September 22, 2014

**Indicative rating: A-**

**Credit quality outlook: Stable**

# NorgesGruppen

## Rating initiated at A-

- Norway's largest wholesale and retail group
- Strong positions in resilient market
- Conservative leverage and liquidity profile

### Leading wholesale and retail group in Norway

NorgesGruppen, a leading wholesale and retail group in Norway, is the result of Joh. Johannson merging with several regional and local retail chains in 2000. The merger allowed for vertical integration of food wholesale and retail, which propelled the company into its leading position. Despite the limited history in its current form, the company's predecessors, particularly within wholesale, have a long operating history with generations of family ownership.

### Business model offers low volatility

Competition in the Norwegian food retail sector is fierce, with four groups controlling more than 95% of the highly consolidated market. Although the Norwegian economy is set for lower growth ahead, NorgesGruppen's main business of grocery wholesale and retail is highly resilient to changes in the economic climate.

### Moderate gearing and strong liquidity

Adjusting for significant off-balance-sheet lease liabilities, we see NorgesGruppen's financial risk profile as intermediate, which together with the strong business profile and strong liquidity support our A- rating of the company and its unsecured debt.

*Ronny Berg, +47 22 82 30 36, robe10@handelsbanken.no*

Sep 22, 2014

### Public ratings

| | Long-term | Outlook |
|---|---|---|
| S&P: | n.r. | |
| Moody's: | n.r. | |
| Fitch: | n.r. | |

### Indicative ratings

| | |
|---|---|
| Group: | A- |
| Planned notes: | A- |

### Company data

Web address: www.norgesgruppen.no

NorgesGruppen is Norway's largest food retailer and wholesaler with more than 1,700 stores, a 39% grocery retail market share and turnover of NOK 67bn. The company is controlled by the Johannson family

CEO: Tommy Korneliussen
CFO: Sverre R. Kjær
Treasurer: Annichen Fladager:

### Largest owners (June 30, 2014)

| | |
|---|---|
| Joh. Johannson AS | 74.4% |
| Brødrene Lorentzen AS | 9.0% |
| PETT Kjede og Servicekontor | 6.3% |
| Butikkdrift AS | 1.8% |
| Drageset AS | 1.1% |

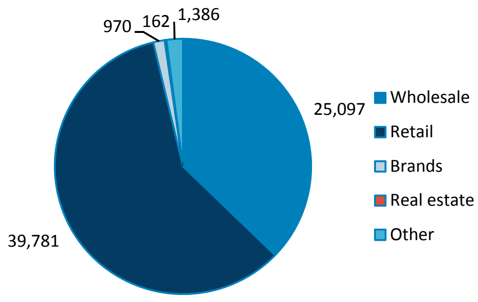
### Key figures

| NOKm | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|
| Revenues | 49,011 | 53,160 | 55,628 | 58,565 | 62,024 | 67,328 |
| EBITDA | 3,028 | 3,663 | 4,080 | 4,692 | 5,058 | 5,186 |
| Funds fom operations (FFO) | 2,278 | 3,040 | 3,376 | 3,512 | 3,880 | 3,950 |
| Equity | 7,145 | 8,165 | 9,162 | 9,505 | 10,220 | 11,455 |
| Total debt | 10,104 | 11,102 | 12,227 | 12,223 | 14,574 | 15,569 |
| Net Debt | 9,779 | 10,778 | 11,870 | 11,640 | 14,040 | 15,166 |
| Total assets | 24,177 | 26,677 | 29,822 | 31,123 | 34,472 | 37,664 |
| Equity ratio | 30% | 31% | 31% | 31% | 30% | 30% |
| Debt/EBITDA | 3.3x | 3.0x | 3.0x | 2.6x | 2.9x | 3.0x |
| Net Debt/EBITDA | 3.2x | 2.9x | 2.9x | 2.5x | 2.8x | 2.9x |
| EBITDA/Net Interest | 5.4x | 6.8x | 7.4x | 7.9x | 7.7x | 7.3x |
| FFO/Debt | 23% | 27% | 28% | 29% | 27% | 25% |

**Adjusted for operating leases, pensions and non-recurring items*

Sources: Company reports and Handelsbanken Capital Markets

### Revenue distribution (NOK m), 2013




Source: Annual report

# Business overview

NorgesGruppen's core business areas are its Wholesale and Retail operations, primarily within grocery stores. Including franchise stores, the group has almost 40% market share in the Norwegian food retail market.

Established in 2000 through merger of wholesale and retail operations

## Company introduction

NorgesGruppen was established in 2000, when the wholesale operations of Joh. Johannson was merged with several regional and local retail chains. Prior to the merger, NorgesGruppen and its predecessor, Norgesdetalj, had acted as an alliance between the wholesale arm and retailers since 1994. This alliance was an attempt to counter competition from the vertically-integrated Hakon Gruppen (now part of Ica), Reitangruppen (Rema 1000) and Coop. Following the merger, more than 20 local and regional chain concepts were reduced to three national grocery store chains.

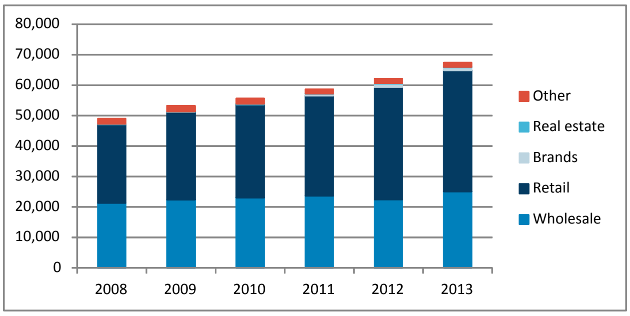
**Figure 1: Operational overview**


Source: Handelsbanken Capital Markets

NorgesGruppen's operations can be divided into three main areas: Wholesale, Retail and Brands (reported as a separate business area from 2012). In addition, the real estate operations form a separate business area.

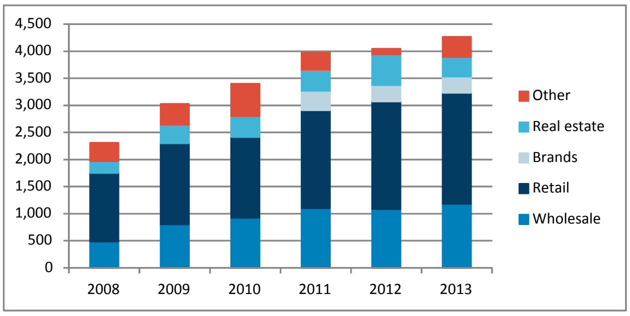
In terms of profit contribution, the Retail business area is the largest and accounted for 48% of group EBITDA during 2011-13, ahead of Wholesale's 27%. As an integrated wholesaler-retailer, the different business areas are by their nature strongly linked.

**Figure 2: Revenues by business area (NOKm)**




Source: Company reports

**Figure 3: EBITDA by business area (NOKm)**




Source: Company reports

## Wholesale

NOK 23.8bn internal and NOK 25.1bn external wholesale revenues

NorgesGruppen's subsidiary ASKO is Norway's largest wholesale company. Also included in the Wholesale business is Storcash, a cash-and-carry concept for small and mid-sized commercial customers. The business area is responsible for logistics, warehousing and distribution.

ASKO has some 17,500 customers in total, spanning grocery stores, the HoReCa (Hotels, Restaurants and Catering) segment and kiosks/service stores. The eight Storcash stores serve some 8,000 customers.

Wholesale revenues was NOK 48.9bn in 2013, of which NOK 23.8bn was internal revenues from sales to NorgesGruppen's own retail stores and service concepts, and NOK 25.1bn was external revenues. The growth in revenues from 2012 was a solid 12.5%, partly explained by the fact that ASKO took over the distribution of i.e. Coca-Cola products during the year.

Bunnpris lost to Rema; Ica agreement deemed illegal

One of the largest external customers, the Bunnpris chain (3.6% market share in 2013), terminated its purchasing and distribution agreement with effect from January 1, 2012, and entered into a new agreement with Rema 1000. As a result, Wholesale revenues fell by 5% from 2011 to 2012. In 2013, NorgesGruppen announced a new agreement with Ica (11.1% market share). The competition authorities later deemed the agreement illegal because it would have given NorgesGruppen strong bargaining power with suppliers and potentially reduced competition between Ica and NorgesGruppen stores.

## Retail

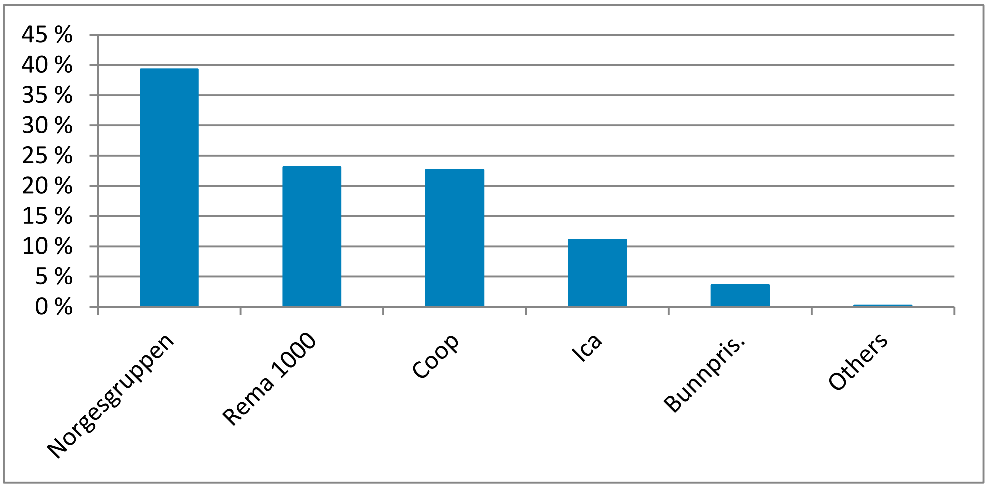
More than 1,700 grocery stores in Norway

The Retail business area comprises NorgesGruppen-owned grocery stores and kiosks/service concepts, as well as management of chain concepts for retailer-owned/franchise based stores. Within grocery stores, NorgesGruppen has three nationwide chain concepts:

- **Kiwi**: Norway's second largest "discount" grocery store chain with an estimated market share of 16.9%, and 581 stores at year-end 2013.
- **Meny-Ultra**: Larger supermarkets with a greater product assortment, particularly within fresh food. Meny and Ultra are the main brands, while certain stores are branded Centra and Jacob's. At year-end 2013 there were 187 Meny stores and seven Ultra/Centra/Jacobs stores.
- **Kjøpmannshuset**: Development, marketing and operating of the national chain concepts Spar, Eurospar, Joker and Nærbutikken. For the most part, the stores are owned by local retailers. There are 939 stores affiliated with Kjøpmannshuset.

  According to AC Nielsen, NorgesGruppen's grocery store chains, including the affiliated retailer-owned stores, have market share of 39.3% in a market worth NOK 153.5bn in 2013.

**Figure 4: Market share in Norway**




Source: AC Nielsen

Considerable presence within kiosks and service

NorgesGruppen also has a considerable presence within kiosks, service and convenience concepts, and restaurants. Including owned outlets and franchise concepts, there are 850 outlets with total sales of approximately NOK 3bn, including *Mix* (kiosks), *Deli de Luca* (convenience stores), *Kaffebrenneriet* (coffee shops, 50% ownership), *Jafs* (fast food), *Dolly Dimple's* (pizza restaurants) and *Big Horn Steak House* (restaurants, 50% ownership)

### Brands

Since 2012, NorgesGruppen has reported its private label business as a separate business area, comprising *Unil* (food and non-food private labels including First Price and Eldorado), *Norsk Polar* (egg, meat, seafood and vegetables), *Bakers* (bread, acquired from Orkla in 2011), *Matbørsen* (readymade food) and *Joh Johannson kaffe* (coffee branded Evergood and Ali). The acquisition of Bakers resulted in negative goodwill of NOK 223m, which reduced depreciations for the year.

### Real estate

NOK 7bn of real estate assets

The group's real estate activities include more than 200 properties with a combined area of 850,000m$^2$ of retail property, warehouses and shopping centres. In addition, the company rents more than 1,000,000m$^2$. NorgesGruppen is also part owner in a number of other real estate companies, including a 49% stake in Scala Retail Property, an owner of mid-sized shopping centres with lease revenues close to NOK 100m. At year-end 2013, investment property had a book value of NOK 1.2bn, while other real estate assets not classified as investment property were booked at NOK 5.9bn. With an EBITDA for 2013 of NOK 565m, this corresponds to an average net yield of 8%.

### Other activities

Besides the four business areas, NorgesGruppen operates joint service centres within purchasing, accounting/payroll, IT and loyalty programmes, serving both internal and external customers.

## Ownership and corporate governance

As the company is the result of a merger between the wholesale operations in Joh. Johannson and a large number of local and regional retail chains, NorgesGruppen has a fragmented shareholder base with more than 950 shareholders. The dominant shareholder is the Johannson family, which controls 74.4%. Other major shareholders are Brødrene Lorentzen and PETT, both former owners of retail chains. The company's own shareholding was at a considerable 8.4% at year-end 2013, but has since been reduced through a share capital reduction.

Purchases of own shares imply an equity value of NOK 17-20bn

NorgesGruppen conducts external valuation appraisals twice a year, which form the basis for valuation when purchasing own shares. Based on the number of own share purchases in 2013 and the total consideration, we calculate an implied value of NOK 19.7bn, while the same calculation based on the shares purchased in 2012 implies NOK 16.6bn. This compares to book equity of NOK 11.2bn at year-end 2013.

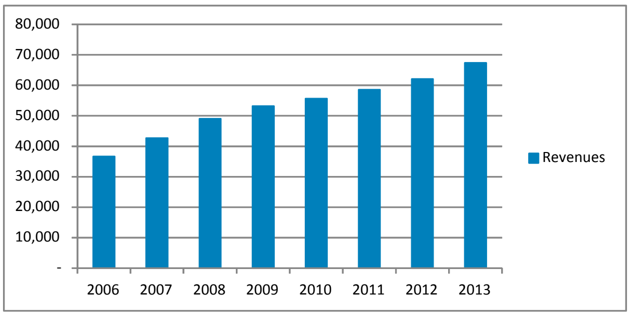
# Financial profile

Over time, NorgesGruppen has demonstrated stable growth in revenues and profits. Despite negative cash flow post capex and dividends, its leverage metrics remain largely unchanged.

## Earnings

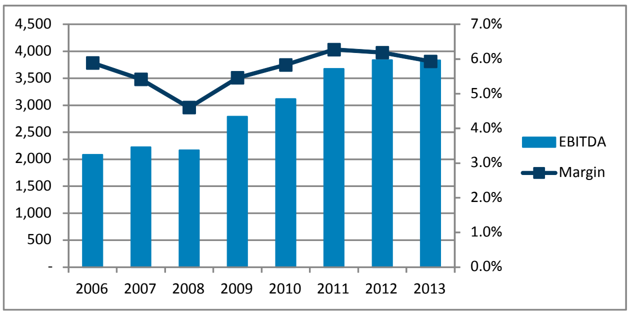
NorgesGruppen has a leading position in the competitive and highly consolidated Norwegian food retail market. As such, the revenue and earnings trend is stable and resilient against general business cycles. As can be seen in Figure 6 below, EBITDA excluding profit from associated companies was only marginally reduced during the 2008-09 global financial crisis. Excluding these two years, NorgesGruppen's EBITDA margins have been at 5-6%.

**Figure 5: Revenues 2006-13 (NOKm)**




Sources: Company reports and Handelsbanken Capital Markets

**Figure 6: EBITDA and margin 2006-13**




Sources: Company reports and Handelsbanken Capital Markets

In H1 2014, NorgesGruppen reported revenues of NOK 34bn (NOK 32bn in H1 2013) and EBITDA of NOK 2,071m (NOK 1,778m in H1 2013). This gives an EBITDA over the past 12 months of NOK 4.1bn, up from NOK 3.8bn in 2013.

## Cash flow

*Free cash flow negative in three of the past five years....*

The improvements in NorgesGruppen's FFO and operating cash flow in recent years have been partly offset by increasing capex as well as acquisitions and other investments, leaving free cash flow negative. During the past five years, annual investments in tangible and intangible assets have averaged NOK 2.8bn. Investments in retail properties for new stores and store material and systems are the main capex elements.

NorgesGruppen has also been quite active in acquiring small to mid-size retail groups and shareholdings in other companies. In 2013, it purchased a 49% shareholding in the Danish wholesale and retail group Dagrofa for NOK 538m. In 2012, the group spent a total of NOK 1.0bn on various acquisitions, including Bakers, Matbørsen and the Safari grocery chain.

*...further reduced by share repurchases*

Annual dividends have increased steadily, in line with the net income trend, and were NOK 509m for 2013, up from NOK 466m in 2012. In addition, the group has spent NOK 870m on purchasing own shares during the past three years. The background for the relatively large share repurchases is that the company has a first right of refusal for all share transactions.

## Leverage and debt profile

Large headroom to financial covenants

At year-end 2013, total interest bearing debt stood at NOK 8.5bn, of which 80% was bonds and commercial paper. With a few minor exceptions, all debt is unsecured and on a negative pledge basis; book value of pledged assets was only NOK 105m at year-end 2013.

Certain loan agreements contain financial covenants, the most restrictive being:

- Net interest bearing debt/EBITDA < 3.5x (1.85x at year-end 2013)
- Equity ratio > 24% (37.1% at year-end 2013)
- Interest coverage ratio > 3.0x (EBITDA/net interest expense above 15x for 2013)

**Table 1: Capital structure and adjusted debt**

| Capital structure (NOKm) | 31 Dec 12 | 31 Dec 13 |
|---|---|---|
| Bond debt | 3 150 | 4 295 |
| Commercial paper | 2 900 | 2 550 |
| Bank debt/other | 1 903 | 1 700 |
| **Total debt** | **7 953** | **8 545** |
| Cash & equivalents | 534 | 403 |
| **Net debt** | **7 419** | **8 142** |
| Operating leases | 6 367 | 6 750 |
| Pension liabilites | 254 | 274 |
| **Adjusted total debt** | **14 574** | **15 569** |
| **Adjusted net debt** | **14 040** | **15 166** |

Sources: Company reports and Handelsbanken Capital Markets

### Analytical adjustments

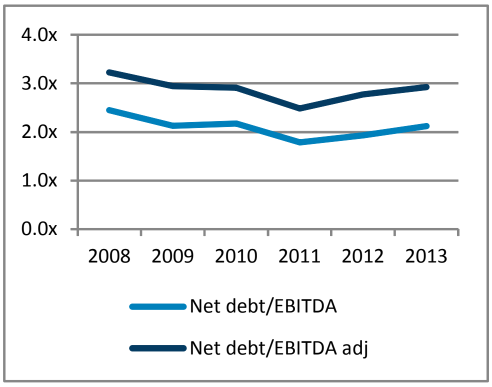
For our adjusted debt and leverage figures, we calculate operating lease liabilities (net of leases with NorgesGruppen as lessor) at NOK 6,750m and post-tax pension liabilities at NOK 274m, bringing the total adjusted debt to NOK 15.6bn and net debt to NOK 15.2bn.

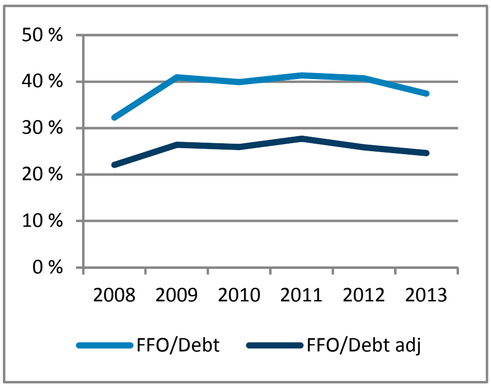
We also make certain adjustments to EBITDA and FFO used for our leverage analysis by including dividend from associated companies, excluding operating lease payments and adjusting the pension costs for estimated returns and calculated interest. We also exclude sales gains from our EBITDA numbers.

With these adjustments, net debt/EBITDA and FFO/debt for 2013 was 2.9x and 25%, respectively. These ratios have been stable in recent years.

Key leverage ratios stable in 2008-13

**Figure 7: Leverage ratios**



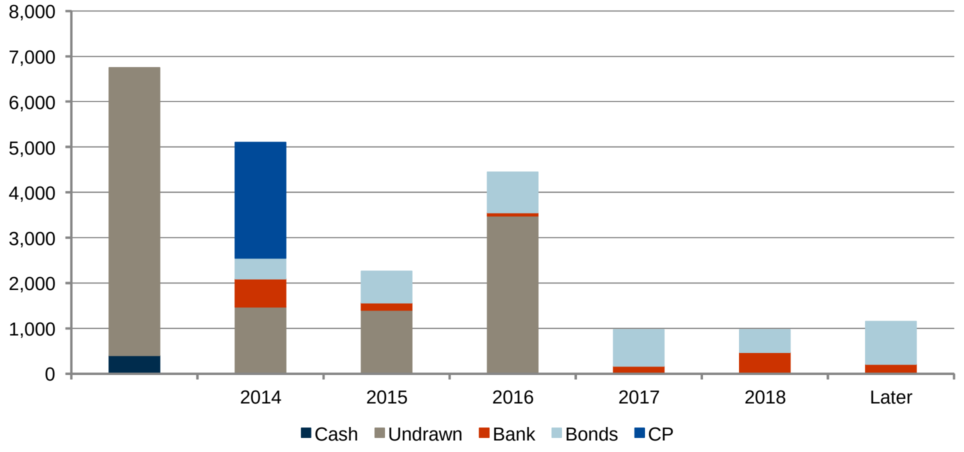

Sources: Company reports and Handelsbanken Capital Markets

## Liquidity

Somewhat front-loaded debt maturities, but strong liquidity

At December 31, 2013, NorgesGruppen's total liquidity was NOK 6,753m, of which NOK 6,350m was in undrawn facilities. Against this, short-term interest bearing debt was NOK 3.6bn, most of which was commercial paper. Due to the relatively high share of commercial paper, the maturity profile is somewhat front-loaded and brings weighted debt maturities below three years.

**Figure 8: Debt maturity schedule**




Source: Handelsbanken Capital Markets

In addition to the above, NorgesGruppen has several alternative sources of liquidity in the form of long- and short-term receivables on associated companies, as well as investments in companies not directly related to its core wholesale and retail operations. Examples include the minority shareholdings in Norse-Trade, Holly Holding and Norli Libris, with a combined book value in excess of NOK 500m. In total, associated companies are booked at NOK 2.6bn, of which NOK 605m represents the 46% shareholding in fruit and vegetable wholesaler BAMA.

Taking into account these investments, the solid headroom to financial covenants, and what we perceive as a solid standing in the bank and capital markets, we label NorgesGruppen's liquidity as 'strong'.

# Rating rationale

Our A- rating is based on what we perceive as a strong business risk profile and intermediate leverage.

## Strong business risk and intermediate financial risk

In rating agency terms, we view NorgesGruppen's business risk profile as 'strong', given its solid positions in a market with resilient characteristics. The company has a long operating history and has been growing steadily with low earnings volatility over many years.

Market leader in a highly consolidated market

The Norwegian grocery market is highly consolidated, with the four largest groups controlling more than 95% of the market. Due to NorgesGruppen's already high market share, the anti-monopoly legislation effectively prevents any large-scale acquisitions in the domestic market. The high market concentration and significant economies of scale in wholesale and distribution constitute significant barriers to entry for incumbents, and previous attempts by foreign chains (e.g. Lidl) to enter the Norwegian market have not been successful.

Weighing somewhat on our business risk assessment is a lack of diversification, as activities outside the core retail and wholesale areas are limited. The company is also exposed to geographical concentration as revenues outside Norway are negligible.

Key financial metrics correspond to intermediate leverage

NorgesGruppen's key financial metrics are strong and have been stable over time. Unadjusted net debt/EBITDA has been around 2x, and 3x when adjusting for operating leases and pension liabilities. Adjusted FFO/debt has also been stable at 25% or higher. Given the industry's lower than average volatility, we find that these metrics correspond well to intermediate leverage.

Based on S&P's business risk/financial risk framework, and taking into account the company's strong liquidity, we arrive at a rating of A-.

**Table 2: Business risk / financial risk matrix**

| | | *Financial risk profile* | | | | | |
|---|---|---|---|---|---|---|---|
| | | **Minimal** | **Modest** | **Intermediate** | **Significant** | **Aggressive** | **Highly Leveraged** |
| *Bus. risk profile* | **Excellent** | aaa/aa+ | aa | a+/a | a- | bbb | bbb-/bb+ |
| | **Strong** | aa/aa- | a+/a | a-/bbb+ | bbb | bb+ | bbb-/bb+ |
| | **Satisfactory** | a/a- | bbb+ | bbb/bbb- | bbb-/bb+ | bb | b+ |
| | **Fair** | bbb/bbb- | bbb- | bb+ | bb | bb- | b |
| | **Weak** | bb+ | bb+ | bb | bb- | b+ | b/b- |
| | **Vulnerable** | bb- | bb- | bb-/b+ | b+ | b | b- |

Source: Standard & Poor's

## Peer comparison

No Norwegian retailers have a public rating. Table 4 shows ratings and selected financial information for selected European and international retailers.

As shown in Table 3, most of the peer companies are significantly larger than NorgesGruppen. This is due to larger domestic markets, international operations and operations in retail segments other than food. Still, we find our 'strong' business risk assessment adequate given NorgesGruppen's very solid domestic market position and the relative robustness of the Norwegian economy relative to other European markets.

NorgesGruppen's adjusted credit metrics comparable to Woolworths (A-)

From the peer rating summary, the only company with an A- rating is Woolworths. Looking at S&P's adjusted credit metrics for the company (which include significant off-balance sheet operating lease liabilities), we find that these compare well with NorgesGruppen's, including the rating agency's expectation of an adjusted debt/EBITDA of 2.8x and FFO/debt of 23-25%.

### Table 3: Peer rating summary

| | Norges-gruppen | Carre-four | Royal Ahold | Tesco | Marks & Spencer | Wool-worths |
|---|---|---|---|---|---|---|
| S&P | n.a. | BBB+ | BBB | BBB/NEG | BBB- | A- |
| Moody's | n.a. | Baa2/POS | Baa3/POS | Baa2 | n.a. | A3 |
| Bus. risk | | Strong | Satisfactory | Strong | Satisfactory | Strong |
| Fin. risk | | Intermediate | Intermediate | Significant | Significant | Intermediate |
| *Currency* | *NOK* | *EUR* | *EUR* | *GBP* | *GBP* | *AUD* |
| Revenues | 67,328 | 75,291 | 32,615 | 62,554 | 10,309 | 58,674 |
| EBITDA | 5,186 | 4,238 | 3,000 | 5,835 | 1,159 | 6,278 |
| FFO | 3,950 | 2,894 | 2,352 | 3,892 | 1,025 | 4,075 |
| OCF | 3,145 | 2,907 | 2,316 | 3,916 | 1,000 | 3,581 |
| Total debt | 15,569 | 7,863 | 3,542 | 19,933 | 2,104 | 17,268 |
| Equity | 11,455 | 7,897 | 6,520 | 13,295 | 2,707 | 9,651 |
| EBITDA margin | 7.7% | 5.6% | 9.2% | 9.3% | 11.2% | 10.7% |
| Debt/EBITDA | 3.0x | 1.9x | 1.2x | 3.4x | 1.8x | 2.8x |
| EBITDA/Interest | 7.3x | 6.0x | 5.8x | 4.1x | 9.6x | 5.1x |
| FFO/debt | 25% | 37% | 66% | 20% | 49% | 24% |
| Debt/Equity | 1.4x | 1.0x | 0.5x | 1.5x | 0.8x | 1.8x |

Sources: Standard & Poor's and Moodys. Financial information for peers are based on S&P's adjusted figures.

# Key figures

**P&L accounts**

| NOKm | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|
| Revenues | 49,011 | 53,160 | 55,628 | 58,565 | 62,024 | 67,328 |
| Total op expenses | (46,846) | (50,371) | (52,514) | (54,892) | (58,187) | (63,497) |
| **EBITDA** | **2,165** | **2,789** | **3,114** | **3,674** | **3,837** | **3,832** |
| **EBITDA adj** | **3,028** | **3,663** | **4,080** | **4,692** | **5,058** | **5,186** |
| Gain/Loss on asset sale | 4 | 72 | 47 | 76 | 59 | 67 |
| Depreciation & impairment | (1,104) | (1,195) | (1,291) | (1,514) | (1,696) | (1,625) |
| **EBIT** | **1,928** | **2,539** | **2,836** | **3,254** | **3,421** | **3,628** |
| Associated income | 138 | 163 | 235 | 224 | 372 | 362 |
| Interest income | 58 | 37 | 27 | 33 | 35 | 56 |
| Interest expense | (327) | (270) | (251) | (293) | (303) | (309) |
| Other financial items | 119 | (8) | (16) | (44) | (35) | 23 |
| **EBT** | **1,916** | **2,461** | **2,832** | **3,174** | **3,489** | **3,760** |
| Tax | (294) | (415) | (456) | (599) | (614) | (612) |
| Discontinued ops | - | - | - | - | - | - |
| Minorities | (19) | (25) | (16) | (30) | (29) | (24) |
| **Net income** | **1,603** | **2,021** | **2,360** | **2,545** | **2,846** | **3,124** |

**Balance sheet**

| NOKm | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|
| Financial assets | 1,567 | 1,864 | 1,963 | 2,248 | 2,271 | 3,355 |
| Tangible assets | 8,228 | 8,891 | 10,813 | 10,835 | 11,790 | 12,669 |
| Other long-term assets | 159 | 220 | 322 | 372 | 649 | 615 |
| Other current assets | 6,089 | 6,552 | 7,319 | 8,041 | 8,285 | 9,342 |
| Cash and equivalents | 325 | 324 | 357 | 583 | 534 | 403 |
| **Total assets** | **16,368** | **17,851** | **20,774** | **22,080** | **23,529** | **26,383** |
| Equity | 7,104 | 8,046 | 9,057 | 9,403 | 9,994 | 11,221 |
| Minorities | 41 | 119 | 105 | 102 | 226 | 235 |
| LT interest-bearing debt | 4,481 | 3,402 | 3,941 | 3,275 | 4,329 | 4,914 |
| Other long term liabilities | 1,061 | 1,100 | 1,346 | 1,408 | 1,335 | 1,371 |
| ST interest-bearing debt | 1,147 | 2,866 | 3,186 | 3,866 | 3,624 | 3,631 |
| Other current liabilities | 6,168 | 6,577 | 7,428 | 8,302 | 8,597 | 9,543 |
| **Total equity & liabilities** | **20,002** | **22,110** | **25,063** | **26,355** | **28,105** | **30,914** |
| **Total equity & liabilities adj** | **24,177** | **26,677** | **29,822** | **31,123** | **34,472** | **37,664** |
| Total debt | 5,628 | 6,268 | 7,128 | 7,141 | 7,953 | 8,545 |
| Total debt adj | 10,104 | 11,102 | 12,227 | 12,223 | 14,574 | 15,569 |
| Net debt | 5,302 | 5,944 | 6,771 | 6,557 | 7,419 | 8,142 |
| Net debt adj | 9,779 | 10,778 | 11,870 | 11,640 | 14,040 | 15,166 |

**Cash flow**

| NOKm | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|
| **Funds from operation (FFO)** | **1,817** | **2,567** | **2,844** | **2,954** | **3,240** | **3,198** |
| **FFO adj** | **2,278** | **3,040** | **3,376** | **3,512** | **3,880** | **3,950** |
| Change in working capital | (931) | (702) | (409) | (111) | 121 | (346) |
| **Operating cash flow (OCF)** | **886** | **1,865** | **2,435** | **2,843** | **3,361** | **2,852** |
| Capex, net | (2,611) | (2,642) | (3,148) | (2,040) | (3,148) | (3,267) |
| **Free cash flow (FCF)** | **(1,724)** | **(776)** | **(713)** | **803** | **214** | **(415)** |
| Dividends/buy-backs | (401) | (256) | (369) | (612) | (1,007) | (537) |
| New equity | - | - | - | - | - | - |
| Net change in debt | 2,171 | 1,031 | 1,115 | 36 | 744 | 820 |
| **Cash flow from financing** | **1,770** | **775** | **746** | **(576)** | **(263)** | **283** |
| FX effects/other | - | - | - | - | - | - |
| **Net cash flow** | **46** | **(2)** | **33** | **226** | **(49)** | **(131)** |

**Key credit metrics**

| LTM | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|
| Equity ratio | 36% | 37% | 37% | 36% | 36% | 37% |
| Equity ratio adj | 30% | 31% | 31% | 31% | 30% | 30% |
| Net debt/equity | 0.7x | 0.7x | 0.7x | 0.7x | 0.7x | 0.7x |
| Debt/EBITDA | 2.6x | 2.2x | 2.3x | 1.9x | 2.1x | 2.2x |
| Debt/EBITDA adj | 3.3x | 3.0x | 3.0x | 2.6x | 2.9x | 3.0x |
| Net debt/EBITDA | 2.4x | 2.1x | 2.2x | 1.8x | 1.9x | 2.1x |
| Net debt/EBITDA adj | 3.2x | 2.9x | 2.9x | 2.5x | 2.8x | 2.9x |
| EBITDA/Net interest | 8.1x | 11.9x | 13.9x | 14.1x | 14.3x | 15.1x |
| EBIT/Net interest | 7.2x | 10.9x | 12.7x | 12.5x | 12.7x | 14.3x |
| FFO/Debt | 32% | 41% | 40% | 41% | 41% | 37% |
| FFO/Debt adj | 23% | 27% | 28% | 29% | 27% | 25% |
| OCF/Debt | 16% | 30% | 34% | 40% | 42% | 33% |

# Disclosures

**Methodology**
Handelsbanken Capital Markets assigns its indicative credit ratings to an issuer based on generally accepted methods for assessing creditworthiness. The assessment covers the borrower's business risk and financial risk, but may also include assessments of ownership, asset values, recovery prospects or other factors that are deemed important for the particular borrower's ability to service its debt. The business risk analysis aims to be forward looking and focuses on the sustainability and stability of cash flows that the borrower is expected to generate. The financial risk analysis considers the borrower's debt in relation to cash flows and assets, liquidity, funding structure, financial policies and general appetite for financial risk. In addition to business risk and financial risk the analysis may also cover the group structure, ownership, and recovery prospects. In addition to indicative issuer ratings Handelsbanken Capital Markets may also assign indicative ratings for specific debt instruments and those ratings may be different from the indicative issuer rating.

The report does not cover any legal or tax-related aspects pertaining to any of Norgegruppen's planned or existing debt issuances.

**Research disclaimers**
Handelsbanken Capital Markets, a division of Svenska Handelsbanken AB (publ) (collectively referred to herein as 'SHB'), is responsible for the preparation of research reports. SHB is regulated in Sweden by the Swedish Financial Supervisory Authority, in Norway by the Financial Supervisory Authority of Norway, in Finland by the Financial Supervisory of Finland and in Denmark by the Danish Financial Supervisory Authority. All research reports are prepared from trade and statistical services and other information that SHB considers to be reliable. SHB has not independently verified such information and does not represent that such information is true, accurate or complete. Accordingly, to the extent permitted by law, neither SHB, nor any of its directors, officers or employees, nor any other person, accept any liability whatsoever for any loss, however it arises, from any use of such research reports or its contents or otherwise arising in connection therewith.

In no event will SHB or any of its affiliates, their officers, directors or employees be liable to any person for any direct, indirect, special or consequential damages arising out of any use of the information contained in the research reports, including without limitation any lost profits even if SHB is expressly advised of the possibility or likelihood of such damages. The views contained in SHB research reports are the opinions of employees of SHB and its affiliates and accurately reflect the personal views of the respective analysts at this date and are subject to change. There can be no assurance that future events will be consistent with any such opinions. Each analyst identified in this research report also certifies that the opinions expressed herein and attributed to such analyst accurately reflect his or her individual views about the companies or securities discussed in the research report.
Research reports are prepared by SHB for information purposes only. The information in the research reports does not constitute a personal recommendation or personalised investment advice and such reports or opinions should not be the basis for making investment or strategic decisions. This document does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for any securities nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever. Past performance may not be repeated and should not be seen as an indication of future performance. The value of investments and the income from them may go down as well as up and investors may forfeit all principal originally invested. Investors are not guaranteed to make profits on investments and may lose money. Exchange rates may cause the value of overseas investments and the income arising from them to rise or fall. This research product will be updated on a regular basis.
No part of SHB research reports may be reproduced or distributed to any other person without the prior written consent of SHB. The distribution of this document in certain jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions.

**Please be advised of the following important research disclosure statements:**
SHB employees, including analysts, receive compensation that is generated by overall firm profitability. Analyst compensation is not based on specific corporate finance or debt capital markets services. No part of analysts' compensation has been, is or will be directly or indirectly related to specific recommendations or views expressed within research reports.
From time to time, SHB and/or its affiliates may provide investment banking and other services, including corporate banking services and securities advice, to any of the companies mentioned in our research.
We may act as adviser and/or broker to any of the companies mentioned in our research. SHB may also seek corporate finance assignments with such companies.
We buy and sell securities mentioned in our research from customers on a principal basis. Accordingly, we may at any time have a long or short position in any such securities. We may also make a market in the securities of all the companies mentioned in this report. [Further information and relevant disclosures are contained within our research reports.]
SHB, its affiliates, their clients, officers, directors or employees may own or have positions in securities mentioned in research reports.
According to the Bank's Ethical Guidelines for the Handelsbanken Group, the board and all employees of the Bank must observe high standards of ethics in carrying out their responsibilities at the Bank, as well as other assignments. The Bank has also adopted Guidelines concerning Research which are intended to ensure the integrity and independence of research analysts and the research department, as well as to identify actual or potential conflicts of interests relating to analysts or the Bank and to resolve any such conflicts by eliminating or mitigating them and/or making such disclosures as may be appropriate. As part of its control of conflicts of interests, the Bank has introduced restrictions ("Information barriers") on communications between the Research department and other departments of the Bank. In addition, in the Bank's organisational structure, the Research department is kept separate from the Corporate Finance department and other departments with similar remits. The Guidelines concerning Research also include regulations for how payments, bonuses and salaries may be paid out to analysts, what marketing activities an analyst may participate in, how analysts are to handle their own securities transactions and those of closely related persons, etc. In addition, there are restrictions in communications between analysts and the subject company. For full information on the Bank's ethical guidelines please see the Bank's website www.handelsbanken.com/About the bank/Investor relations/Corporate social responsibility/Ethical guidelines.
Handelsbanken has a ZERO tolerance of bribery and corruption. This is established in the Bank's Group Policy on Bribery and Corruption. The prohibition against bribery also includes the soliciting, arranging or accepting bribes intended for the employee's family, friends, associates or acquaintances.
For company-specific disclosure texts, please consult the Handelsbanken Capital Markets website: www.handelsbanken.com/research.

**When distributed in the UK**
Research reports are distributed in the UK by SHB.
SHB is authorised by the Swedish Financial Supervisory Authority (Finansinspektionen) and the Prudential Regulation Authority and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority, and regulation by the Financial Conduct Authority are available from us on request.
UK customers should note that neither the UK Financial Services Compensation Scheme for investment business nor the rules of the Financial Conduct Authority made under the UK Financial Services and Markets Act 2000 (as amended) for the protection of private customers apply to this research report and accordingly UK customers will not be protected by that scheme.
This document may be distributed in the United Kingdom only to persons who are authorised or exempted persons within the meaning of the Financial Services and Markets Act 2000 (as amended) (or any order made thereunder) or (i) to persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**"), (ii) to high net worth entities falling within Article 49(2)(a) to (d) of the Order or (iii) to persons who are professional clients under Chapter 3 of the Financial Conduct Authority Conduct of Business Sourcebook (all such persons together being referred to as "**Relevant Persons**").

**When distributed in the United States**
**Important Third-Party Research Disclosures:**
SHB and its employees are not subject to FINRA's research analyst rules which are intended to prevent conflicts of interest by, among other things, prohibiting certain compensation practices, restricting trading by analysts and restricting communications with the companies that are the subject of the research report.
SHB research reports are intended for distribution in the United States solely to "major U.S. institutional investors," as defined in Rule 15a-6 under the Securities Exchange Act of 1934. Each major U.S. institutional investor that receives a copy of research report by its acceptance hereof represents and agrees that it shall not distribute or provide research reports to any other person
Reports regarding fixed-income products are prepared by SHB and distributed by SHB to major U.S. institutional investors under Rule 15a-6(a)(2). Reports regarding equity products are prepared by SHB and distributed in the United States by Handelsbanken Markets Securities Inc. ("HMSI") under Rule 15a-6(a)(2). When distributed by HMSI, HMSI takes responsibility for the report. Any U.S. person receiving these research reports that desires to effect transactions in any equity product discussed within the research reports should call or write HMSI. HMSI is a FINRA Member, telephone number (+1-212-326-5153).

Handelsbanken's analyst Ronny Berg has no position in Norgegruppen or a related instrument.

This report has been submitted to the subject company prior to publication to approval the accuracy of the facts presented. Comments received from the subject company have not affected the analyst's recommendation, target price or estimates.

# Contact information

## Capital Markets

| | | |
|---|---|---|
| Michael Green | Head | +46 8 701 43 56 |
| Per Elcar | Head of Securities, Fixed Income, FX and Commodities | +46 8 701 19 49 |
| Jan Häggström | Head of Economic Research and Chief Economist, SHB | +46 8 701 10 97 |
| Peter Karlsson | Head of Equity & Credit Research | +46 8 701 21 51 |
| Björn Linden | Head of Securities, Fixed Income, FX and Commodities International | +44 7909528735 |

### Fixed Income Equity Sales, Foreign Exchange & Commodities

| | | |
|---|---|---|
| Carl Cederschiöld | Head of Sales | +46 8 701 10 38 |
| Eggert Mörling | Head of Equity Sales | +46 8 463 49 11 |
| Henrik Franzén | Head of Fixed Income Sales | +46 8 463 46 72 |
| Magnus Strömer | Head of FX and Commodities Sales | +46 8 463 45 63 |
| Peter Carlberg | Head of Derivative Sales | +46 8 701 14 53 |
| Lennart Living | Head of Structured Saving Products | +46 8 463 57 13 |
| Martin Nossman | Head of Cross Asset Execution | +46 8 463 25 56 |

### Debt Capital Markets

| | | |
|---|---|---|
| Tony Lindlöf | Head of Debt Capital Markets | +46 8 701 25 10 |
| Per Jäderberg | Head of Corporate Loans | +46 8 701 33 51 |
| Måns Niklasson | Head of Acquisition Finance | +46 8 701 52 84 |
| Ulf Stejmar | Head of Corporate Bonds | +46 8 463 45 79 |

### Trading Strategy

| | | |
|---|---|---|
| Claes Måhlén | Head, Chief Strategist | +46 8 463 45 35 |
| Johan Sahlström | Chief Credit Strategist | +46 8 463 45 37 |
| Ronny Berg | Senior Credit Strategist | +47 22 82 30 36 |
| Ola Eriksson | Senior Credit Strategist | +46 8 463 47 49 |
| Martin Jansson | Senior Commodity Strategist | +46 8 461 23 43 |
| Nils Kristian Knudsen | Senior Strategist FX/FI | +47 22 82 30 10 |
| Andreas Skogelid | Senior Strategist FI | +46 8 701 56 80 |
| Pierre Carlsson | Strategist FX | +46 8 463 46 17 |
| Paul Betton | Credit Analyst | +46 8 463 45 78 |

### Economic Research

| | | |
|---|---|---|
| Jan Häggström | Head of Economic Research | +46 8 701 10 97 |
| **Sweden** | | |
| Petter Lundvik | USA, Special Analysis | +46 8 701 33 97 |
| Gunnar Tersman | Eastern Europe, Emerging Markets | +46 8 701 20 53 |
| Helena Trygg | Japan, United Kingdom | +46 8 701 12 84 |
| Anders Brunstedt | Sweden | +46 8 701 54 32 |
| Eva Dorenius | Web Editor | +46 8 701 50 54 |
| **Finland** | | |
| Tiina Helenius | Head, Economic Research | +358 10 444 2404 |
| Tuulia Asplund | Finnish economy | +358 10 444 2403 |
| **Denmark** | | |
| Jes Asmussen | Head, Economic Research | +45 467 91203 |
| Rasmus Gudum-Sessingø | Danish economy | +45 467 91619 |
| Bjarke Roed-Frederiksen | China and Latin America | +45 467 91229 |
| **Norway** | | |
| Knut Anton Mork | Head, Economic Research | +47 22 39 71 81 |
| Nils Kristian Knudsen | Senior Strategist FX/FI | +47 22 82 30 10 |
| Ingvild Borgen Gjerde | Norwegian economy | +47 22 39 70 05 |
| Kari Due-Andresen | Norwegian economy | +47 22 39 70 07 |
| Marius Gonsholt Hov | Norwegian economy | +47 22 39 73 40 |

## Regional Sales

| | |
|---|---|
| **Copenhagen** | |
| Kristian Nielsen | +45 46 79 12 69 |
| **Gothenburg** | |
| Per Wall | +46 31 743 31 20 |
| **Gävle** | |
| Johan Magnusson | +46 26 172 111 |
| **Helsinki** | |
| Mika Rämänen | +358 10 444 62 20 |
| **Linköping** | |
| Fredrik Lundgren | +46 13 28 91 10 |
| **London** | |
| Ray Spiers | +44 207 578 86 12 |
| **Luleå/Umeå** | |
| Ove Larsson | +46 90 154 719 |
| **Luxembourg** | |
| Erik Bertram | +352 274 868 245 |
| **Malmö** | |
| Ulf Larsson | +46 40 24 54 04 |
| **Oslo** | |
| Petter Fjellheim | +47 22 82 30 29 |
| **Stockholm** | |
| Malin Nilén | +46 8 701 27 70 |

| Toll-free numbers | From Sweden to N.Y. & Singapore | From Norway to N.Y. & Singapore | From Denmark to N.Y. & Singapore | From Finland to N.Y. & Singapore | Within the US |
|---|---|---|---|---|---|
| | 020-58 64 46 | 800 40 333 | 8001 72 02 | 0800 91 11 00 | 1-800 396-2758 |


**Svenska Handelsbanken AB (publ)**

**Stockholm**
Blasieholmstorg 11
SE-106 70 Stockholm
Tel. +46 8 701 10 00
Fax. +46 8 701 28 50

**Copenhagen**
Havneholmen 29
DK-1561 Copenhagen V
Tel. +45 46 79 12 00
Fax. +45 46 79 15 52

**Helsinki**
Aleksanterinkatu 11
FI-00100 Helsinki
Tel. +358 10 444 11
Fax. +358 10 444 2578

**Oslo**
Tjuvholmen Allé 11,
Postboks 1249 Vika
NO-0110 Oslo
Tel. +47 223 97 000
Fax. +47 2233 6915

**London**
3 Thomas More Square
London GB-E1W 1WY
Tel. +44 207 578 8668
Fax. +44 207 578 8090

**New York**
**Handelsbanken Markets Securities, Inc.**
875 Third Avenue, 4th Floor
New York, NY 10022-7218
Tel. +1 212 326 5153
Fax. +1 212 326 2730
FINRA, SIPC