

1 March 2011

Special focus: BEF vs. COF

Cash vs. residual value

Looking at the principal valuation metrics we believe there is not much of a valuation gap to be exploited between Befimmo and Cofinimmo at present. Over the last decade, neither company has generated any structural earnings growth, and although the asset mix has improved, we still see underlying earnings in structural decline due to required redevelopment capex, rent reversions and a rising funding cost. We maintain our Hold recommendations on both stocks, with a slight preference for Cofinimmo.

- **The lost decade.** Looking back at the last 10 years, recurring EPS and NAV have largely been flat, with the track record slightly in favour of Befimmo. We see this as evidence that neither company has been able to avoid the deflationary backdrop that characterises the Brussels office market, despite the diversification initiatives towards more defensive assets let on long-term leases and applying more leverage to the business.
- **Earnings outlook.** Confronted with rental erosion on the historically over-rented office portfolio and a redevelopment programme to upgrade assets to market standards, both companies face pressure on operating income. The cash flow erosion will over time also be exacerbated by a rising debt cost. This makes both businesses reliant on new acquisitions and constant arbitrage in the office portfolios.
- **The real bond proxy.** Sitting on long duration assets through long indexed leases with public entities and/or nursing homes/pubs, one would assume both stocks to offer excellent inflation protection. But do they really? On the asset level we think to a certain extent they do, but on the equity level, the various hedging structures suggest that earnings are not inflation-linked and are inadequate to cope with the medium-term threat of rising short-term rates.
- **Valuation.** Both stocks offer what would at first view appear to be a reasonable dividend yield of close to 6.5%, but considering the lacklustre earnings outlook this is in our view not enticing enough as an entry level. Within this context, note that Befimmo is trading at a more attractive cash flow yield whereas we believe Cofinimmo scores better on residual values. That said, we have a slight preference for Cofinimmo, as we expect a lot of investment activity which might put the stock in the picture and improve underlying cash earnings.
- **Befimmo.** The company has a number of qualities like low leverage, long leases and a high proportion of public sector tenants. The cash flow yield of 7% may look enticing, but the company is geared to low interest rates and in the longer term we question the residual value of the portfolio. We need a wider discount to enter the stock. Hold.
- **Cofinimmo.** Belgium's new REIT legislation gives the company the tools to optimize taxes and attract funding in a more flexible way. As a consequence we expect a steady stream of acquisitions that should narrow or even close the gap that is to be bridged to cover the dividend based on recurring cash earnings. We view the 6.4% dividend yield as fair considering the challenges that lie ahead. Hold.

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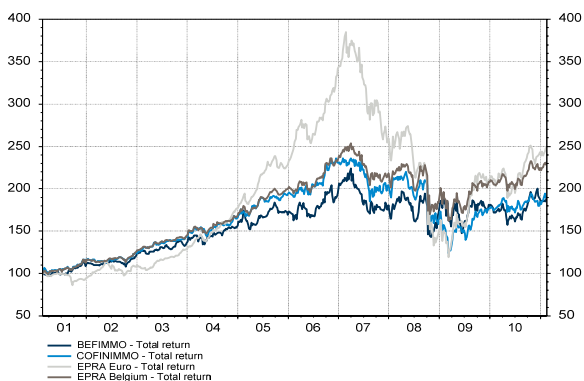
EXECUTIVE SUMMARY

THE LOST DECADE

Underperformance compared to sector is not unusual considering the type of asset ...

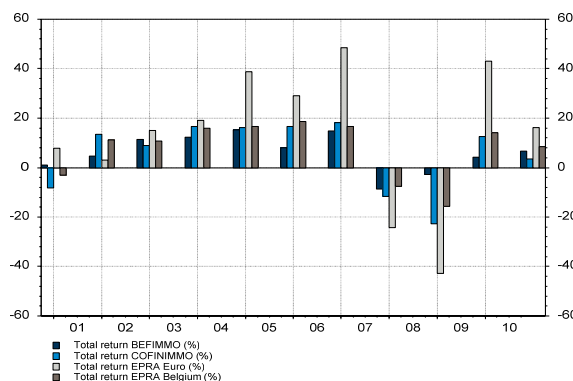
Over the last decade Befimmo and Cofinimmo have performed more or less in line – generating an annualized return of 7.0%. While this is much better than general equities – the Euro Stoxx lost 3% a year over the same period – the underperformance versus peers is significant with the EPRA Euro and the EPRA Belgium (of which they make up the largest chunk) showing an annual return of 10% and 8% respectively.

TOTAL RETURN COMPARISON 10Y (CUMULATIVE)



Source: Thomson Reuters Datastream

TOTAL RETURN COMPARISON 10Y (ANNUAL)



Source: Thomson Reuters Datastream

Given that both stocks are typically perceived as low-beta plays compared to the broader market and their own sector, we could argue that the long-term underperformance (and outperformance in down markets) still makes sense.

...but the trend of stable earnings over a 10y+ timeframe is worrisome

However, what worries us is that despite having levered up the balance sheet, earnings have stood still over the last decade. This implies negative growth in real terms, pretty much in line with the spiral of deflation (in real terms) with which the Brussels office market has been struggling for two decades. On top of that, the life cycle of offices has shortened, in part due to tougher sustainability requirements, which has induced a capex backlog that will erode earnings.

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Inflation hedge on the asset level through long leases, but on the equity level the inflation hedge is not that great

LOOKING AHEAD

In a low-growth environment, solid recurring income generation is key to performance. With both companies sitting on indexed long duration assets / leases, one would assume they offer the profile of an inflation-linked bond. Quod non. This is largely the result of the persistent effects of overrenting and the capex drag that has been perfectly exposed by the crisis and more stringent environmental standards. Next to that, in the medium-term the interest rate hedges are not looking that protective to (high) inflation.

To the benefit of the shareholders though, the portfolio mix has been improved in recent years with both management teams preferring CBD assets and long leases with government entities and Cofinimmo in a more recent past venturing into niche segments like nursing homes and pubs.

Although this has mitigated the impact of negative rent reversions, both companies face a material redevelopment programme over the next few years, which will put pressure on cash flow. Against this backdrop, it will be difficult to generate organic growth, making both companies reliant on acquisitions and active management of the office portfolios. Cofinimmo probably has the edge here since its current cost of capital warrants new investments in nursing homes whereas Befimmo is competing with pension funds and insurers for prime office assets, making acquisitions look expensive. We even wonder whether it wouldn't make more sense to be selling assets rather than acquiring them.

Nonetheless, Cofinimmo still needs to close the valuation gap on the basis of recurring cash flow yield which is likely to (partially) materialize through acquisitions. Hence, we would expect a rather similar return pattern in the short- to medium-term whereas longer term Cofinimmo might look more robust considering its more defensive residual values and more active portfolio arbitrage.

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COMPARATIVE ANALYSIS

ASSET MIX

Selling versus acquiring offices

It is difficult to gauge the exact quality of both portfolios, but over the years the mix has changed for the better, with both management teams gearing the portfolio towards CBD assets and long leases with government entities. In the process of strengthening the earnings quality and diversifying away from (Brussels) offices, Cofinimmo has gone a step further by diversifying into new niches like nursing homes and pubs.

More recently, Cofinimmo also started to sell down CBD offices for which it sees material capex spends at the end of the lease. This contrasts with Befimmo being also aware of the capex requirements but rather wanting to hold on to the often superb locations and seeing less of an issue when looking at the longer-term drag on performance this could have. This is confirmed by the fact that it recently acquired an office building in the European District let to the European Commission on a 15y lease at a 5% net initial yield. We find this quite surprising given it has just sold the brand-new Empress Court in the CBD at a 5.5% initial yield – which we would have assumed to be the hurdle rate for new investments.

Note though that Cofinimmo will also not be able to escape the trend entirely as some important buildings are due for a makeover (Livingstone I-II, Science 15).

PORTFOLIO ANALYSIS

Befimmo	Portfolio	Cofinimmo
1,923	Value 2010	3,042
BE 96 / LU 4	Geography	BE 83 / FR 12 / NL 5
Offices 100	Segments	Offices 56 / Nursing homes 30 / Pubs 14
Belgian State 59%	Tenant exposure (max.)	Belgian State 17%
94.8%	Occupancy rate	95.8% (93.0% offices)
9.3y	Lease duration (till first break)	11.5y
14%	Lease maturities 2011-13	14%
7.0%	Gross yield (100% let)	7.0%
6.6%	Gross yield (contractual rents)	6.7%
6.3%	Net yield	5.9%
66bps	G&A (bps of ptf)	19bps
5.6%	ROCE	5.7%

Source: Company data, KBC Securities

As a reference, we calculate the project IRR on the Empress Court sold by Befimmo at <5% and the IRR on the Livingstone building owned by Cofinimmo is likely to be <6% post renovation in 2013.

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Active portfolio management crucial to performance

We find this quite intriguing since both assets have been acquired at gross initial yields of 7.5% and 6.7% respectively in the early 2000s – but the required redevelopment capex at the end of the lease has led to a mediocre return. This contrasts to the IRR of 7.5%+ on office assets sold by Cofinimmo in recent years.

This (again) underscores the importance for (especially) office investors to rotate the asset base more frequently and adopt a strategy that is more attuned to the investment cycle and maintenance life cycle of the assets. We believe this comment holds true for many REITs – which are often too passive when it comes to capital recycling.

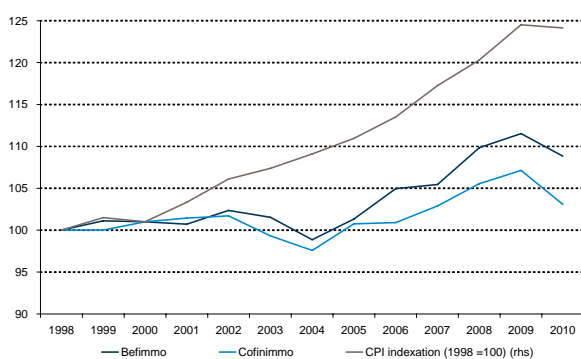
PORTFOLIO ANALYSIS (CONT'D) (*)

Befimmo			Portfolio Segment	Cofinimmo		
Weight	Gross yield	Net yield		Weight	Gross yield	Net yield
100%	6.9%	6.5%	Total portfolio	100%	7.0%	6.5%
100%	6.9%	6.5%	Offices	56%	7.4%	6.7%
53%	6.6%	6.2%	Brussels CBD	23%	n.a.	n.a.
7%	7.5%	6.9%	Brussels Decentralized	21%	n.a.	n.a.
8%	8.9%	8.5%	Brussels Periphery	5%	n.a.	n.a.
19%	5.7%	5.4%	Flanders	4%	n.a.	n.a.
5%	12.5%	11.2%	Wallonia	4%	n.a.	n.a.
4%	6.5%	6.3%	Luxembourg	0%	n.r.	n.r.
3%	n.r.	n.r.	Developments	1%	n.r.	n.r.
2%	n.r.	n.r.	Other	2%	7.2%	5.6%
n.r.	n.r.	n.r.	Nursing homes	30%	6.3%	6.3%
n.r.	n.r.	n.r.	Pubs	13%	6.6%	6.5%

Source: Company data, KBC Securities, (*) Yields based on 100% occupancy and investment value

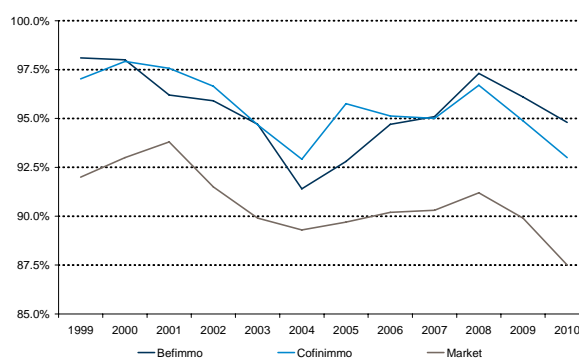
Historically we estimate the impact of rent reversions on annual I-f-I rental growth to have averaged minus 100-150bps for Cofinimmo and minus 75-100bps for Befimmo. With the former now diversified and the reversion rate improving, the impact may in the future be marginally better at Cofinimmo at around 50bps (50% weight offices x 10% lease maturities per annum x 10% negative reversion rate).

HISTORICAL L-F-L RENTAL GROWTH



Source: Company data, KBC Securities

HISTORICAL OCCUPANCY RATE



Source: Company data, KBC Securities

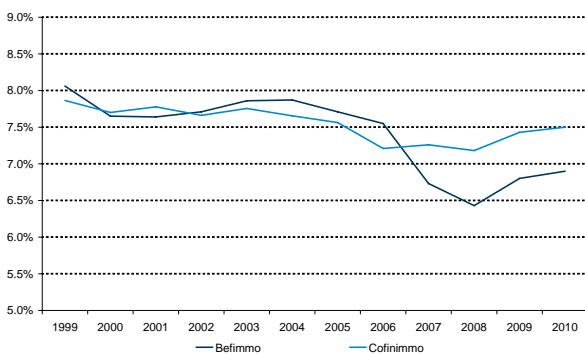
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In order to capture the effects of inflation both companies prefer long leases but note that for Belgian offices this is only a temporary benefit – equal to the cumulative impact of rent indexation over the lease term – as rents get set back to market levels at the end of the lease and market rents have largely been flat over the last two decades. And this even leaves the capex issue out of the equation.

Hence, although the impact of reversions was quite pronounced over the last decade, the challenge will now be to maintain the quality of the portfolio and meet sustainability requirements – or run the risk that some assets will become obsolete. This can only be achieved by further rotating the portfolio as for some assets a sustainability makeover would be too expensive in our view.

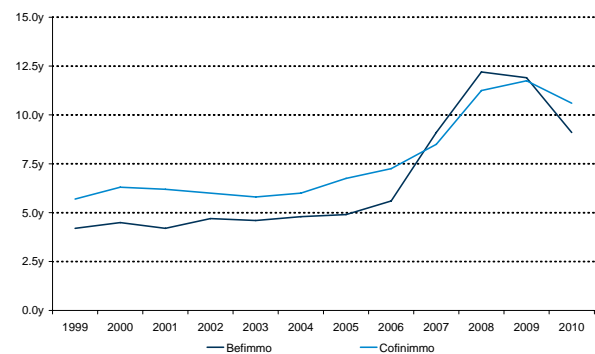
Note that whereas the negative reversion rate is likely to improve in the coming years, we believe both companies will feel the impact of temporary vacancies related to their renovation programme. Historically both companies have always had a better occupancy rate than the overall market, even though they underperformed in 2000-04 when looking at the second derivative. In the most recent crisis both companies substantially outperformed thanks to the strengthening of the asset & tenant mix.

HISTORICAL GROSS THEORETICAL YIELD OFFICES



Source: Company data, KBC Securities

AVERAGE LEASE TERM (TILL FIRST BREAK)



Source: Company data, KBC Securities

Although helped by long leases that provide high earnings visibility, the challenge will be to constantly roll over leases through long-term contracts or otherwise risk trending back towards a more standard maturity profile. This will probably be more difficult for Befimmo than for Cofinimmo, which is rotating the portfolio towards (very) long leases with nursing homes operators.

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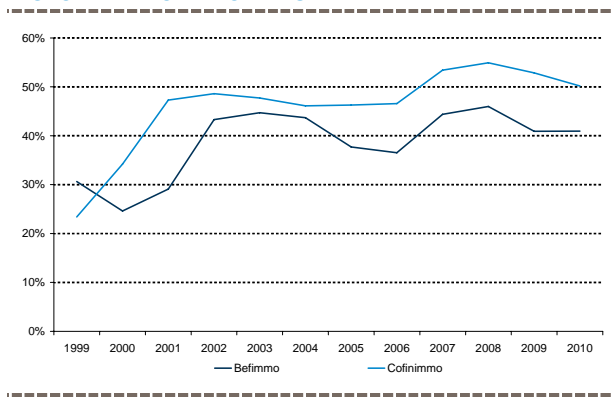
CAPITAL STRUCTURE

Balance sheet metrics look reasonable

Over the years both Befimmo and Cofinimmo have leveraged up on milestone acquisitions that were synchronized with relaxations in the Belgian REIT legislation allowing higher leverage (loan-to-value limit 33% → 50% → 65%). Befimmo has always been somewhat more conservative concerning leverage and whereas Cofinimmo had to resort to help measures to normalize the loan-to-value during the down cycle, Befimmo’s rights issue was probably more expensive than Cofinimmo’s deleveraging initiatives.

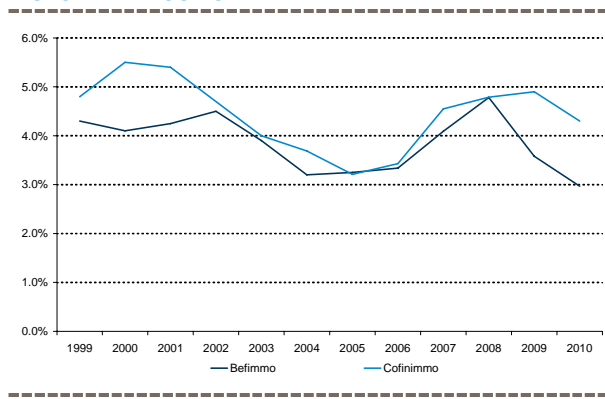
That said, the current loan-to-value ratios of respectively 41% and 50% for Befimmo and Cofinimmo look reasonable but leave limited room to manoeuvre – especially given that capital values are still under mild pressure and thus provide no scope for organic improvements in the loan-to-value ratio. As a consequence we would expect any material acquisition to be funded by new equity or through capital recycling – probably the former. This is especially true for Cofinimmo and while Befimmo might still have some leeway, its committed investment programme will already take the debt ratio towards 45%.

HISTORICAL LOAN-TO-VALUE



Source: Company data, KBC Securities

HISTORICAL COST OF DEBT



Source: Company data, KBC Securities

The main swing factor to the results has always been the cost of debt, with both companies hedging a substantial portion of their debt but partially protecting it with caps and/or collars, thereby leaving some earnings volatility. Taking into account the current hedging structure we believe both companies could handle a rise in Euribor 3M up to a level of 3.0%. The difference is that Cofinimmo won’t see an impact on earnings with short-term rates below this level due to floor options sold (and is capped at 3.75%-4.25%), whereas Befimmo is exposed to floating rates on half of its debt (capped at 3.5%-4.5%).

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We believe that compared to their European counterparts and considering their long-duration assets, both companies are funded on a relatively short-term basis. Looking at the debt maturity profiles, Cofinimmo scores best and also has a more diversified funding base.

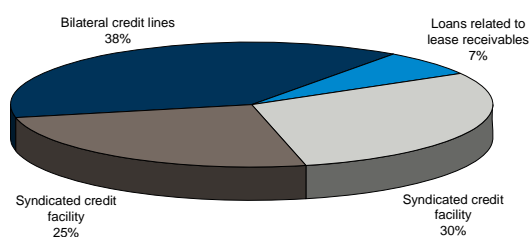
CAPITAL STRUCTURE ANALYSIS

Befimmo	Capital structure	Cofinimmo
41%	Loan-to-Value 2010	50%
45-50%	Target Loan-to-Value	50-55%
4.6x	Interest cover	2.6x
3.0%	Cost of debt	4.3%
80bps	Current credit spread	110bps
49%	Floating rate debt	0%
82%	Debt maturities 2011-2013	43%
2.9y	Debt duration	3.8y
2.5y	Hedge duration	6.8y

Source: Company data, KBC Securities

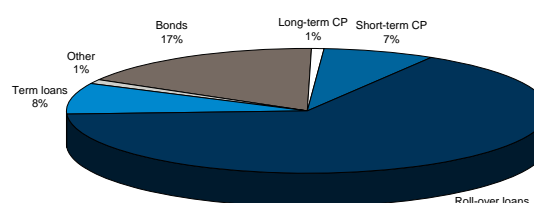
Though both companies have good access to bank lending once more, a (further) diversification of funding sources could put pressure on financing costs. As a reference, Befimmo recently signed a 7-year bank loan at 110bps while Cofinimmo pays 140bps on its most recent 5-year credit line. This compares to Cofinimmo's 2009 bond with a remaining term of 4 years, which is trading at a 200bp spread over mid-swap.

DEBT COMPOSITION – BEFIMMO



Source: Company data, KBC Securities

DEBT COMPOSITION – COFINIMMO



Source: Company data, KBC Securities

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EARNINGS PERFORMANCE

A status quo

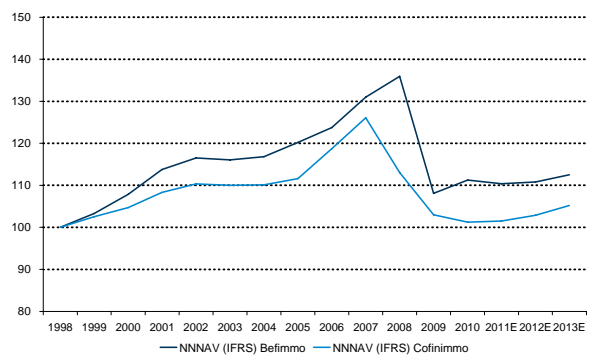
Over the last decade neither company has been able to generate any structural earnings growth, with the stats slightly in favour of Befimmo. Against the backdrop of a stable market in nominal terms this might not seem awkward. We nevertheless view it as disappointing, especially given that both companies have substantially increased the leverage applied to their businesses.

HISTORICAL EPS (FFO) EVOLUTION (REBASED TO 100)



Source: Company data, KBC Securities

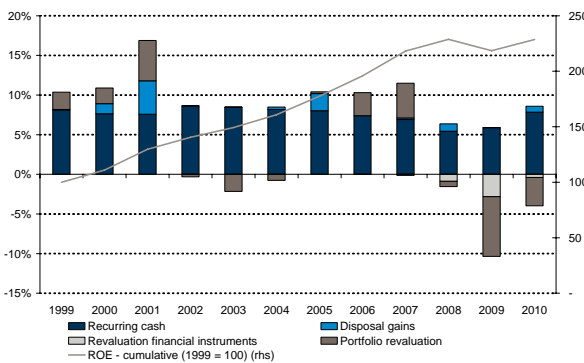
HISTORICAL NAV EVOLUTION (REBASED TO 100)



Source: Company data, KBC Securities

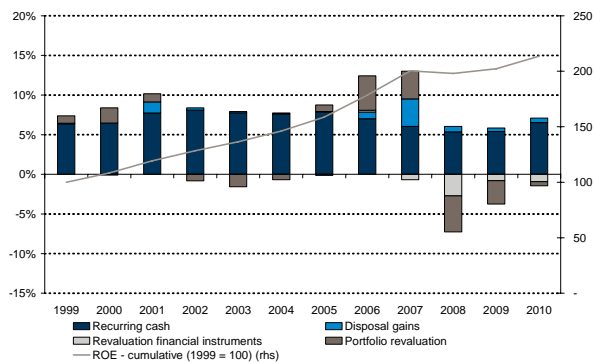
On a positive note, both companies have improved their asset mix, thereby also generating capital gains which have boosted the average return on equity by 70bps over the period, with Cofinimmo at 7% and Befimmo at 8% and both at around 6% over the last 5 years. Much of the recycling at Befimmo happened in the first half of the last decade with Cofinimmo exploiting the strength of the market in the latter half to offload some office assets. Throughout the crisis Cofinimmo also sold some lease receivables on office buildings let to government entities but this was rather intended to deleverage the company.

HISTORICAL RETURN ON EQUITY BREAKDOWN – BEF



Source: Company data, KBC Securities

HISTORICAL RETURN ON EQUITY BREAKDOWN – COF



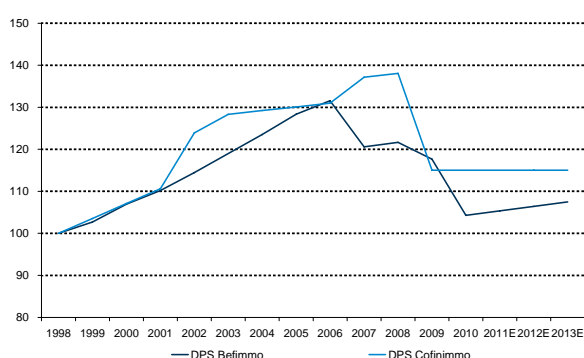
Source: Company data, KBC Securities

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Payout ratios have structurally moved up

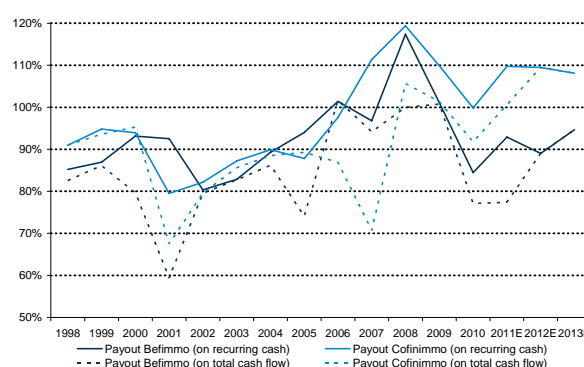
In the early 2000s both companies showed consistent dividend growth that was subsequently washed away by rising funding costs. Unfortunately this has also caused a structural increase in payout ratios. One might normally assume a payout ratio of 85-90% to be the norm in order to leave some autofinancing to cope with maintenance capex. Cofinimmo will however offer a scrip alternative to retain some of its earnings.

HISTORICAL DPS EVOLUTION (REBASED TO 100)



Source: Company data, KBC Securities

HISTORICAL PAYOUT RATIO



Source: Company data, KBC Securities

That said, the earnings outlook shows both companies facing pressure on cash flow due to rising debt costs and redevelopment programmes. Befimmo's dividend is largely covered on a recurring cash flow basis, and as a result of deleveraging Cofinimmo faces the challenge of finding a steady stream of acquisitions to bring the dividend cover on a recurring cash basis back to 1x. Including exceptional gains, the dividend has nevertheless for both companies always been covered.

EARNINGS ANALYSIS

Befimmo			Earnings outlook	Cofinimmo		
2011E	2012E	2013E		2011E	2012E	2013E
61.3	61.6	62.5	NAV (EPRA)	102.5	103.8	106.0
-1%	0%	1%	chg y/y	0%	1%	2%
4.24	4.47	4.25	EPS (recurring)	7.30	7.45	7.66
-8%	5%	-5%	chg y/y	-8%	2%	3%
4.24	4.47	4.25	CFPS (recurring)	5.92	5.94	6.01
-8%	5%	-5%	chg y/y	-9%	-8%	1%
3.94	3.98	4.02	DPS	6.50	6.50	6.50
1%	1%	1%	chg y/y	0%	0%	0%

Source: Company data, KBC Securities

Note that with regard to Cofinimmo, we see the non-cash impact of the writeback of lease receivables of approx. € 1.50 on recurring EPS as a true economic profit. Nevertheless, we view this as an organic form of deleveraging (50bps on the loan-to-value per annum) which should help fund the maintenance capex of the office portfolio rather than a profit that should be included in the basis to set the dividend.

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VALUATION

CURRENT CONTEXT

Befimmo better on cash flow, Cofinimmo on residual values

We believe at current levels there is not much of a relative valuation gap that can be exploited. As both companies are unlikely to benefit from much capital value growth, one would be inclined to look at the cash flow yield. Still, this reasoning would forgo the property aspect, differences in capital & hedging structures and level of financial engineering & strategic repositioning (at Cofinimmo). To summarize, Befimmo scores better on cash flow yield while Cofinimmo's EBITDA yield is looking more attractive whereas we also believe that its portfolio has a more resilient residual value.

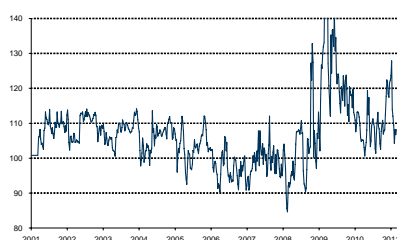
VALUATION COMPARISON

Befimmo			Valuation	Cofinimmo		
2011E	2012E	2013E		2011E	2012E	2013E
7.0%	7.4%	7.0%	Earnings yield	7.2%	7.4%	7.6%
7.0%	7.4%	7.0%	Cash flow yield	5.8%	5.9%	5.9%
6.5%	6.6%	6.6%	Dividend yield	6.4%	6.4%	6.4%
0.99	0.99	0.97	P/NAV (EPRA)	0.99	0.98	0.96
5.4%	5.5%	5.5%	EBITDA yield	5.8%	6.0%	6.1%

Source: Company data, KBC Securities

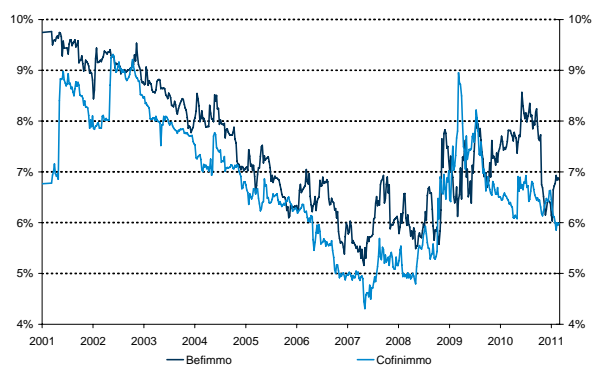
HISTORICAL CONTEXT

Relative total return BEF vs. COF



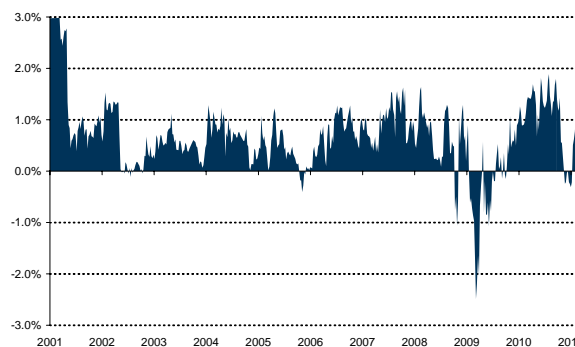
For much of the last decade Cofinimmo traded at a premium over Befimmo and there were inflection points in relative performance when Befimmo closed the relative valuation gap. During the crisis Cofinimmo substantially underperformed as a result of its balance sheet woes and subsequently managed to close a substantial part of the performance gap, though with still a 10% to be bridged since the Lehman collapse.

HISTORICAL CASH FLOW YIELD



Source: Bloomberg, KBC Securities

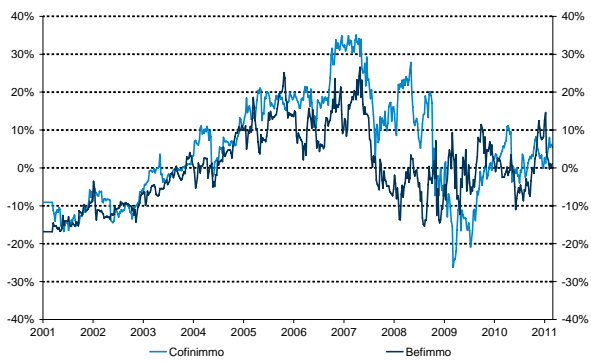
CASH FLOW YIELD SPREAD (BEF vs. COF)



Source: Bloomberg, KBC Securities

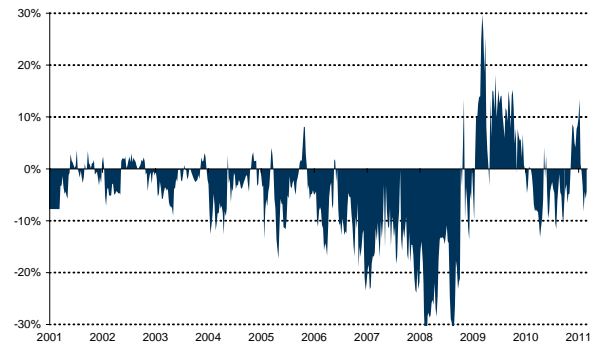
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HISTORICAL NAV (IFRS) PREMIUM (DISCOUNT)



Source: Bloomberg, KBC Securities

RELATIVE NAV PREMIUM (BEF vs. COF)



Source: Bloomberg, KBC Securities

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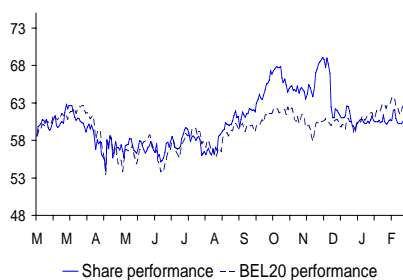
BEFIMMO

Selling vs. acquiring

REAL ESTATE INVESTMENT TRUSTS
BELGIUM

CURRENT PRICE € 60.53
TARGET PRICE € 63.00

HOLD
RATING UNCHANGED



FY/e 30.09	2010	2011E	2012E	2013E
Current Result (€m)	77.5	71.2	75.0	71.3
Portfolio Result (€m)	-31.9	-13.7	-5.0	11.0
Net Profit (€m)	45.7	57.5	70.0	82.3
Diluted Adjusted EPS	4.62	4.24	4.47	4.25
NAV (EPRA)	61.8	61.3	61.6	62.5
P/E	12.98	14.28	13.54	14.25
EV / EBITDA	17.70	18.65	18.11	18.30
DPS	3.90	3.94	3.98	4.02
Dividend yield	6.5%	6.5%	6.6%	6.6%

Source: KBC Securities

Bloomberg	BEFB BB
Reuters	BEFB.BR
www.befimmo.be	
Market Cap	€ 1,016m
Shares outst.	16.8m
Volume (Daily)	€ 1.44m
Free float	77.58%

Next corporate event

Results 1H11: 26 May 2011

Performance	1M	3M	12M
Absolute	0%	-5%	1%
Rel. BEL20	-2%	-12%	-7%

12-m Hi/Lo €69.05/53.95

Befimmo ticks many boxes (high lease duration, superb quality tenants & low leverage) to the defensive yield investor. In our view the cash flow yield of nearly 7% should nevertheless be put in perspective when taking into account the large portion of floating rate debt and the residual value of the portfolio. We require a discount to enter the stock. Hold.

- Strategic perspective.** As a REIT targeting the prime end of the market, Befimmo is confronted with competition from equity investors like pension funds & insurers. With management acknowledging pricing is becoming tight for the best quality assets, we wonder why it is positioned on the acquisition side as net investment yields of 5% are below the company's cost of capital and might induce a capex drag over the longer term as is evident for the standing portfolio.
- Earnings outlook.** We anticipate recurring EPS to move in a range of €4.00-4.50 over 2011-13 factoring in the impact from the ongoing renovation programme and rising short-term rates. This should enable a dividend growing at a pedestrian rate of 1% based on payout ratio of 90-95%. As a stress test we calculate the dividend is preserved up to a level of Euribor 3M of 3%.
- Valuation & share rating.** The shares are now trading at a cash flow yield of 7.0% and are nearly at par with our 2011E NAV (EPRA). This looks reasonable but we are looking for a discount before entering the stock to account for the capex issue. We maintain our Hold recommendation.

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1 March 2011

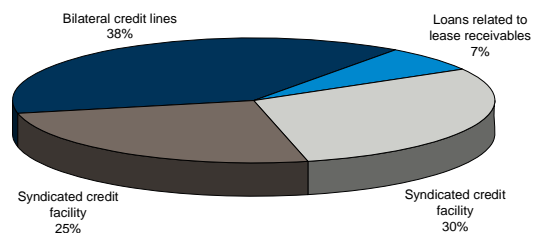
BALANCE SHEET

BALANCE SHEET ANALYSIS

€ m	2007	2008	2009	2010	2011E	2012E	2013E
Investment property	1,816	1,887	1,923	1,923	1,976	1,981	2,086
Investments in associates	-	-	-	-	-	-	-
Financial assets	35	34	5	4	4	4	4
Other non current assets	16	16	17	17	17	17	17
WCR	(59)	(30)	(87)	(53)	(52)	(52)	(51)
Shareholders' equity	932	967	988	1,017	1,009	1,013	1,029
Minorities	65	62	62	64	68	72	76
Net debt	806	868	786	787	845	843	929
Other non current liabilities	5	10	21	22	22	22	22
Net deferred tax liabilities	-	-	-	-	-	-	-
Capital invested	1,808	1,907	1,858	1,891	1,944	1,950	2,055
Number of shares (m)	13.1	13.1	16.8	16.8	16.8	16.8	16.8
NNNAV (IFRS)	71.4	74.0	58.9	60.6	60.1	60.4	61.3
chg y/y	6%	4%	-20%	3%	-1%	0%	2%
NAV (EPRA)	71.4	74.0	60.0	61.8	61.3	61.6	62.5
chg y/y	6%	4%	-19%	3%	-1%	0%	1%
Loan-to-value	44%	46%	41%	41%	43%	43%	45%
Net debt / equity	81%	84%	75%	73%	78%	78%	84%
Interest cover	4.5x	2.5x	3.6x	4.6x	3.9x	3.9x	3.2x
ROCE (recurring)	4.8%	4.8%	5.7%	5.5%	5.2%	5.4%	5.3%
ROCE (total)	6.9%	4.5%	-0.2%	3.8%	4.5%	5.2%	5.9%
ROE (recurring)	7.0%	5.2%	7.4%	7.6%	7.1%	7.4%	6.9%
ROE (total)	11.1%	4.7%	-3.5%	4.5%	5.7%	6.9%	8.0%
Rental income (% of portfolio)	5.8%	5.8%	6.2%	6.5%	6.2%	6.4%	6.3%
G&A (% of capital invested)	49bps	62bps	53bps	66bps	69bps	70bps	68bps
EBITDA margin	84%	83%	89%	85%	83%	84%	84%

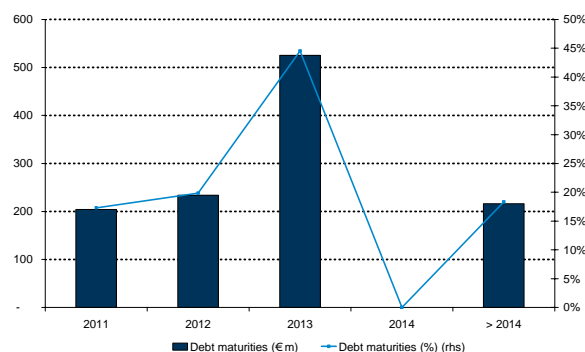
Source: KBC Securities

DEBT COMPOSITION



Source: Befimmo

DEBT MATURITY PROFILE



Source: Befimmo

1 March 2011

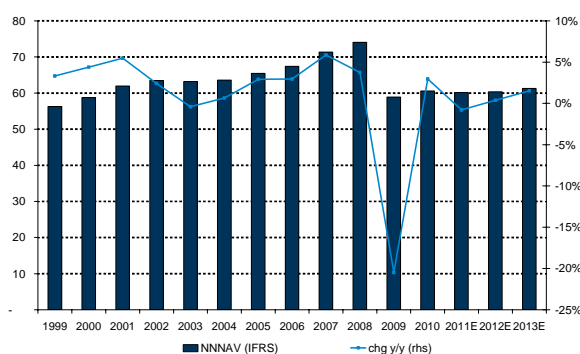
FINANCIAL OUTLOOK

P&L ANALYSIS

€ m	2007	2008	2009	2010	2011E	2012E	2013E
Gross rental income	104.9	109.5	119.1	124.0	123.1	127.4	131.7
Property operating expenses	(8.0)	(6.2)	(3.1)	(6.5)	(7.6)	(7.1)	(7.3)
Net rental income	96.9	103.3	116.0	117.5	115.5	120.3	124.4
Administrative expenses	(8.8)	(11.9)	(9.8)	(12.5)	(13.4)	(13.7)	(13.9)
EBITDA	88.1	91.4	106.1	105.0	102.1	106.7	110.4
Net financing expenses	(19.7)	(36.4)	(29.3)	(22.8)	(26.5)	(27.2)	(34.7)
Corporate income tax	(0.6)	(0.6)	(0.5)	(0.7)	(0.7)	(0.7)	(0.7)
Associates	-	-	-	-	-	-	-
Minorities	(2.7)	(3.7)	(3.3)	(4.0)	(3.7)	(3.7)	(3.7)
Direct investment result - group	65.1	50.6	73.1	77.5	71.2	75.0	71.3
Profit (loss) on disposals	1.3	8.8	0.2	7.4	14.3	-	-
Portfolio revaluations	38.0	(6.3)	(75.0)	(35.6)	(28.0)	(5.0)	11.0
Net other income / (expenses)	-	-	-	-	-	-	-
Revaluation of financial instruments	(1.1)	(8.1)	(35.0)	(3.8)	-	-	-
Deferred tax expense	-	-	-	-	-	-	-
Minorities	-	-	2.2	0.1	-	-	-
Portfolio result - group	38.1	(5.6)	(107.6)	(31.9)	(13.7)	(5.0)	11.0
Net profit - group	103.2	45.0	(34.5)	45.7	57.5	70.0	82.3
Number of shares (m) (avg)	13.1	13.1	16.8	16.8	16.8	16.8	16.8
EPS - direct result	4.66	3.88	4.35	4.62	4.24	4.47	4.25
chg y/y	-4%	-17%	12%	6%	-8%	5%	-5%
EPS - indirect result	3.01	(0.43)	(7.65)	(1.90)	(0.82)	(0.30)	0.66
chg y/y	59%	-114%	1686%	-75%	-57%	-64%	-320%
EPS - reported	7.67	3.45	(3.30)	2.72	3.42	4.17	4.90
chg y/y	14%	-55%	-196%	-182%	26%	22%	18%
CFPS (total)	4.79	4.55	4.37	5.06	5.09	4.47	4.25
chg y/y	-2%	-5%	-4%	16%	1%	-12%	-5%
DPS	4.51	4.55	4.40	3.90	3.94	3.98	4.02
chg y/y	-8%	1%	-3%	-11%	1%	1%	1%
Payout	97%	117%	101%	84%	93%	89%	95%

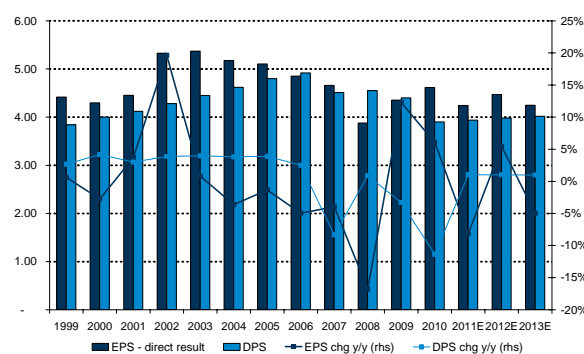
Source: KBC Securities

NAV TRACK RECORD



Source: Befimmo, KBC Securities

EPS & DPS TRACK RECORD



Source: Befimmo, KBC Securities

1 March 2011

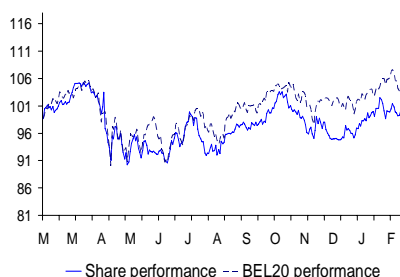
COFINIMMO

Ready for action

REAL ESTATE INVESTMENT TRUSTS
BELGIUM

CURRENT PRICE € 100.95
TARGET PRICE € 102.00

HOLD
RATING UNCHANGED



FY/e 31.12	2010	2011E	2012E	2013E
Current Result (€m)	117.9	108.6	110.8	113.9
Portfolio Result (€m)	-34.1	-8.0	5.2	16.7
Net Profit (€m)	83.8	100.6	116.0	130.6
Diluted Adjusted EPS	7.93	7.30	7.45	7.66
NAV	102.2	102.5	103.8	106.0
P/E	12.31	13.83	13.55	13.18
EV / EBITDA	15.67	17.07	16.63	16.38
DPS	6.50	6.50	6.50	6.50
Dividend yield	6.7%	6.4%	6.4%	6.4%

Source: KBC Securities

Bloomberg	COFB BB
Reuters	COFIT.BR
www.cofinimmo.be	
Market Cap	€ 1,506m
Shares outst.	14.9m
Volume (Daily)	€ 3.15m
Free float	87.23%

Next corporate event

General Assembly 11: 29 April 2011

Performance	1M	3M	12M
Absolute	2%	6%	1%
Rel. BEL20	-1%	-2%	-6%

12-m Hi/Lo € 105.30/90.25

Cofinimmo's shares are up 6% over the last two months and in our view this is largely due to investors anticipating the company to grasp the opportunities presented by the new Belgian REIT legislation. We expect the company to deliver a steady stream of acquisitions to improve underlying cash earnings, but some execution risk remains. Hold.

- **Strategic perspective.** With a 2010 loan-to-value of 50% the deleveraging phase has been completed whereas the active portfolio rotation from offices into nursing homes (perhaps also other niches) is still ongoing. This will prevent a future capex drag on the portfolio as is the case for two large office buildings (~ 5% of rents) that will be redeveloped over the next few years.
- **Earnings outlook.** As a consequence the earnings will be temporarily depressed, but the deleveraging initiatives have left a structural decline. With the existing portfolio & balance sheet we believe the company should be able to generate a normalized recurring EPS of €7.50 of which €6.00 underlying cash. This compares to a DPS of €6.50 but in 2011 the company is to generate one-off gains of €0.50 per share whereas a scrip alternative makes the dividend look sustainable. Nevertheless, it underscores the need for realizing new investments and as a reference we calculate that every € 100m acquisition adds €0.12 to cash flow per share.
- **Valuation & share rating.** The shares are trading around spot NAV (EPRA) and offer a dividend yield of 6.4% which we view as fair considering the challenges that still lie ahead. We maintain our Hold recommendation.

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1 March 2011

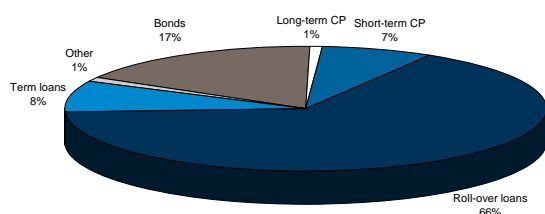
BALANCE SHEET

BALANCE SHEET ANALYSIS

€ m	2007	2008	2009	2010	2011E	2012E	2013E
Investment property	2,800	3,135	3,041	3,042	3,036	3,132	3,205
Investments in associates	-	-	-	-	-	-	-
Financial assets	181	127	101	97	97	97	97
Other non current assets	138	174	167	166	136	136	136
WCR	(12)	(42)	(7)	(16)	4	5	6
Shareholders' equity	1,390	1,369	1,401	1,460	1,464	1,483	1,517
Minorities	21	9	8	7	8	8	9
Net debt	1,529	1,775	1,624	1,537	1,597	1,674	1,712
Other non current liabilities	27	78	115	132	122	122	122
Net deferred tax liabilities	140	164	155	152	82	82	82
Capital invested	3,107	3,394	3,302	3,289	3,274	3,370	3,443
Number of shares (m)	11.4	12.5	14.0	14.9	14.9	14.9	14.9
NNNAV (IFRS)	122.2	109.6	99.8	98.2	98.4	99.7	102.0
chg y/y	5%	-10%	-9%	-2%	0%	1%	2%
NAV (EPRA)	120.2	112.1	103.2	102.2	102.5	103.8	106.0
chg y/y	4%	-7%	-8%	-1%	0%	1%	2%
Loan-to-value	53%	55%	53%	50%	52%	53%	53%
Net debt / equity	108%	129%	115%	105%	109%	112%	112%
Interest cover	2.4x	2.0x	2.1x	2.6x	2.4x	2.4x	2.3x
ROCE (recurring)	4.1%	4.8%	5.4%	5.4%	5.2%	5.2%	5.3%
ROCE (total)	6.1%	2.0%	3.3%	4.4%	4.9%	5.3%	5.8%
ROE (recurring)	6.4%	6.7%	7.2%	8.1%	7.4%	7.5%	7.5%
ROE (total)	10.9%	-0.4%	2.3%	5.7%	6.9%	7.8%	8.6%
Rental income (% of portfolio)	5.6%	6.3%	7.1%	7.1%	6.7%	6.5%	6.6%
G&A (% of capital invested)	18bps	22bps	19bps	19bps	20bps	19bps	20bps
EBITDA margin	83%	86%	86%	86%	85%	86%	87%

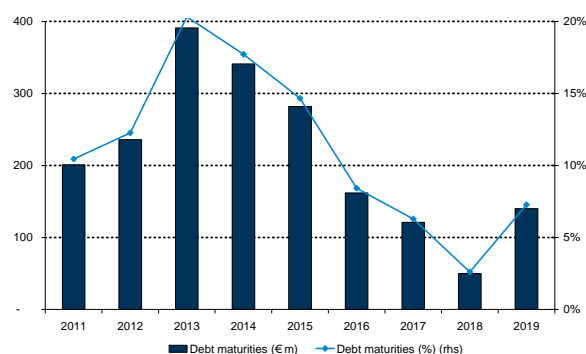
Source: KBC Securities

DEBT COMPOSITION



Source: Cofinimmo

DEBT MATURITY PROFILE



Source: Cofinimmo

1 March 2011

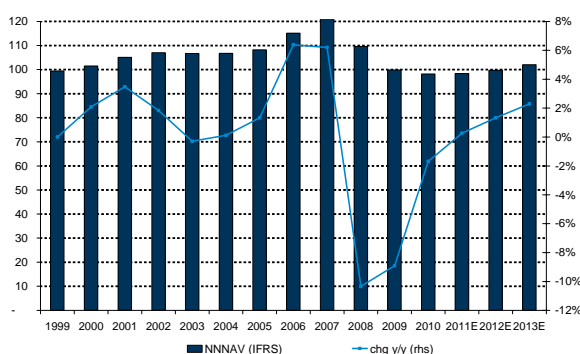
FINANCIAL OUTLOOK

P&L ANALYSIS

€ m	2007	2008	2009	2010	2011E	2012E	2013E
Gross rental income	156.7	198.9	215.5	216.2	204.3	204.5	212.2
Property operating expenses	(20.6)	(21.0)	(24.0)	(24.9)	(23.8)	(22.1)	(20.8)
Net rental income	136.1	177.9	191.6	191.3	180.4	182.4	191.4
Administrative expenses	(5.5)	(7.3)	(6.4)	(6.3)	(6.4)	(6.5)	(6.7)
EBITDA	130.6	170.6	185.2	185.0	174.0	175.9	184.7
Net financing expenses	(38.8)	(72.5)	(76.7)	(59.6)	(60.8)	(62.5)	(68.2)
Corporate income tax	(2.3)	(6.1)	(7.3)	(7.2)	(4.0)	(2.0)	(2.0)
Associates	-	-	-	-	-	-	-
Minorities	(0.2)	(0.3)	(0.5)	(0.2)	(0.6)	(0.6)	(0.6)
Direct investment result - group	89.3	91.6	100.7	117.9	108.6	110.8	113.9
Profit (loss) on disposals	45.5	11.6	7.0	8.5	8.0	-	-
Portfolio revaluations	26.3	(63.8)	(64.9)	(28.3)	(16.0)	5.2	16.7
Net other income / (expenses)	-	-	-	-	-	-	-
Revaluation of financial instruments	(9.0)	(41.5)	(12.3)	(13.8)	-	-	-
Deferred tax expense	(0.1)	(3.6)	1.5	(0.2)	-	-	-
Minorities	-	0.3	0.5	(0.4)	-	-	-
Portfolio result - group	62.7	(96.9)	(68.2)	(34.1)	(8.0)	5.2	16.7
Net profit - group	152.0	(5.3)	32.5	83.8	100.6	116.0	130.6
Number of shares (m) (avg)	11.4	12.5	14.0	14.9	14.9	14.9	14.9
EPS - direct result	7.85	7.42	7.18	7.93	7.30	7.45	7.66
chg y/y	-3%	-5%	-3%	10%	-8%	2%	3%
EPS - indirect result	6.35	(8.90)	(4.86)	(2.30)	(0.53)	0.35	1.12
chg y/y	19%	-240%	-45%	-53%	-77%	-165%	221%
EPS - reported	14.43	(1.48)	2.31	5.63	6.77	7.80	8.78
chg y/y	5%	-110%	-256%	144%	20%	15%	13%
CFPS (total)	10.96	7.38	6.41	7.08	6.46	5.94	6.01
chg y/y	29%	-33%	-13%	10%	-9%	-8%	1%
DPS	7.75	7.80	6.50	6.50	6.50	6.50	6.50
chg y/y	5%	1%	-17%	0%	0%	0%	0%
Payout	110%	120%	110%	100%	110%	109%	108%

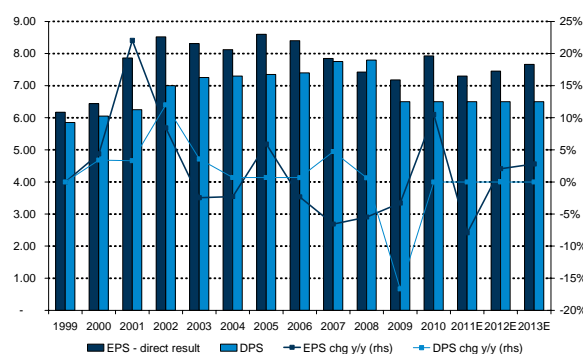
Source: KBC Securities

NAV TRACK RECORD



Source: Cofinimmo, KBC Securities

EPS & DPS TRACK RECORD



Source: Cofinimmo, KBC Securities

1 March 2011

SECTOR STATS

KBC SECURITIES REAL ESTATE COVERAGE: VALUATION MULTIPLES

Name	Market cap	Bloomberg	Rating	Latest Price	Target Price	% upside / (downside)	Earnings yield			Dividend yield			P/NAV			EBITDA/EV		
							2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E
Aedifica	296	AED BB	Hold	42.0	42.0	n.r.	4.7%	4.1%	4.4%	4.3%	3.9%	4.3%	1.04	1.08	1.03	3.9%	4.2%	4.5%
Befimmo	1,016	BEFB BB	Hold	60.5	63.0	4%	7.6%	7.0%	7.4%	6.4%	6.5%	6.6%	0.98	0.99	0.98	5.6%	5.4%	5.5%
Cofinimmo	1,506	COFB BB	Hold	101.0	102.0	1%	7.9%	7.2%	7.4%	6.4%	6.4%	6.4%	0.99	0.99	0.97	5.9%	5.9%	6.0%
Corio	4,373	CORA NA	Buy	48.1	53.0	10%	6.1%	6.1%	6.4%	5.6%	5.7%	5.9%	0.99	0.96	0.92	5.3%	5.4%	5.6%
Eurocommercial Properties	1,402	ECMPA NA	Buy	34.8	37.0	6%	5.2%	5.3%	5.6%	5.2%	5.3%	5.6%	1.03	0.97	0.94	5.2%	4.9%	5.1%
Leasinvest RE	271	LEAS BB	Reduce	67.6	64.0	-5%	8.1%	7.1%	6.7%	6.1%	6.2%	6.4%	1.00	1.02	1.03	6.1%	5.8%	5.6%
Montea	143	MONT BB	Hold	25.3	24.0	-5%	7.3%	7.0%	7.5%	7.3%	6.9%	7.1%	1.11	1.05	1.02	5.3%	6.1%	6.2%
Retail Estates	235	RET BB	Accumulate	48.0	48.0	0%	6.7%	6.6%	6.9%	5.5%	5.6%	5.8%	1.08	1.02	0.99	6.0%	5.9%	6.1%
VastNed Retail	944	VASTN NA	Hold	51.7	54.0	4%	7.1%	7.2%	7.3%	7.1%	7.2%	7.3%	0.93	0.92	0.90	5.7%	5.7%	6.0%
Warehouses De Pauw	485	WDP BB	Reduce	38.7	37.0	-4%	7.7%	8.3%	8.9%	7.6%	7.6%	8.0%	1.16	1.10	1.07	5.9%	6.4%	6.7%
Wereldhave	1,578	WHA NA	Hold	73.6	75.0	2%	6.9%	7.2%	7.3%	6.4%	6.5%	6.5%	0.91	0.89	0.86	5.3%	6.0%	5.8%
Atenor Group	165	ATEB BB	Hold	33.1	34.0	3%	-0.1%	3.7%	9.2%	6.1%	6.1%	6.1%	1.59	1.66	1.57	n.a.	n.a.	n.a.
Banimmo	148	BANI BB	Hold	13.1	15.0	15%	3.0%	12.0%	10.9%	3.8%	7.7%	7.7%	1.09	0.99	0.96	2.8%	9.7%	8.9%
Average - arithmetic						3%	6.0%	6.8%	7.4%	6.0%	6.3%	6.4%	1.07	1.05	1.02	5.2%	5.9%	6.0%
Average - weighted						5%	6.5%	6.6%	6.9%	6.0%	6.1%	6.3%	1.00	0.98	0.95	5.3%	5.5%	5.6%
Average - REITs						1%	6.8%	6.7%	6.9%	6.2%	6.2%	6.4%	1.02	1.00	0.97	5.5%	5.6%	5.7%

Source: KBC Securities

1 March 2011

SECTOR STATS

KBC SECURITIES REAL ESTATE COVERAGE: EARNINGS ESTIMATES

Name	Market cap	Bloomberg	Rating	Latest Price	Target Price	% upside / (downside)	Recurring EPS				Dividend				NAV			
							2009	2010E	2011E	2012E	2009	2010E	2011E	2012E	2009	2010E	2011E	2012E
Aedifica	296	AED BB	Hold	42.0	42.0	0%	2.09	1.99	1.72	1.85	1.80	1.82	1.65	1.82	40.7	40.3	39.0	40.9
Befimmo	1,016	BEFB BB	Hold	60.5	63.0	4%	4.35	4.62	4.24	4.47	4.40	3.90	3.94	3.98	60.0	61.8	61.3	61.6
Cofinimmo	1,506	COFB BB	Hold	101.0	102.0	1%	7.18	7.93	7.30	7.45	6.50	6.50	6.50	6.50	103.2	102.2	102.5	103.8
Corio	4,373	CORA NA	Buy	48.1	53.0	10%	3.02	2.92	2.95	3.09	2.65	2.70	2.75	2.85	47.3	48.4	50.2	52.1
Eurocommercial Properties	1,402	ECMPA NA	Buy	34.8	37.0	6%	1.82	1.82	1.86	1.93	1.78	1.82	1.86	1.93	33.1	33.9	35.7	36.9
Leasinvest RE	271	LEAS BB	Reduce	67.6	64.0	-5%	5.32	5.48	4.77	4.51	4.00	4.10	4.20	4.30	68.9	67.5	66.0	65.7
Montea	143	MONT BB	Hold	25.3	24.0	-5%	2.08	1.84	1.78	1.89	2.09	1.84	1.75	1.80	25.8	22.9	24.2	24.9
Retail Estates	235	RET BB	Accumulate	48.0	48.0	0%	3.14	3.19	3.17	3.32	2.54	2.62	2.70	2.78	44.7	44.6	46.9	48.6
VastNed Retail	944	VASTN NA	Hold	51.7	54.0	4%	4.03	3.66	3.72	3.78	4.03	3.66	3.72	3.78	54.8	55.4	56.4	57.7
Warehouses De Pauw	485	WDP BB	Reduce	38.7	37.0	-4%	3.10	2.97	3.21	3.43	2.94	2.94	2.94	3.10	32.4	33.4	35.1	36.2
Wereldhave	1,578	WHA NA	Hold	73.6	75.0	2%	4.93	5.09	5.32	5.35	4.65	4.70	4.75	4.80	78.4	80.8	82.5	85.5
Atenor Group	165	ATEB BB	Hold	33.1	34.0	3%	1.45	-0.03	1.21	3.05	2.60	2.00	2.00	2.00	23.4	20.8	20.0	21.0
Banimmo	148	BANI BB	Hold	13.1	15.0	15%	1.39	0.40	1.56	1.42	1.00	0.50	1.00	1.00	12.8	12.0	13.2	13.6

Source: KBC Securities

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SECTOR STATS

KBC SECURITIES REAL ESTATE COVERAGE: KEY PERFORMANCE INDICATORS

Name	Free float	Volume (€ m)	Total return				Latest reported yield (net)	Market implied portfolio yield (*)	Δ bps	Lease duration	LTV 2010E	Net debt / EV	Interest expense	Interest cover	Debt duration	Payout ratio
			2008	2009	2010	YTD										
Aedifica	72%	0.208	-2%	10%	15%	1%	5.8%	5.3%	-47bps	17.0y	42%	39%	4.2%	2.2x	2.7y	92%
Befimmo	78%	1.436	-3%	4%	4%	-1%	6.5%	6.3%	-14bps	9.1y	44%	44%	3.0%	4.6x	2.9y	84%
Cofinimmo	87%	3.150	-23%	13%	4%	4%	6.5%	6.4%	-7bps	10.6y	50%	51%	4.3%	2.6x	3.9y	100%
Corio	73%	14.653	-38%	57%	7%	0%	6.6%	6.5%	-10bps	4.5y	40%	40%	3.9%	3.5x	5.9y	93%
Eurocommercial Properties	89%	3.335	-27%	28%	26%	1%	6.0%	5.7%	-29bps	5.4y	41%	41%	4.3%	2.7x	7.5y	100%
Leasinvest RE	34%	0.080	-24%	26%	14%	7%	6.7%	6.7%	-3bps	3.9y	47%	47%	3.4%	3.4x	2.8y	75%
Montea	36%	0.047	-12%	-1%	9%	8%	8.0%	7.4%	-56bps	3.7y	47%	44%	4.4%	2.6x	1.6y	100%
Retail Estates	36%	0.047	-9%	30%	15%	4%	6.6%	6.2%	-35bps	5.5y	54%	50%	5.0%	2.2x	5.5y	82%
VastNed Retail	52%	0.091	-42%	42%	23%	-1%	6.6%	6.7%	15bps	3.3y	41%	44%	4.1%	3.5x	3.1y	100%
Warehouses De Pauw	100%	2.693	-30%	27%	12%	6%	7.9%	7.1%	-73bps	6.5y	55%	51%	4.2%	3.0x	4.4y	99%
Wereldhave	68%	0.489	-11%	15%	17%	1%	6.8%	7.0%	25bps	4.5y	37%	39%	2.5%	5.6x	2.7y	92%
Atenor Group	94%	10.216	-4%	-2%	-1%	-1%	n.r.	n.r.	n.r.	n.r.	n.r.	n.a.	6.0%	n.a.	4.5y	n.a.
Banimmo	41%	0.058	-24%	6%	-1%	-8%	8.5%	n.r.	n.r.	4.8y	59%	61%	4.4%	1.8x	3.9y	126%

Source: KBC Securities, (*) Calculation based on average between spot NAV and spot NNNAV

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Stock rating	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

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Stock rating	% of covered universe	% of covered universe with investment banking relationship during last year
BUY	29%	0%
ACCUMULATE	40%	0%
HOLD	29%	0%
REDUCE	2%	0%
SELL	0%	0%

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