported by continued positive GDP growth driving demand amidst tight markets, with decent prospects of rent increases. We envisage some potential for upward yield pressure from low levels as we enter a period of higher interest rates. The key risk to sector commercial properties is a possible global growth contraction hitting the Nordic economies, hampering operating performance and financing conditions, with tighter and more expensive financing.

SECTOR OUTLOOKS ARE FAIRLY POSITIVE ACROSS THE LINE, SWEDEN CLOSEST TO A TURN IN THE CYCLE
Nordea Markets assessment of sector outlook for 2018

	Denmark	Finland	Norway	Sweden	Comment
Office	🟢	🟢	🟢	🟡	Positive momentum driven by high/improving economic activity and relatively low demand Rental growth concentrated to capitals and major cities (CBD and prime locations) Strong demand for newly constructed office space Stockholm most advanced in cycle, Oslo and Helsinki later, Copenhagen early stage
Retail	🟡	🟡	🟡	🔴	Structurally challenged segment longer term Increasing differentiation between prime and secondary locations Sentiment surveys and macro trends suggest Sweden most challenging
Residential	🟢	🟡	🟡	🟡	Denmark: positive momentum, especially in Copenhagen Finland: fairly high construction activity tempers potential despite urbanisation trend Norway: pressure from declining housing prices giving way as the market stabilises Sweden: new build/tenant-owned negative outlook, existing/rental outlook positive given shortage
Logistics/ Wharehouse	🟢	🟢	🟢	🟢	Long-term structural changes in retail and trade flows support logistics High demand for new builds in prime locations Fairly limited supply, although speculative construction on the rise
Public sector	🟢	🟢	🟢	🟢	Favourable demographical trend (growing and ageing population) underpins demand Public sector financing constraints drive transaction activity Strong price performance levelling out somewhat

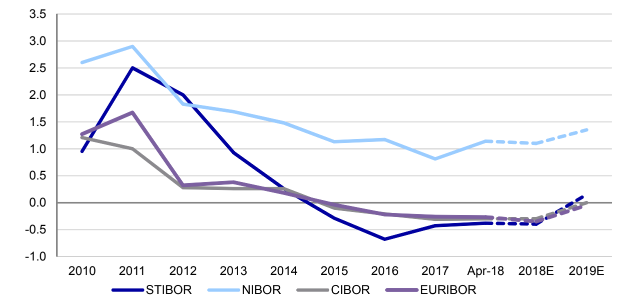
Source: Nordea estimates

SOLID GDP GROWTH PROSPECTS BUT SHIFT IN THE LEAD
GDP growth y/y, %



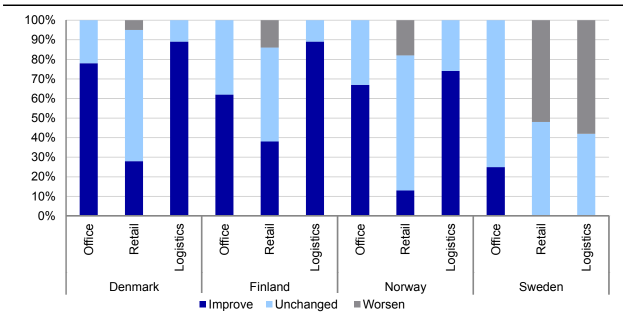
Source: Bloomberg and Nordea estimates

INTEREST RATES ARE EXPECTED TO MOVE UP
3M interbank rates, %



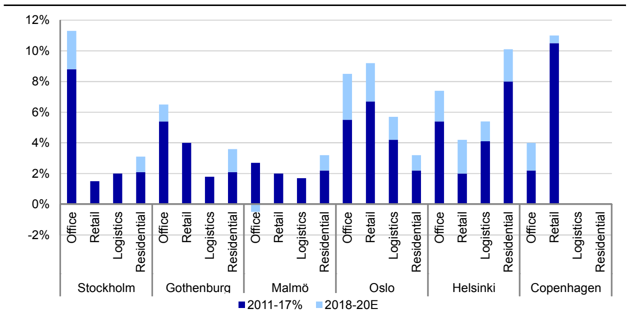
Source: Bloomberg and Nordea estimates

POSITIVE EXPECTATIONS EXCEPT IN SWEDEN
Demand expectations next six months (from Q1 2018)



Source: Cushman & Wakefield and Nordea

OSLO AND HELSINKI HAVE HIGHEST UPSIDE IN RENTS
Rent increase prospects y/y according to Newsec, %



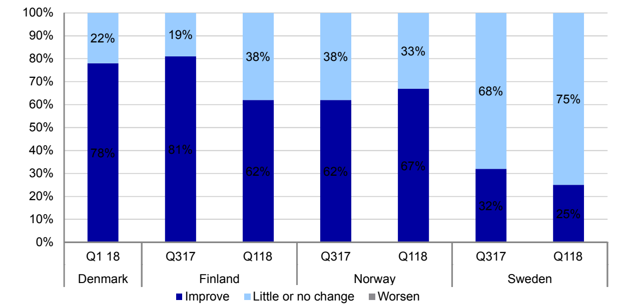
Source: Newsec and Nordea estimates

Positive confidence, Sweden more cautious

Cushman & Wakefield's Nordic real estate investor survey[1] reveals an optimistic outlook overall for Denmark and Finland, with Norway and Sweden more neutral (and with a negative twist for Sweden). Positive sentiment in the Office and Logistics segments contrasts with increasing concern over the Retail segment. There is strong confidence for office demand increases in Denmark, Finland and Norway, while Swedish expectations are more stable. This also translates into a positive tilt for office yield expectations, with Sweden and Norway more cautious. Expectations for retail are more tempered across the board, with a negative tilt on demand and yields in both Norway and Sweden (the latter more pronounced).

OFFICE DEMAND: OPTIMISM INCREASING, SWEDEN STABLE

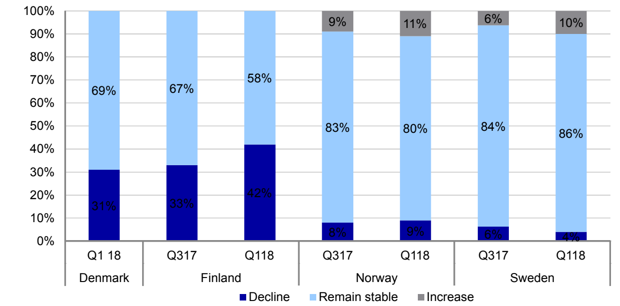
Office demand expectations for next six months



Source: Cushman & Wakefield and Nordea

OFFICE YIELDS: POSITIVE, SOME CONCERNS IN NOR/SWE

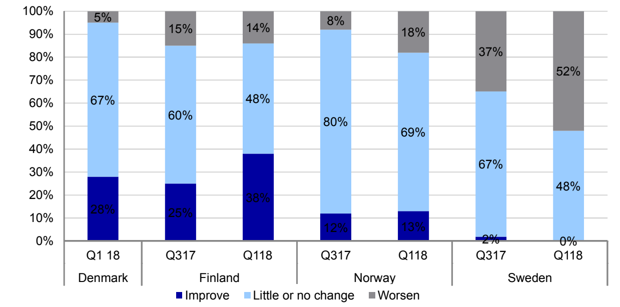
Office yield expectations trend for next six months



Source: Cushman & Wakefield and Nordea

RETAIL DEMAND: CONCERNS ARE GROWING

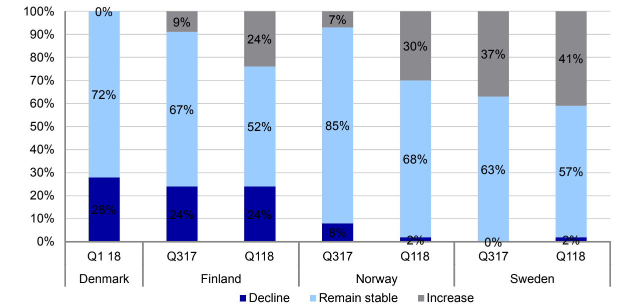
Retail demand expectations next six months



Source: Cushman & Wakefield and Nordea

RETAIL YIELDS: UPSIDE PRESSURE IS BUILDING

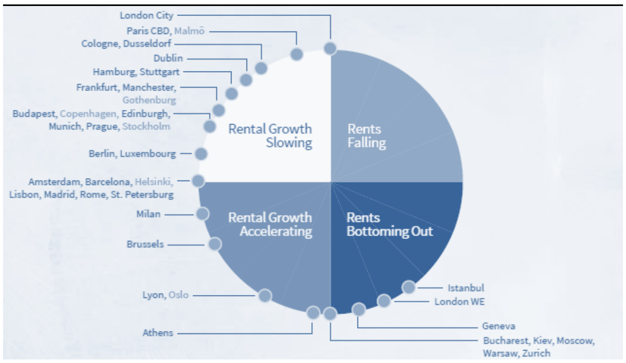
Retail yield expectations trend next six months



Source: Cushman & Wakefield and Nordea

NORDIC RENTS AT DIFFERENT STAGES IN THE CYCLE

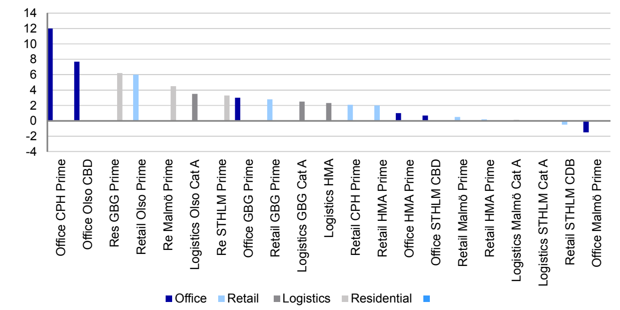
JLL's Property clock for prime offices: Spring 2018



Source: JLL and Nordea

HIGHEST RETURNS IN COPENHAGEN AND OSLO OFFICES

Average capital growth 2018E-19E,%



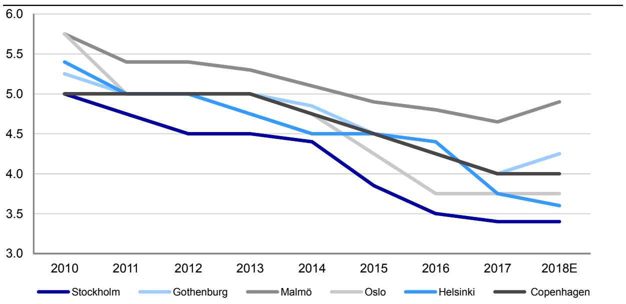
Source: Newsec and Nordea

1. We understand that the Cushwake Nordic Investor Confidence index includes survey responses from 170 professionals across the Nordic region. The index monitors expectations for the next six months and was conducted Q1 2018.

Yields compress, still gaps outside Norway but no major BNE concerns

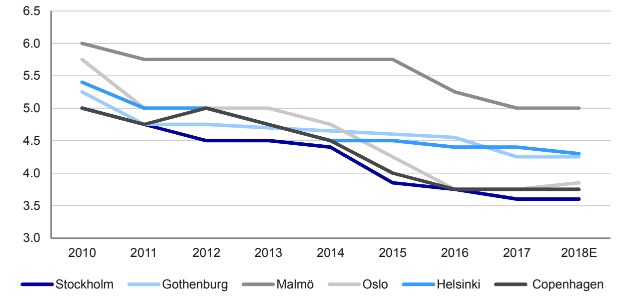
The ultra-low interest rate environment has gradually pushed down yields in the real estate sector worldwide, including the Nordic region. The yield compression trend has also been evident outside major cities, with some time lag. We note that the yield gap to underlying interest rates has been largely unchanged over the course of the tightening. Given significantly higher interest rates in Norway, the gap is very tight, especially in low-risk segments. Looking ahead, market observers such as Newsec expect yields to flatten out y/y in 2018, with some widening tendencies in Sweden. Our base case assumes around a 25-50 bp widening of Swedish valuation yields in 2018-19, with Norway less affected.

PRIME OFFICE YIELDS: CONTINUED COMPRESSION
Prime office yields including Newsec's March 2018 forecast, %



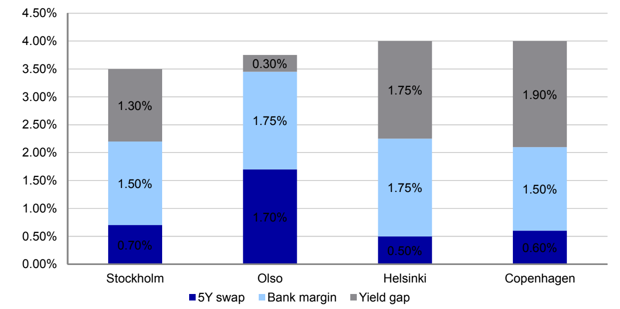
Source: Newsec and Nordea

PRIME RETAIL YIELDS: TIGHTER BUT FLATTENING OUT
Prime retail yields including Newsec's March 2018 forecast, %



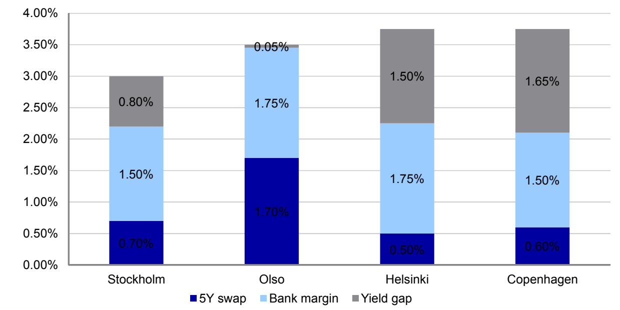
Source: Newsec and Nordea

STILL SIGNIFICANT OFFICE YIELD GAP EXCEPT IN NORWAY
Prime office yield composition at year-end 2017, %



Source: Pangea and Nordea

TIGHTER ON THE RESIDENTIAL SIDE, NORWAY RAZOR THIN
Prime residential housing yield composition at year-end 2017, %



Source: Pangea and Nordea

Credit strengths and weaknesses

Among the key credit positives that we identify, we note that the company owns one-of-a-kind properties with unique locations, relatively long contracts (average of 6.7 years and primarily railway-related) and a strong government-influenced ownership structure. On the negative side, we call on investors to consider the exposure to higher-risk development projects and the likelihood of weakening government support, although we consider this unlikely for now.

CREDIT STRENGTHS AND WEAKNESSES

Credit supportive factors	Credit constraining factors
One-of-a-kind properties. BNE plays an important role for the Norwegian society given its unique properties; this also gives a relatively low tenant risk, due to the property locations and strong competitive position derived from a favourable regulatory framework.	**The likelihood of weakening government support.** This could for example be the result of a partial privatisation, although we consider this highly unlikely at the moment, not least given the recently implemented railway reform.
Strong relationship with the top tenants. About 50% of the rental revenue from tenants in NSB, Bane NOR SF and other railway-related activities where the state is owner, this makes BNE less exposed to fluctuations in demand for commercial properties. The average lease term for the whole portfolio is 6.7 years.	**Earnings capacity is constrained by loss-making local/regional properties.** BNE has limited disposal opportunities due to the state ownership situation, which means that BNE has to consider factors other than only financials.
Government-influenced ownership structure. We consider the ownership structure positive, as it creates stable structure and minimises the refinancing risks. We expect the ownership structure to be stable given that travelling by rail is essential for daily commuters and widely supported by parties across the political spectrum.	**Exposure to higher-risk development projects.** The company's portfolio of developable land creates opportunities for future value improvements, but at the same time poses a risk, as investments often require relatively large upfront costs and the market situation can change during the development phase.
Solid capital structure. BNE is well-positioned with solid financial backing: FFO/debt >3% and LTV-ratio < 45%.	**Decline in railway traffic.** A decline in the underlying demand for railway travel/transportation could hamper BNE's top-line growth development and lead to margin deterioration.
Future expansion possibilities. BNE has 2 million m2 of unbuilt development potential, which could further increase the value of the property portfolio, attract new tenants and enable property sales.	**Geographical dependence on the Norwegian market.** There is a clear correlation for rental revenue development and the overall state of the Norwegian economy and GDP trend.

RISKS FOR BONDHOLDERS

Event/development	Implications for performance & financial position	Probability	Expected impact on bond holders	Comments
Property yields growing wider	**High** The property yield may increase due to deteriorating asset quality or macro events, which in turn would affect property valuation and KPIs.	**Moderate to High**	**High**	The GDP outlook for Norway remains modestly strong and our in-house forecast still assumes unchanged rates until late 2018. Asset quality is expected to remain stable or improve.
Declining revenues in existing properties	**High** Economic recession could have a negative impact on BNE's top line and earnings capability.	**Moderate to High**	**High**	This could happen if the company's tenants go bankrupt or decide to move. BNE is somewhat protected through its strong tenant relationships and historically low turnover rate.
Policy/regulation changes	**High** A decision from the Norwegian state to change the ownership structure would hamper BNE's standing in the credit markets.	**Low**	**High**	Weakening government support, which could be the result of a partial privatisation, would lower the company's standing in the credit markets, although we consider this highly unlikely at the moment. In addition, the company's bond documentation stipulates that the company should remain wholly-owned (directly or indirectly) by the Norwegian state. Therefore, privatisation is not possible under these circumstances.
Non-value-added investments	**Moderate** Could adversely affect the key credit ratios	**Low to moderate**	**Moderate**	Large or non-value-accretive investments or acquisitions could impair the company's credit profile and its ability to create value. The company does not want to increase the current LTV, which we view as credit-positive, and we see state ownership structure as long-term with a solid focus on the credit profile.
A major downturn in Norway's economy	**High** An economic recession in the real estate sector would have a negative impact on BNE's top-line revenues and earnings capacity.	**Low to moderate**	**Moderate**	There is not much protection from a recession, although fundamental indicators continue to show a solid trend worldwide. However, given BNE's lease agreements and unique portfolio, volatility is somewhat lower than for other commercial real estate companies.

Source for tables: Company data and Nordea

Financial forecasts

Our moderately positive base case assumes a stable revenue and margin trend – with a moderate increase in debt and maintenance capex needs – allowing for a relatively stable development, reflecting a significant financial risk profile. Our more conservative credit case shows slightly negative top-line growth, somewhat weakening margins, this implies a strong aggressive financial risk profile. Finally, our deliberately negative stress case assumes a sharp decline in top-line revenue in combination with deteriorating assets value and profitability from tenants moving or going out of business, leading to an aggressive financial profile.

SUMMARY OF FORECAST CREDIT SCENARIOS

	Business risk	Financial risk	Comment
Base Case	Satisfactory	Significant	Continued stable top-line growth, combined with relatively flat costs, a good business cycle and interest rates remaining low.
Credit Case	Satisfactory	Aggressive	Slight decline in growth for 2018E-20E, as a result of a more unfavourable macroeconomic environment, rising interest rates and lower demand for primarily commercial properties.
Stress Case	Fair	Aggressive	Sharp top-line decline due to tenants moving or going out of business, costs increase due to project costs inflating, macroeconomy deteriorates, leading to an increase in interest costs on loan portfolio and lower valuation on outstanding projects.

Source: Company data and Nordea estimates

Analytical considerations in assessing the risk profile

To arrive at a business risk profile for our scenarios, we look at the company's current competitive position, which we find to be strong/adequate, given the near monopoly situation. We judge the scale, scope and diversity to be adequate, and consider its operational efficiency adequate, given a favourable regulatory framework and that around 50% of total rental revenue arises from the state, which we consider credit-positive. The exposure to Norway, rated AAA/Stable by S&P, helps to mitigate the cyclicality of the real estate sector. In conclusion, the combination ultimately gives a satisfactory business risk profile that deteriorates to fair as we progress into the stress scenario, with a worse macroeconomic environment and heightened risk of weakening government support. In our various scenarios, we mainly adjust the growth and margins for the existing portfolio and for the development projects. We focus on loan-to-value, interest coverage ratio and FFO/debt ratios as key performance indicators, with the latter being a key complementary ratio.

Credit profile showing a stable trend in the near future

With investments in the portfolio leading to better asset quality and valuation, and at the same time slight rental revenue growth, our base case shows a stable credit profile development in the coming years, provided there are no rental losses or yield widening caused by an unfavourable macroeconomic climate. The stable outlook reflects our view of BNE's business model as fairly steady, with rail travel being essential for daily commuters and supported by parties across the political spectrum. These factors are somewhat tempered by the sensitivity towards an economic recession and the cyclical nature commercial properties. Our expectation is that Bane will achieve adjusted net debt/EBITDA of less than <15.5x (excluding property divestments), FFO/debt around 3.5-4.0%, low single-digit organic growth for its rental revenue and a stable earnings capacity over the next three years. The company uses book value of properties for book-keeping purposes (as per Norwegian GAAP), while in calculating LTV and debt capitalisation ratios we use market value of properties and equity. We do not adjust the market value for existing properties in our forecasts.

SENSITIVITY ANALYSIS FOR 2020: NET DEBT/EBITDA (EXCLUDING SALE OF PROPERTIES)

	EBITDA change (%)						
Net debt change (%)	-15%	-10%	-5%	0%	5%	10%	15%
-15%	14.3x	13.5x	12.8x	12.2x	11.6x	11.1x	10.6x
-10%	15.2x	14.3x	13.6x	12.9x	12.3x	11.7x	11.2x
-5%	16.0x	15.1x	14.3x	13.6x	12.9x	12.4x	11.8x
0%	16.8x	15.9x	15.1x	$\boxed{14.3x}$	13.6x	13.0x	12.4x
5%	17.7x	16.7x	15.8x	15.0x	14.3x	13.7x	13.1x
10%	18.5x	17.5x	16.6x	15.7x	15.0x	14.3x	13.7x
15%	19.4x	18.3x	17.3x	16.5x	15.7x	15.0x	14.3x

Note: The matrix indicates the level of net debt/EBITDA in 2020 under different forecast assumptions for EBITDA and net debt. Source: Company data and Nordea estimates

NORDEA MARKETS' FORECAST SUMMARY FOR BASE, CREDIT AND STRESS CASES

Credit adjusted numbers				Base case			Credit case			Stress case		
	2015	2016	2017	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
Total revenues	1,161	939	911	925	1,671	1,014	888	1,488	868	796	1,221	654
Revenues, excl. property sales	684	746	829	845	871	914	808	788	768	746	671	604
growth y/y	*-4.1%*	*9.2%*	*11.1%*	*2.0%*	*3.0%*	*5.0%*	*-2.5%*	*-2.5%*	*-2.5%*	*-10.0%*	*-10.0%*	*-10.0%*
EBITDA	744	536	479	485	1,210	533	415	1,020	406	310	758	212
margin (% of total revenues)	*64.1%*	*56.4%*	*52.3%*	*52.4%*	*72.4%*	*52.5%*	*46.7%*	*68.6%*	*46.7%*	*38.9%*	*62.1%*	*32.4%*
EBITDA, excl. property sales	267	344	397	405	410	433	335	320	306	260	208	162
margin (% of adjusted turnover)	*39.0%*	*46.0%*	*47.9%*	*47.9%*	*47.1%*	*47.4%*	*41.4%*	*40.6%*	*39.8%*	*34.8%*	*31.0%*	*26.8%*
Debt	3,312	5,689	5,716	6,186	5,900	6,187	6,133	6,037	6,604	5,919	5,285	5,569
Total Equity	3,212	7,863	10,201	10,319	10,556	10,688	10,111	10,183	10,049	9,270	8,868	8,348
Funds from operations [FFO]	194	185	258	230	230	248	157	125	103	73	-5	-80
Net change in operating working capital [OWC]	648	533	215	0	0	0	0	0	0	0	0	0
Capital expenditure	589	442	411	1,200	1,100	900	900	950	700	800	650	600
Free operating cash flow [FOCF]	800	340	-45	-785	-1	-449	-548	-9	-381	-561	13	-513
Acquisitions	-20	-66	-193	0	0	0	0	0	0	0	0	0
Dividends paid	367	2,715	0	150	600	150	300	600	300	50	350	0
Paid interest	72	160	157	175	180	185	178	195	203	186	213	242
FFO/debt	5.9%	3.2%	4.5%	3.7%	3.9%	4.0%	2.6%	2.1%	1.6%	1.2%	-0.1%	-1.4%
FOCF/debt	24.2%	6.0%	-0.8%	-12.7%	0.0%	-7.3%	-8.9%	-0.2%	-5.8%	-9.5%	0.2%	-9.2%
DCF/debt	13.1%	-41.7%	-0.8%	-15.1%	-10.2%	-9.7%	-13.8%	-10.1%	-10.3%	-10.3%	-6.4%	-9.2%
Net debt/EBITDA, inlc. property sales	4.5x	10.6x	11.9x	12.7x	4.9x	11.6x	14.8x	5.9x	16.3x	19.1x	7.0x	26.3x
Net debt/EBITDA, excl. property sales	2.6x	12.4x	16.5x	15.3x	14.4x	14.3x	18.3x	18.9x	21.6x	22.8x	25.4x	34.4x
EBITDA/interest, incl. property sales	10.3x	3.4x	3.0x	2.8x	6.7x	2.9x	2.3x	5.2x	2.0x	1.7x	3.6x	0.9x
EBITDA/interest, excl. property sales	3.7x	2.2x	2.5x	2.3x	2.3x	2.3x	1.9x	1.6x	1.5x	1.4x	1.0x	0.7x
Loan-to-Value (LTV)	n.a.	49.3%	40.6%	42.4%	40.3%	40.1%	42.7%	41.4%	42.5%	44.7%	44.4%	47.2%
Equity ratio	49.2%	58.0%	64.1%	62.5%	64.1%	63.3%	62.2%	62.8%	60.3%	61.0%	62.7%	60.0%

Note: These are credit-adjusted figures using S&P's adjustment methodology; unadjusted figures can be found at the end of this report

BASE CASE: MAPPING TO S&P'S FINANCIAL RISK THRESHOLDS

	Core ratios			Supplementary coverage ratios	
	Debt/EBITDA(x)	EBITDA/interest	Fixed-charge	FFO/debt(%)	Debt/(debt+equity)
Minimal	<2.5	>4.5	>3.7	>20	<30
Modest	2.5-4.5	3.8-4.5	3.1-3.7	15-20	30-40
Intermediate	4.5-7.5	2.4-3.8	2.1-3.1	9-15	40-55
Significant	7.5-9.5	1.8-2.4	1.7-2.1	7-9	55-65
Aggressive	9.5-13	1.3-1.8	1.3-1.7	5-7	65-70
Highly leveraged	>13	<1.3	<1.3	<5	>70

CREDIT CASE: MAPPING TO S&P'S FINANCIAL RISK THRESHOLDS

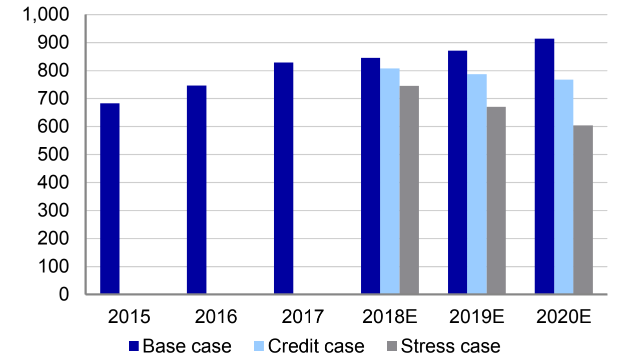
	Core ratios			Supplementary coverage ratios	
	Debt/EBITDA(x)	EBITDA/interest	Fixed-charge	FFO/debt(%)	Debt/(debt+equity)
Minimal	<2.5	>4.5	>3.7	>20	<30
Modest	2.5-4.5	3.8-4.5	3.1-3.7	15-20	30-40
Intermediate	4.5-7.5	2.4-3.8	2.1-3.1	9-15	40-55
Significant	7.5-9.5	1.8-2.4	1.7-2.1	7-9	55-65
Aggressive	9.5-13	1.3-1.8	1.3-1.7	5-7	65-70
Highly leveraged	>13	<1.3	<1.3	<5	>70

STRESS CASE: MAPPING TO S&P'S FINANCIAL RISK THRESHOLDS

	Core ratios			Supplementary coverage ratios	
	Debt/EBITDA(x)	EBITDA/interest	Fixed-charge*	FFO/debt(%)	Debt/(debt+equity)
Minimal	<2.5	>4.5	>3.7	>20	<30
Modest	2.5-4.5	3.8-4.5	3.1-3.7	15-20	30-40
Intermediate	4.5-7.5	2.4-3.8	2.1-3.1	9-15	40-55
Significant	7.5-9.5	1.8-2.4	1.7-2.1	7-9	55-65
Aggressive	9.5-13	1.3-1.8	1.3-1.7	5-7	65-70
Highly leveraged	>13	<1.3	<1.3	<5	>70

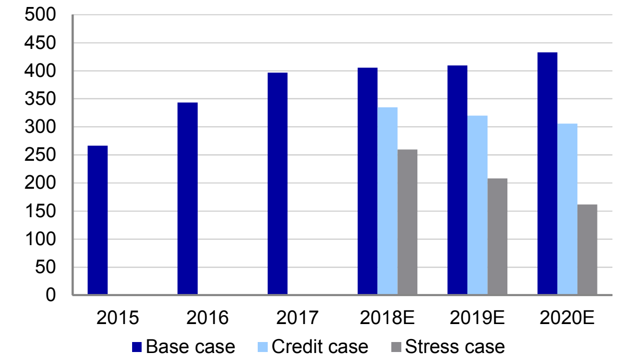
Sources for all tables: Company data, Standard & Poor's and Nordea estimates

ADJUSTED TURNOVER, NOKm



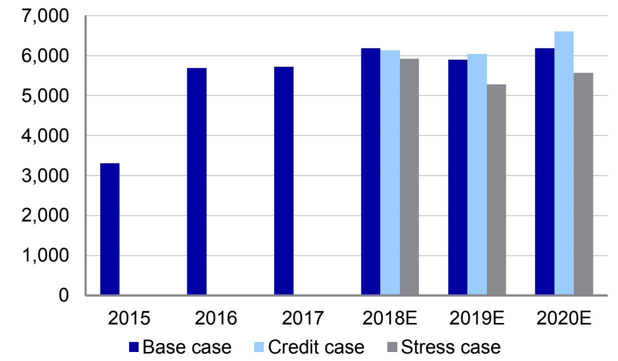
Source: Company data and Nordea estimates

ADJUSTED EBITDA, NOKm



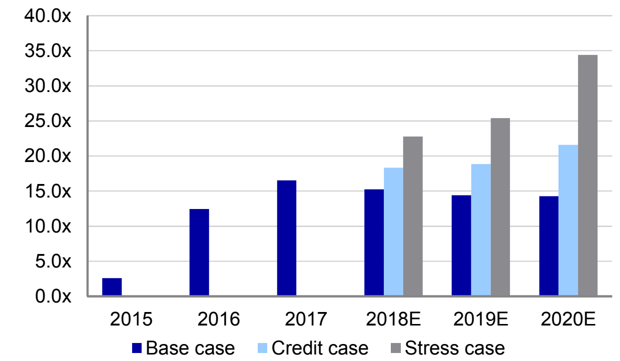
Source: Company data and Nordea estimates

ADJUSTED DEBT, NOKm



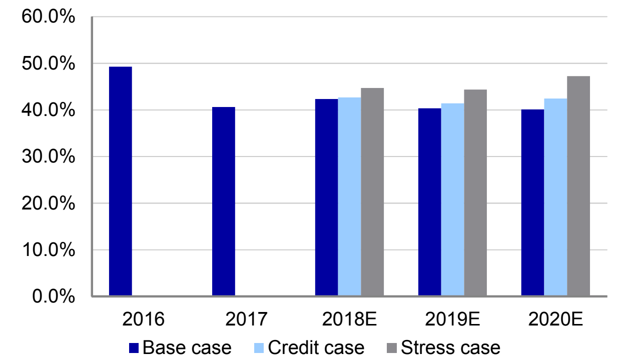
Source: Company data and Nordea estimates

ADJUSTED NET DEBT/EBITDA, X



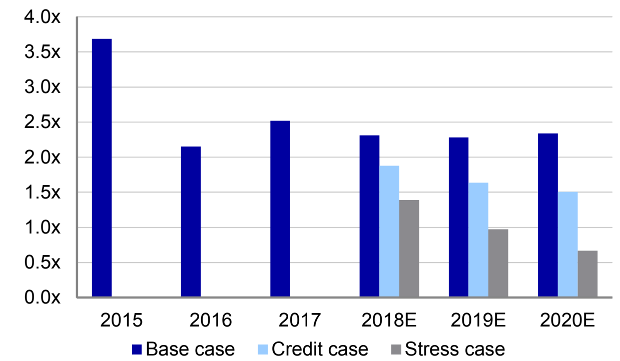
Source: Company data and Nordea estimates

ADJUSTED LOAN-TO-VALUE, %



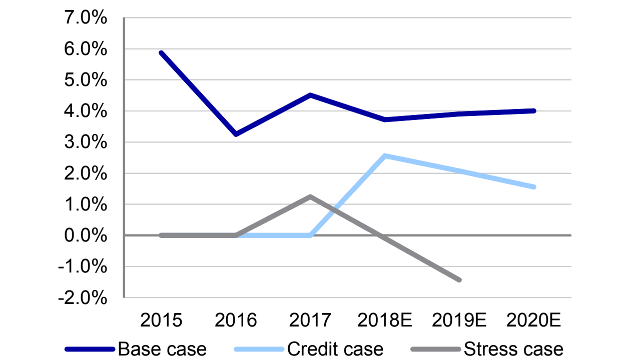
Source: Company data and Nordea estimates

ADJUSTED INTEREST COVERAGE RATIO X



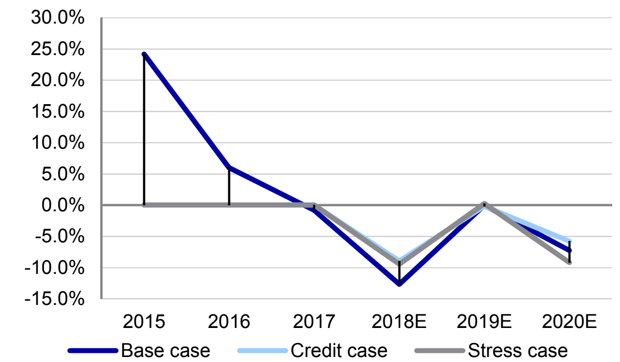
Source: Company data and Nordea estimates

ADJUSTED FFO/DEBT, %



Source: Company data and Nordea estimates

ADJUSTED FOCF/DEBT, %



Source: Company data and Nordea estimates

Peer comparison

We compare BNE primarily with other real estate companies and companies of a similar credit quality. We believe BNE's business risk profile is on a par with its state-owned peers, except for Avinor, which has a slightly stronger profile. From a financial perspective, we believe BNE has a slightly weaker position than the peer group.

Combining Nordic rated and unrated peers

Nordic rated and unrated peers

In the peer group for Bane, we include Nordic real estate companies falling within a similar credit quality range and/or with a similar business focus. Three of the companies have public ratings (Avinor, Jernhusen and Steen & Ström). We believe the most comparable peer is Jernhusen, a state-owned Swedish real estate company focused on railway-orientated properties. Jernhusen receives three extra notches from S&P due to its ownership structure.

Bane NOR Eiendom's overall position is weaker than Avinor, but equal to Steen & Ström

Peer group observations

- BNE is slightly smaller in terms of turnover than its peers.
- The company has a somewhat neutral business risk profile and a slightly weaker financial risk profile than those of its peers.
- In terms of overall position, we consider BNE to be slightly weaker than Avinor, but relatively equal to Steen & Ström.

PEER GROUP COMPARISON: ASSESSED PEER POSITIONING COMPARED WITH BANE NOR EIENDOM AS

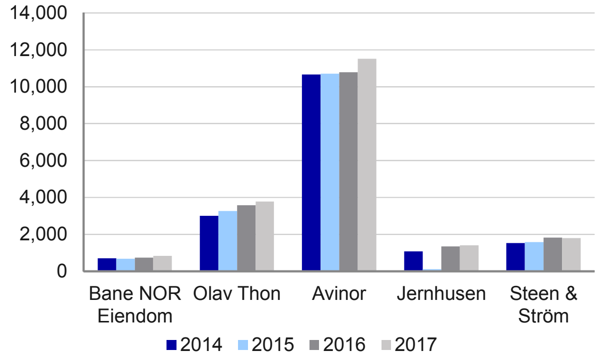
	Bane NOR Eiendom	Olav Thon Eiendomsselskap	Steen & Strøm	Posten Norge	Jernhusen	Avinor
Moody's	NR\---	NR\---	NR\---	NR\---	NR\---	A1\Stable
S&P	NR\---	NR\---	A-\Stable	NR\---	A\Stable	AA-\Negative
Business risk profile	Satisfactory	Strong	Satisfactory	Satisfactory	Satisfactory	Strong
Financial risk profile	Significant	Intermediate	Intermediate	Intermediate	Intermediate	Intermediate
Business focus		Olav Thon Eiendomsselskap is a Norwegian real estate company that owns Shopping malls and other commercial properties in Norway and Sweden.	Steen & Strøm is a Scandinavian retail and real estate company that owns and operates 52 shopping centres in Norway, Sweden and Denmark.	Posten Norge or Norway Post is theNorwegian postal service. The company, owned by the Norwegian Ministry of Transport and Communications	Jernhusen is a Swedish real estate company in connection with the Swedish railway system.	Avinor owns and operates 45 of the 51 airports in Norway, 12 of them in cooperation with the Norwegian Armed Forces.
RISK ASSESSMENT						
Country exposure/risk		Equal	Equal	Equal	Equal	Equal
Industry exposure/risk		Equal	Equal	Weaker	Equal	Equal
Competitive position		Stronger	Equal	Equal	Equal	Stronger
Diversification		Stronger	Stronger	Equal	Equal	Equal
Business position overall		**Stronger**	**Equal**	**Equal**	**Equal**	**Stronger**
Cash flow protection		Weaker	Weaker	Equal	Equal	Equal
Capital structure		Stronger	Stronger	Stronger	Equal	Stronger
Liquidity		Stronger	Stronger	Stronger	Stronger	Stronger
Financial position overall		**Stronger**	**Stronger**	**Stronger**	**Stronger**	**Stronger**
Ownership structure		**Weaker**	**Weaker**	**Equal**	**Equal**	**Stronger**
OVERALL POSITION		**Equal**	**Equal**	**Stronger**	**Stronger**	**Stronger**
KEY FIGURES	**2017A**	**2017A**	**2017A**	**2017A**	**2017A**	**2016A**
Total revenues 2016 (NOKm)	828.8	3,649.6	1,878.9	24,678.0	1,453.3	10,779.8
FFO/debt	4.5%	6.8%	6.8%	38.7%	6.1% (2016)	10.9%
FOCF/debt	-0.8%	-1.3%	4.5%	-24.4%	-11.6% (2016)	--
Debt/EBITDA	13.8x	9.7x	8.4x	2.1x	11.0x	7.0x
Debt/capital	35.9%	48.4%	46.0%	42.0%	45.2%	63.7%

Source: Company data and Nordea estimates

Business risk profile: Satisfactory
We view the built-in stability of state ownership as credit positive, which is supported by favourable demand for rail travel, a strong competitive position due to its government-granted monopoly and relatively low tenant risk due to its unique property locations. In our view, BNE's business risk profile can be considered satisfactory, which is in line with Jernhusen that operates in the same segment.

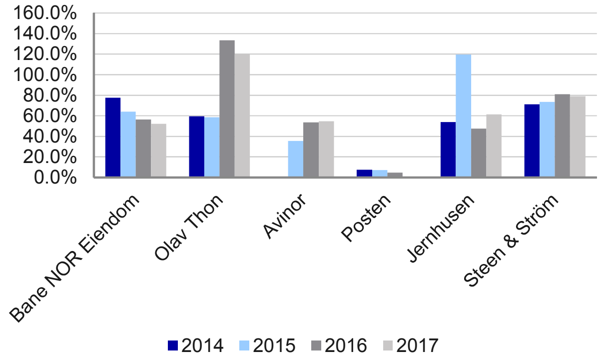
Financial risk profile: Significant
The company's financial standing is solid and we expect the company's leverage to remain roughly the same in the near-term future. Our understanding is that the company does not want to increase its loan-to-value ratio from current levels, which we consider credit positive. Therefore, the significant financial risk profile is warranted, but we also see some dark clouds on the horizon related to higher-risk development projects and a geographical dependency on the Norwegian market.

ANNUAL TURNOVER, NOKm



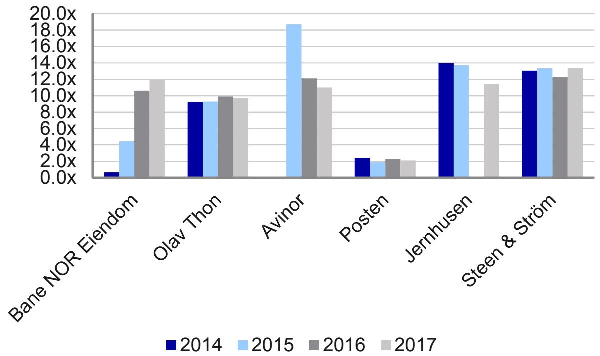
Source: Company data and Nordea estimates

EBITDA MARGIN, %



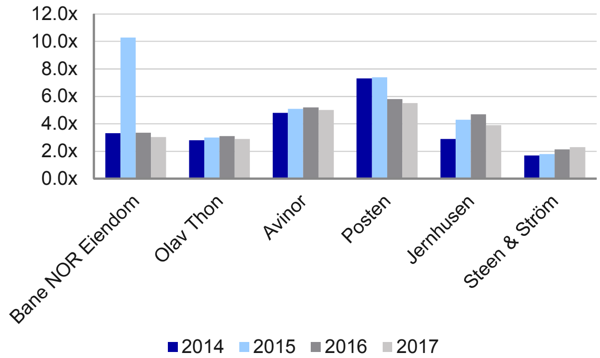
Source: Company data and Nordea estimates

NET DEBT/EBITDA, X



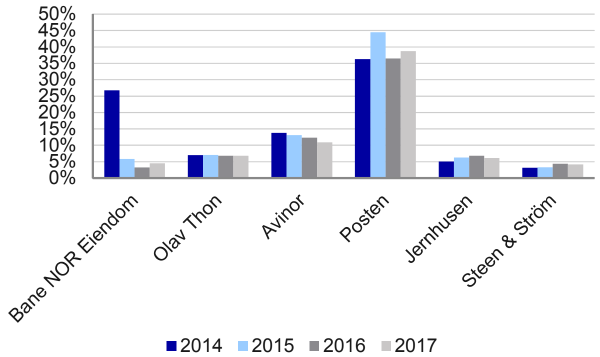
Source: Company data and Nordea estimates

INTEREST COVERAGE RATIO (ICR), X



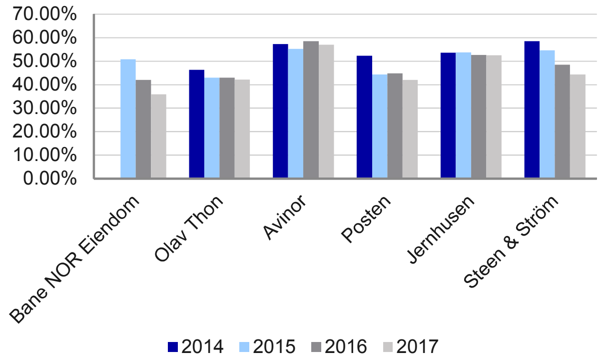
Source: Company data and Nordea estimates

FFO/DEBT, %



Source: Company data and Nordea estimates

DEBT/CAPITAL, %



Source: Company data and Nordea estimates

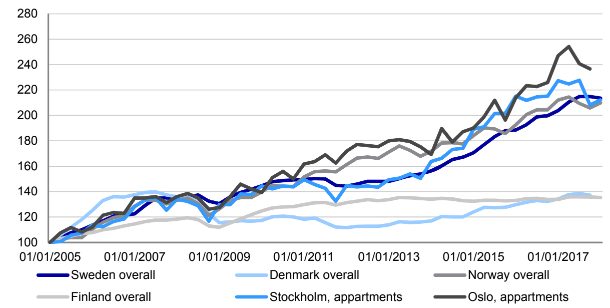
Slower housing market but no meltdown

We believe that the Norwegian housing market has passed the trough, while the Swedish housing market is undergoing a mild correction. Both markets are influenced by tighter lending rules, with concerns about higher interest rates ahead. In Sweden, a spate of additional supply also has an influence, partly fuelled by speculative construction. Nordea Markets' view is that Norway has passed the trough, while Swedish housing prices should stabilise in H1 2018, with a flat outlook during 2019. We expect a significant contraction in tenant-owned development activity, which should sooth the high inflation in construction costs. The pent-up supply in the secondary market, owing to uncertainty and hesitation, as well as the supply from new construction, needs to be cleared, after which demand should again be fully anchored by disposable incomes and low funding costs. Any form of interest rate shock remains a downside risk to demand and housing prices, which could hurt housing markets and the economy in general. A global economic downturn could have a similar impact.

Norwegian and Swedish housing market hiccup in 2017

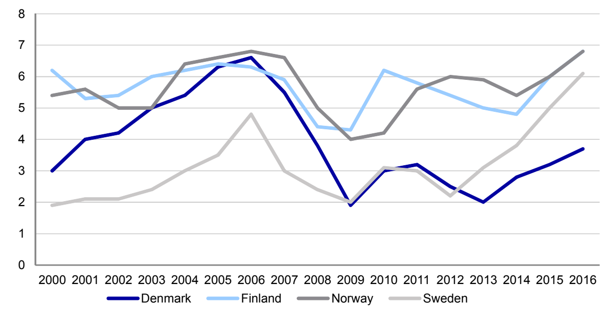
- **Lower Norwegian and Swedish housing prices**. Following almost a decade of steady increases, Norwegian and – later in the year – Swedish residential housing prices dropped in 2017 (about 5% from peak levels). The impact has been more accentuated for tenant-owned apartments in larger cities, notably Oslo and Stockholm (price decline of 10-15% from peaks).
- **The price corrections seem logical** in light of the hefty price inflation in recent years (which has increasingly hampered affordability for marginal buyers), tighter mortgage lending regulations (including minimum amortisation requirements and income leverage cap) and concerns about a pending end to the ultra-low interest rate era. In Sweden, this also coincides with significant new supply hitting the market following a rapid ramp-up in construction activity, three times the level seen in 2012.
- **We still perceive a structural shortage of residential housing in both Norway and Sweden**, fuelled by urbanisation, population growth, an increase in the number of households and – in Sweden in particular – low construction activity for much of the period between 1993 and 2014. Even in recent years, the activity level in Sweden does not appear aggressive from a Nordic perspective (with the exception of Denmark, which had a high supply level ahead of the 2008 financial crisis).

HIGH PRICE APPRECIATION IN NORWAY AND SWEDEN
House prices, 2005=100



Source: Macrobond, Valueguard and Nordea

SWEDISH ACTIVITY MODERATE FROM NORDIC PERSPECTIVE
Housing starts per 1,000 inhabitants



Source: Swedish Construction Industry Association and Nordea

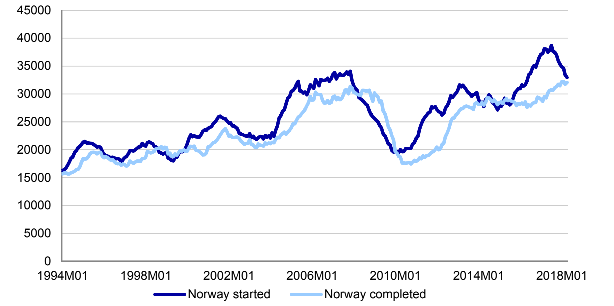
Base case Norway: The trough has passed

Nordea Markets expects Norwegian residential property prices to edge slightly higher in 2018-19. Following last year's drop, prices are more aligned with current interest rates and income trends. Indicators released in recent months clearly show that the downturn in housing prices has reversed. The number of unsold homes is declining and prices are edging upwards. A new sharp upturn is not on the cards, however, as the rate cycle has turned more negative and as supply remains high after several years of high construction activity.

Base case Sweden: Slight downside, levelling out in H1, more stable in 2019

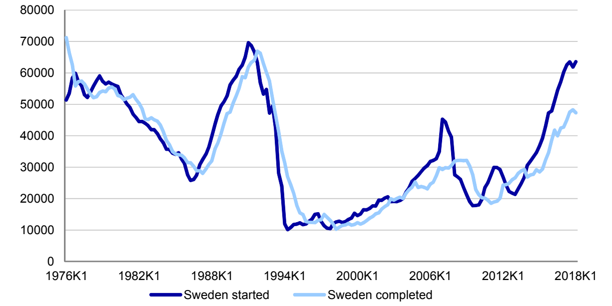
Nordea Markets expects Swedish residential property prices to fall 2-4% during H1 2018 before stabilising in H2 2018, with a more flat outlook during 2019. We believe there is some pent-up supply in the secondary market owing to uncertainty and hesitation, along with the supply from newbuilding. This needs to be cleared, after which demand should again be fully anchored by disposable incomes and low funding costs.

NORWEGIAN HOUSING STARTS AND COMPLETIONS, UNITS LTM



Source: SSB and Nordea

SWEDISH HOUSING STARTS AND COMPLETIONS, UNITS LTM



Source: SCB and Nordea

Overview of the Norwegian economy

The Norwegian economy remains healthy overall, in our view, and the economy has been aided by the recovery in oil prices during 2017 and so far in 2018. Real GDP growth came in at 1.8% for 2017 (1.1% in 2016), with the interest rate remaining at a record-low 0.5% and the NOK having stabilised/strengthened since its depreciation following the oil downturn. Moreover, the housing market has started to cool down, following a period of strong growth driven by low interest rates and high demand.

The state of the Norwegian economy

The Norwegian economy remains healthy overall, in our view, and has been positively affected by the jump in oil prices during late 2017 and early 2018. Mainland GDP growth remains positive in Norway at 1.8% for 2017 (1.0%) and appears to have turned the corner, with a ~2.4 pp increase expected for 2018, according to Nordea estimates. The Norwegian government also appears somewhat more upbeat regarding the state of the economy, due to the recovery in oil prices, which had posed a challenge, especially for the west coast. Furthermore, debt levels remain low and Norway still has a significant budget surplus, which could help to counteract an increased economic downturn, and its sovereign wealth fund is among the largest in the world, managing about NOK 8.0 trillion.

Higher interest rates and strengthening NOK

Norwegian economic growth is now well above what Norges Bank considers the potential level, and Nordea expects above-potential growth in the coming years too. Unemployment will drop further and wage growth will pick up, according to Norges Bank, which points to higher inflation and consequent higher interest rates. Nordea expects the first rate hike to be sanctioned this September and anticipates two more hikes in 2019. The prospect of higher interest rates could lead to significant NOK strengthening in H2 2018, which would drag core inflation lower, although rising wage growth should prevent to core inflation from falling below 1.5% in 2019. A slightly lower inflation rate will not stop Norges Bank. It will be forward-looking, and with rising capacity utilisation and declining unemployment it will predict rising wage and price growth in the future.

NORWAY: MACROECONOMIC INDICATORS

	2014 (NOKbn)	2015	2016	2017	2018E	2019E
Private consumption, % y/y	1,288.4	2.6	1.5	2.3	2.6	2.7
Government consumption, % y/y	692.0	2.4	2.1	2	1.7	1.8
Fixed investments, % y/y	749.5	-4	-0.2	3.5	2.6	3
- gross investmetn, mainland	523.0	-0.2	6.1	5.9	0.9	1.8
- gross investment, oil	225.6	-12.2	-16.9	-4	9	7
Stockbuilding*, % y/y	118.3	0	1.4	-0.1	0	0
Exports, % y/y	1,220.4	4.7	-1.8	0.8	2.2	2.1
- crude oil and natural gas	551.4	2.1	4.3	1.9	0.6	1.3
- other goods	343.2	6.9	-8.2	2.2	3.7	2.5
Imports, % y/y	937.2	1.6	2.3	2.2	2.8	2.6
Real GDP, % y/y	3,146.7	2.0	1.1	1.8	2.0	2.2
Real GDP (Mainland), % y/y	2,584.5	1.4	1.0	1.8	2.4	2.4
Unemployment rate, %		4.4	4.7	4.2	3.8	3.5
Current account balance, % of BNP		7.9	3.8	5.1	7.4	6.2
Core consumer prices, % y/y		2.7	3.1	1.4	1.6	1.6
Annual wages, % y/y		2.8	1.7	2.3	2.9	3.2
Current account balance (NOKbn)		246.5	118.3	168.3	256.1	222.1
Current account balance, % of GDP		7.9	3.8	5.1	7.4	6.2
Trade balance, % of GDP		5.6	0.9	2.0	3.4	1.7
General gov. budget balance (NOKbn)		188.9	124.5	145.9	253.9	220.9
General gov. udget balance % of BNP		6.1	4.0	4.4	7.3	6.2
Monetary policy rate, deposit (end of period)		0.75	0.50	0.50	0.75	1.25
USD/NOK (end of period)		8.850	8.600	8.180	7.090	6.620
EUR/NOK (end of period)		9.61	9.08	9.82	9.00	8.80
*Contribution to GDP growth (% points)						

Source: Nordea estimates

Appendix 1 – subsidiaries and joint ventures

Bane NOR Eiendom AS has approximately 25 JVs, with its ownership stake ranging from 33% to 55%, and about 40 wholly owned subsidiaries. The sole purpose of such investments is to develop new real estate projects to be disposed shortly after completion.

BANE NOR EIENDOM'S SUBSIDIARIES AS OF YEAR-END 2017

	Time of acquistion	Office	Share, %	Book Value, NOKt	Net profit, NOKt	Market Value, NOKt
BNE Asker AS	2016	Oslo	100%	23,024	24	23,024
BNE Brueland AS	2014	Oslo	100%	196	-290	21,345
BNE Cecilienborg AS	2013	Oslo	100%	-2,215	-2,184	72,157
BNE Frodegaten 23 AS	2013	Oslo	100%	-605	-392	8,120
BNE Ganddal AS	2014	Oslo	100%	1,526	5	1,526
BNE Kanalhotellet AS	2014	Oslo	100%	104,768	3,166	108,255
BNE Kløfta Bolig AS	2014	Oslo	100%	395	-53	620
BNE Langhus AS	2017	Oslo	100%	164	63	12,110
BNE Nordfjordeid AS	2015	Oslo	100%	673	-96	7,318
BNE Parkering AS	2002	Oslo	100%	15,784	2,480	36,351
BNE Schweigaardsgate 40-46 AS	2014	Oslo	100%	-2,282	-2,081	153,679
BNE Stryn AS	2015	Oslo	100%	1,632	634	7,184
BNE Strømmen AS	2013	Oslo	100%	367	-133	711
BNE Økern AS	2014	Oslo	100%	6,499	978	7,731
Brakerøya tomteselskap AS	2016	Oslo	100%	16,344	1,009	17,250
Byterminalen StavangerAS	2016	Oslo	100%	3,687	3,442	17,237
Drammen Stasjon Felt A2 AS	2017	Oslo	100%	425	-77	9,092
Drammen Stasjon Hotell AS	2016	Oslo	100%	72	-358	925
Fosnagaten 12 AS	2013	Oslo	100%	3,740	274	4,113
Grenstølveien 40 AS	2013	Oslo	100%	-2,943	86	5,911
Grønland 21 AS	2012	Oslo	100%	-707	193	49
Inkubator Sundland	2001	Drammen	95.6%	8	-	8
Jembaneveien 27 AS	2013	Oslo	100%	497	317	958
Lierstranda tomteselskap AS	2016	Oslo	100%	4,630	490	5,024
Malmskriverveien 18-20 AS	2000	Oslo	100%	168	2	166
Moss Tomteselskap AS	2006	Oslo	100%	195	1	195
Professor Smiths Hage Utvikling AS	2005	Oslo	100%	26,799	-154	28,411
Quadrum AS	2005	Oslo	100%	346	-661	34,328
Rom 254 Vikersund ASVikersund	2017	Oslo	100%	411	-89	14,312
Rom C6 AS	2015	Oslo	100%	2,131	856	2,403
Rom Lagårdsveien felt G AS	2015	Oslo	100%	1,555	-	1,554
Rom Lagårdsveien felt I AS	2015	Oslo	100%	2,017	-	2,018
Rom Lagårdsveien veiareal AS	2015	Oslo	100%	2,025	14	2,029
Rom Lierstranda AS	2014	Oslo	100%	43,439	-277	43,439
Rom Orkanger AS	2013	Oslo	100%	-140	-129	9,082
Rom Paradis 1 AS	2014	Oslo	100%	75,453	46,922	106,256
Rom Riverside AS	2014	Oslo	100%	19,936	-63	26,820
Rom Schweigaardsgate 33-1 AS	2012	Oslo	100%	7,535	-264	38,919
Rom Schweigaardsgate 33-2 AS	2012	Oslo	100%	101	-	102
Rom Schweigaardsgate 35-51 AS	2015	Oslo	100%	418	-68	769
Rom Schweigaardsgate 51 I AS (A)	2012	Oslo	100%	-2,612	-119	7,383
Rom Schweigaardsgate 51 II AS (B)	2012	Oslo	100%	-1,093	106	4,839
Rom Schweigaardsgate 51 III AS (C)	2012	Oslo	100%	-490	115	4,366
Rom Schweigaardsgate 51 IV AS (D)	2012	Oslo	100%	-1,433	13	4,777
Rom X6 AS	2014	Oslo	100%	423	-2,761	423
Skien Brygge AS	2015	Oslo	100%	469	-16	470
Skøyen Knutepunkt Utvikling AS	2016	Oslo	100%	485	-16	668
Sundland Eiendom AS	2000	Oslo	100%	6,059	30	7,469
Trolløya Eiendom AS	2013	Oslo	100%	1,554	140	7,298
Trondheim Sentralstasjon Utv. AS	2010	Oslo	100%	93	-	94
SUM				**361,523**	**51,079**	**869,288**

Source: Company data and Nordea

BANE NOR EIENDOM'S JOINT VENTURES AS OF YEAR-END 2017

	Time of acquistion	Office	Share, %	Book Value, NOKt	Net profit, NOKt	Market Value, NOKt
Bellevue Utvikling AS	2006	Fredrikstad	50%	1,952	-182	2,152
Gjøvik Utvikling AS	2013	Gjøvik	50%	24,247	319	36,250
Grefsen Utvikling AS	2000	Bærum	50%	172,012	76,395	456,789
Hegstadmyra Utvikling AS	2016	Oslo	50%	29,589	19,091	29,744
Hokksund Vest Utvikling AS	2013	Oslo	50%	3,807	40	5,501
Jernbanebrygga 63 AS	2011	Skien	50%	12,697	597	28,028
Jessheim Byutvikling AS	2007	Ullensaker	50%	126,084	-1,675	197,075
Kammerherreløkka AS	2007	Oslo	50%	10,478	-341	13,303
Lagårdsveien Utvikling AS	2012	Oslo	50%	1,826	-294	10,556
Lilleelva Parkering AS	2011	Oslo	50%	16,717	451	34,898
Oslo S Parkering	2017	Oslo	25%	19,601	26,899	108,674
Oslo S Utvikling AS	2000	Oslo	33%	924,649	60,773	4,293,398
Paradis Boligutvikling 1 AS	2016	Oslo	55%	59,000	-2,638	186,090
Perleporten Asker AS	2017	Oslo	50%	100	-	100
Sagtomta Utvikling Mysen AS	2016	Mysen	50%	1,042	-421	4,167
Snipetorp AS	2013	Oslo	50%	6,968	-1,499	7,368
Sjøsiden Moss AS	2015	Moss	50%	4,107	-1,203	4,407
Strandsonen Utvikling AS	2007	Hamar	50%	3,012	30	7,136
Trondheim Stasjonssenter AS	2013	Trondheim	40%	9,619	-	10,228
Vikersund Utvikling AS	2016	Modum	50%	1,395	-516	12,085
SUM				**1,428,902**	**175,826**	**5,447,949**

Source: Company data and Nordea

Reported numbers and forecasts

INCOME STATEMENT

NOKm	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Total revenue	569	633	641	713	684	746	829	845	871	914
- growth	n.a.	11.2%	1.3%	11.2%	-4.1%	9.2%	11.1%	2.0%	3.0%	5.0%
NOI	356	381	430	479	415	511	633	645	665	698
- margin	62.6%	60.2%	67.1%	67.2%	60.6%	68.5%	76.4%	76.3%	76.3%	76.3%
EBITDA	447	913	335	1,318	744	536	479	485	1,210	533
- margin	78.6%	144.2%	52.3%	184.9%	108.8%	71.8%	57.8%	57.4%	138.9%	58.3%
EBITA	333	781	181	1,138	572	348	275	270	985	298
- margin	58.5%	123.4%	28.2%	159.6%	83.6%	46.6%	33.2%	32.0%	113.1%	32.6%
EBIT	333	781	117	1,112	572	348	275	270	985	298
- margin	58.5%	123.4%	18.3%	156.0%	83.6%	46.6%	33.2%	32.0%	113.1%	32.6%
Value changes	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pre-tax profit	186	613	262	1,103	635	311	190	210	920	228
Taxes	-21	-47	19	-45	-112	-25	-32	-42	-184	-46
Net profit, continuing operation	165	566	281	1,058	523	285	158	168	736	182
Discontinued operations	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net profit to equity	165	566	281	1,058	523	285	158	168	736	182
EBITDA (credit adj)	220	228	270	335	267	345	415	405	410	433
EBIT (credit adj)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Interest expense (credit adj)	177	178	153	101	72	160	157	175	180	185

Source: Company data and Nordea estimates

BALANCE SHEET

NOKm	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Goodwill	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0	0	0
Other intangibles	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0	0	0
Tangible assets	3,516	3,803	4,739	4,014	4,191	4,508	4,752	5,383	6,028	6,707
Shares associates	0	5	649	680	544	589	513	613	713	813
Interest bearing assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0	0	0
Deferred tax assets	0	69	0	73	14	16	4	4	4	4
Other non-interest bearing non-	31	334	25	75	80	80	110	110	110	110
Other non-current assets	0	0	0	0	0	0	0	0	0	0
Non-current assets	3,547	4,211	5,413	4,842	4,829	5,192	5,378	6,109	6,854	7,633
Inventory	2,433	2,336	1,074	1,458	1,530	932	1,025	1,025	1,025	1,025
Accounts receivable	659	430	301	1,676	927	713	400	400	400	400
Other current assets	0	0	0	0	0	2	0	0	0	0
Cash and cash equivalents	60	63	92	2	13	159	329	44	293	243
Current assets	3,152	2,829	1,466	3,136	2,470	1,806	1,754	1,469	1,718	1,669
Assets held for sale	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0	0	0
Total assets	6,699	7,040	6,880	7,978	7,298	6,998	7,133	7,578	8,572	9,302
Shareholders equity	1,158	1,608	1,570	6,297	3,212	676	739	858	1,094	1,226
Minority interest	0	0	0	0	0	1	0	0	0	0
Deferred tax	42	0	-51	0	0	0	0	0	0	0
Convertible debt	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0	0	0
Long term interest bearing debt	4,279	3,898	4,460	874	3,321	2	5,545	5,845	5,995	6,195
Non-current liabilities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	27	636	1,034
Pension provisions	39	58	63	75	63	69	0	0	0	0
Other long-term provisions	89	86	7	7	7	27	33	33	33	33
Other long-term liabilities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0	0	0
Non-current liabilities	4,449	4,042	4,479	956	3,391	99	5,578	5,905	6,664	7,262
Short-term provisions	33	127	38	41	40	37	25	25	25	25
Accounts payable	1,008	894	792	684	656	379	361	361	360	359
Other current liabilities	0	0	0	0	0	0	11	11	11	11
Short term interest bearing deb	52	368	0	0	0	5,806	417	417	417	417
Current liabilities	1,093	1,389	830	725	695	6,222	815	815	814	813
Liabilities for assets held for sa	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0	0	0
Total liabilities and equity	6,699	7,040	6,880	7,978	7,298	6,998	7,133	7,578	8,572	9,302
Cash and cash eq (credit adj)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	33	68	23
Total assets (credit adj)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Shareholders equity (credit adj)	n.a.	n.a.	n.a.	n.a.	n.a.	7,863	10,201	10,319	10,556	10,688
Debt (credit adj)	4,286	4,219	4,391	873	3,312	5,689	5,716	6,186	5,900	6,187

Source: Company data and Nordea estimates

CASH FLOW STATEMENT

NOKm	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
EBITDA	447	913	335	1,318	744	536	479	485	1,210	533
Adj due to change in group stru	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Change in Provisions	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other non-cash adjustments	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0	0	0
Net financials	n.a.	n.a.	157	82	-85	-156	-145	-160	-164	-170
Dividends received	n.a.	n.a.	284	77	119	99	71	100	100	100
Paid taxes	n.a.	n.a.	19	-45	-112	-25	-32	-11	-46	-11
Other	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-1	0	0	0
Operating cash flow before NW	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Change in NWC	n.a.	n.a.	1,289	-1,867	648	533	215	0	-1	-1
Operating cash flow	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
CAPEX	n.a.	n.a.	-1,106	-419	-589	-442	-411	-1,200	-1,100	-900
Free Operating cash flow	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Dividends paid	n.a.	n.a.	-446	-212	-367	-2,715	0	-150	-600	-150
Share issues / buybacks	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0	0	0
Discretionary cash flow	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other investments / divestment	n.a.	n.a.	0	-59	-20	-66	-193	0	0	0
Other	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Proceeds from sale of assets	n.a.	n.a.	279	1,887	498	276	376	350	700	350
Net change to group borrowing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other	n.a.	n.a.	n.a.	-671	n.a.	-136	-124	0	0	0
Change in cash	60	3	28	-90	11	146	170	-285	249	-49
Adjusted metrics										
Funds from operations (FFO) (a	43	50	117	234	194	185	258	230	230	248
Operating cash flow (OCF) (adj	0	0	326	-1,484	1,389	782	366	415	1,099	451
Free operating cash flow (FOC	0	0	-779	-1,903	800	340	-45	-785	-1	-449
Discretionary cash flow (DCF) (	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Company data and Nordea estimates

KEY RATIOS

Profitability	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
ROC	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
ROIC after tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
ROE after tax	n.a.	40.9%	17.7%	26.9%	11.0%	14.7%	22.3%	21.1%	75.5%	15.7%
Debt & Interest coverage	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
FFO/Debt	1.0%	1.2%	2.7%	26.8%	5.9%	3.2%	4.5%	3.7%	3.9%	4.0%
FOCF/Debt	0.0%	0.0%	-17.7%	-218.0%	24.2%	6.0%	-0.8%	-12.7%	0.0%	-7.3%
DCF/Debt	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBITDA interest coverage	1.2	1.3	1.8	3.3	3.7	2.2	2.6	2.3	2.3	2.3
Fixed-charge coverage	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Leverage	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Loan-to-value	n.a.	n.a.	n.a.	n.a.	n.a.	50.3%	42.4%	42.6%	41.8%	41.2%
Equity ratio	17.3%	22.8%	22.8%	78.9%	44.0%	9.7%	10.4%	11.3%	12.8%	13.2%
Debt/(Debt+Equity)	n.a.	n.a.	n.a.	n.a.	n.a.	0.4	0.4	0.4	0.4	0.4
Capital expenditure	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
CAPEX/Depreciation and amor	n.a.	n.a.	5.07	2.04	3.42	2.35	2.02	5.58	4.89	3.83
CAPEX/Sales	n.a.	n.a.	-1.72	-0.59	-0.86	-0.59	-0.50	-1.42	-1.26	-0.98
Working capital ratios	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Inventory turnover (days)	1,561	1,347	611	747	817	456	452	443	430	409
Receivables turnover (days)	423	248	171	858	495	349	176	173	168	160
Days sales outstanding (days)	646	516	451	350	350	185	159	156	151	144
Per share data	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
EPS	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EPS (adj.)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BVPS	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Equity valuation and yield	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Market cap.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Enterprise value	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
P/E	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
P/BV	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EV/Sales	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EV/EBITDA	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Dividend yield	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Payout ratio	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Company data and Nordea estimates

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Outperform
Over the next three months we expect the performance of this fixed income instrument to exceed the performance of the relevant index, sector or benchmark

Market perform
Over the next three months we expect the performance of this fixed income instrument to be in line with the performance of the relevant index, sector or benchmark

Underperform
Over the next three months we expect the performance of this fixed income instrument to fall short of the performance of the relevant index, sector or benchmark

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Recommendation	Count	% Distribution
Outperform	130	29%
Market perform	199	44%
Underperform	123	27%
Total	452	100%

As of 1 April 2018

Completion Date

08 Jun 2018, 10:45 CET

Market-making obligations and other significant financial interest

Nordea Markets has no market-making obligations in Bane NOR Eiendom AS

Investment banking transactions

Nordea has a role as joint bookrunner in the contemplated bond issuance of Bane NOR Eiendom AS.

Distribution of recommendations (transactions)*

Recommendation	Count	Distribution
Outperform	79	33%
Market perform	99	41%
Underperform	61	26%
Total	239	100%

As of 1 April 2018

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