

CORPORATE GOVERNANCE 2015

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Through the exercise of good corporate governance, Norwegian Property has a goal of strengthening confidence in the company and contributing to the greatest possible value creation over time. The objective is to secure a clear and appropriate division of roles between shareholders, the board of directors and the executive management over and above legal requirements.

1. IMPLEMENTATION AND REPORTING ON CORPORATE GOVERNANCE

The board wishes to contribute through good corporate governance to a good trust-based relationship between Norwegian Property and the company's shareholders, the capital market, and other stakeholders.

Norwegian Property has drawn up overall principles for corporate governance, which are described here and are available at <http://www.norwegianproperty.no/formelle-dokumenter>. The board has also prepared a set of governing documents specifying various guidelines, instructions and policies intended to ensure compliance with good corporate governance in practice.

The board's presentation of the way Norwegian Property has implemented the applicable Norwegian code of practice for corporate governance of 30 October 2014 is set out below. The code is available on the website of the Norwegian Corporate Governance Board (NCGB) at www.nues.no. Reference is made to this presentation in the directors' report for 2015, and it is available on the company's website. The presentation covers each section of the code, and possible variances from the code are specified under the relevant section.

The group's values base defines important principles for corporate governance. This base rests on four core values, which form the foundation for building a positive corporate culture.

COLLABORATIVE

- We will be open and inclusive
- We will be generous and make ourselves available
- We will have a personal commitment

COURAGEOUS

- We will think innovatively
- We will be ambitious
- We will challenge established truths

PROACTIVE

- We will always seek to overcome problems before they arise
- We will seek and see new opportunities
- We will present new ideas

ATTENTIVE

- We will create and retain relationships
- We will do what we promise

The board has formulated guidelines for ethics and corporate social responsibility (CSR) in accordance with the group's values base. Norwegian Property's values base, [ethical guidelines](#) and [guidelines for CSR](#) are available at www.npro.no. The core of the CSR guidelines is the company's responsibility for the people, society and environment influenced by its operations, and deal among other considerations with human rights, anti-corruption, labour conditions, health, safety and the environment (HSE), discrimination and environmental aspects.

2. BUSINESS

Norwegian Property's articles of association are available on its [website](#). Enshrined in article 3, the company's business purpose states:

"The company operates in management, acquisitions, sales and development of commercial real estate, including participation in other companies as well as businesses which are related to such".



Within the framework of its articles, the company has presented goals and strategies for its business in the directors' report on [page 17](#).

3. EQUITY AND DIVIDENDS

Equity

Group equity at 31 December 2015 totalled NOK 5 777.6 million. The equity ratio at the same date was 34.9 per cent. The board regards the equity ratio as satisfactory in relation to the group's goals, strategy and risk profile.

To secure good financial freedom of action, the company has a long-term ambition that the relationship between net interest-bearing debt and gross fair value will be a maximum of 65 per cent. The company's financial flexibility is assessed at any given time in relation to the company's goals, strategy and risk profile. At 31 December 2015, the relationship between net interest-bearing debt and gross fair value was thereby 58.2 per cent.

Dividend

Pursuant to the company's dividend policy, a goal for Norwegian Property is to pay a competitive annual dividend. Its long-term aim is to pay a dividend of 30-50 per cent of its net profit before value adjustments. The dividend can be higher in times of good cash flow or property sales. An independent assessment of the group's financial position and prospects will be carried out before the annual dividend is determined. In light of the company's work to secure good financial freedom of action, it has not paid dividend for a time. However, the board will propose a resumption of dividend payments to the annual general meeting in 2016. The dividend policy is also described in [note 22](#) to the consolidated financial statements in this annual report and in the investor relations section of the [company's website](#).

Board mandates

The AGM of 9 April 2015 mandated the board to increase the company's share capital by up to NOK 27 420 000, corresponding to just under 10 per cent of the company's share capital when the mandate was awarded. The board mandate is motivated by the desire to have the opportunity to issue new shares in return for cash payments and/or as settlement for property transactions. This mandate had not been utilised at 31 December 2015.

In addition, the board was mandated to raise convertible loans

totalling NOK 850 000 000. This was because the board wanted to have the opportunity to issue new shares in combination with additional debt, partly in order to optimise the financing structure in Norwegian Property ASA. This mandate had not been utilised at 31 December 2015.

It was also resolved that the board's overall use of mandates to issue new shares awarded to the board by the AGM should not exceed 10 per cent of the share capital.

The board is also mandated to purchase the company's own shares up to a total nominal value of NOK 27 420 000. Norwegian Property did not purchase any of its own shares during 2015. The board was mandated to determine the payment of dividend on the basis of the company's financial statements for 2014. Norwegian Property paid no dividend during 2015. All board mandates remain valid until the company's AGM in 2016 and in any event not beyond 30 June 2016.

No provisions in the articles of association authorise the board to decide that the company will buy back or issue its own shares or primary capital certificates.

4. EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSE ASSOCIATES

Norwegian Property has only one share class, and all shares have equal rights in the company. Its articles of association impose no voting restrictions.

No share issues were conducted by Norwegian Property in 2015. Pursuant to the code, the reasons for waiving the preemptive right must be published in a stock exchange announcement in connection with a capital increase. The board will endeavour to comply with this point should such circumstances arise in the future.

Norwegian Property did not purchase or sell any of its own shares in 2015. Possible future transactions will be conducted on the stock exchange or in another manner at the stock market price.

The board and the executive management are concerned to ensure equal treatment of all the company's shareholders and that transactions with close associates (related parties) take place on an arm's length basis. [Note 23](#) to the consolidated financial statements details transactions with close associates (related parties). Financial relationships related to the directors and executive personnel are described in [note 14](#) and [note 19](#).

Guidelines on conflicts of interest are included in the instruc-

tions for the company's board of directors, and ensure that directors inform the board if they have a significant direct or indirect interest in an agreement being entered into by the company. To avoid unintentional conflicts of interest, the company has drawn up an overview which identifies the various roles of its directors, the offices they hold and so forth. This overview is updated as and when required and in the event of changes in the board's composition.

5. FREELY NEGOTIATED SHARES

Shares in Norwegian Property are freely tradable on the Oslo Stock Exchange. No restrictions on the negotiability of the shares are imposed by the articles of association.

The board considers good liquidity of the share to be important for Norwegian Property to be regarded as an attractive investment, and the company works actively to attract interest from the investor market. Its executive management holds regular meetings with existing and potential shareholders in Norway, Europe and the USA.

6. GENERAL MEETINGS

Notice, registration and participation

The board makes provision for as many as possible of its shareholders to exercise their rights by attending the general meeting. The 2016 AGM is scheduled to take place on 13 April. The company's financial calendar is published as a stock exchange announcement and in the investor relations section of the [company's website](#).

Notice of the general meeting, with comprehensive documentation including the recommendations of the nomination committee, is made available to shareholders on the company's website no later than 21 days before a meeting takes place. Shareholders who want the attachments sent by post can apply to the company for this to be done. The documentation must contain all the information required for the shareholders to form a view on every item to be considered. Shareholders wishing to attend the general meeting must indicate this intention by the specified deadline. The deadline for registering attendance is set as close to the meeting as possible, normally two days in advance.

Proxy form and advance voting

Notices with documentation are made available on the com-

pany's website immediately after the documentation has been issued as a stock exchange announcement. General-meeting notices provide information on the procedures to be observed for attendance and voting, including the use of proxies. Shareholders who cannot attend in person are encouraged to appoint a proxy. A proxy form, where a proxy has been named, is framed in such a way that the shareholder can specify how the proxy should vote on each issue to be considered. The notices have included information on the right to raise issues for consideration at the general meeting, including the relevant deadlines.

Chairing meetings, elections, etc

The general meeting is opened by the chair of the board or the person appointed by the board, and the chair of the meeting is elected by the meeting. The company has not drawn up specific routines to ensure that the chair of the meeting is independent, but experience with the chairing and conduct of the general meetings has been good. Representatives of the company's board and executive management are encouraged to attend. The same applies to the nomination committee at those meetings where the election and remuneration of directors and members of the nomination committee are to be considered. The company's auditor is present at the AGM.

The general meeting elects the members of the nomination committee as well as the shareholder-elected directors on the board. In its work, the nomination committee gives emphasis to ensuring that the board functions optimally as a collective body, that legal requirements for gender representation can be met, and that the directors complement each other in terms of their background and expertise. The general meeting is therefore normally invited to vote for a complete board. As a result, no opportunity has been provided to vote in advance for individual candidates.

Minutes from a general meeting are published as soon as practicable via the stock exchange's reporting system (www.newsweb.no, ticker code: NPRO) and under "formal documents" in the investor relations section of the [company's website](#).

7. NOMINATION COMMITTEE

The company's articles of association call for the appointment of a nomination committee. Pursuant to the articles, the nomination committee will comprise two or three members. Its com-

position must take account of the interests of shareholders in general. The committee is independent of the board and the executive management, and otherwise composed pursuant to the code.

Members of the nomination committee and its chair are elected by the general meeting for two-year terms, and their remuneration is determined by the general meeting. The work of the nomination committee is regulated by specific guidelines, which are adopted by the AGM.

The nomination committee nominates directors. Efforts are made to base its recommendations on contacts with directors and the chief executive. In addition, the committee seeks to consult relevant shareholders to obtain suggestions for candidates as well as to entrench its recommendations. The committee also recommends the remuneration of directors. Its recommendations with reasons are made available via the company's website before the election and as soon as they are available. The nomination committee is encouraged to attend the general meetings in order to present and justify its recommendations and to answer questions.

The present nomination committee was elected at the AGM of 9 April 2015 and comprises Marianne Johnsen (chair) and Robin Bakken. No regular directors or executive personnel are represented on the nomination committee. Deadlines for submitting nominations to the nomination committee are published on the company's website. The deadline for submitting nominations to the nomination for the 2015 AGM is 1 March 2015. Suggestions can be submitted to the nomination committee via info@norwegianproperty.no.

8. CORPORATE ASSEMBLY AND BOARD OF DIRECTORS, COMPOSITION AND INDEPENDENCE

The company does not have a corporate assembly. Pursuant to the articles of association, the board of Norwegian Property will comprise three to nine directors. The board currently has four shareholder-elected directors after one director, Espen D Westeren, resigned from the board in December 2015 in connection with his departure from Gevevan Trading Co Ltd. Directors and the chair of the board have been elected by the general meeting until the AGM in 2016. See the provisions of the Public Limited Liability Companies Act. The board's composition is intended to secure the interests of the shareholders in general, while the

directors also collectively possess a broad business and management background and an in-depth understanding of the property market, purchase and sale of businesses, financing and capital markets. In addition, account has been taken of the need for the board to function well as a collegiate body. The background and experience of directors are presented on the [company's website](#) and on [page 13](#) of this annual report. The board has been composed in such a way that it can act independently of special interests. The company's executive management is not represented on the board.

Three of the four directors are independent of the company's executive management, significant commercial partners or substantial shareholders. One director, Cecilie Astrup Fredriksen, is an employee of Seatankers Management Co Ltd as well as a director of Marine Harvest ASA and Ship Finance Int. These are all related parties to the largest shareholder in Norwegian Property, Gevevan Trading Co Ltd. Twenty-one board meetings were held in 2015.

9. THE WORK OF THE BOARD OF DIRECTORS

The board has overall responsibility for managing the group and for supervising the chief executive and the group's activities. Its principal tasks include determining the company's strategy and monitoring its operational implementation. In addition come control functions which ensure acceptable management of the company's assets. The board appoints the president and CEO. Instructions which describe the rules of procedure for the board's work and its consideration of matters have been adopted by the board. The division of labour between the board and the chief executive is specified in greater detail in standing instructions for the latter. The chief executive is responsible for the company's executive management. Responsibility for ensuring that the board conducts its work in an efficient and correct manner rests with the chair.

The board establishes an annual plan for its meetings, and evaluates its work and expertise once a year. The annual plan specifies topics for board meetings, including reviewing and following up the company's goals and strategy, budgets, reporting of financial information, the notice for the general meeting with associated documentation, and the board's meeting with the auditor.

The board has considered it appropriate to appoint sub-committees to advise it. An audit committee of two-three directors

has been established to support the board in the exercise of its responsibility for financial reporting, internal control, auditing and overall risk management. Members of the committee are independent of the business, and their work is governed by a separate instruction. A compensation committee normally comprising two directors has also been established to assist the board over the employment terms of the chief executive and the strategy and main principles for remunerating the company's senior executives. This committee currently has all the directors as its members. It is also governed by a separate instruction, and comprises members who are independent of the company's executive management.

Once a year, the board evaluates its own work and that of the chief executive and reports its findings to the nomination committee.

10. RISK MANAGEMENT AND INTERNAL CONTROL

Risk areas and internal control environment

Through its business activities, Norwegian Property manages considerable financial assets which are exposed to substantial risk factors, such as development projects, the money market and the letting market. Its organisation comprises a relatively limited number of staff, and the group's management model is accordingly based on an appropriate delegation of profit responsibility, clearly defined operating parameters and effective internal control.

Overall goals and strategies are established and further developed through a continuous updating of the company's strategy. On the basis of this strategy, the values base and the ethical guidelines, overall instructions have been established for the board which specify authorisations for delegating responsibility to defined roles in the organisation. Policies have furthermore been established for control and risk management in the most important risk areas, such as operation, finance and development.

Operational risk relates to the award of contracts and renegotiation of leases, which are followed up in accordance with established guidelines and authorisations. Operational risk related to property management is handled through routines for day-to-day operation, compliance and HSE work. Financial risk is managed in accordance with the company's financial strategy. Development risk is handled on a continuous basis in the

projects through follow-up of progress, financial status and contractual conditions.

The board is responsible for seeing to it that the enterprise, financial reporting and asset management are subject to satisfactory controls. Based on the overall policies, governing processes and routines have been established for day-to-day management. The board periodically reviews the company's governing documents. In connection with its annual review of the company's strategy, the board reviews the most important risk areas faced by Norwegian Property and the internal controls established to deal with and minimise these. The board is also briefed on developments in the risks facing the company on a continuous basis through the operating reports.

Reporting

The administration prepares monthly operating reports which are considered at the board meetings. These reports are based on management reviews of the various parts of the business, and contain an update of the status for setting targets, important operational conditions, financial conditions and a description of the status in risk areas. In addition, quarterly financial reports are prepared and reviewed by the audit committee ahead of the board meeting.

Financial conditions are followed up through monthly accounting reports and rolling updates of annual budgets and forecasts. Reporting also includes non-financial key figures related to the various business areas. In addition, risk management includes the preparation of longer projections of financial trends, where assumptions are made about profits, cash flow and balance sheet development. These simulations provide management and board with a basis for monitoring expected trends in central key figures.

The company is managed on the basis of financial targets related to such aspects as return on equity. Special profitability calculations are made when acquiring investment properties and launching development projects, based on established routines and required returns. The return on development projects is followed up and reported throughout the project period.

A special review of the quarterly valuations of investment properties is conducted by management, and meetings are held with the external players responsible for the valuations where particular attention is paid to market views and risk conditions.

Separate accounting documentation is prepared for significant accounting items and transactions which are not of a routine character. External valuations of financial interest derivatives are quality-assured through the preparation of monthly internal value assessments. All other balance sheet items are reconciled and documented on a continuous basis throughout the year. Significant profit and loss accounts and accounts related to direct and indirect taxation are also reconciled on a continuous basis.

The interim reports and annual financial statements are reviewed by the audit committee ahead of consideration by the board. Risk management and internal control are also addressed by the board's audit committee. The latter reviews the external auditor's findings and assessments after the interim and annual financial audits. Signification conditions in the auditor's report are reviewed by the board.

11. REMUNERATION OF THE BOARD OF DIRECTORS

Directors' fees are determined by the general meeting on the basis of recommendations from the nomination committee. These fees have been based on the board's responsibility, expertise and the complexity of the business, and have not been related to results. The directors have not been awarded options.

Nor have they undertaken special assignments for the company other than their work on the board, and are unable to accept such assignments without approval from the board in each case.

Further details on the remuneration paid to individual directors are provided in [note 19](#) to the consolidated financial statements. An overview of shares owned by the directors and their close associates is included in [note 14](#) to the consolidated financial statements.

12. REMUNERATION OF EXECUTIVE PERSONNEL

The board has established a compensation committee comprising two directors to assist it with the employment terms of the chief executive as well as the strategy and main principles for remunerating the company's senior executives. Following Espen D Westeren's resignation from the board in December 2015, he also resigned from the compensation committee. Only one director sat on the committee at 31 December 2015, but a further member will be appointed during 2016.

The group's guidelines for the remuneration of senior execu-



tives are described in [note 19](#) to the consolidated financial statements. This note also provides further details about remuneration in 2015 for certain senior executives. The guidelines are presented annually to the general meeting in connection with its consideration of the annual accounts.

These guidelines specify the main principles for the company's executive pay policy, and have been framed with the aim of ensuring that the interests of shareholders and senior executives coincide. No options have been issued to employees or elected officers of the company. Profit-related remuneration in the form of a bonus programme is based on the attainment of goals for the group or for a department or company in which the recipient is employed. Such goals may comprise the attainment of various improvement measures or financial criteria, including the development of the company's share price. A ceiling has been set on the size of profit-related remuneration for those employees entitled to receive this.

13. INFORMATION AND COMMUNICATION

Through the company's established principles for investor communication, available on its [website](#), the board has determined guidelines for reporting financial and other information. Based on openness and equal treatment of players in the securities market, the guidelines also cover communication with shareholders outside the general meetings. Reporting of financial and other information will be timely and accurate, while simultaneously being based on openness and equal treatment of players in the securities market. Information is published in the form of annual and interim reports, press releases, stock exchange announcements and investor presentations. All information considered to be significant for valuing the company will be distributed and published in both Norwegian and English via Cision and the Oslo Stock Exchange's company disclosure system, and the company's website exists in both Norwegian and English versions.

Information is made available simultaneously on the company's website, where it is also possible to subscribe to announcements. The main purpose of this information will be to clarify the company's long-term goals and potential, including its strategy, value drivers and important risk factors.

The company publishes a financial calendar every year with an overview of the dates of important events, including the

AGM, publication of interim reports and open presentations. This calendar is made available as a stock exchange announcement and on the company's website as soon as it has been approved by the board, and is also reproduced in the annual report.

Norwegian Property complies with the recommendations of the Oslo Stock Exchange concerning the reporting of investor relations information. The applicable recommendation for such reporting is available on the Oslo Stock Exchange website at www.oslobors.no.

14. TAKEOVERS

The board has not prepared guiding principles for responding to a possible takeover bid since it wishes to be free, within the constraints of existing regulations, to react to such an offer as it sees fit.

The company's articles of association place no restrictions on buying shares in the company. In a takeover process, the company's board and executive management will seek to help ensure that the shareholders are treated equally and that the company's business suffers no unnecessary disruption. The board will give particular weight to ensuring that shareholders have sufficient time and information to be able to form a view of a possible offer for the company's business or shares.

The board does not intend to prevent or hamper anyone from presenting an offer for the company's business or shares. It will take account of the common interests of the company and the shareholders in the event that possible agreements with bidders are considered.

Geveran Trading Co Ltd exceeded the limit for a mandatory offer in November 2014, and accordingly made a mandatory offer that December of NOK 10.00 per share for all outstanding shares in Norwegian Property ASA. At the expiry of the offer period, Geveran Trading Co Ltd had received acceptances which increased its overall holding to 43.26 per cent. Its shareholding was subsequently further increased through the purchase of shares in the market. The process is described in greater detail in the [annual report for 2014](#).

15. AUDITOR

An audit committee of three directors has been appointed. This committee is intended to support the board in the exercise of its responsibility for financial reporting, internal control, auditing

and overall risk management. Its work is governed by an instruction. The company's auditor, PricewaterhouseCoopers AS, conducted the following work during 2015 in relation to fiscal 2015.

- Presented the main features of the audit work.
- Attended board meetings considering the annual report, reviewing possible significant changes in accounting principles, assessing significant accounting estimates, and considering all cases where possible disagreements arose between auditor and executive management.
- Conducted a review together with the board of the company's internal control systems, including the identification of weaknesses and proposals for improvements.
- Held a meeting with the board without the presence of the executive management.
- Confirmed that the requirements for the auditor's independence were fulfilled, and provided an overview of services other than auditing which have been rendered to the company.

PricewaterhouseCoopers attended two meetings with the audit committee, which included reviewing the main features of the plan for executing the audit for the year and results from the audit were presented.

Pursuant to the instruction for the board's audit committee, the use of the auditor for substantial assignments other than ordinary auditing services must be considered and approved by the board.

The board reports annually to the AGM on the auditor's overall fees, broken down between audit work and other services. The AGM approves the auditor's fees for the parent company.