

**SELL**

Changed from: BUY

# Norwegian Air Shuttle

Norway, Airlines

NAS.OL (REUTERS) - www.norwegian.no – NAS NO (BLOOMBERG)

Share price: NOK 124.5

Market Cap (m): NOK 4,237

Target price: NOK 100.0 (200.0)

Daily traded shares, -3m (k): 283

## Forecast changes

| MNOK   | Old   | New   | %    | Old    | New    | %    | Old    | New    | %   |
|--------|-------|-------|------|--------|--------|------|--------|--------|-----|
|        | 2010e | 2010e |      | 2011e  | 2011e  |      | 2012e  | 2012e  |     |
| Sales  | 8,750 | 8,820 | 1%   | 10,635 | 10,430 | -2%  | 12,597 | 12,135 | -4% |
| EBITDA | 765   | 716   | -6%  | 1,289  | 1,179  | -9%  | 1,658  | 1,538  | -7% |
| EPS    | 11.1  | 10.0  | -10% | 15.8   | 14.1   | -11% | 18.6   | 17.0   | -9% |

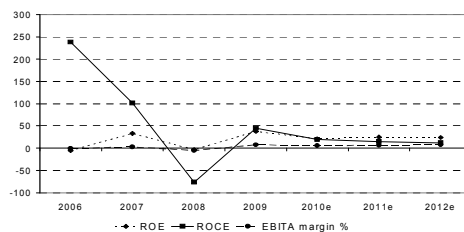
Source: ABG Sundal Collier

## ABG vs consensus

| MNOK   | 2010 |      |      | 2011  |       |      | 2012  |       |      |
|--------|------|------|------|-------|-------|------|-------|-------|------|
|        | Cons | ABG  | %    | Cons  | ABG   | %    | Cons  | ABG   | %    |
| EBITDA | 799  | 716  | -10% | 1,460 | 1,179 | -19% | 1,885 | 1,538 | -18% |
| EPS    | 11.7 | 10.0 | -14% | 20.0  | 14.1  | -30% | 22.9  | 17.0  | -26% |

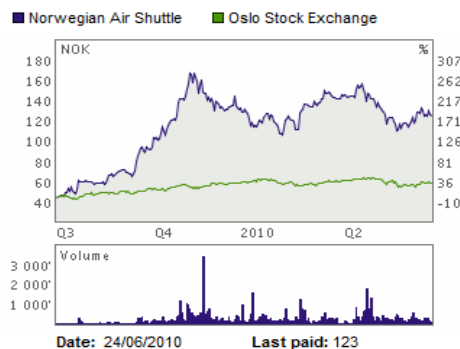
Source: ABG Sundal Collier, Factset

## Profitability and margins (%)



Source: ABG Sundal Collier, company data

## Share price



Source: SIX

## Even the best can't fight the market

### Yes, it still has the best position...

- Without doubt, Norwegian's performance in recent years has been impressive. Its low cost business model has been a success and the company is continuously taking market share from SAS.

### ...but too much capacity is entering the market...

- Norwegian is no longer in a position where it can increase capacity in a market where SAS is reducing capacity as SAS' capacity cuts have come to an end.

### ...and demand is not strong enough to absorb capacity...

- We estimate that capacity in the Nordics will increase by over 10% p.a. for the next few years. To absorb that growth, demand also needs to grow by over 10% (given a constant load factor).
- We estimate that demand growth of +10% equates to IP growth of 6% (or 5% GDP growth), well above the historical average.

### ..and to defend load, yields will stay low...

- Our analysis shows that yields (ticket prices) are a function of the airlines cost base and the load factor.
- As too much capacity is entering the Nordic market, we struggle to see a yield recovery for Norwegian, which we fear is discounted in the share price and consensus estimates.

### ...so we take estimates down

- Based on our analysis, we take down our yield estimates by 5% and our EPS estimates by 10%, leaving us 20-30% below consensus.
- We now expect an EPS of 14.1 NOK in 2011e. However, mark-to-market EPS is only NOK 7.
- We downgrade Norwegian to a SELL from Buy and take down our target price to NOK 100 (200).

## Key Highlights

| Year  | Net sales<br>NOKm | EBITDA<br>NOKm | EBIT<br>NOKm | EBIT<br>% | PTP<br>NOKm | EPS<br>NOK | EPS<br>Chg % | CEPS<br>NOK | EV/S<br>(x) | EBITDA<br>(x) | EBIT<br>(x) | P/E<br>(x) | P/CEPS<br>(x) |
|-------|-------------------|----------------|--------------|-----------|-------------|------------|--------------|-------------|-------------|---------------|-------------|------------|---------------|
| 2006  | 2,941             | 19             | -33          | -1.1      | -33         | -0.66      | -145.1       | 2.03        | 0.53        | 80.4          | -48.2       | Neg        | 45.8          |
| 2007  | 4,226             | 208            | 134          | 3.2       | 115         | 4.29       | 752.5        | 14.66       | 0.74        | 15.0          | 23.3        | 39.3       | 11.5          |
| 2008  | 6,226             | -223           | -352         | -5.7      | -14         | -0.92      | -121.5       | 6.89        | 0.11        | -3.0          | -1.9        | Neg        | 5.4           |
| 2009  | 7,309             | 707            | 558          | 7.6       | 609         | 12.70      | 1,473.6      | 22.12       | 0.56        | 5.8           | 7.3         | 9.1        | 5.2           |
| 2010e | 8,820             | 716            | 491          | 5.6       | 476         | 10.09      | -20.6        | 20.58       | 0.63        | 7.7           | 11.2        | 12.3       | 6.1           |
| 2011e | 10,430            | 1,179          | 734          | 7.0       | 663         | 14.06      | 39.4         | 32.55       | 0.80        | 7.1           | 11.4        | 8.9        | 3.8           |
| 2012e | 12,135            | 1,538          | 921          | 7.6       | 802         | 17.00      | 20.9         | 41.68       | 0.80        | 6.3           | 10.6        | 7.3        | 3.0           |

|               |       |                     |      |                |     |                 |       |              |       |
|---------------|-------|---------------------|------|----------------|-----|-----------------|-------|--------------|-------|
| Share price:  | 124.5 | Total shrs (m):     | 34.0 | P/BV %:        | 221 | WACC %:         | 9.0   | 1M perf. %:  | 6.4   |
| Mkt cap (m):  | 4,237 | Fully dil shrs (m): | 34.0 | EV/Cap empl %: | 172 | RoE 07-12 %:    | 20.9  | 3M perf. %:  | -13.8 |
| Net Debt (m): | 1,293 | Daily tr. shrs (k): | 283  | Net gearing %: | 67  | ATROCE 07-12 %: | -11.5 | 12M perf. %: | 170.7 |

EPS excludes nonrecurring items and goodwill impairment. For definitions, see footnotes under Income Statement and Valuation and Return Analysis at the end of this report.

Target price: NOK 100.0

Risk: Cycle, USD, fuel, growing pains

Methodology: Multiples, DCF, Peer Group

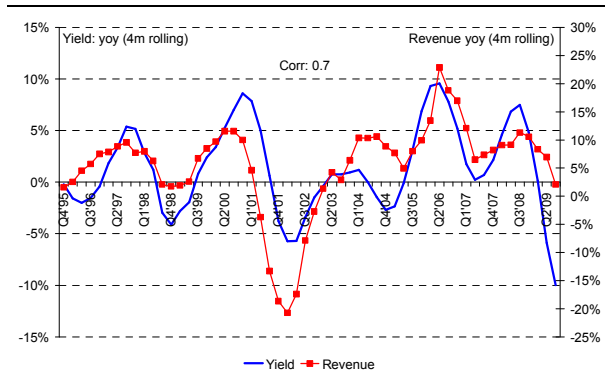
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## Revenues and load determine revenues

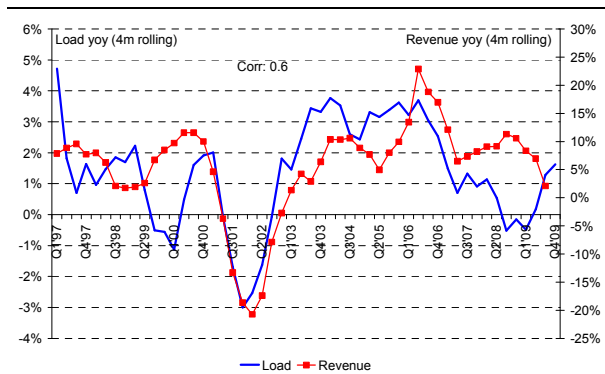
As for all industries, revenues are a function of price and volume. The airline industry is no exception, as yield (price) and load (capacity utilisation) are the two key parameters determining revenues.

### Revenues vs. yield



Source: ABG Sundal Collier, US Bureau of transportation

### Revenues vs. load



Source: ABG Sundal Collier, US Bureau of transportation

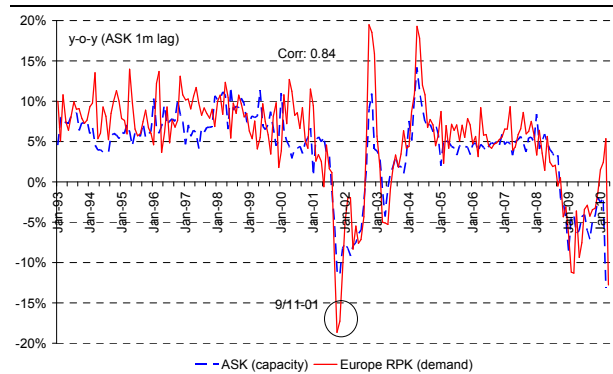
The load factor is probably the most influential parameter. Historically, the industry has been good at adjusting capacity to demand. However, as for many other industries, demand moves first and capacity is adjusted with a time lag.

In the following analysis we will show that the industry has been good at adjusting capacity to demand. However, capacity growth will outpace demand in the Nordics during the next few years, which means that competition will stay tough. Furthermore, our calculations show that yield is determined by the supply/demand balance, i.e. we struggle to see a strong yield recovery for Norwegian.

## Capacity follows demand

Historically, capacity has been adjusted to demand, with a 1-2 month time lag in the European airline industry. As seen in the graph below, the correlation between supply and demand is almost 85%.

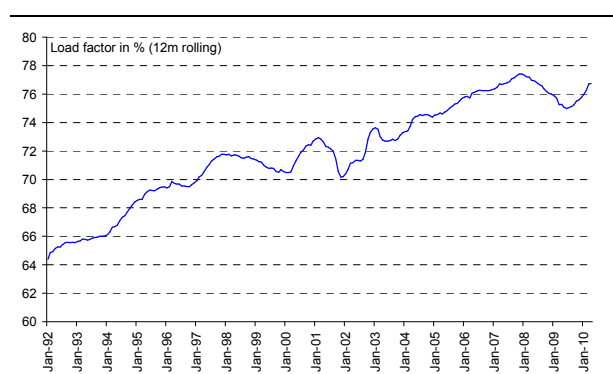
### European supply & demand growth:



Source: ABG Sundal Collier, AEA

The capacity adjustment, in combination with low cost airlines entering the market, has resulted in an increasing load factor for the industry. As seen below, the load factor<sup>1</sup> has had a CAGR<sup>2</sup> of 1% since 1992 and the average load factor for the European industry is currently 77%.

### Load factor: 12m rolling



Source: ABG Sundal Collier, AEA

In the graph below we have rebased both demand (RPK<sup>3</sup>) and capacity (ASK<sup>4</sup>) back to 1992. The graph shows that demand growth has been higher than the capacity growth. However demand and capacity fell sharply after “9/11”. In the following years demand continued to be weak due the SARS

1 Degree to which the planes are filled by passengers

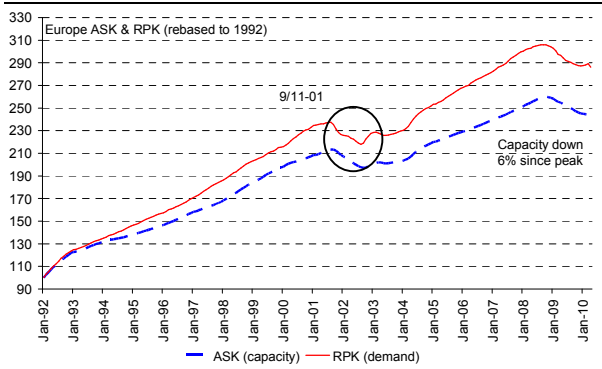
2 Compound Annual Growth Rate

3 Revenue Passenger Kilometres: Number of paying passengers multiplied by flight distance measured in kilometres

4 Available Seat Kilometres: Number of passenger seats multiplied by flight distance measured in kilometres

crisis, Iraq war and the weak global economy. However, demand (and capacity) started to rebound in 2004. In the recent sharp economic downturn, demand fell 6% while capacity was down 5.8%.

**European supply & demand (rebased)**



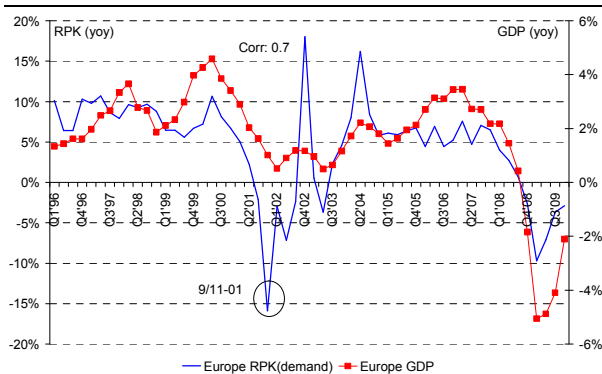
Source: ABG Sundal Collier, AEA

**Demand follows economic growth...**

Historically demand for air travel has been strongly correlated with economic growth, such as GDP or industrial production. However, demand for air travel is more volatile than GDP, as the average RSK/GDP multiple is 2.1x.

As seen in the graph, demand started to drop in 2008, in-line with the weak economy.

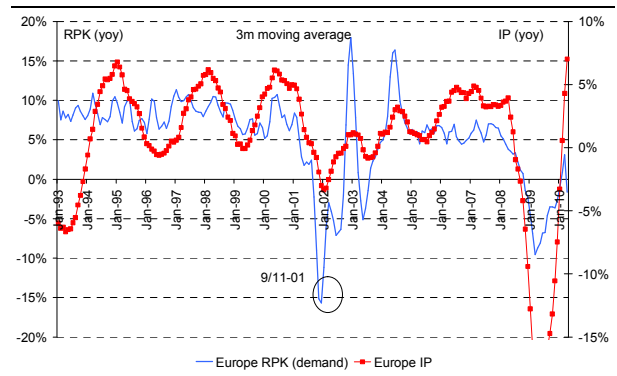
**Air travel demand (RPK) vs. GDP: Europe**



Source: ABG Sundal Collier, AEA, Bloomberg

We can therefore establish that air travel demand is a function of economic growth as demand is highly correlated to GDP. Not surprisingly, there is also a strong correlation between industrial production and demand for air travel.

**Air travel demand (RPK) vs. IP: Europe**



Source: ABG Sundal Collier, AEA, Bloomberg

As seen in the graph above, industrial production captures most of the historical changes in air travel demand (with the exception of 9/11)

We ran the regression between economic activity (IP) and demand for air travel and the model explained much of the historic changes in demand, as R squared is 0.7 which shows reasonable correlation. Our model shows that a 1% change in IP causes a 1.9% change in air travel demand. That means for a normalized IP scenario of 2.5% (historical average), demand for air travel should grow by 4.8% annually.

**Regression mode: Output**

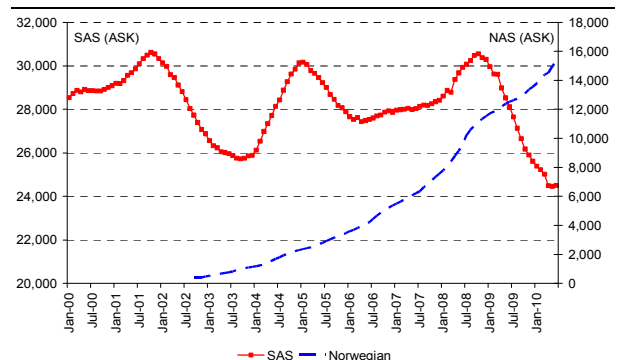
|                       |       |
|-----------------------|-------|
| R Square              | 0.71  |
| Constant              | 0.015 |
| Industrial production | 1.900 |

Source: ABG Sundal Collier, AEA, Bloomberg

**...and the Nordic region works the same...**

In the Nordics, the market dynamics work in exactly the same way. However, two main companies, SAS (SAS ST, SEK 28.5, Buy) and Norwegian Air Shuttle ("Norwegian"), have taken differing approaches. While SAS has reduced its capacity since summer 2008, Norwegian has continuously increased its capacity.

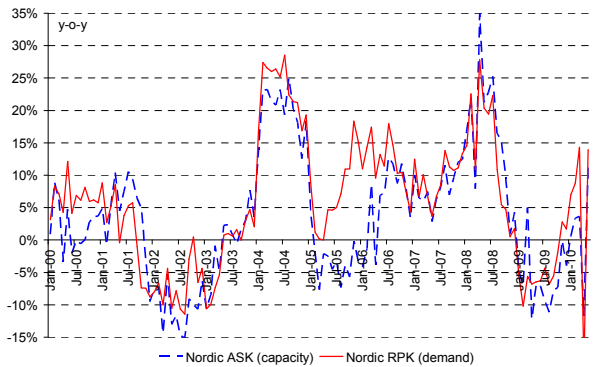
**Capacity development: SAS and Norwegian**



Source: ABG Sundal Collier, companies (for SAS their Europe operations)

However, if we combine the two companies' capacities and compare it with the corresponding demand figure, we see that the changes in capacity have followed demand and are in-line with the changes seen in Europe.

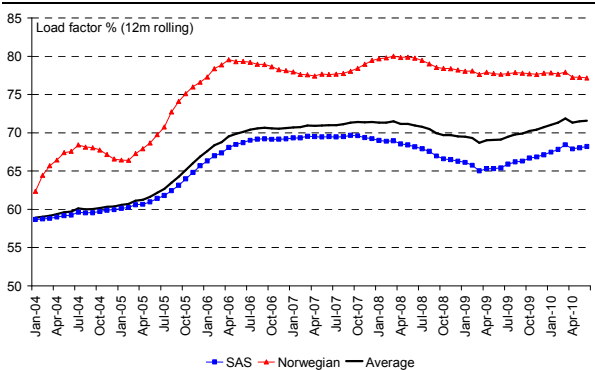
**Nordic supply & demand growth, historic**



Source: ABG Sundal Collier, companies (for SAS their Europe operations)

The capacity adjustments in the Nordics have also resulted in an improving load factor, which is currently over 70%.

**Load factor: SAS and Norwegian**



Source: ABG Sundal Collier, companies (for SAS their Europe operations)

**Too much capacity is entering the Nordic market**

To estimate the supply/demand balance in the Nordics, we focus our analysis on SAS and Norwegian. That means we are excluding all other carriers like BA, Lufthansa, Ryanair etc. This is a simplification of the overall market, but we argue that our conclusions would not have changed if we were to include these other carriers.

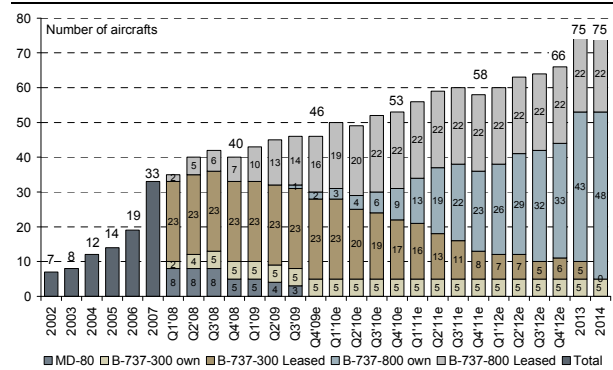
We start out by estimating supply growth. Then we hypothesize that both SAS and Norwegian will try to obtain a load factor not far from the current level. We then estimate how much demand needs to grow to absorb the new capacity and compare that to our estimated demand growth.

**Norwegian is adding capacity and SAS' capacity cuts are history...**

Norwegian has gone from being a small local airline to become a large well run company. Due to its low cost base, it has definitely become a significant airline in the Nordics and Europe. Furthermore, Norwegian's success has put a lot of pressure on SAS, which has barely survived the last few years.

Norwegian's ambitious growth strategy will not change in the near term, as it will increase its fleet from today's 50 airplanes to 75 in 2013. Norwegian has also guided for an increase in capacity of 30% in 2010 and based on plane deliveries in 2011, we estimate that capacity will be increased by further 20% in 2011.

**Norwegian: airplane deliveries 2002-14**



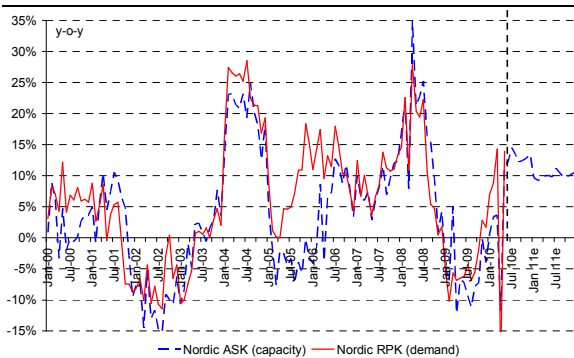
Source: ABG Sundal Collier, Company

As mentioned earlier, SAS has reduced its capacity since August 2008. However, that will not continue as SAS had withdrawn 20 aircraft out of

the 21 aircraft that it was withdrawing from the market by Q1'10. As a result, Norwegian is no longer in a position where it can increase capacity in a market while SAS is reducing capacity.

In the graph below, we have included our estimates of increases in capacity for SAS and Norwegian. For Norwegian we use 30% in 2010 and 20% in 2011, while we don't include any capacity increase or reduction for SAS.

**Estimated supply growth**



Source: ABG Sundal Collier, companies (for SAS their Europe operations)

In the table below we have shown last year's capacity increase and our estimates.

**Estimated capacity growth**

|              | H1'09 | H2'09 | H1'10e | H2'10e | H1'11e | H2'11e |
|--------------|-------|-------|--------|--------|--------|--------|
| Capacity yoy | -5%   | -7%   | 3%     | 9%     | 13%    | 11%    |

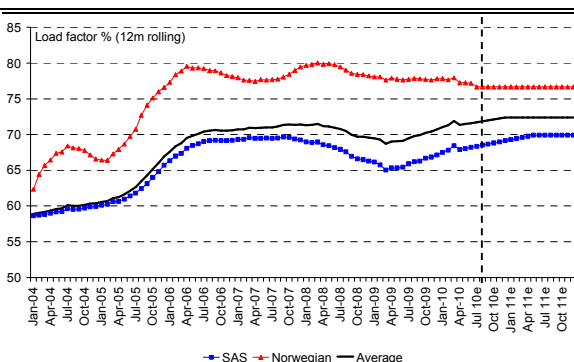
Source: ABG Sundal Collier, companies (for SAS their Europe operations)

As can be seen both in the graph and the table, the capacity increase in the Nordics will be substantial during the next years.

**The companies will fight for customers to secure a decent load factor...**

We have now established that capacity growth will be over 10% during the next two years. We think the companies will fight to defend their load factor at current levels.

**Historic and estimated load factor**



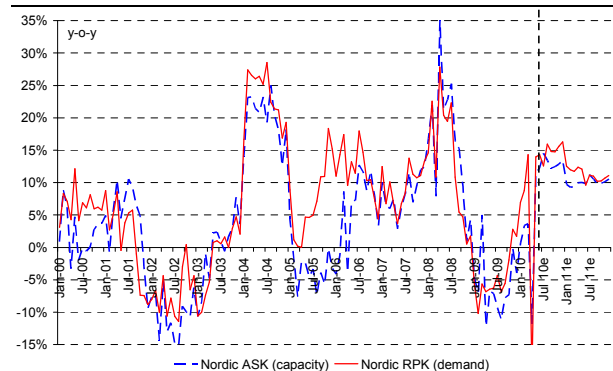
Source: ABG Sundal Collier, companies (for SAS their Europe operations)

As we know the capacity growth and if we assume a decent load factor, we can estimate the required demand growth.

**...so demand is not strong enough to absorb the capacity increase....**

Using the capacity growth and a load factor at current levels, we can estimate how strong demand needs to be:

**Calculated required demand growth**



Source: ABG Sundal Collier, companies (for SAS their Europe operations)

Not surprisingly, as the load factor is kept at today's level, the demand growth needs to follow the capacity growth, i.e. be over 10% p.a. for the next two years.

The next step is then to see whether this demand growth is likely, and we use our demand model shown previously.

**Regression mode: Output**

|                       |       |
|-----------------------|-------|
| R Square              | 0.71  |
| Constant              | 0.015 |
| Industrial production | 1.900 |

Source: ABG Sundal Collier, AEA, Bloomberg

As seen in the table below, an increase in demand of over 10% seems high as it requires IP growth of almost 6%. Historically, IP growth has been 2.5% which should result in a demand growth of ~5%. We therefore argue that the capacity growth will exceed demand growth during the next two years.

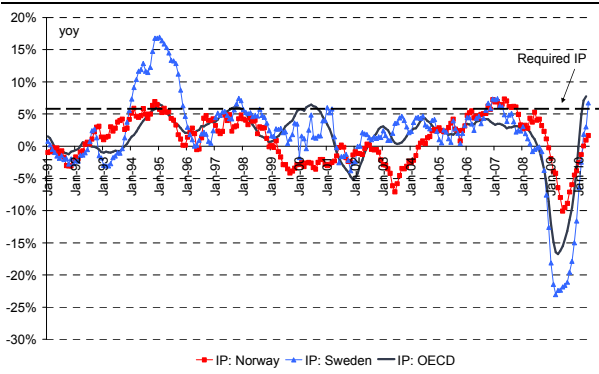
**Sensitive table: Air travel demand**

|                   |      |     |     |     |      |
|-------------------|------|-----|-----|-----|------|
| IP (yoy)          | -5.0 | 0.0 | 2.0 | 4.0 | 6.0  |
| Air travel demand | -9.5 | 0.0 | 3.8 | 7.6 | 11.4 |

Source: ABG Sundal Collier

The required demand growth is also shown in the graph below, which shows historic IP for Norway, Sweden and OECD. It is clear that IP growth of 6% during the next two years seems high based on history.

Historc IP: yoy



Source: ABG Sundal Collier, Bloomberg

# So to defend the load, yield will stay low...

We have now established that the capacity will increase more than demand. Furthermore, to defend the load, airlines usually reduce ticket prices.

Ticket prices are a function of:

1. the industry's cost base
2. capacity utilisation (load factor)

The argument for including the cost base is that higher costs are likely to be pushed on to the consumer. Furthermore, a tight market balance between supply/demand should result in more pricing power in the industry.

## Fuel price is key for ticket prices...

The cost base for the industry has changed during the last years, as fuel has been a much more important cost element. As seen below fuel used to be ~14% of the cost base in early 2000 when oil prices traded around 25-30 USD/bbl. However, as the oil price has moved up, fuel is now around 30% of the cost base.

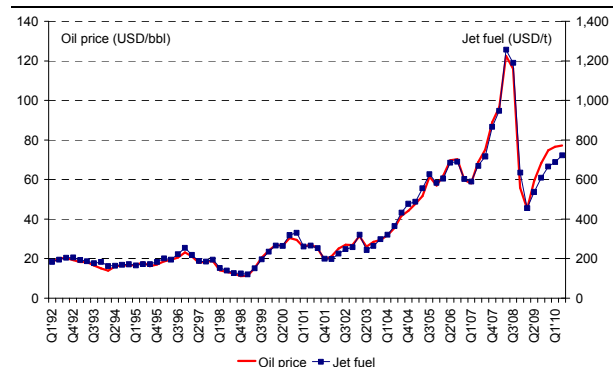
### Operating cost, in % of total

| Year      | Labour | Fuel | Depreciation | Rentals | Other |
|-----------|--------|------|--------------|---------|-------|
| 2001-2003 | ~28%   | ~14% | ~7%          | ~5%     | ~46%  |
| 2008-2010 | ~20%   | ~30% | ~6%          | ~4%     | ~40%  |

Source: ABG Sundal Collier, IATA (other includes maintenance, marketing, fees etc)

Apart from being the most important cost element in percent of total costs, fuel is also the most volatile, as the others are fixed short term. As seen below, jet fuel is just a function of the oil price as the correlation is almost 100%

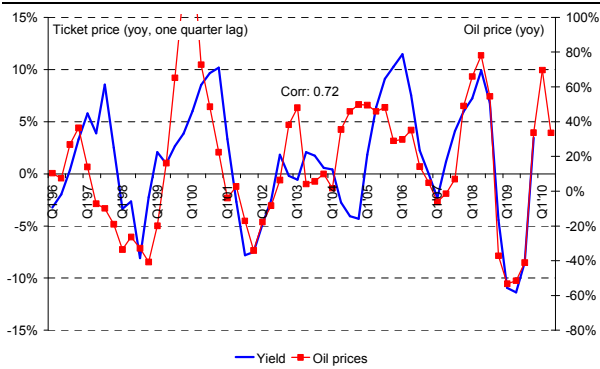
### Oil price vs. jet fuel: USD/bbl



Source: ABG Sundal Collier, Bloomberg

As fuel is the most important and volatile cost element there should be a strong correlation between ticket prices and the oil price. In the graph below we have shown the y-o-y ticket price<sup>5</sup> change vs. the oil price, and not surprisingly, the correlation is over 70% since 2001 (and 60% since 1996), but ticket prices lag oil prices by one quarter.

**Ticket price vs. oil price**



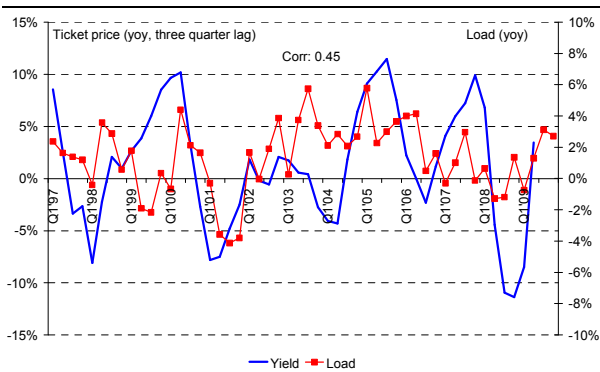
Source: ABG Sundal Collier, US Bureau of transportation

This supports our view that higher costs, in this case a higher oil price, pushes up ticket prices.

**Supply/demand determines pricing power....**

We have now established that a higher oil price will increase ticket prices. However, the tightness of the market, as represented by the supply/demand balance, will also affect ticket prices. Even though the industry has been good at managing capacity, we find a correlation of almost 50% between a change in yield and load factors.

**Ticket price vs. load factor**



Source: ABG Sundal Collier, US Bureau of transportation

The correlation of almost 50% also makes economic sense as the supply/demand balance will determine whether the airline industry is “demand” or “supply” driven. However, the advantage with

this y-o-y approach is that it estimates a continuously changing ticket price given a change in load factor. This means we don’t have to make an assumption whether the market is “demand” or “supply” driven.

**The ABGSC yield model**

We have established that the oil price and load factor are key for ticket pricing. In the table below we have shown the output from the regression. Our model shows that 1% change in the oil price is 0.1% on the yield while 1% change in the load factor is 0.5% on the yield.

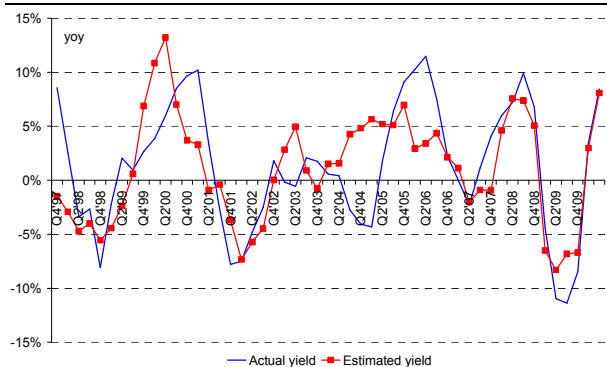
**Regression mode: Output**

|                 |        |
|-----------------|--------|
| R Square        | 0.815  |
| Constant        | -0.009 |
| Load (yoy)      | 0.454  |
| Oil price (yoy) | 0.144  |

Source: ABG Sundal Collier

As seen in the graph below, our yield model captures the change in the yields.

**Actual ticket prices vs. estimated ticket prices**



Source: ABG Sundal Collier, US Bureau of transportation

Based on our analysis that too much capacity is entering the Nordic market and given the companies’ determination to defend the load factor, we struggle to see a sharp recovery in yield in the ticket price for Norwegian. Furthermore, it is not unlikely that SAS will “subsidize” its cheap tickets due to increased demand from “high end” tickets like economy extra and business, which means that competition will continue to be tough.

<sup>5</sup> We have used US data due to longer history

# Estimates and valuation

The main change in our estimates is that we have lowered our yield estimate by 4-5%.

## Yield estimates

| NOK Yield | Old   | New   | %   | Old   | New   | %   | Old   | New   | %   |
|-----------|-------|-------|-----|-------|-------|-----|-------|-------|-----|
|           | 2010e | 2010e |     | 2011e | 2011e |     | 2012e | 2012e |     |
|           | 0.57  | 0.55  | -4% | 0.58  | 0.56  | -5% | 0.57  | 0.56  | -3% |

Source: ABG Sundal Collier

As we have taken down our yield estimates, our earnings estimates are down by 10%

## Estimates change

| MNOK   | Old   | New   | %    | Old    | New    | %    | Old    | New    | %   |
|--------|-------|-------|------|--------|--------|------|--------|--------|-----|
|        | 2010e | 2010e |      | 2011e  | 2011e  |      | 2012e  | 2012e  |     |
| Sales  | 8,750 | 8,820 | 1%   | 10,635 | 10,430 | -2%  | 12,597 | 12,135 | -4% |
| EBITDA | 765   | 716   | -6%  | 1,289  | 1,179  | -9%  | 1,658  | 1,538  | -7% |
| EPS    | 11.1  | 10.0  | -10% | 15.8   | 14.1   | -11% | 18.6   | 17.0   | -9% |

Source: ABG Sundal Collier

We were already below consensus, but are now significantly below consensus for 2011e and 2012e.

## ABG vs. consensus estimates

| MNOK   | 2010 |      |      | 2011  |       |      | 2012  |       |      |
|--------|------|------|------|-------|-------|------|-------|-------|------|
|        | Cons | ABG  | %    | Cons  | ABG   | %    | Cons  | ABG   | %    |
| EBITDA | 799  | 716  | -10% | 1,460 | 1,179 | -19% | 1,885 | 1,538 | -18% |
| EPS    | 11.7 | 10.0 | -14% | 20.0  | 14.1  | -30% | 22.9  | 17.0  | -26% |

Source: ABG Sundal Collier

## Mark-to-market earnings points at an EPS of 7 NOK

Below we have calculated the mark-to-market EPS, which is based on current prices. Norwegian provides sensitivities on both fuel price, NOK/USD and NOK/EUR, but the yield and load sensitivities have been calculated by us.

### Mark to market EPS for Norwegian Air

| Drivers       | Change   | Sensitivities |         | ABG est. |      |      | Current prices* | MTM effect with current prices |       |       |  |
|---------------|----------|---------------|---------|----------|------|------|-----------------|--------------------------------|-------|-------|--|
|               |          | EBIT EURm     | EPS EUR | 2010     | 2011 | 2012 |                 | EBIT                           | EPS   |       |  |
| Fuel          | 1%       | 18            | 0.38    | 730      | 786  | 786  | 710             | 173                            | 3.64  |       |  |
| NOK/USD       | 1%       | 29            | 0.61    | 6.1      | 6.2  | 6.2  | 6.5             | -136                           | -2.86 |       |  |
| NOK/EUR       | 1%       | 12            | 0.25    | 8.1      | 8.1  | 8.1  | 8.0             | 20                             | 0.42  |       |  |
| Yield         | 0.01 NOK | 95            | 2.00    | 0.55     | 0.56 | 0.56 | 0.52            | -353                           | -7.4  |       |  |
| Load          | 1%       | 56            | 1.18    | 77%      | 78%  | 78%  | 77%             | -48                            | -1.0  |       |  |
| Total effects |          |               |         |          |      |      |                 | -343                           | -7.2  |       |  |
| 2011 EBITDA   |          |               |         | 716      |      |      | 1,179           |                                |       | 1,538 |  |
| 2011 EPS      |          |               |         | 10.03    |      |      | 14.1            |                                |       | 17.0  |  |
| MTM 2011 EBIT |          |               |         |          |      |      |                 | 836                            |       |       |  |
| MTM 2011 EPS  |          |               |         |          |      |      |                 | 6.9                            |       |       |  |

\*For Yield and Load: Last month traffic data (seasonal adjusted)

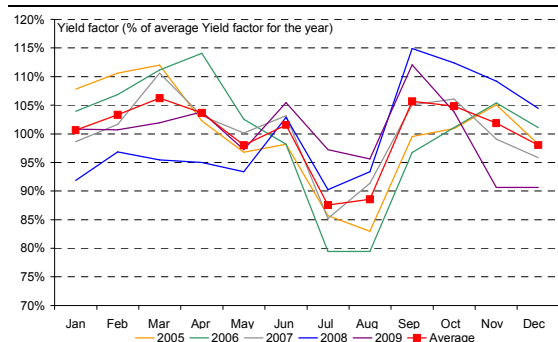
Source: ABG Sundal Collier, Company

As can be seen in the table, the current mark to market EPS is only 7 NOK/share. This means that

consensus expects a ~10% yield recovery as it is looking for EPS of NOK 20<sup>6</sup>.

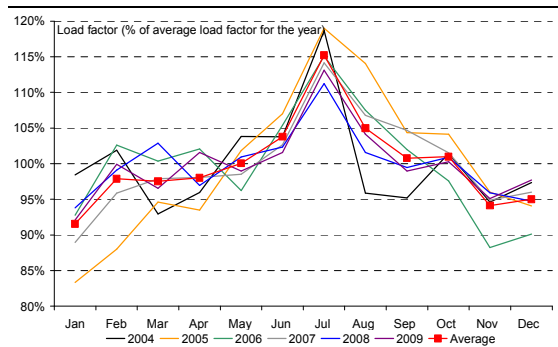
In the mark to market calculation, we have seasonally adjusted both the yield and the load.

## Seasonality in traffic statistics: yield



Source: ABG Sundal Collier, Company

## Seasonality in traffic statistics: load

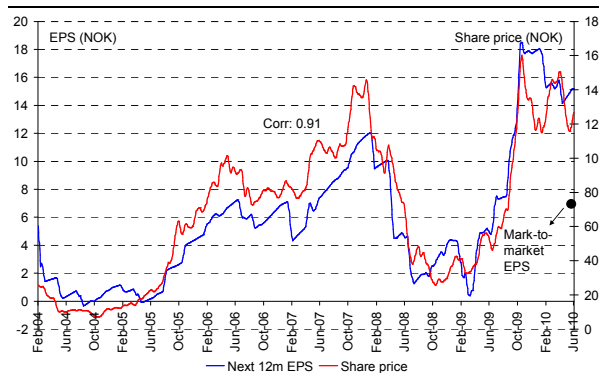


Source: ABG Sundal Collier, Company

## So what if yield and load stay at current levels....

If Norwegian is not able to increase the current yield and/or the load, the downside to the share is substantial as the correlation between estimate revision and the share price is over 90%.

## EPS estimates vs. share price



Source: ABG Sundal Collier, Factset

<sup>6</sup> MTM EPS is also below our estimate, as we estimate a small yield recovery

**Not cheap vs. peers.....**

We no longer think that Norwegian is cheap relative to its peers. However, Norwegian looks less expensive vs. its peers in 2010e, but the company will increase its debt in 2011 and 2012 due to aircraft delivery, i.e. Norwegian trades at a premium on 2012 estimates. .

**Norwegian vs the peer group**

| MUSD                        | EV/EBITDA  |            |            | EV/EBIT     |             |             | PE          |            |            | PB   |
|-----------------------------|------------|------------|------------|-------------|-------------|-------------|-------------|------------|------------|------|
|                             | 10         | 11         | 12         | 10          | 11          | 12          | 10          | 11         | 12         |      |
| Ryanair                     | 8.3        | 6.5        | 4.9        | 13.5        | 9.9         | 6.9         | 15.1        | 11.0       | 8.4        | 1.89 |
| Easyjet                     | 8.5        | 6.0        | 4.8        | 11.9        | 7.8         | 6.1         | 15.7        | 9.6        | 7.8        | 1.36 |
| Air Berlin                  | 4.3        | 3.6        | 2.5        | 12.4        | 8.6         | 5.2         | 37.9        | 10.0       | 5.1        | 0.49 |
| Average                     | 7.0        | 5.4        | 4.1        | 12.6        | 8.8         | 6.1         | 22.9        | 10.2       | 7.1        | 1.24 |
| Norwegian                   | 7.0        | 5.6        | 5.0        | 9.5         | 7.5         | 7.3         | 10.5        | 6.2        | 5.4        | 2.64 |
| Discount to peers           | 0%         | 4%         | 22%        | -24%        | -15%        | 21%         | -54%        | -40%       | -24%       | 112% |
| <b>With ABG's estimates</b> | <b>7.8</b> | <b>6.9</b> | <b>6.1</b> | <b>11.4</b> | <b>11.1</b> | <b>10.2</b> | <b>12.3</b> | <b>8.8</b> | <b>7.3</b> |      |
|                             | 11%        | 29%        | 50%        | -9%         | 27%         | 69%         | -46%        | -14%       | 3%         |      |

Source: ABG Sundal Collier, Factset

**We say SELL and take down our target price**

We take down our recommendation from BUY to SELL and set our target price at NOK 100. The target price is based on 8x PE on 2010 and 2011 estimates, which is a 20% discount to the peer average for 2011 to reflect the likelihood of falling consensus estimates. As we have highlighted before, the stock moves in-line with consensus estimates, and we fear that consensus will move down.

The risk to our SELL recommendation will be stronger than expected air travel demand, which eventually will lead to better than expected traffic figures, i.e. ticket prices and load factor.

...

| Income Statement                     |              |              |              |              |               |               |               |
|--------------------------------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|
| NOK                                  | 2006         | 2007         | 2008         | 2009         | 2010e         | 2011e         | 2012e         |
| Net sales                            | 2,941        | 4,226        | 6,226        | 7,309        | 8,820         | 10,430        | 12,135        |
| Other income                         | 0            | 0            | 0            | 0            | 0             | 0             | 0             |
| Operating expense                    | -2,974       | -4,092       | -6,579       | -6,751       | -8,329        | -9,696        | -11,214       |
| EBITDA                               | 19           | 208          | -223         | 707          | 716           | 1,179         | 1,538         |
| Depreciation on tangibles            | -52          | -74          | -130         | -149         | -225          | -445          | -617          |
| Depreciation on intangibles          | 0            | 0            | 0            | 0            | 0             | 0             | 0             |
| EBITA                                | -33          | 134          | -352         | 558          | 491           | 734           | 921           |
| Goodwill amortisation and impairment | 0            | 0            | 0            | 0            | 0             | 0             | 0             |
| <b>EBIT</b>                          | <b>-33</b>   | <b>134</b>   | <b>-352</b>  | <b>558</b>   | <b>491</b>    | <b>734</b>    | <b>921</b>    |
| Interest net                         | 0            | -19          | 352          | 48           | -16           | -71           | -119          |
| All other financial items            | 0            | 0            | 0            | 0            | 0             | 0             | 0             |
| Associated income                    | 0            | 0            | -13          | 3            | 1             | 0             | 0             |
| <b>Pretax profit</b>                 | <b>-33</b>   | <b>115</b>   | <b>-14</b>   | <b>609</b>   | <b>476</b>    | <b>663</b>    | <b>802</b>    |
| Minority interest                    | 0            | 0            | 0            | 0            | 0             | 0             | 0             |
| Tax                                  | 20           | -28          | -8           | -177         | -133          | -185          | -223          |
| <b>Profit after tax</b>              | <b>-13</b>   | <b>86</b>    | <b>-22</b>   | <b>432</b>   | <b>343</b>    | <b>478</b>    | <b>578</b>    |
| XO items after tax                   | 0            | 0            | 0            | 0            | -29           | 0             | 0             |
| Net profit                           | -13          | 86           | -22          | 432          | 314           | 478           | 578           |
| <b>Margins and tax rate</b>          |              |              |              |              |               |               |               |
| EBITDA margin, %                     | 0.66         | 4.92         | -3.58        | 9.67         | 8.12          | 11.30         | 12.67         |
| EBITA margin, %                      | -1.10        | 3.17         | -5.66        | 7.63         | 5.57          | 7.04          | 7.59          |
| EBIT margin, %                       | -1.10        | 3.17         | -5.66        | 7.63         | 5.57          | 7.04          | 7.59          |
| Pretax margin, %                     | -1.11        | 2.72         | -0.22        | 8.33         | 5.40          | 6.36          | 6.61          |
| Net margin %                         | -0.43        | 2.04         | -0.35        | 5.91         | 3.89          | 4.59          | 4.77          |
| Full tax rate, %                     | 60.97        | 24.75        | -60.87       | 29.03        | 27.95         | 27.84         | 27.84         |
| Balance Sheet                        |              |              |              |              |               |               |               |
| NOK                                  | 2006         | 2007         | 2008         | 2009         | 2010e         | 2011e         | 2012e         |
| Cash and liquid assets               | 232          | 743          | 626          | 1,408        | 1,189         | 1,909         | 3,033         |
| Receivables                          | 448          | 492          | 914          | 830          | 1,191         | 1,460         | 1,699         |
| Inventories                          | 19           | 28           | 34           | 64           | 48            | 57            | 67            |
| <b>Current assets</b>                | <b>699</b>   | <b>1,263</b> | <b>1,574</b> | <b>2,302</b> | <b>2,428</b>  | <b>3,427</b>  | <b>4,798</b>  |
| Long-term interest bearing assets    | 0            | 0            | 0            | 0            | 0             | 0             | 0             |
| Shares and participations            | 9            | 92           | 78           | 82           | 83            | 83            | 83            |
| Goodwill                             | 0            | 0            | 0            | 0            | 0             | 0             | 0             |
| Other intangibles                    | 130          | 293          | 258          | 191          | 258           | 258           | 0             |
| Other fixed assets                   | 229          | 683          | 1,264        | 2,447        | 4,386         | 7,969         | 10,372        |
| <b>Fixed assets</b>                  | <b>368</b>   | <b>1,068</b> | <b>1,600</b> | <b>2,719</b> | <b>4,659</b>  | <b>8,243</b>  | <b>10,646</b> |
| <b>Total assets</b>                  | <b>1,067</b> | <b>2,331</b> | <b>3,174</b> | <b>5,021</b> | <b>7,087</b>  | <b>11,669</b> | <b>15,444</b> |
| Short-term debt                      | 0            | 0            | 0            | 665          | 0             | 0             | 0             |
| All other ST liabilities             | 806          | 1,217        | 1,655        | 1,662        | 2,381         | 2,772         | 3,226         |
| <b>Current liabilities</b>           | <b>806</b>   | <b>1,217</b> | <b>1,655</b> | <b>2,327</b> | <b>2,381</b>  | <b>2,772</b>  | <b>3,226</b>  |
| Long-term interest bearing debt      | 0            | 471          | 457          | 918          | 2,482         | 6,010         | 8,530         |
| All other LT liabilities             | 0            | 134          | 176          | 174          | 307           | 492           | 715           |
| <b>Long-term liabilities</b>         | <b>0</b>     | <b>605</b>   | <b>633</b>   | <b>1,092</b> | <b>2,789</b>  | <b>6,502</b>  | <b>9,245</b>  |
| <b>Shareholders equity</b>           | <b>260</b>   | <b>508</b>   | <b>886</b>   | <b>1,602</b> | <b>1,916</b>  | <b>2,395</b>  | <b>2,973</b>  |
| Minority                             | 0            | 0            | 0            | 0            | 0             | 0             | 0             |
| <b>Total equity</b>                  | <b>260</b>   | <b>508</b>   | <b>886</b>   | <b>1,602</b> | <b>1,916</b>  | <b>2,395</b>  | <b>2,973</b>  |
| <b>Total liab and equity</b>         | <b>1,067</b> | <b>2,331</b> | <b>3,174</b> | <b>5,021</b> | <b>7,087</b>  | <b>11,669</b> | <b>15,443</b> |
| Cash Flow Analysis                   |              |              |              |              |               |               |               |
| NOK                                  | 2006         | 2007         | 2008         | 2009         | 2010e         | 2011e         | 2012e         |
| <b>Cash earnings in operations</b>   | <b>39</b>    | <b>309</b>   | <b>-404</b>  | <b>705</b>   | <b>716</b>    | <b>1,179</b>  | <b>1,538</b>  |
| Change in working capital            | 110          | 358          | 9            | 62           | 374           | 113           | 205           |
| Capital expenditure                  | -173         | -60          | -60          | -1,269       | -400          | -500          | -500          |
| <b>Operating cash-flow</b>           | <b>-24</b>   | <b>607</b>   | <b>-455</b>  | <b>-503</b>  | <b>690</b>    | <b>791</b>    | <b>1,243</b>  |
| Net of acquisitions and divestments  | 0            | 0            | 0            | 0            | 0             | 0             | 0             |
| Other investments                    | 18           | -83          | -8           | -1           | -1,764        | -3,528        | -2,520        |
| <b>Free cash-flow</b>                | <b>-6</b>    | <b>524</b>   | <b>-462</b>  | <b>-504</b>  | <b>-1,074</b> | <b>-2,737</b> | <b>-1,277</b> |
| Financial cost after tax             | 0            | -14          | 567          | 48           | -16           | -71           | -119          |
| Dividend paid                        | 0            | 0            | 0            | 0            | 0             | 0             | 0             |
| Equity increase                      | 120          | 0            | 400          | 270          | 0             | 0             | 0             |
| XO items after tax                   | 0            | 0            | 0            | 0            | -29           | 0             | 0             |
| Other cash-items                     | -108         | -469         | -608         | -157         | 0             | 0             | 0             |
| <b>Decrease in net debt</b>          | <b>6</b>     | <b>40</b>    | <b>-104</b>  | <b>-343</b>  | <b>-1,118</b> | <b>-2,808</b> | <b>-1,396</b> |

EBITDA, EBITA and EBIT are calculated excl. associated income, dividends received and interest cost charged to operating cost.

Source: ABG Sundal Collier, company data

| Valuation and return analysis              |        |       |        |       |            |            |            |
|--|--------|-------|--------|-------|------------|------------|------------|
| NOK  | 2006   | 2007  | 2008   | 2009  | 2010e      | 2011e      | 2012e      |
| <b>Valuation</b>                           |        |       |        |       |            |            |            |
| Market capitalisation                      | 1,799  | 3,399 | 871    | 3,913 | 4,237      | 4,237      | 4,237      |
| Enterprise value                           | 1,567  | 3,126 | 703    | 4,088 | 5,530      | 8,337      | 9,734      |
| Price/Sales (x)                            | 0.61   | 0.80  | 0.14   | 0.54  | 0.48       | 0.41       | 0.35       |
| EV/Sales (x)                               | 0.53   | 0.74  | 0.11   | 0.56  | 0.63       | 0.80       | 0.80       |
| EBITDA adjusted-multiple (x)               | 80.4   | 15.0  | Neg    | 5.8   | 7.7        | 7.1        | 6.3        |
| EBIT adjusted-multiple (x)                 | Neg    | 23.3  | Neg    | 7.3   | 11.2       | 11.4       | 10.6       |
| P/CEPS (x)                                 | 45.8   | 11.5  | 5.4    | 5.2   | 6.1        | 3.8        | 3.0        |
| P/E (x)                                    | Neg    | 39.3  | Neg    | 9.1   | 12.3       | 8.9        | 7.3        |
| P/OCFPS (x)                                | Neg    | 5.7   | 7.8    | Neg   | 6.3        | 5.9        | 3.8        |
| EV/OCF (x)                                 | Neg    | 5.1   | Neg    | Neg   | 8.0        | 10.5       | 7.8        |
| Dividend yield, %                          | 0.0    | 0.0   | 0.0    | 0.0   | 0.0        | 0.0        | 0.0        |
| P/BV, %                                    | 702    | 689   | 134    | 244   | 221        | 177        | 142        |
| P/NAV, %                                   | 702    | 689   | 134    | 244   | 221        | 177        | 142        |
| EV/Cap employed, %                         | 5489   | 1324  | 98     | 230   | 172        | 128        | 115        |
| <b>Return analysis, %</b>                  |        |       |        |       |            |            |            |
| Capital employed turnover                  | -21549 | 3194  | 1306   | 586   | 354        | 215        | 162        |
| EBIT adjusted-margin, %                    | -1.1   | 3.2   | -5.9   | 7.7   | 5.6        | 7.0        | 7.6        |
| Full tax rate, %                           | 61     | 25    | -61    | 29    | 28         | 28         | 28         |
| <b>ATROCE</b>                              | 92.9   | 76.2  | -123.4 | 31.9  | 14.2       | 10.9       | 8.9        |
| ATROCE, excl goodwill depr                 | 92.9   | 76.2  | -123.4 | 31.9  | 14.2       | 10.9       | 8.9        |
| <b>WACC (cost of capital)</b>              |        |       |        |       | <b>9.0</b> | <b>9.0</b> | <b>9.0</b> |
| <b>Profitability, %</b>                    |        |       |        |       |            |            |            |
| Return on equity, ROE                      | -4.9   | 33.2  | -3.6   | 37.4  | 21.4       | 25.0       | 24.2       |
| Return on capital employed, ROCE           | 238.1  | 101.2 | -76.7  | 45.0  | 19.7       | 15.1       | 12.3       |
| After tax return on total assets, ROA      | -1.5   | 5.1   | -0.8   | 10.5  | 5.7        | 5.1        | 4.3        |
| <b>Capital efficiency, %</b>               |        |       |        |       |            |            |            |
| Total assets turnover                      | 338    | 249   | 226    | 178   | 146        | 111        | 90         |
| Receivables/Sales                          | 15.2   | 11.6  | 14.7   | 11.4  | 13.5       | 14.0       | 14.0       |
| Inventories/Sales                          | 0.7    | 0.7   | 0.5    | 0.9   | 0.5        | 0.5        | 0.5        |
| <b>Gearing, liquidity, debt service, %</b> |        |       |        |       |            |            |            |
| Net debt                                   | -232   | -272  | -168   | 175   | 1,293      | 4,101      | 5,497      |
| Net gearing                                | -89    | -54   | -19    | 11    | 67         | 171        | 185        |
| Net gearing at market                      | -13    | -8    | -19    | 4     | 31         | 97         | 130        |
| Equity ratio, %                            | 24     | 22    | 28     | 32    | 27         | 21         | 19         |
| Quick ratio                                | 84     | 101   | 93     | 96    | 100        | 122        | 147        |
| Interest cover                             | -27083 | 698   | 100    | -1163 | 3124       | 1033       | 772        |
| <b>Investment ratios, %</b>                |        |       |        |       |            |            |            |
| Investment cover                           | 86     | 1112  | -658   | 60    | 273        | 258        | 349        |
| Capital expenditure/sales                  | 5.9    | 1.4   | 1.0    | 17.4  | 4.5        | 4.8        | 4.1        |
| Capital expenditure/depreciation           | 334    | 81    | 46     | 852   | 178        | 112        | 81         |
| Capital expenditure/assets                 | 16.3   | 2.6   | 1.9    | 25.3  | 5.6        | 4.3        | 3.2        |
| Depreciation/assets                        | 35.6   | 20.6  | 13.3   | 9.8   | 8.5        | 15.8       | 21.5       |
| <b>Share data</b>                          |        |       |        |       |            |            |            |
| Adjusted price year end                    | 93.0   | 169.0 | 36.9   | 115.0 | 124.5      | 124.5      | 124.5      |
| Earnings per share, EPS                    | -0.66  | 4.29  | -0.92  | 12.70 | 10.09      | 14.06      | 17.00      |
| Adjusted dividend per share                | 0.0    | 0.0   | 0.0    | 0.0   | 0.0        | 0.0        | 0.0        |
| Payout ratio of EPS, %                     | 0      | 0     | 0      | 0     | 0          | 0          | 0          |
| Book value per share, BVPS                 | 13     | 25    | 27     | 47    | 56         | 70         | 87         |
| Net debt per share                         | -12    | -13   | -5     | 5     | 38         | 121        | 162        |
| Adjusted fully diluted shares average      | 19.3   | 20.1  | 23.6   | 34.0  | 34.0       | 34.0       | 34.0       |

EBITDA, EBITA and EBIT multiples and return analysis are calculated incl. associated income, dividends received and interest cost charged to operating cost.

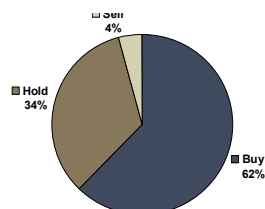
Source: ABG Sundal Collier, company data

**Analyst certification**

I/We, Petter Nystrom, Dag Sletmo, the author(s) of this report, certify that not withstanding the existence of any such potential conflicts of interests referred to below, the views expressed in this report accurately reflect my/our personal view about the companies and securities covered in this report. I/We further certify that I/we have not been, nor am/are or will be, receiving direct or indirect compensation related to the specific recommendations or views contained in this report.

**Stock ratings distribution**

**Recommendations as of 23/06/2010**



**ABG Sundal Collier Ratings and Investment Banking by 23/06/2010**

| Type of Rating | Research Coverage | Investment Banking Clients (IBC) |                           |
|----------------|-------------------|----------------------------------|---------------------------|
|                | % of Total Rating | % of Total IBC                   | % of Total Rating by Type |
| Buy            | 62%               | 87%                              | 13%                       |
| Hold           | 34%               | 13%                              | 4%                        |
| Sell           | 4%                | 0%                               | 0%                        |

IBC: Companies in respect of which ABGSC or an affiliate has received compensation for investment banking services within the past 12 months

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**Analyst stock ratings definitions**

- BUY** = We expect this stock's total return to exceed the market's expected total return by 5% or more over the next six months.
- HOLD** = We expect this stock's total return to be in line with the market's expected total return within a range of 4% over the next six months.
- SELL** = We expect this stock's total return to underperform the market's expected total return by 5% or more over the next six months.
- TRADING BUY** = We expect this stock's total absolute return to exceed 10% over the next six weeks.
- TRADING SELL** = We expect this stock's total absolute return to fall below negative 10% over the next six weeks.

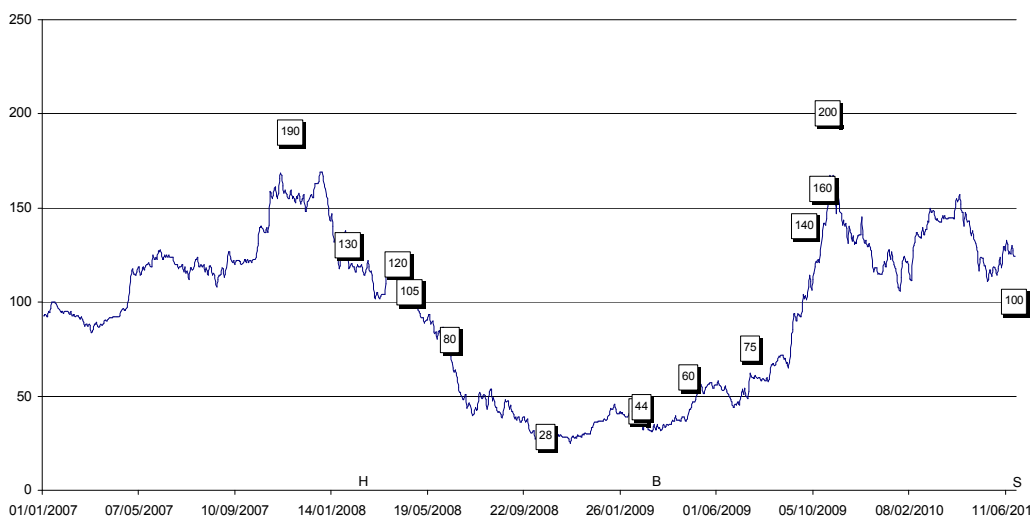
**Analyst valuation methods**

When setting the individual ratings, ABG Sundal Collier assumes that a normal total absolute return (including dividends) for the market is 8% per annum, or 4% on a 6-month basis. Therefore, when we rate a stock a *buy*, we expect an absolute return of 9% or better over six months. We have more rigorous guidelines for *trading buys* and *trading sells* on small cap stocks, defined as having a market capitalisation below USD 1.5 billion. For *trading buys* on small cap stocks, we must identify a potential absolute return of 15% or more over the next six weeks. This more rigorous guideline reflects the fact that the low trading volume for small cap stocks inhibits the ability to trade them within a narrow price band.

ABG Sundal Collier analysts publish price targets for the stocks they cover. These price targets rely on various valuation methods. One of the most frequently used methods is the valuation of a company by calculation of that company's discounted cash flow (DCF). Another valuation method is the analysis of a company's return on capital employed relative to its cost of capital. Finally, the analysts may analyse various valuation multiples (e.g. the P/E multiples and the EV/EBITDA multiples) relative to global industry peers. In special cases, particularly for property companies and investment companies, the ratio of price to net asset value is considered. Price targets are changed when earnings and cash flow forecasts are changed. They may also be changed when the underlying value of a company's assets changes (in the cases of investment companies, property companies or insurance companies) or when factors impacting the required rate of return change.

**Stock price, company ratings and target price history**

Company Norwegian Air Shuttle      Currency : NOK      Current Recommendation: SELL  
 Date : 24/06/2010      Current Target Price: 100  
 Current Share Price: 124.5



Source: Datastream & ABG Sundal Collier

**Important company specific disclosures**

The analyst and members of the analyst's household own 0 shares in Norwegian Air Shuttle and SAS. Employees and Partners in ABG Sundal Collier own 0 shares in Norwegian Air Shuttle and 50,000 shares in SAS. ABG Sundal Collier has a delta position equal to 0 shares in Norwegian Air Shuttle and SAS.

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