KBC Securities

1 October 2014

ATENOR

Ready for the prosperous years

REAL ESTATE INVESTMENT & SERVICES
BELGIUM

CURRENT PRICE € 36.90
TARGET PRICE € 40.00

ACCUMULATE
RATING UPGRADED

Performance over	1M	3M	12M
Absolute	-3%	-3%	12%
Rel. BEL20	-4%	-5%	-3%
12m Hi/Lo			€ 41.16/32.95
Bloomberg			ATEB BB
Reuters			ATEO.BR
Market Cap			€ 194m
Next corporate event			
Trading update 3Q14: 15 November 2014			
www.atenor.be			

FY/e 31.12	2013	2014E	2015E	2016E
Sales (€ m)	110.0	120.0	142.0	130.0
REBITDA (€ m)	24.1	26.2	29.5	30.2
Net earnings (€ m)	12.0	12.6	18.7	19.9
Diluted adj. EPS (€)	2.29	2.31	3.44	3.65
Dividend (€)	2.00	2.00	2.00	2.10
P/E	14.32	15.95	10.74	10.11
EV/REBITDA	13.30	13.07	11.12	10.40
Free cash flow yield	-49.4%	6.3%	9.3%	9.9%
Dividend yield	6.1%	5.4%	5.4%	5.7%

Source: KBC Securities

Atenor is in full commercialization phase, backed by a solid pipeline. Over the FY14-16 period we expect the company to generate an average ROE of 14.1%. The well-diversified portfolio together with a sound balance sheet should provide ample comfort in the years ahead. We believe this momentum creates a good opportunity to step in, with the prospect of a steady dividend flow and attractive capital upside.

JUSTIFIED OPTIMISM – WE UPGRADE TO ACCUMULATE

- **Analyst meeting feedback.** Atenor is optimistic about operations; recent transactions benefit from high margins and the development pipeline is now reaching full commercialization. Furthermore, the more complex projects can see light at the end of the tunnel.
- **Strategy confirmed.** Management remains focused on its four strategic pillars. The company responds to urban population growth and office obsolescence. Additionally, it plans to accelerate its capital rotation and maintain its geographic and segmental diversification.
- **HY update is misleading**. Following the weak HY update and management's guidance for a FY net result close to last year's performance, we've trimmed our net result estimate from € 13.3m to € 12.6m. We have also revised our FY15 and FY16 result estimates to respectively € 18.7m and € 19.9m. These strong results should enable Atenor to pay out at least a stable dividend of € 2.00.
- **Rating upgraded to Accumulate.** There are several reasons why we think Atenor is a good investment for the coming years: the prospect of high margins, accelerated asset rotation, a well-filled pipeline, a sound balance sheet (replacement of bond expiry in FY15 is already planned), an average expected ROE of 14.1%, and a well-diversified portfolio backed by the fundamentals of a stable shareholder base and high staff retention. At current trading levels, we even detect approx. 8.4% upside, creating an ideal moment to step in. We upgrade our rating from Hold to Accumulate. Our valuation points to a theoretical fair value of € 40, which is where we set our TP.

ANALYSTS
Koen Overlaet-Michiels Financial Analyst - Brussels +32 2 429 37 21 koen.overlaet-michiels@kbcsecurities.be

FEEDBACK FROM HY RESULTS ANALYST MEETING

Despite the weak HY results, the general message from Atenor was one of optimism. Not only is the company generating attractive margins, but the development pipeline is also evolving positively and most of the projects are in the commercialization phase.

Furthermore, the sweeping diversification strategy is starting to pay off. The current operating result includes contributions from Belgium, Luxembourg, Hungary, and Romania as well as from the combined impact of offices and residential property.

With regard to the company's balance sheet, the biggest challenge will be the € 75m bond expiry in FY15. Rather than replace it, management is more likely to fund operations by MTN (min 4 years, max 10 years) as these instruments are more than 100bps cheaper and the company receives significant market interest for them. In combination, Atenor will also take up more bank facilities linked to specific projects. These new financing initiatives should assist the reduction in financial charges.

FOUR STRATEGIC PILLARS

- Atenor remains focused on urban demographic growth. This growth is characterized by the trend towards higher density i.e. smaller and more efficient living spaces. Despite this demand, the residential price index is showing its first signs of falling price levels, albeit mostly visible in the mid-price segment. Atenor therefore prefers the lower (projects in Ath and Mons) and higher-end segments (UPsite and Luxembourg).
- Office obsolescence. The fastening trend towards sustainability is creating opportunities both to sell projects and acquire new ones for redevelopment (e.g. Air in Luxembourg or Rue aux Laines in Brussels).
- Management will focus on increased capital rotation. Total project lead-times used to be 6 years, but management is now reducing this, as demonstrated for projects such as Air.
- Diversification of income stream in different countries. Atenor is active in four countries and it will maintain this portfolio spread. Despite the bad acquisition timing of its projects in Hungary and Romania, management has built up in-depth knowledge of these countries and plans to build further on this. There are good local Architects/Clients/Experts so management plans to remain active and exploit the increased dynamism and opportunities, being it at lower capital investments.

PROJECTS TABLE (SEPTEMBER UPDATE)

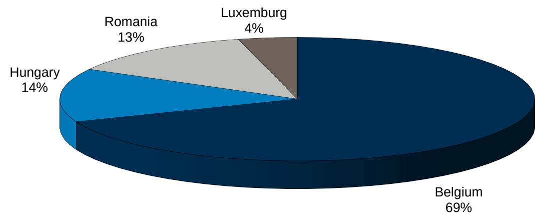
Projects	Building permit introduced	Building permit requested	Construction	Commercialization
UP site	x	x	x	x
Trebel	x	x	x	x
Brussels Europa	x	(x)	(x)	
Victor	x			
City Docks	x			
Port Du Bon Dieu	x	x	x	x
Au Fil des Grands Prés	x	x	x	x
La Sucrerie	x	(x)	(x)	x
Les Brasseries	x	x	x	x
Air	x	x	x	x
Hermes Business Campus	x	x	x	x
Vaci Greens	x	x	x	x
Rue aux Laines				

Source: Atenor ()= expected in the short term

UPDATED PORTFOLIO OVERVIEW

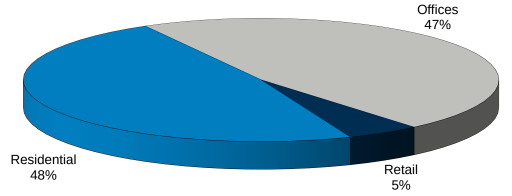
As the table above shows, the majority of Atenor's portfolio is in the construction and hence the commercialization phase. After years spent building up a solid pipeline, it is now time to reap the harvest. Even for the multiple times redesigned Brussels Europa project, there is light at the end of the tunnel. We will provide an overview of the total portfolio followed by an update on the project level.

GEOGRAPHIC SPREAD



Source: Atenor

SEGMENTAL SPREAD



Source: Atenor

The company's portfolio composition has not changed markedly. The 50/50 split between offices and residential remains but this division is not strict and management has confirmed that it depends on opportunities.

UP SITE

Atenor finalized the sale of the fourth office building of the UPsite project (30k m²) in 1H14. The sale meant that the company has sold all its speculatively-developed offices in Brussels North, and not just at any price. Management confirms that the average margin per square meter exceeds € 500, which is ahead of expectations. Furthermore, the company has almost sold all the apartments in the Terraces building. In the Tower, 90% of the apartments below the 25th floor are sold (and 100% up to floor 15), while 25% of the apartments above the 25th floor have found a buyer. All construction works have been finalized and management targets the complete sale of all units by end-FY15.

TREBEL

The works at the 30k m² Trebel project are advancing to schedule. However, compared to 1H13, progress was less valuable in 1H14, so the contributions were accordingly lower. Looking ahead, most of the upcoming contributions are expected in FY15 and a small remainder in 1H16 at delivery. Progress currently stands at 43%.

BRUSSELS EUROPA

Having bought the building in 2005, Atenor has at last received its building permit. Demolition can therefore start with expected completion in March FY15, when construction works will begin. The company plans to start the commercialization process in January or February. The results are likely to be weak in FY15. The project entails 100 apartments and 30k m² of office space.

VICTOR

Victor is a long-term project. However, it seems that a final redevelopment scheme for the neighbourhood – in which the Victor project is taken up – has finally been approved. Management therefore believes that the project can be delivered in FY18-20. All things being equal, this would require the start of the foundation works in FY15. In this case, commercialization could begin in FY16, but a delay of one year is plausible. Atenor will wait for public investment aimed at making the Midi-project more attractive before launching its project. A key plus is the fact that there are almost no vacancies in this district.

However, management doesn’t anticipate a lot of interest from French commuters for mid-week accommodation, but rather expects demand to be local. The City therefore needs to promote this district before the project is launched. Finally, Atenor does not believe that the proximity of the train station will lead to higher costs. The project will be developed in combination with CFE (50/50).

CITY DOCKS

This project entails the total development of more than 125k m². A new destination plan for this zone has been published and Atenor has applied for a planning permit. This project is still some distance from the development phase and we do not expect contributions before FY16.

RUE AUX LAINES

Atenor bought the former office building of Inasti located in the Louize Area of Brussels. A final decision has yet to be taken on whether to opt for a rapid renovation into offices or a redevelopment into apartments. It is certain thought that there exists a clear housing need in Brussels. The redevelopment into apartments would also be more beneficial to the company. The renovation into offices would by contrast allow for a quicker capital rotation.

PORT DU BON DIEU

The construction and commercialization of this project is proceeding very smoothly, but this is no surprise given its attractiveness. In 2H14, we expect a similar result to 1H14. This project is a clear example of how management can maintain an attractive margin by postponing the execution of a project with a unique character. Current selling prices are even beating expectations. The project consists of three building blocks, the first already being 60% sold. Here too the company expects to generate margins well above € 500 per m².

AU FIL DES GRANDS PRES

Atenor sealed a superb contract for the sale of this four-block project. A team of brokers is handling the sales of the apartments at a commission fee, but the brokers are obliged to buy any apartments that are not sold after six months at a pre-agreed price. At that point the development of the next block can begin. This residential 134-unit project is expected to support Atenor’s earnings for the next three years. The apartments are at the lower end of the price range.

LA SUCRERIE

In September, Atenor received the building permit for its residential project in Ath. The total project encompasses six blocks that will be constructed one by one. Commercialization has been launched and seven out of the sixteen apartments have already been sold. This project is expected to yield smaller margins but quicker capital rotation.

LES BRASSERIES DE NEUDORF

The building permit was obtained only recently. Atenor will begin construction works in October. Depending on the speed of the notary, we can already expect a contribution to the results in 2H14, as the pre-sale ratio stands at 60 units out of the 87. Atenor expects strong contributions in FY15, when it also expects all units to be sold. This project targets the high-end segment, so margins will be high.

AIR

This office renovation project, acquired in FY13, is already fully pre-leased to BDO for 12 years. The building permit has been obtained and construction is due to start. Atenor intends to pre-sell it before year-end generating a more-than-sound margin and quick capital rotation. This project is in 50/50 ownership and covers 11k m².

HERMES BUSINESS CAMPUS

After years of nervous waiting, the economic climate in Romania has been transformed. Atenor has therefore started construction of its first office block which is already 100% let and construction works for a second building will begin with 20% pre-let. In a market of falling interest rates, management plans to wait for the ideal moment to sell the first office building. The total project will comprise 78k m² of offices.

VACI GREENS

Demand has risen in Hungary too. Atenor is receiving particularly strong interest from General Electric. Today, office block A is 100% let (17k m²) and Block C is already 40% pre-let. The company plans to sell office block A soon. The total project entails 87k m². Despite the lengthy delays for both project HBC and Vaci Greens, we believe the recovering market offers Atenor possibilities to generate capital gains on disposal.

FORMER SWIFT SITE

In order to safeguard the long-term pipeline, Atenor is in advanced negotiations to acquire the former Swift site in La Hulpe (close to Brussels). The site has 4.5ha and offers the opportunity to create 180 homes in the middle of a beautiful park, as well as multipurpose areas, shops and offices. To be continued.

FINANCIAL OUTLOOK

With almost all projects reaching commercialization, we expect steady earnings flow in the coming years. Furthermore, the combination of the built-up know-how and the attractive margins in recent transactions leads us to assume that profitability will rise to new levels.

Following the HY update and management's guidance for an annual result close to the FY13 result, we tempered our FY14 earnings estimates. We increased our operating result forecast to € 26.2m, but also markedly increased our tax estimates. Hence, we trim our FY14 net result forecast from € 13.3m to € 12.6m. Additionally, we predict more closely aligned profits of € 18.7m in FY15 and € 19.9m in FY16.

P&L ANALYSIS

€ th	2012	2013	2014E	2015E	2016E
Operating income	45,943	110,133	120,000	142,000	130,000
Other operating income	3,801	2,659	8,000	6,500	5,000
Operating expenses	-40,990	-88,949	-101,838	-118,952	-104,787
Operating result	8,754	23,843	26,162	29,548	30,213
Financial result	-3,688	-5,549	-6,300	-5,300	-5,300
Income taxes	4,424	-6,266	-7,235	-5,500	-5,000
Result for the year	9,490	12,028	12,627	18,748	19,913
Net result of the year – Atenor share	9,489	12,028	12,627	18,748	19,913

Source: KBC Securities

Based on these predictions, we foresee an average ROE of 14.1% in FY14-16. This compares to an average ROE of 11.0% over the past 6 years. At the least, these are very attractive figures that would outperform the competition in Belgium. On the back of this profitability, we believe that Atenor will be able to keep its DPS stable or even increase it gradually (as from FY16?). Furthermore, if the optional dividend strategy keeps on proving successful, the company will be able to strengthen is equity at a premium to NAV.

Management expressed its ambition to maintain a stable dividend in FY14. We believe that this is attainable, even if the Vaci Greens office block A is not sold in FY14. This will depend on when negotiations take place, but we expect a sale in early-FY15 at the latest, which would be early enough to pay the DPS. In the following years, we see sufficient potential to pay out a DPS of at least € 2.00.

VALUATION

We value Atenor using a discounted cash flow model. We apply a WACC of 8% on the back of a Beta of 1.5 and cost of debt of 7%. Our valuation points to a theoretical fair value of € 39.7 per share. We therefore reiterate our target price of € 40. This target price reflects a 100% premium to NAV13 and NAV14, as we bank on no NAV growth in FY14. In FY15 however, we expect NAV growth of 5% per share.

DCF VALUATION (€)

NPV (FY14-18)	102.9
TV (1.5% LT growth rate)	258.9
DCF value	**361.9**
- Net debt	-174.9
+ Provisions	1.5
+ Financial assets	17.5
Equity value	205.9
N° of shares	5.46
Fair value per share	37.74
Future value per share	**39.67**

Source: KBC Securities

INVESTMENT CASE

We believe Atenor has good momentum. Despite the weak 1H, the evolution of the development pipeline is clearly favourable. The residential projects are starting to generate steady inflows, while permits for more difficult projects are also being granted. We foresee increasing margins in the offices segment and accelerated capital rotation. Over the next three years, this should result in an average ROE of around 14.1% and a DPS of at least € 2.00. We furthermore believe that the balance sheet is in good health, with a clear strategy to replace the funding of the maturing bond in FY15.

Based on this outlook and the well-diversified portfolio, we are convinced that Atenor is a good investment for the coming years. At current trading levels, we even detect approx. 8.4% upside, creating an ideal moment to step in. We upgrade our rating from Hold to Accumulate.

SWOT ANALYSIS

STRENGTHS

- Well-diversified portfolio safeguards income
- Stable shareholder base
- High staff retention rate
- Sound balance sheet
- Mature development pipeline
- Strong political goodwill thanks to successful UP site

WEAKNESSES

- Business model is highly dependent on receipt of permits
- Increased pipeline activity leads to higher net debt to equity ratio
- The crisis hit the profitability of projects in Hungary and Romania

OPPORTUNITIES

- Reduction in financing costs at bond maturity
- Increasing capital rotation
- Accelerated obsolescence in offices

THREATS

- Failure to receive permits
- Falling demand for investment

FINANCIAL DATA

Income statement (€ m)	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E
Sales	39	35	11	36	45	110	120	142	130
Gross profit	21	16	-5	-17	-7	16	32	36	29
EBIT	40	13	3	14	9	24	26	30	30
Pre-tax earnings	39	11	-1	10	5	18	20	24	25
Net earnings	41	7	-2	11	9	12	13	19	20
EBITDA	44	14	5	14	8	24	26	30	30
REBITDA	44	14	5	14	8	24	26	30	30
REBITA	42	13	4	14	9	24	26	30	30

Balance sheet (€ m)	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E
Intangible assets	3	6	7	5	5	5	5	5	5
Tangible assets	25	38	32	10	12	11	11	11	11
Financial assets	7	7	15	18	16	18	18	18	18
Net other assets & liabilities	2	6	-4	-10	-4	-7	-7	-7	-7
Net working capital	120	135	101	170	202	255	255	255	255
Net debt	28	72	47	94	132	175	168	154	140
Provisions	3	2	2	2	1	1	1	1	1
Minorities	0	-1	-1	-1	0	0	0	0	0
Equity	126	118	101	98	99	105	112	125	140
Capital employed	149	178	140	186	219	270	270	270	270
TOTAL ASSETS	239	240	270	278	395	377	384	397	412

Cash flow statement (€ m)	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E
Cash flow from operations	-31	-26	-43	-27	-13	-85	13	19	20
Net capital expenditure	0	0	0	0	0	0	0	0	0
Free cash-flow	-31	-26	-43	-27	-13	-85	13	19	20
Acquisitions / disposals	-8	-13	57	-20	1	0	0	0	0
Dividend payments	-13	-13	-13	-10	-10	-4	-5	-5	-5
Shares issues	0	0	-1	0	0	0	0	0	0
New borrowings / reimbursements	-5	22	69	14	91	32	0	0	0
Other	1	6	-8	-2	-1	-2	0	0	0
CHANGE IN CASH & EQUIVALENTS	-56	-23	60	-44	68	-60	7	13	14

Performance criteria	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E
Sales growth	15.6%	-11.6%	-69.0%	232.5%	27.2%	142.0%	9.1%	18.3%	-8.5%
Gross margin	53.9%	46.6%	-44.0%	-48.3%	-14.6%	14.6%	27.0%	25.0%	22.0%
REBITDA margin	111.4%	39.8%	43.8%	39.8%	18.3%	21.9%	21.8%	20.8%	23.2%
REBITA margin	106.2%	38.9%	39.6%	38.8%	19.7%	21.8%	21.8%	20.8%	23.2%
EBIT margin	101.2%	36.2%	32.4%	37.8%	19.3%	21.7%	21.8%	20.8%	23.2%
Net debt / Equity + Minorities	22.5%	61.1%	46.7%	95.9%	133.5%	166.9%	149.4%	123.0%	99.9%
Net debt / EBITDA	0.65	5.18	9.99	6.58	15.84	7.27	6.40	5.22	4.63
EBITDA / net interest	125.85	8.60	0.96	3.63	2.26	4.34	4.15	5.58	5.70
Pay-out ratio	-6.3%	-35.5%	125.1%	-17.7%	-21.1%	-16.6%	-15.8%	-10.7%	-10.5%
= Return on Equity (avg)	36.1%	6.0%	-1.5%	11.4%	9.6%	11.8%	11.6%	15.8%	15.0%
Return on Capital Employed	29.4%	10.3%	1.8%	6.9%	0.5%	13.1%	13.2%	13.4%	13.4%

Per share data (€)	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E
weighted average # shares, diluted	5,038,4	5,038,4	5,038,4	5,038,4	5,038,4	5,251,9	5,457,2	5,457,2	5,457,2
Basic EPS	8.20	1.45	-0.32	2.25	1.88	2.29	2.31	3.44	3.65
Diluted EPS	8.20	1.45	-0.32	2.25	1.88	2.29	2.31	3.44	3.65
Diluted, adjusted EPS	8.20	1.45	-0.32	2.25	1.88	2.29	2.31	3.44	3.65
Net book value / share	24.98	23.38	20.06	19.47	19.57	19.95	20.55	22.99	25.64
Free cash flow / share	-6.24	-5.07	-8.62	-5.33	-2.64	-16.18	2.31	3.44	3.65
Dividend (€)	2.60	2.60	2.00	2.00	2.00	2.00	2.00	2.00	2.10

Valuation data	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E
Reference share price (€)	43.38	36.70	35.44	31.45	29.83	32.79	36.90	36.90	36.90
Reference market capitalisation	218.5	184.9	178.5	158.4	150.3	172.2	201.4	201.4	201.4
Enterprise value (€ m)	226.1	232.0	199.3	227.3	253.1	320.1	341.9	328.6	314.1
P/E	5.3	25.3	-	14.0	15.8	14.3	15.9	10.7	10.1
EV/sales	5.8	6.7	18.5	6.4	5.6	2.9	2.8	2.3	2.4
EV/EBITDA	5.2	16.8	42.4	16.0	30.4	13.3	13.1	11.1	10.4
EV/Capital employed	1.5	1.3	1.4	1.2	1.2	1.2	1.3	1.2	1.2
P/ NBV	1.7	1.6	1.8	1.6	1.5	1.6	1.8	1.6	1.4
Free cash flow yield	-14.4%	-13.8%	-24.3%	-17.0%	-8.9%	-49.4%	6.3%	9.3%	9.9%
Dividend yield	6.0%	7.1%	5.6%	6.4%	6.7%	6.1%	5.4%	5.4%	5.7%

Source: KBC Securities *Historic valuation data are based on historic prices

DISCLOSURE & DISCLAIMER SECTION

The company disclosures can also be consulted on our website http://www.kbcsecurities.be/disclosures.

KBC Securities uses an absolute rating system including terms such as Buy, Accumulate, Hold, Reduce and Sell (see definitions below).

	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.
Our analysts assign one of those ratings based on their investment outlook and valuation for the concerned stock. The valuation can be based on different methodologies such as DCF (discounted cash flow), absolute multiples, peer group multiples, sum-of-parts or NAV (Net Asset Value). The valuation is reflected in a 6-month target price. Occasionally, the expected total return may fall outside of these ranges because of price movement and/or volatility. Such deviations will be permitted but will be closely monitored. Investors should carefully read the definitions of all ratings used in each research report. In addition, since the report contains more complete information concerning the analyst's view, investors should carefully read the entire report and not infer its contents from the rating alone. KBC Securities may disclose the drafts of its reports to the issuers before their dissemination for the purpose of verifying the accuracy of factual statements, except when the draft includes a rating or a target price. In case the draft has been amended following this disclosure, such amendments will be indicated in the concerned report.

Stock rating	% of covered universe	% of covered universe with investment banking relationship during last year
BUY	23.70%	0.00%
ACCUMULATE	30.50%	0.00%
HOLD	41.50%	0.00%
REDUCE	2.50%	0.00%
SELL	1.70%	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
2014-10-01	Accumulate	€ 40.00
2014-04-11	Hold	€ 40.00
2014-03-11	Accumulate	€ 40.00
2013-11-13	Accumulate	€ 37.00

KBC Securities will provide periodic updates on companies/industries based on company-specific developments or announcements, market conditions or any other publicly available information.

KBC Securities

1 October 2014

CONTACT DETAILS

ANALYST TEAM

Analyst	Contact	Coverage
Wouter Vanderhaeghen (Head of Research)	+32 2 429 37 30	Shipping & Industrials
Jan De Kerpel	+32 2 429 84 67	Biotech & Pharma
Ruben Devos	+32 2 429 58 43	Telco & Media
Matthias De Wit	+32 2 429 37 17	Financials
Yves Franco	+32 2 429 45 04	Holdings & Staffing
Dieter Furniere	+32 2 429 18 96	Engineering, Transport & Utilities
Wim Hoste	+32 2 429 37 13	Chemicals & Breweries
Guy Sips	+32 2 429 30 02	Small & Midcaps Benelux
Koen Overlaet-Michiels	+32 2 429 37 21	Real Estate
Alan Vandenberghe	+32 2 429 18 06	Credit Research
Dirk Verbiesen	+32 2 429 39 41	Oil Services & Construction
Pascale Weber	+32 2 429 37 32	Retail & Food Producers

EQUITY SALES TEAM

Sales	Contact
Sebastien Fuki (Head of Sales)	+32 2 417 53 43
Stefaan De Lathouwer	+32 2 417 44 68
Xavier Gossaert	+32 2 417 53 68
Margo Joris	+32 2 417 25 66
Kris Kippers	+32 2 417 28 08
Augustin Lanne	+32 2 417 51 45
Tim Leemans	+32 2 417 32 28
Marco Miserez	+32 2 417 36 81
Sales (US)	
Hubert Dubrule (Head of US Sales)	+1 212 845 22 74
Sebastiaan Pol	+1 212 845 20 52
Sofie Van Gijsel	+1 212 541 06 48
Sales Trading	
Isabel Sebreghts	+32 2 417 63 63
Tim Leemans	+32 2 417 32 28
Marco Miserez	+32 2 417 36 81
Loïc De Smet	+32 2 417 36 99

BOND SALES TEAM

Sales	Contact
Alexander Lehmann (Head of Sales)	+32 2 417 46 25
Maurizio Bartolo	+32 2 417 48 02
Bert Beckx	+32 2 417 31 57
Toon Boyen	+32 2 417 25 65
Valentin Checa	+32 2 417 25 40
Alban Kerdranvat	+32 2 417 25 45
Bart Mathijssen	+32 2 417 57 12
Koen Princen	+32 2 417 44 65

FLASH NOTE

1 October 2014

The company disclosures can be consulted on our website http://www.kbcsecurities.com/disclosures.

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

KBC Securities USA, Inc.
1177 Avenue of the Americas
New York, NY 10036
US
+1 212 845 2200
Regulated by FINRA

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

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

KBC Securities NV Hungarian Branch
Lechner Ődőn fasor 10
1095 Budapest
Hungary
+361 483 4005
Regulated by PSZAF

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