COMPANY NOTE

KBC Securities

7 September 2009

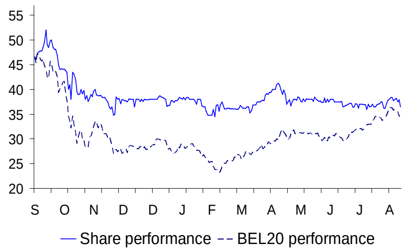
ATENOR

Positioning for the next cycle

REAL ESTATE
BELGIUM

CURRENT PRICE € 36.50
TARGET PRICE € 40.00

ACCUMULATE
RATING UNCHANGED



FY/e 31.12	2008	2009E	2010E	2011E
Current Result (€ m)	41.3	9.6	13.1	18.9
Portfolio Result (€ m)	n.r.	n.r.	n.r.	n.r.
Net Profit (€ m)	41.3	9.6	13.1	18.9
Diluted Adjusted EPS	8.20	1.91	2.61	3.76
NAV	25.0	24.3	24.3	25.5
P/E	5.29	19.10	13.99	9.71
EV / EBITDA	n.r.	n.r.	n.r.	n.r.
DPS	2.60	2.60	2.60	2.60
Dividend Yield	6.0%	7.1%	7.1%	7.1%

Source: KBC Securities

Bloomberg	ATEB BB
Reuters	ATEO.BR
www.atenor.be	
Market Cap	€ 183m
Shares outst.	5.0m
Volume (Daily)	€ 0.08m
Free float	40.6%

Next corporate event

Trading update 3Q09: 19 November 2009

Performance	1M	3M	12M
Absolute	-1%	-4%	-21%
Rel. BEL20	-7%	-15%	8%

12-m Hi/Lo	€ 52.00/34.50

Since the strategic shift towards a pure play developer in 2005 Atenor has outperformed the sector by nearly 150% (!). Will the alpha continue? Is the management team able to show another President-like performance? Is it able to turn the CEE projects into a profit?

- **Comparative advantage – solid capital base.** With a 2009E gearing ratio (net debt / equity) of 12%, Atenor's strong balance sheet puts it on the front foot versus many of its competitors. We believe this should allow getting access to attractive new development sites without jeopardizing the higher equity component required for the existing projects.

- **Short-term challenges vs. long-term potential.** Management is taking a cautious but yet dynamic approach re the CEE projects, highlighting it is ready to exploit any window of opportunity (pre-letting, improvement in the underlying economy) to position the projects for the next cycle. Today we are unwilling to pay upfront for these potential gains. Nevertheless, on the back of its Belgian projects – for which we believe the potential is intact – the company should be able to show a reasonable profit over 2010 although arguably the real potential lies further ahead.

- **Investment case.** With no project specific issues and a strong balance sheet, we believe that even despite the challenging operating background risks are skewed to the upside. The sustainable 7% dividend yield is also lending support. We stay cautiously optimistic, reflected by our Accumulate rating.

Mickaël Van den Hauwe
Financial Analyst - Brussels
KBC Securities NV
+32 2 429 37 21
mickael.vandenhauwe@kbcsecurities.be

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EXECUTIVE SUMMARY

Short-term challenges, but preparing for the next cycle on the back of a strong balance sheet

Against the backdrop of a challenging operating environment and the earnings impact of the President project fading, the first semester has obviously been less sexy than before but we see company still able to post reasonable results during the downturn and the strong balance sheet allows it to exploit the cycle in its favour.

Share rating Accumulate with a € 40 TP

The shares are now trading at 10x average earnings over the next 5y (excl. CEE impact) and the stable shareholder remuneration (7% dividend yield) is supported by the strong balance sheet. Risk is probably more on the upside as projects get de-risked, albeit too early to attach full value to (unsecured) development profits when the cycle is still working against the company. We maintain our Accumulate rating.

- The main impact of the crisis will be the timing of projects which will be pushed forward and phased as management may want – or indeed have to – show more prelettings/pre-sales before starting construction. This will also be required to attract construction financing. With the Media Gardens project already pre-sold, management has already fixed a large portion of 2010 earnings. South City could boost profit to a reasonable level but the main upside lies further ahead.

- The >€ 50m equity investment in the land in the CEE projects is still a big uncertainty. We are reassured that the management is adopting a cautious approach (it invested 10% in these schemes), but at present the economics of pushing ahead with the construction are not favourable (falling rents, rising yields, dampened demand, balance sheet impact). The team highlights it is postponing a decision to when it sees a window of opportunity (pre-lettings, economic outlook improving).

- In contrast to the short-term question mark above, we believe the potential of the existing Belgian portfolio is intact, as demonstrated by recent milestones. Will the team now be able to show an exceptional profit on the Premium project?

- Management notes it is prioritizing the development of its existing projects, which will also require more equity given current market circumstances. At present there are no concrete investment targets, but we would assume in a dysfunctional market that the group should be able to get its hands on attractive development sites. This will become increasingly important as projects approach maturity (President, South City, Media Gardens) and is underpinned by the strong balance sheet (2009E gearing of 12%).

KBC Securities

7 September 2009

SWOT ANALYSIS

STRENGTHS

- Exceptional management track record in real estate development and alignment of interests with shareholders
- The balance sheet strength has put Atenor in a comfortable position
- Tax optimization through the use of SPVs and tax-loss carry forwards on the holding level

WEAKNESSES

- Equity investment in land in CEE at a price nearer peak-cycle levels is questionable
- Short-term visibility on earnings is limited, despite the longer-term potential being intact
- How will the residential component in the Premium project be perceived by the market? Arguably, this could become an opportunity as well.

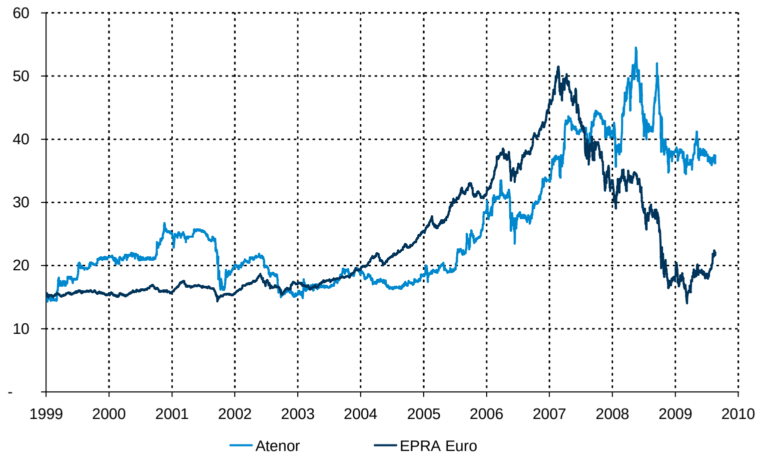
OPPORTUNITIES

- Exploiting market turmoil to gain access to interesting development sites
- The balance sheet strength to move ahead with some projects and look through the cycle could open up opportunities
- Further lettings in President could lead to a partial reversal of the provision for rental guarantee.

THREATS

- Falling rents and rising yields making the economics of certain projects unclear
- Risk of erosion on RoE by having to plough available cash in to the construction of some projects
- Prolonged weakness in the economy is pushing forward planned project execution dates

SHARE PRICE DEVELOPMENT



Source: Bloomberg, KBC Securities

RECAP ON 1H09

SEVERAL PROJECT MILESTONES REACHED

Slower pace of de-risking projects

The unfavourable climate led to a lack of positive surprises in the results (although there were no bad surprises either), but we nevertheless detected a number of crucial steps in the de-risking of the ongoing development projects: i) the sale of the remainder of the Media Gardens project before the start of construction, ii) a lease has been found for the South City hotel, iii) capital discipline is being maintained with respect to the CEE projects, i.e. construction has yet to be launched.

HIGH QUALITY BALANCE SHEET

Still key to the equity story and a comforting position as a developer

After a slight delay, the final result and the reversal of the capital tied up in President should be booked in 2H09. Management reckons on net debt of € 15m at year-end, which should translate into gearing (net debt / equity) of around 12% versus 55% at 1H09. Correcting for gross project debt, the available liquidities should on our assumptions be >€ 50m. With bank financing difficult to obtain and projects requiring a higher equity component, this will in the short term be used for the early phases of the CEE projects. Also note that the first phase of construction is usually less cash absorbing so this should not substantially impact 2010 net debt.

BALANCE SHEET ANALYSIS

€ m	2006A	2007A	2008A	1H09A	2009E
Fixed assets	15.5	56.0	46.4	61.3	66.3
Net assets to be transferred	15.9	-	-	-	-
WCR	93.2	16.8	123.2	137.0	86.2
Shareholders' equity	75.6	103.0	125.9	118.0	122.4
Minority interest	0.2	0.1	(0.4)	(0.6)	(0.6)
Net financial debt	36.2	(42.7)	28.2	65.2	15.0
Other LT liabilities	12.5	12.6	15.9	15.6	15.6
Capital invested	124.5	72.9	169.6	198.3	152.4
Number of shares - fully diluted	5.038	5.038	5.038	5.038	5.038
NAV - fully diluted	15.0	20.4	25.0	23.4	24.3
Chg yoy	n.r.	36%	22%	52%	13%
Net debt / equity	48%	-41%	22%	55%	12%

Source: Atenor, KBC Securities

OUTLOOK

Atenor showed a profit of € 7.2m during the first semester mainly as a result of the final construction phase of President. The gap with the KBCS est. of € 5.0m comes from an accounting gain on the set-up of the joint-venture for the Victor project. We do not focus on the yoy performance (-55%) since this is irrelevant given the business model and especially after the exceptional performance last year.

Dividend should be kept stable at normalized level

2H09 should see an additional impact from President of at least € 4m (KBCS est.) and we show net earnings of € 9.6m for the full year. This compares to a dividend of € 13m, but we believe the € 2.60 per share will be kept stable since this is a realistic through-the-cycle level. Management has previously indicated it is in favour of a stable dividend and in our view this would also send a signal of confidence to the market. We believe this is largely backed up by the strong balance sheet.

After having pre-sold Media Gardens and with South City 50% pre-let on a long-term basis, the potential for 2010 is already reasonable, especially given current market conditions. By our judgement, 2011 has the potential to be a strong year on the back of the Premium project.

P&L ANALYSIS

€ m	2007A	2008A	2009E	2010E	2011E	2012E
Development surplus	33.4	50.6	14.8	19.1	24.9	29.9
Congo receivable	2.8	0.1	-	1.4	1.4	-
Corporate cost	(3.7)	(5.0)	(5.5)	(5.5)	(5.5)	(5.5)
Deferred taxes	2.9	-	-	-	-	-
Other	0.0	(4.5)	0.3	(1.8)	(1.8)	(0.6)
Net result – group	35.4	41.3	9.6	13.1	18.9	23.8
EPS	7.03	8.20	1.91	2.61	3.76	4.72
chg yoy	159.9%	16.6%	-76.7%	36.5%	44.0%	25.7%
DPS	2.60	2.60	2.60	2.60	2.60	2.60
chg yoy	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Payout	37%	32%	136%	100%	69%	55%

Source: KBC Securities

PORTFOLIO

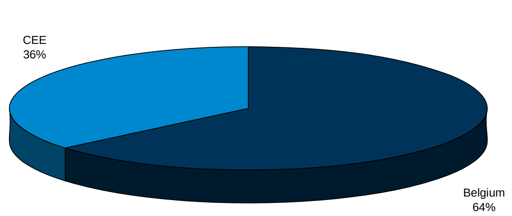
CEE EXPOSURE THE MAIN UNCERTAINTY

CEE gaining importance in the portfolio

After President, the total surface in development now stands at >400,000m² but the net exposure is nearer 325,000m² after correcting for partnerships. The main focus is still on the core Belgian market (64%) but exposure to CEE is increasing (36%).

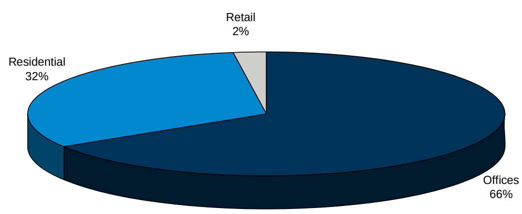
Whereas the Brussels office market remains core to Atenor, the size of this market – which is too concentrated – and its complexity have enticed management to look increasingly at other markets. Being invested in large-scale projects in the Brussels North, South & Leopold district, it would be tough to further increase exposure without a risk of cannibalism. We nevertheless wonder whether venturing into CEE has really improved the risk/reward profile.

PORTFOLIO BREAKDOWN BY REGION 1H09A



Source: Atenor, KBC Securities

PORTFOLIO BREAKDOWN BY TYPE 1H09A



Source: Atenor, KBC Securities

FOCUS ON SCALE/POTENTIAL/RECURRENCE OF EARNINGS

The company now has 8 projects under management, balanced between AAA office complexes (53%), major mixed urban projects (30%) and residential developments (17%).

Note that for the 4 projects added last year, the management team will participate directly in the equity of the SPVs by taking a 10% joint interest.

In CEE, Atenor has teamed up with two local partners in Budapest and Bucharest who will act as local project managers but will not participate as equity partners and will thus work on the basis of a regular fee structure.

PROJECT PIPELINE - OVERVIEW

Project	Location	Equity investment (*)	GLA (m²)	Atenor share	Est. capital gain (€ m) (*)	Est. capital gain (€/m²)	Delivery
Pixel	Luxembourg	9.0	7,344	100%	16.1	2,185	sold
President	Luxembourg	37.0	30,000	100%	89.8	2,992	sold
Vue sur Hain	Belgium	2.8	9,365	100%	0.6	64	sold
South City	Belgium	7.6	40,010	40%	6.9	429	2009-10
I.D.M. ~ Media Gardens	Belgium	2.5	28,500	100%	16.3	571	2009-10
Premium	Belgium	18.0	79,850	100%	30.1	377	2011-12
Brussels Europa	Belgium	25.0	30,000	100%	23.4	781	2015
Victor	Belgium	6.3	80,000	32%	11.0	426	2011
Port du Bon Dieu	Belgium	4.5	30,000	90%	9.6	354	2011-12
Hermes Business Campus	Romania	33.3	70,000	90%	n.r.	n.r.	2010-11
Vaci Ut	Hungary	19.8	60,000	90%	n.r.	n.r.	2011-12
Total		**165.8**	**465,069**		**203.7**	**549**	

Source: KBC Securities, (*) Atenor share

We assume Atenor is capable of realizing € 110m in development gains (€ 22 per share and excluding CEE) with its existing project pipeline over the 2009-14 period. Accounting for inherent risks (authorizations, timing, budget, letting/investment market), this should be discounted significantly to € 14 per share when we apply a cost of equity of 15%. We allow for further upside over time by gradually upgrading our conservative assumptions once visibility allows us to do so.

PROJECT PIPELINE – ESTIMATED DEVELOPMENT SURPLUSES

Project	Location	2007A	2008A	2009E	2010E	2011E	2012E	2013E	2014E
Pixel	Luxembourg	4.9	0.4						
President	Luxembourg	28.6	49.6	14.8					
Vue sur Hain	Belgium		0.6						
South City	Belgium				6.9				
I.D.M. ~ Media Gardens	Belgium			4.1	12.2				
Premium	Belgium					15.1	15.1		
Brussels Europa	Belgium								23.4
Victor	Belgium						11.0		
Port du Bon Dieu	Belgium					5.7	3.8		
Hermes Business Campus	Romania								
Vaci Ut	Hungary								
Surplus		**33.4**	**50.6**	**14.8**	**19.1**	**24.9**	**29.9**	**-**	**23.4**

Source: KBC Securities

ANALYSIS OF DEVELOPMENT SCHEMES

As a property developer, Atenor continues to recycle capital employed in its projects. We provide an overview of its current development projects.

PRESIDENT

Delay should not harm earlier guidance on earnings contribution

Having acquired the land at very high prices in a lacklustre market back in 2004 (actual payment was made at the end of 2006) and going through a very lengthy zoning and permitting procedure, the risks have resulted in an impressive payoff. Atenor was able to take advantage of the booming Luxembourg market to sell this project off-plan in March 2007 and realize a gain of at least €/m² 3,000 or € 90m. Most of the profits have already been recognized over 2007-08 with the remaining € 12m over 2009. We understand there have been some delays in delivering the project due to the defaulting of a subcontractor leading to a contribution of € 8m versus the initially foreseen € 12m. The difference relates to provisions taken for penalties towards the acquirer of the project. Management has indicated it should be able to recover this in full from the general contractor over the second half, leading to a net contribution of € 4m.

The cash flow impact on the 2009 accounts is substantially higher with the balance (KBCS est. € 50m) to be paid upon delivery of the buildings in 3Q09.

Zoning: yes
Permits: yes
Delivery: 3Q09

PRESIDENT PROJECT

Project details		Return analysis (€ / m²)	
Equity investment (€ m)	37.0	Rental value	385
Atenor share	100%	Exit yield	5.50%
		Sales price	6,993
Country	Luxembourg		
City	idem	- cost to build (all-in)	(2,600)
		- demolition & risk margin	(150)
GLA (m²)	30,000	- land	(1,233)
__residential	-	- tax @ 0%	-
__offices	30,000		
__retail	-	Net capital gain	3,009

Source: KBC Securities

There is additional upside (€ 8m) stemming from undiscounting the 18-month rental guarantee on the unlet parts (63%) of the project but the environment is not supportive and the building was sold on the basis of an uncompetitive rent of €/m²/month 31. Management may want to negotiate putting the surfaces on the market at a lower rent in return for longer leases since there is a price adjustment mechanism that kicks in when long leases are secured (in which case the acquisition yield is revised down). In this respect, the 6 month delay of the project could prove beneficial, but we would consider this as potential windfall profit.

MEDIA GARDENS

Fully pre-sold before construction was launched

This is a residential project in Brussels on a site that dates back from the private equity period (i.e. the site has a negligible value in the accounts). The construction is part of a 28,500m² project which has largely been de-risked. Atenor already sold 25% to Aedifica under a forward purchase agreement and it recently sold the remainder of the project to Optima Financial Planners. The latter will continue to manage the unit sales (15% sold to date) and will also act as a project manager, but it is obliged to acquire all the units by end 2010. As a consequence Atenor was also able transfer the remaining risks (commercialization, construction, timing) and move forward the capital gain by 2 years.

We estimate the average net capital gain at >€/m² 550. Note (gross) capital gains will be taxed at 17% in the case of Aedifica (exit tax for REIT conversion) and at 34% for the remainder (unit sales). The former transaction was settled at an exit yield of 5.5%. Management say that the second transaction is as profitable as the first, having adjusted the sale price for management costs, marketing expenses and timing risks. The earnings impact on 2009 should be marginal, with the largest component coming in 2010.

Zoning: yes
Permits: yes
Delivery: 2009-10

MEDIA GARDENS PROJECT

Project details		Return analysis (€ / m²)	
Equity investment (€ m)	2.5	Rental value	110
Atenor share	100%	Exit yield	5.50%
		Sales price	2,000
Country	Belgium		
City	Brussels	- cost to build (all-in)	(1,000)
		- demolition & risk margin	(100)
GLA (m²)	28,500	- land	(88)
__residential	25,000	- tax @ 17% & 34%	(242)
__offices	-		
__retail	3,500	Net capital gain	571

Source: KBC Securities

SOUTH CITY

Proceeding ahead of schedule

In partnership with BPI (Batipont Immobilier, the real estate division of CFE), Atenor in 2005 acquired Huizenblok C, a 66 acre plot of land in the immediate vicinity of the South Station and the HST Terminal. The project concerns the building of around 32,000m² of office space in two phases and the construction of an 8,000m² hotel. Atenor reduced its initial equity stake in the JV structure from 70% to 40% in 1H06 as a third partner entered the project.

Construction is slightly in advance and deliveries are scheduled in 1Q10, 4Q10 and 1Q11. Last year Atenor was successful in renting out 12,000m² of the office part (30% of the overall project) to Smals-MvM, an ICT company, on a long-term (27y) irrevocable leasing agreement. An option was also granted on an additional 5,000m².

In 1H09, Atenor also signed a 20y management contract with Rezidor Group for its Park Inn brand. This puts the pre-letting rate at 51%. Letting the remainder of the office component is now crucial. The climate is challenging but the vacancy rate in the South district is only 1.5%, leaving few to no options for large enterprises wanting accommodation near the Thalys station. This could be one of the triggers going into 2010.

Zoning: yes
Permits: yes
Delivery: 2009-11

SOUTH CITY PROJECT

Project details		Return analysis (€ / m²)	
Equity investment (€ m)	19.0	Rental value ~ blended	180
Atenor share	40%	Exit yield	6.00%
		Sales price	3,004
Country	Belgium		
City	Brussels	- cost to build (all-in)	(2,000)
		- risk margin	(100)
GLA (m²)	40,010	- land	(475)
__hotel	7,260	- tax @ 0%	-
__offices	32,250		
__retail	500	Net capital gain	429

Source: KBC Securities

PREMIUM

A bold project…but the risk could well yield opportunities

This is a large-scale urban regeneration project for which zoning plans have been approved in a push by the regional authorities to rejuvenate the whole area. In December 2008 management applied for permits (expected by mid 2010) for a 140m tower and a smaller block with villa style apartments encompassing 49,000m² of residential, 30,000m² of offices and 1,600m² of small retail. The zoning plan includes a tower project but the allowed height remains uncertain.

Zoning: yes
Permits: no
Delivery: 2011-12

PREMIUM PROJECT

Project details		Return analysis (€ / m²)	
Equity investment (€ m)	18.0	Rental value ~ blended	141
Atenor share	100%	Exit yield	6.49%
		Sales price	2,177
Country	Belgium		
City	Brussels	- cost to build (all-in)	(1,500)
		- risk margin	(75)
GLA (m²)	79,850	- land	(225)
__residential	48,650	- tax @ 0%	-
__offices	29,600		
__retail	1,600	Net capital gain	377

Source: KBC Securities

Projects on the other side of the canal have been successful, but we wonder whether in the medium-term the market is ready to absorb such a large project targeted at the high-end of the market in a district that still requires extensive upgrading. The pre-marketing of the project should start next year and management has highlighted that it is comfortable with the concept, having already received noticeable interest in the tower project.

Atenor will probably want to show some pre-sales, as it was able to do for the 30,000m² office component, which has a pre-letting rate of 50%. This is a solid performance when we consider that the North district faces a number of speculative development completions and is probably explained by the focus on SMEs rather than large corporations. Considering the €125m (KBCS est.) construction cost, the pre-letting/pre-sales will probably also be crucial in attracting non-recourse bank debt.

Risk is skewed to the upside

We factor in a surplus of €/m² 375, with the profitability contained in the office component and the land component being diluted by the tower project, for which construction costs are elevated as a result of the complexity. Also note that Atenor will be able to monetize its deferred tax assets previously recognized through the P&L when it sells the resi-component of the Premium project, since we understand this project is being managed from within the holding company.

BRUSSELS EUROPA

Long lead time has eroded the IRR

In 2005, Atenor acquired the shares of NV Brussels Europa, which operates the Europe Crowne Plaza Hotel and also owns the building. We estimate the initial equity investment at € 15m but a closer look shows that this is really € 25m, since the SPV also carried € 10m of debt. Located in the Leopold District, in the heart of the European district, this site and building offer extraordinary redevelopment potential.

At present, Atenor is maintaining the hotel operations which delivered a positive operating result of € 2.0m in 2008 and probably <€ 1.0m in 2009E. The franchise contract with Intercontinental (parent company of Crowne Plaza Hotel chain) runs till end 2009 and is not formally renewable but could be renewed on an annual basis if the hotel meets all the requirements.

Unlike the other projects, the interest expenses on the mortgage loans are being charged in the P&L and the site is being depreciated taking into account the long lead time of the project.

Zoning: yes
Permits: no
Delivery: 2014

BRUSSELS EUROPA PROJECT

Project details		Return analysis (€ / m²)	
Equity investment (€ m)	25.0	Rental value	223
Atenor share	100%	Exit yield	6.00%
		Sales price	3,714
Country	Belgium		
City	Brussels	- cost to build (all-in)	(2,000)
		- risk margin	(100)
GLA (m²)	30,000	- land	(833)
__residential	-	- tax @ 0%	-
__offices	29,000		
__retail	1,000	Net capital gain	781

Source: KBC Securities

The original plan was to develop a landmark tower, but negotiations with the authorities are proving lengthy. With the existing zoning plan, the developable surface is around 30,000m² versus 50,000m² for a tower project. Atenor will exercise the call option in 2013 on the adjacent Belgacom site. This is required in order to realize the project in its existing form. Demolition of the existing site should start in 2012, with construction possibly being completed sometime in 2014 or 2015.

In absolute terms, this will be a very profitable project since the real value lies in the acquisition of the depressed hotel asset. Nevertheless, the timing aspect should be taken into account as well given the 7-8y lead time. We calculate the IRR at 15%.

VICTOR

Favourable outlook for South district

Located in the Brussels South district right in front of the Thalys station, the 2,300m² site Atenor acquired in 2007 is prime. Last year Atenor teamed up with Breevast & CFE to pool the adjacent sites they own, totalling 7,500m², to erect an 80,000m² office project. Further details on this project are unavailable, but construction permits are not anticipated until 2Q11. The timing should also avoid competition with Atenor's other project in the Brussels South region.

Note that Atenor's share (incl. the management stake) could increase from 36% to 50% since Breevast has an option expiring at year-end, providing the opportunity to sell its land to the consortium in cash and walk away from the joint venture.

Zoning: yes
Permits: no
Delivery: 2011

VICTOR PROJECT

Project details		Return analysis (€ / m²)	
Equity investment (€ m)	19.4	Rental value	180
Atenor share	32%	Exit yield	6.50%
		Sales price	2,769
Country	Belgium		
City	Brussels	- cost to build (all-in)	(2,000)
		- risk margin	(100)
GLA (m²)	80,000	- land	(243)
__residential	-	- tax @ 0%	-
__offices	80,000		
__retail	-	Net capital gain	426

Source: KBC Securities

PORT DU BON DIEU

Limited details to date

Atenor targets the development of this 30,000m² residential project in Namen at a prime location on the left bank of the Maas/Meuse river. The project – which will be phased and delivered over 2010-12 – will be carried out according to sustainable development principles. However, we understand that management will test the market first to see exactly how many new elements/techniques can be implemented without jeopardizing the affordability of the project.

Zoning: no
Permits: no
Delivery: 2011-12

PORT DU BON DIEU PROJECT

Project details		Return analysis (€ / m²)	
Equity investment (€ m)	5.0	Rental value	131
Atenor share	90%	Exit yield	6.50%
		Sales price	2,015
Country	Belgium		
City	Namur	- cost to build (all-in)	(1,250)
		- risk margin	(63)
GLA (m²)	30,000	- land	(167)
__residential	28,500	- tax @ 34%	(182)
__offices	-		
__retail	1,500	Net capital gain	354

Source: KBC Securities

HERMES BUSINESS CAMPUS

Expensive land acquisition and project uncertainty

In 2008, Atenor acquired a 1ha site in the North of Bucharest in the Pipera business district. This appears to be a new office district in the periphery between the city-centre and the airport, but availability is very high with a number of speculative developments already flooding the market. We understand however that the quality aspect is a concern, with the vacancy rate for class A buildings only around 5%.

The plan is to develop a large-scale office complex of 70,000m² in several phases. The project is backed by the zoning plan and construction permits are anticipated by year-end. We understand Atenor is ready to launch construction on a 15,000m² phase once it sees a window of opportunity through a pre-letting contract or an upturn in the underlying economy. A decision should be taken early next year.

With prime investment yields now at 9.5% the economics of launching construction do not add up and doing so would de facto be a call on yield compression over the next 1-2y. We are aware that management has taken an anti-cyclical view on the development, which is crucial when assessing the market timing of projects as a developer, but too many uncertainties remain to justify paying upfront for CEE gains today.

The table below is therefore indicative only and we interpret it as a stress test to profitability, since construction would obviously not be launched without some degree of certainty on a certain level of profitability. The degree of volatility is substantial though, with question marks hanging over rents, construction cost and the exit yield.

Note that every 7% fall in rents has the same impact as a 10% fall in construction costs.

Zoning: yes
Permits: no
Delivery: 2011-13

HERMES BUSINESS CAMPUS PROJECT

Project details		Return analysis (€ / m²)	
Equity investment (€ m)	37.0	Rental value	168
Atenor share	90%	Exit yield	9.50%
		Sales price	1,768
Country	Romania		
City	Bucharest	- cost to build (all-in)	(1,296)
		- risk margin	(65)
GLA (m²)	70,000	- land	(529)
__residential	-	- tax @ 0%	-
__offices	70,000		
__retail	-	Net capital gain	(121)

Source: KBC Securities

VACI UT

Huge supply overhang needs to be absorbed, which could lead to project delays

Atenor acquired a number of plots of land and options for a phased construction of 60,000m² of office space on a more interesting location than that of its Romanian project, which is closer to the centre. The site is well located in the Pest Central submarket in the Váci út. The deal is still subject to town planning regulations. We understand negotiations are ongoing for an additional 40,000m² project.

In Bucharest the vacancy rate is 18% and 15% for grade A properties. This is set to rise further due to the supply overhang resulting in downward pressure on rents. Timing will be crucial as to plan market delivery when the existing projects have been absorbed. Management has highlighted that it won't launch first phases of both the Bucharest & Budapest project at risk simultaneously.

As is the case for the Bucharest project, we have excluded any contribution from the Budapest project from our earnings estimates due to limited visibility. Forecasting is simply too erratic at present.

Zoning: no
Permits: no
Delivery: 2011-13

VACI UT PROJECT

Project details		**Return analysis (€ / m²)**	
Equity investment (€ m)	22.0	Rental value	144
Atenor share	90%	Exit yield	8.00%
		Sales price	1,800
Country	Romania		
City	Bucharest	- cost to build (all-in)	(1,215)
		- risk margin	(61)
GLA (m²)	60,000	- land	(367)
__residential	-	- tax @ 0%	-
__offices	60,000		
__retail	-	Net capital gain	158

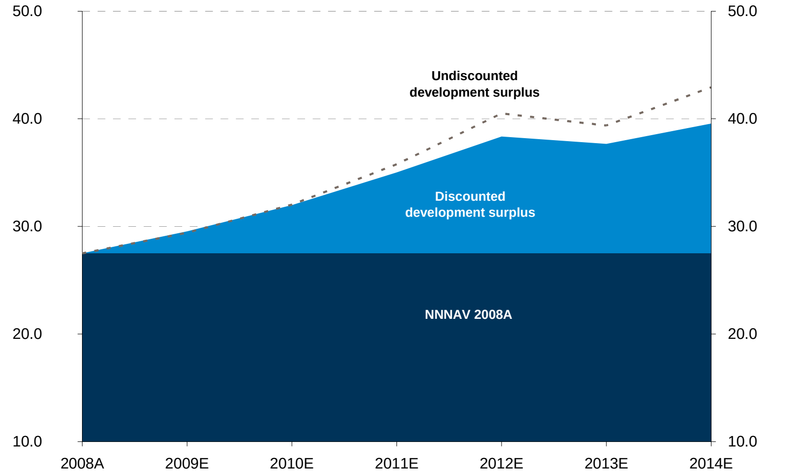
Source: KBC Securities

VALUATION

NAV PLUS DISCOUNTED DEVELOPMENT SURPLUS

We prefer to calculate Atenor's intrinsic value by adding the embedded surplus of its projects in the pipeline (discounted for timing and risks) to NNNAV. The current development pipeline has a surplus of >€ 100m or >€ 20 per share, which of course needs to be discounted for timing, risks and G&A expenses. We arrive at a fair value of € 40 per share which is where we set our target price.

NNNAV PLUS DEVELOPMENT SURPLUS



Source: KBC Securities

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	Definition
BUY	Expected total return (including dividends) of 10% or more over a 6-month period
ACCUMULATE	Expected total return (including dividends) between 0% and 15% over a 6-month period
HOLD	Expected total return (including dividends) between -5% and 5% over a 6-month period
REDUCE	Expected total return (including dividends) between –15% and 0% over a 6-month period
SELL	Expected total return (including dividends) of -10% or worse over a 6-month period

Due to external factors and in exceptional cases, KBC Securities allows the use of ratings such as Accept the Offer, Black Out, No Recommendation or Suspended.
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Stock rating	% of covered universe	% of covered universe with investment banking relationship during last year
BUY	31.20%	0.00%
ACCUMULATE	38.50%	0.00%
HOLD	27.50%	0.00%
REDUCE	2.80%	0.00%
SELL	0.00%	0.00%

Atenor is a real estate developer active in Belgium, Luxembourg and CEE.
The price target for Atenor Group is based on following parameters: Sum of Parts, Estimated Equity Value (NAV)
The risks which may impede the achievement of our price target are: Evolution of interest rates, access to debt markets, real estate investment markets, impact real economy on the letting markets.

Below is an overview of the stock ratings and target price history in the last 12 months for the stock described in this report.

Date	Rating	Target price
25-AUG-09	Accumulate	€ 40.00

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7 September 2009

KBC Securities NV
Havenlaan 12
Avenue du Port
1080 Brussels
Belgium
+32 2 417 44 04
Regulated by CBFA

KBC Securities UK
111 Old Broad Street
London EC2N 1PH
UK
+44 20 7418 8900
Regulated by FSA

KBC Securities NV Polish Branch
ul. Chmielna 85/87
00-805 Warsaw
Poland
+48 22 581 08 00
Regulated by PFSA

KBC Securities US
140 East 45th Street
2 Grand Central Tower - 42nd Floor
NY 10017-3144 New York
US
+1 212 845 2200
Regulated by NASD

KBC Securities French Branch
Le Centorial
18, rue du Quatre Septembre
75002 Paris
France
+33 1 53 05 35 55
Regulated by AMF

KBC Securities NV Hungarian Branch
7/8 Roosevelt square
1051 Budapest
Hungary
+361 483 4005
Regulated by PSZAF

KBC Securities Romania
11-15 Tipografilor Street
S-Park A2 Building
Bucharest-1
Romania
+40 21 40 84 200
Regulated by CNVM

KBC Securities Patria
Jungmannova 745/24
110 00 Prague 1
Czech Republic
+420 221 424 111
Regulated by CNB

KBC Securities Ukraine
Illinskaya 8
04070 Kiev
Ukraine
+38 044 495 49 00
Regulated by USSMS

BDD KBC Securities a.d.
Cincar Jankova 3
11000 Belgrade
Serbia
+381 11 21 80 856
Regulated by SSEC

KBC Securities
Baltic Investment Company
16 Basteja Blvd.
Riga LV-1050
Latvia
+371 67212400

KBC Securities NV Bulgarian Branch
22 Gotze Delchev Blvd, Entr. 2
1404 Sofia
Bulgaria
Tel: +359 2 858 33 11
Regulated by FSC

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