



NORWEGIAN PROPERTY

REPORT FOR THE SECOND QUARTER OF 2010



## Q2 2010 – STABLE OPERATIONS AND ESTABLISHMENT OF BASIS FOR LONG-TERM VALUE CREATION

Norwegian Property ASA posted a profit before tax and fair value adjustments of NOK 142.2 million in the second quarter of 2010, compared with a profit of NOK 114.8 million in the corresponding prior-year period. Gross rental income amounted to NOK 443.4 million, which, adjusted for the sale of property, corresponds to an increase of 0.3 per cent against the second quarter of 2009. The operating profit before fair value adjustments totalled NOK 361.3 million, compared with NOK 372.5 million in the three months ending 30 June 2009. Total fair value adjustments for the property portfolio in the quarter were 0.4 per cent, which equates to NOK 115.3 million after positive fair value adjustments for the business property portfolio, and a slight decrease in the value of the hotel portfolio. The profit before tax for the second quarter of 2010 amounted to NOK 59.4 million, compared with a loss of NOK 439.5 million in the corresponding prior-year period.

Work to hive off the company into two separate independent companies for the respective office and hotel businesses is continuing. Although the finance and transaction markets displayed slightly more volatility during the second quarter, the company still intends to complete this process during 2010. Work is being performed on a separation of the businesses.

Initiatives regarding the industrialisation of the business are continuing. The creation of a separate operational organisation, including the recruitment of key resources and the establishment of administrative systems, is in full swing in order to ensure that the company has functional in-house operations when the operating agreement with Norwegian facility management company NEAS expires in the second quarter of 2011. Development projects have been established for several of the Group's major office properties with the aim of securing and creating significant added values by offering optimal office solutions for existing and new tenants.

The office rental market in Norwegian Property's market areas has bottomed out. During the quarter Norwegian Property entered into 14 new leases with a total annual rent of NOK 58.7 million, which equates to rental growth of 10.7 per cent.

The Nordic hotel market is showing signs of improvement. In Sweden in particular performance is positive, and the RevPAR (Revenue Per Available Room) figure for the year to date is up on the comparable prior-year period. Performance in Norway and Finland is slightly more volatile, though the trend is positive.

The consolidated net loan-to-value ratio fell from 72.9 per cent to 72.4 per cent during the quarter.

## KEY FIGURES

		Quarterly results		First half year		Last year
		2010	2009	2010	2009	01.01 - 31.12
						2009
<b>Profit and loss</b>						
Gross rent	NOK million	443.4	446.8	871.7	892.5	1,767.7
Operating profit / loss	NOK million	428.9	(259.6)	851.7	(657.8)	(378.6)
Operating profit before fair value adjustments	NOK million	361.3	372.5	721.1	749.5	1,454.7
Profit before tax and fair value adjustments		142.2	114.8	236.8	219.9	373.0
Profit/loss before tax	NOK million	59.4	(439.5)	113.8	(1,373.3)	(1,399.0)
Net profit	NOK million	60.5	(394.0)	101.1	(1,193.5)	(1,168.9)
<b>Balance sheet</b>						
Market value of investment portfolio	NOK million	23,730.4	24,442.6			23,732.7
Equity	NOK million	5,500.8	3,647.2			4,918.0
Interest bearing debt	NOK million	17,961.2	20,291.8			18,378.8
Equity ratio	%	21.8 %	14.2 %			19.9 %
Pre tax return on equity (annualised)	%	5.2 %	-46.0 %	4.4 %	-63.5 %	-28.2 %
<b>Cash flow</b>						
Cash flow from operating activities	NOK million	219.4	368.9	503.8	676.3	1,480.0
Cash and cash equivalents	NOK million	634.6	231.2			248.2
<b>Key numbers, shares</b>						
No. of shares issued	Million	498,596,832	201,635,407	498,596,832	201,635,407	453,270,832
Average number of shares in period	Million	498,596,832	201,635,407	475,933,832	201,635,407	280,100,370
Pre-tax profit per share	NOK	0.12	(2.18)	0.24	(6.81)	(4.99)
Basic earnings per share (EPS)	1) NOK	0.12	(1.95)	0.21	(5.92)	(4.17)
Operating cash flow per share	NOK	0.44	1.83	1.06	3.35	5.28
Interest bearing debt per share	NOK	36.02	100.64			40.55
Book value per share	NOK	11.03	18.08			10.85
Deferred property tax per share	NOK	2.53	6.16			2.53
Goodwill per share	NOK	(1.06)	(3.49)			(1.28)
Financial derivative instr. per share	NOK	1.05	2.50			0.73
Net asset value per share (EPRA)	2) NOK	13.55	23.25	-	-	12.84

1) Diluted earnings per share are the same as the basic earnings per share.

2) Ordinary book value of equity (excl. minority interests) per share adjusted for deferred property tax-, goodwill- and financial derivative instruments per share.

Deferred property tax per share include both ordinary deferred tax related to properties and tax compensation at purchase (accounted for as a reduction of investment properties). Goodwill per share is calculated from the single item in the balance sheet, while financial derivative instr. per share is calculated based on the asset and liability items (market values of interest-/exchange rate swap contracts and similar) in the balance sheet after tax.

## FINANCIAL RESULTS

### SECOND QUARTER PERFORMANCE

Norwegian Property posted total gross rental income of NOK 443.4 million in the second quarter of 2010, compared with NOK 446.8 million in the corresponding prior-year period. Adjusted for the sale of property, this corresponds to an increase in gross rental income of NOK 1.4 million against the second quarter of 2009. Rental income from the office portfolio rose by NOK 7.1 million, while the corresponding figure for the hotel portfolio fell by NOK 5.8 million compared with the second quarter of 2009. An amount of NOK 5.1 million for the office portfolio relates to the settlement of rental guarantees for Aker Brygge, while NOK 6.0 million relates to the final settlement of rental guarantees for the hotel portfolio in 2009.

Maintenance and property-related expenses for the quarter totalled NOK 48.0 million (NOK 35.6 million). Of these costs, NOK 4.0 million relates to the settlement of rental guarantees for Aker Brygge and NOK 5.0 million to the termination of the NEAS-agreement. Other operating expenses amounted to NOK 34.1 million (NOK 38.7 million).

The operating profit before fair value adjustments of investment properties totalled NOK 361.3 million (NOK 372.5 million). Value adjustments in the property portfolio came in at NOK 115.3 million (NOK -557.6 million). Goodwill was written down in the amount of NOK 43.7 million (NOK 74.5 million) as a result of the reduction in deferred tax relating to the hotel portfolio.

Net financial expenses amounted to NOK 369.5 million during the second quarter (NOK 179.9 million). Financial expenses in the quarter totalled NOK 219.4 million, which represents a decrease of NOK 40.5 million compared with the figure of NOK 259.9 million for the corresponding prior-year period. This is attributable to a reduction in interest-bearing liabilities and a lower average interest rate caused by the reduced hedging ratio. The income element related to financial derivatives decreased in value by NOK 150.1 million in the second quarter (increase of NOK 80.0 million) due to falling long-term market interest rates.

The pre-tax profit for the first quarter was NOK 59.4 million, compared with a loss of NOK 439.5 million in the second quarter of 2009. The calculated tax expense for the quarter totalled NOK 1.1 million, compared with tax income of NOK 45.4 million in the corresponding prior-year period. The net profit for the period was NOK 60.5 million (loss of NOK 394.0 million).

### FIRST HALF-YEAR PERFORMANCE

Norwegian Property posted total gross rental income of NOK 871.7 million in the first six months of 2010, compared with NOK 892.5 million in the corresponding period in 2009. Adjusted for the sale of property, this corresponds to a decrease in gross rental income of NOK 13.8 million compared with the first half of 2009. Rental income from the office portfolio rose by NOK 7.0 million, while the corresponding figure for the hotel portfolio fell by NOK 20.8 million against the first half of 2009.

Maintenance and property-related expenses for the first half-year totalled NOK 89.4 million (NOK 70.9 million). Other operating expenses amounted to NOK 61.1 million (NOK 72.1 million).

The operating profit before fair value adjustments of investment properties totalled NOK 721.1 million (NOK 749.5 million). Value adjustments in the property portfolio came in at NOK 162.5 million (NOK -1,240.9 million). A net amount of NOK 11.8 million was recognised in the income statement for reversals of provisions relating to previously sold properties. Goodwill was written down in the amount of NOK 43.7 million (NOK 212.2 million) as a result of the reduction in deferred tax relating to the hotel portfolio.

Net financial expenses amounted to NOK 737.9 million during the first half-year (NOK 715.6 million). Financial expenses for the first six months of the year amounted to NOK 452.4 million, which represents a decrease of NOK 54.2 million compared with the figure of NOK 506.6 million for the corresponding prior-year period. This is attributable to a reduction in interest-bearing liabilities and a lower average interest rate caused by the reduced hedging ratio. The income element related to financial derivatives decreased in value by NOK 285.5 million in the first half-year (decrease of NOK 209.0 million) due to falling long-term market interest rates.

The pre-tax profit for the first half-year was NOK 113.8 million, compared with a loss of NOK 1,373.3 million in the first half of 2009. The calculated tax expense for the first half-year totalled NOK 12.7 million, against tax income of NOK 179.8 million in the corresponding prior-year period. The net profit for the period was NOK 101.1 million (loss of NOK 1,193.5 million).

## VALUATION OF PROPERTIES

Two independent external valuers have valued each of the properties in the Group's office and hotel portfolio. The valuations are based on the same methods and principles applied in previous periods.

The positive effect of new leases and selective increases in market rent expectations are helping boost property values in the commercial property portfolio. The value of the external areas at Aker Brygge increased by NOK 75 million as a result of a revised valuation of the marina area following the cancellation of the contract with the current operator. As of 30 June 2010 the Group's portfolio of commercial properties before adjustment for deferred tax was valued at NOK 15,018 million. A positive value adjustment of NOK 152.5 million was recognised for the office portfolio during the second quarter (NOK 178.0 million for the first half-year). Adjusted for a positive tax effect of NOK 21.8 million, this corresponds to a value increase of 0.8 per cent, compared with a downwards adjustment of 1.3 per cent in the corresponding prior-year period. Commercial properties with shorter leases and in need of upgrading before being re-leased have continued to turn in a weaker value performance.

The hotel portfolio (Norgani Hotels AS) recorded a value decrease of 0.4 per cent in the second quarter, compared with a decrease of 4.2 per cent in the corresponding prior-year period. As of 30 June 2010 the Group's portfolio of hotel properties was valued at NOK 8,911 million, and NOK 37.2 million was charged to the income statement in respect of negative value changes during the second quarter. The decrease is primarily attributable to a downwards adjustment of the RevPAR assumptions for some hotels.

The overall value of the portfolio properties was adjusted upwards by 0.4 per cent in the second quarter, compared with downwards by 2.3 per cent in the corresponding prior-year period. Consequently, the property values for the Group's portfolio were adjusted upwards in the amount of NOK 115.3 million to NOK 23,730 million during the period under review. In the second quarter of 2009, total value adjustments were negative in the amount of NOK 557.6 million.

## CASH FLOW

The net cash flow from operating activities before net financial items amounted to NOK 219.4 million (NOK 368.9 million) in the second quarter. The net cash flow from operating activities in the first half-year was 503.8 million (NOK 676.3 million). The net cash flow from investing activities for the second quarter came in at NOK -7.2 million (NOK -21.9 million). The net cash flow from investing activities for the first half-year amounted to NOK 151.6 million (NOK 997.1 million). At NOK 17.7 million, investment-related spending during the first half of 2010 was primarily incurred in connection with ordinary operating investments, primarily relating to the hotel portfolio. The net cash flow from financing activities in the second quarter amounted to NOK -233.4 million (NOK -342.3 million). The net cash flow from financing activities for the first half-year was NOK -269.0 million (NOK -1,609.0 million). Of this, net proceeds from the issue in March totalled NOK 526.2 million and the net reduction in interest-bearing debt amounted to NOK 383.4 million. The net change in cash and cash equivalents during the first half-year was NOK 386.4 million (NOK 64.4 million).

## BALANCE SHEET

Cash and cash equivalents as of 30 June 2010 totalled NOK 634.6 million (NOK 231.2 million). The Group also had NOK 365 million in undrawn credit facilities. Total equity amounted to NOK 5,500.8 million (NOK 3,647.2 million), which corresponds to an equity ratio of 21.8 per cent (14.2 per cent). The recognised net asset value per share was NOK 11.03 (NOK 18.08). The net asset value per share based on the EPRA standard was NOK 13.55 (NOK 23.25). The number of shares at the end of the first half-year was 498,596,832 (201,635,416).

## FINANCING

Total interest-bearing debt after costs recognised in the balance sheet as of 30 June 2010 amounted to NOK 17,961 million (NOK 20,292 million). In January 2010 Norwegian Property completed the placement of a new bond issue of NOK 235 million to refinance the previous bond loan due to mature in March 2010. Following this placement, the company has refinanced all debt with principal maturity in 2010.

Interest-bearing debt and hedging as of 30 June 2010	TOTAL	NPRO ASA	NORGANI	OPAS
Total interest-bearing debt	17 961	11 108	6 160	694
Interest hedging ratio (%)	82.7%	88.7%	81.2%	-
Cash and cash equivalents	635	568	50	16
Unused credit facilities	365	310	55	-
Average time to maturity, hedging (years)	4.8	4.6	5.2	-
Average interest rate (incl. margin)	4.83%	5.05%	4.35%	5.47%
Average margin	1.01%	0.75%	1.26%	3.00%
Average remaining term, borrowing (years)	2,4	2,3	2,6	2,0
Property value	23 929	15,018	8 911	-
Interest-bearing debt relative to property value (LTV)	75.1%	74.0%	69.1%	-
Net interest-bearing debt relative to property value (Net LTV)	72.4%	-	-	-

(\*) Net LTV is LTV adjusted for cash and cash equivalents

The table below shows the maturity profile of the Group's interest hedges as of 31 July 2010:

Maturity structure interest hedges	NOK million	Average interest rate %	Percentage of total liabilities
Within 12 months	3 957	2.7%	23%
1 – 2 years	1 354	4.0%	8%
2 – 3 years	2 152	4.2%	12%
3 – 4 years	1 815	4.4%	10%
4 – 5 years	2 298	4.4%	13%
More than 5 years	5 837	4.5%	34%

## MARKET CONDITIONS

### COMMERCIAL PROPERTIES RENTAL MARKET

Norwegian GDP is continuing to post hesitant growth. However, renewed uncertainty in the financial markets throughout the second quarter, including with regard to certain countries' financial position, also sowed the seeds for uncertainty regarding future macroeconomic performance. Most people appear to expect future performance to be volatile, resulting in moderate growth for some time to come.

According to Akershus Eiendom, the vacancy rate in the Oslo office market was around 7.5 per cent in April. Based on Statistics Norway's employment forecasts and Akershus Eiendom's own analyses of supply of new space, vacancies are expected to peak at just over 8.5 per cent in 2011.

The downwards movement in market rents has levelled out, and rents are once again showing signs of picking up. In particular in the most attractive office areas, generally increased activity levels are being experienced among tenants and estate agents, which is in turn being reflected in the form of rental increases.

In Stavanger vacancies are currently stabilising at a somewhat higher level than previously, and are now estimated by Akershus Eiendom at around 6 per cent. Rents are also in the process of stabilising in Stavanger, in particular in central areas.

The transaction market in the second quarter displayed a slightly more cautious sentiment than in the first quarter. Several potential transactions were postponed due to more uncertain market exposure, including Norwegian Property's own Aker Hus transaction and the announced IPO of Maud. However, several major transactions were implemented towards the end of the quarter. Pareto purchased Værste in Fredrikstad and the Schibsted printing works in Nydalen, while ROM sold Skattekvartalet in Oslo to KLP. The overall transaction market is regarded as significantly better than in the previous year. Even though the long market interest rates fell significantly in the second quarter, the decrease in the net yield seen in the first quarter slowed somewhat. Properties with long and secure leases continue to be the most attractive on the market

## HOTEL MARKET

At the start of 2010 most market players expected the Nordic hotel market to turn towards the end of 2010 or start of 2011. Following a weak start to the year, there are several signs that the RevPAR is already starting to level out. In particular the Swedish market, which also constitutes Norgani's most important market, is performing positively. The Swedish market posted RevPAR growth of just under 1 per cent during the first six months of the year. In Finland and Norway performance is slightly more volatile, even though both markets have returned increases in RevPAR figures in some months. Historically, hotel market fluctuations are strongly correlated to macro-economic developments, and occupation rates normally recover more quickly than room prices. While an element of uncertainty regarding growth capacity could have a certain impact on the hotel market, a number of market players are now expecting a potential upturn in the hotel market to be confirmed in the second half of 2010 or early in 2011 based on a generally improved macroeconomic outlook in a number of countries. The Icelandic volcano eruption in April and its ensuing effects on air travel only temporarily impacted the hotel market.

## THE PROPERTY PORTFOLIO

### THE COMMERCIAL PORTFOLIO

At the end of the quarter Norwegian Property owned 47 office and commercial properties. These are primarily located in central areas of Oslo and Bærum (82 per cent of gross rental income), Gardermoen (3 per cent of gross rental income) and Stavanger (15 per cent of gross rental income). The Group's properties mainly comprise office premises with associated warehousing and parking, and commercial and restaurant space.

Total gross contractual rental income for the office portfolio amounted to NOK 1,017 million. This slightly trails the level at the end of the first quarter (NOK 1,025 million) as a result of the expiry of the guarantee agreement for Aker Brygge and slightly higher vacancy rates. The average CPI adjustment factor for the portfolio is 97.0 per cent. As of 1 July 2010 total vacancies in the portfolio amounted to 3.6 per cent, which represents an increase from 2.7 per cent in the previous quarter and is significantly lower than vacancies in the Oslo market. Norwegian Property has relatively few leases due for renewal in the next 15 months. The average residual lease term is 5.3 years. Valuations of the property portfolio assume an uplift potential of approximately 4.7 per cent if rents were adjusted to the average market level.

During the second quarter, 14 new leases with a total value of NOK 58.7 million were renegotiated, resulting in an overall rental increase for these leases of 10.7 per cent. The largest new leases were entered into with the Norwegian Labour and Welfare Organisation (NAV) in Ibsenkvartalet, and Netcom in Nydalen.

### THE HOTEL PORTFOLIO

Norgani's portfolio comprises 73 hotels and one conference centre with a total of 12,884 rooms. The total area of the hotel portfolio is 671,480 square metres.

The leases for all but one of Norgani's hotels are revenue-based, with rates differentiated for accommodation income and other

revenues. Most leases specify minimum rents, which are adjusted annually in line with the consumer price index, and to reflect any major property upgrades. Some of the hotels have vendor guarantees, under the terms of which the vendor has agreed to compensate Norgani for any shortfall between guaranteed and actual revenue-based rents. In total, vendor guarantees and minimum rents accounted for about 80 per cent of gross rents paid in 2009. The average residual term of the leases in the hotel portfolio is 9.3 years.

There were no material changes in the portfolio or in contractual conditions for the hotel portfolio during the period under review. The Omena chain opened a hotel in Copenhagen (previously Hotel Europa) in June in line with previous plans. In the case of hotel Korpilampi in Finland, whose former operator has filed for bankruptcy, work on establishing a new contract with a new operator is ongoing.

## SHAREHOLDER INFORMATION

At the end of the second quarter, the company had a total of 2,842 registered shareholders, which equates to a decrease of 269 shareholders compared with at the end of the previous quarter, and an increase of 389 shareholders compared with 12 months previously. Non-Norwegian shareholdings accounted for 53.3 per cent of the share capital at the end of the quarter, compared with 51.6 per cent at the end of the previous quarter. With around 2 million shares traded each day, compared with 2.6 million in the first quarter, liquidity was somewhat lower in the second quarter. As of 30 June 2010 the company's total share capital amounted to NOK 249,298,416 allocated to 498,596,832 shares with a par value per share of NOK 0.50.

The largest shareholders registered with the Norwegian Central Securities Depository (VPS) as of 3 August 2010 are presented below:

Navn	Andel (%)	Beholdning	Kontotype	Nasjonalitet
CANICA AS	5,59	27 895 467		NOR
AWILHELMSSEN CAPITAL OMLØP	4,66	23 254 334		NOR
FOLKETRYGDFONDET JP MORGAN CHASE BANK	3,98	19 824 000		NOR
BNP PARIBAS SECS SER S/A BP2S LUX/FIM/LUX	2,93	14 597 429	NOM	LUX
SKAGEN VEKST	2,82	14 061 000		NOR
STATE STREET BANK & A/C CLIENT FUND NUMB	2,74	13 654 446	NOM	USA
STATE STREET BANK AN A/C CLIENT OMNIBUS F	2,50	12 453 843	NOM	USA
BANK OF NEW YORK MEL S/A ING GLOBAL REAL	2,10	10 485 967		USA
BNP PARIBAS SEC SERV S/A BP2S SYDNEY/AUST	1,78	8 852 362	NOM	AUS
BANK OF NEW YORK MEL S/A BNYM AS EMEA ASI	1,74	8 676 480	NOM	USA
SKANDINAVISKA ENSKIL A/C CLIENTS ACCOUNT	1,70	8 486 614	NOM	SWE
BANK OF NEW YORK MEL S/A MELLON NOMINEE 1	1,67	8 307 758	NOM	USA
CITIBANK N.A. (LONDO A/C STICHTING PGGM D	1,56	7 759 000	NOM	NLD
AWILHELMSSEN CAPITAL	1,39	6 934 000		NOR
TRONDHEIM KOMMUNALE	1,28	6 363 700		NOR
FGCS NV RE TREATY 26 FORTIS GLOBAL CUSTOD	1,27	6 324 750	NOM	NLD
VITAL FORSIKRING ASA OMLØPSMIDLER	1,23	6 111 087		NOR
Reka AS	1,20	6 000 000		NOR
JPMORGAN CHASE BANK NORDEA TREATY ACCOUN	1,20	5 995 414	NOM	GBR
HOLBERG NORGE V/HOLBERG FONDSFORVA	1,16	5 801 000		NOR
<b>Sum 20 største aksjonærer</b>	<b>44,50</b>	<b>221 838 651</b>		
Øvrige aksjonærer	55,50	276 758 181		
<b>Totalt</b>	<b>100,00</b>	<b>498 596 832</b>		



## ORGANISATION

At the annual general meeting held on 4 May 2010, Arvid Grundekjøn was elected as the new board chair and Jon Erik Brøndmo was elected as an ordinary board member. Tormod Hermansen and Harald Grimsrud stepped down from the board from the same date.

Norwegian Property aims to be a fully integrated property company characterised by professionalism along the entire length of the value chain; leasing, management, transactions and development. As part of this process, Norwegian Property insources property management for the office properties, and will assume operational responsibility from NEAS from 1 May 2011. In April Bjørge Aarvold was employed as Director of Commercial Management, Operations and Maintenance, where he is primarily responsible for establishing the new internal operational and management organisation. High prioritisation is being accorded to the recruitment of further key resources and the establishment of management systems. During the transitional period a team consisting of three NEAS staff will relocate to Norwegian Property's premises. This will secure the transfer of expertise and sound service deliveries to the tenants.

In a parallel development, Norwegian Property is working to establish an in-house development expertise body, including by collaborating with expert external players. Master plans for long-term development and value growth are being established for several of the Group's commercial properties, such as Aker Brygge, Middelthunsgate and Skøyen. The aim is to ensure that the values of these properties are maintained and enhanced.

## RISK AND UNCERTAINTY FACTORS

General economic developments will impact supply and demand for office premises and hotel rooms. Norwegian Property monitors all relevant markets and actively endeavours to reduce the portfolio's exposure to fluctuations in framework conditions, including through close client follow up and portfolio management. On the office side, the Group has therefore entered into long-term agreements with inflation-adjusted rents. The hotel properties are primarily leased in line with revenue-based leases, and significant changes in demand for hotel rooms will, adjusted for minimum prices and vendor guarantees, impact lease income.

Operating risk relates to the tenants' ability to fulfil their obligations, our ability to lease out premises that become vacant and external managers' ability to fulfil their obligations concerning the maintenance and operation of the properties. Norwegian Property's tenants are largely renowned companies and public institutions. Management and operation of the properties is performed by reputable players and closely followed up by Norwegian Property. In the last six months the Group has stepped up its direct client care initiatives and implemented closer follow up of operations in order to increase its knowledge of the tenants, ensure high levels of satisfaction and improve the opportunities to prolong lease terms through renegotiation.

Financial risk impacts the supply of capital and capital costs. Expected market developments, together with changes in financial parameters, affect earnings and value development for the property portfolio, and could, in the event that any downturn persists, contribute to a weakening of the Group's ability to meet its covenant obligations. The Group endeavours to control this through sound financial planning and management.

## RELATED PARTIES

There were no transactions with, or changes in transactions with, related parties as described in the last annual report during the first six months of the year which could be deemed to have a material impact on the business's financial position or performance.

## NEW STRATEGIC DIRECTION

### *Streamlining*

Work on the industrialisation of both of Norwegian Property's business areas is in full swing. Please refer to the section on organisation. A key condition for securing an adequate focus on the hotel and office business is the successful completion of the spin-off process.

In collaboration with its advisor ABG, the company is continuing to pursue a potential separate IPO for Norgani, at the same time as holding talks with potential purchasers of Norgani Hotels. No further updates will be given on these processes until they have been completed.

#### *Reduced financial risk*

In March Norwegian Property implemented a private placement generating net issue proceeds of NOK 526 million. The main aim of the placement was to strengthen the company's balance sheet and boost the flexibility of ongoing spin-off processes.

The Group's focus on developing into a fully integrated property company will mean that future investments in the property portfolio will be higher than in the past. These types of investments will safeguard balance sheet values whilst offering significant potential for value creation over and above the effects of market fluctuations.

The Group continues to have a high loan-to-value ratio, which it aims to reduce in the long term to between 60 and 65 per cent. As an integrated part of future strategy, the company will therefore increasingly consider the sale of individual properties with limited potential for value creation in excess of market fluctuations in order to improve its ability to implement other projects. However, such sales would have to reflect the potential values of the properties. The Norwegian transaction market was impacted by international financial unrest towards the end of the second quarter, which resulted in Aker Hus being withdrawn from the market.

## **OUTLOOK**

Most people now appear to be expecting a somewhat lengthy period of relatively low global economic growth, accompanied by continued higher-than-normal volatility. At the same time the Norwegian economy in particular is proving robust, and thus providing some grounds for optimism. In the office market, and in particular in the most attractive segments, rents are expected to rise in the coming years. With a portfolio of attractive properties, low portfolio vacancies and a large percentage of long-term leases, Norwegian Property is well positioned in the commercial property market. Only a moderate share of the company's lease portfolio expires in 2010, while an increasing number of rental agreements mature in 2011 and 2012. Several major contracts were renegotiated and prolonged during the second quarter. Renegotiating leases on improved terms continues to represent a highly prioritised area for the company. Offering future-oriented solutions for clients is one of Norwegian Property's important value drivers, as this will result in an improved performance and higher investment levels in the times ahead.

Following a lengthy period of weak performance from the hotel market, there are signs that the RevPAR is in the process of levelling out. Sweden reported positive RevPAR development in the first half year. Norwegian Property continues to expect the Nordic hotel market to start picking up at the end of the year. The disruptive effect of the Icelandic volcano eruption on air traffic and hence the hotel market is only expected to be temporary. Thanks to its revenue-based rental agreements, Norgani Hotels will also be well positioned when the hotel market starts to pick up again. Norgani Hotels has also significantly hedged its future revenues by entering into leases with minimum rents and with the largest hotel operators.

With market-leading portfolios of hotel and office properties, combined with a renewed focus on value drivers within the property market value chain, Norwegian Property's operations have a solid base from which to continue as a key player within both the hotel and office markets.

### **Norwegian Property ASA**

The Board of Directors, 17 August 2010

For further information on Norwegian Property, including presentation material relating to this quarterly report, and the company's financial calendar, please visit [www.npro.no](http://www.npro.no)

## DECLARATION FROM THE BOARD AND CEO

We confirm that the abridged interim financial statements for the period 1 January to 30 June 2010 have, to the best of our knowledge, been prepared in accordance with IAS 34, Interim Financial Reporting, and that the information contained in the six-monthly report provides a true and fair view of the company's and the Group's assets, liabilities, financial position and performance as a whole and provides a true and fair view of the disclosures named in § 5-6 fourth para of the Norwegian Securities Trading Act.

Oslo, 17 August 2010

Arvid Grundekjøn  
Board chair

Nils K. Selte  
Board vice chair

Gry Mølleskog  
Board member

Jon Erik Brøndmo  
Board member

Synne Syrrist  
Board member

Olav Line  
CEO

## FINANCIAL INFORMATION

## ACCOUNTING POLICIES AND SCOPE OF CONSOLIDATION

This quarterly report has been prepared in accordance with IAS 34 – Interim Financial Reporting. The results for the period have been prepared in line with applicable IFRS standards and interpretations. The accounting policies applied in the preparation of these interim financial statements are the same as those applied in the preparation of the 2009 financial statements. Sold properties are derecognised in the financial statements only when the relevant transactions have been completed<sup>3</sup>. This report has not been audited.

## CONSOLIDATED INCOME STATEMENT

<i>Figures in NOK 1.000</i>	Quarterly results		Half year results		Last year
	2010	2009	2010	2009	01.01 - 31.12 2009
Rental income from properties	443,367	446,783	869,654	892,504	1,767,665
Other income	1	(0)	2,012	-	(0)
<b>Gross rental income</b>	<b>443,368</b>	<b>446,783</b>	<b>871,666</b>	<b>892,504</b>	<b>1,767,665</b>
Maintenance and property related costs	(47,952)	(35,552)	(89,434)	(70,907)	(181,370)
Other operating expenses	(34,076)	(38,690)	(61,118)	(72,137)	(131,562)
<b>Total operating cost</b>	<b>(82,028)</b>	<b>(74,242)</b>	<b>(150,552)</b>	<b>(143,044)</b>	<b>(312,932)</b>
<b>Operating profit before fair value adjustments and gains</b>	<b>361,340</b>	<b>372,541</b>	<b>721,114</b>	<b>749,460</b>	<b>1,454,733</b>
Gain from fair value adjustment of investment property	115,302	(557,645)	162,490	(1,204,924)	(1,517,369)
Gain from sales of investment property	(4,060)	-	11,770	9,954	(7,104)
Impairment of goodwill	(43,675)	(74,471)	(43,675)	(212,245)	(308,832)
<b>Operating profit</b>	<b>428,907</b>	<b>(259,575)</b>	<b>851,699</b>	<b>(657,755)</b>	<b>(378,572)</b>
Financial income	11,106	517	19,131	30,603	42,233
Financial costs	(230,482)	(260,432)	(471,509)	(537,199)	(1,098,198)
Change in market value of financial derivative instruments	(150,123)	80,024	(285,504)	(208,987)	35,518
<b>Net financial items</b>	<b>(369,499)</b>	<b>(179,891)</b>	<b>(737,882)</b>	<b>(715,583)</b>	<b>(1,020,447)</b>
<b>Profit before income tax</b>	<b>59,408</b>	<b>(439,466)</b>	<b>113,817</b>	<b>(1,373,338)</b>	<b>(1,399,019)</b>
Income tax expense	1,090	45,441	(12,715)	179,841	230,076
<b>Profit after income tax</b>	<b>60,497</b>	<b>(394,025)</b>	<b>101,103</b>	<b>(1,193,497)</b>	<b>(1,168,942)</b>
<b>Comprehensive income</b>					
Financial derivatives	(23,982)	(9,847)	(4,926)	117,156	69,997
Tax expense related to comprehensive income	6,715	2,757	1,379	(32,804)	(19,599)
Currency translation differences	(38,718)	47,049	(41,029)	(244,850)	(433,824)
<b>Total comprehensive income</b>	<b>(55,985)</b>	<b>39,959</b>	<b>(44,576)</b>	<b>(160,498)</b>	<b>(383,426)</b>
<b>Total profit after tax</b>	<b>4,512</b>	<b>(354,066)</b>	<b>56,527</b>	<b>(1,353,995)</b>	<b>(1,552,369)</b>

<sup>3</sup>In February 2009 an agreement was entered into for the sale of Drammensveien 144, and the transaction was completed in March the same year. The purchase of the obligation to take over the Park Inn hotel on completion was implemented in February 2009. The property at Oksenøyveien 3 was sold with transaction completion in March 2010.

## FINANCIAL RESULTS BY BUSINESS SEGMENTS

<i>Figures in NOK 1.000</i>	Quarterly results		Annual results		Last year
	2010	2009	2010	2009	01.01 - 31.12 2009
Commercial properties	261,428	259,115	524,026	524,032	1,043,861
Hotel properties	181,940	187,668	347,640	368,472	723,804
<b>Gross rental income</b>	<b>443,368</b>	<b>446,783</b>	<b>871,666</b>	<b>892,504</b>	<b>1,767,665</b>
Commercial properties	(27,814)	(15,746)	(47,305)	(32,573)	(63,675)
Hotel properties	(20,138)	(19,807)	(42,129)	(38,334)	(81,664)
<b>Maintenance and property related costs</b>	<b>(47,952)</b>	<b>(35,553)</b>	<b>(89,434)</b>	<b>(70,907)</b>	<b>(145,339)</b>
Commercial properties	(18,674)	(19,516)	(32,625)	(37,028)	(102,611)
Hotel properties	(15,382)	(19,114)	(28,455)	(34,984)	(64,941)
Oslo Properties	(20)	(60)	(38)	(124)	(42)
<b>Other operating cost</b>	<b>(34,076)</b>	<b>(38,690)</b>	<b>(61,118)</b>	<b>(72,136)</b>	<b>(167,594)</b>
<b>Commercial properties</b>	<b>214,941</b>	<b>223,853</b>	<b>444,096</b>	<b>454,431</b>	<b>877,575</b>
<b>Hotel properties</b>	<b>146,420</b>	<b>148,747</b>	<b>277,056</b>	<b>295,154</b>	<b>577,199</b>
<b>Oslo Properties</b>	<b>(20)</b>	<b>(60)</b>	<b>(38)</b>	<b>(124)</b>	<b>(42)</b>
<b>Operating profit before fair value adjustments and gains</b>	<b>361,340</b>	<b>372,540</b>	<b>721,114</b>	<b>749,461</b>	<b>1,454,732</b>
Gain from fair value adjustment of commercial properties	152,515	(199,496)	178,036	(514,944)	(474,032)
Gain from fair value adjustment of hotel properties	(37,213)	(358,149)	(15,546)	(689,980)	(1,043,337)
Gain from sales of commercial properties	(4,060)	-	11,770	9,954	(7,104)
Gain from sales of hotel properties	-	-	-	-	-
Impairment of goodwill	(43,675)	(74,471)	(43,675)	(212,245)	(308,832)
<b>Commercial properties</b>	<b>363,395</b>	<b>24,357</b>	<b>633,902</b>	<b>(50,559)</b>	<b>396,440</b>
<b>Hotel properties</b>	<b>65,532</b>	<b>(283,873)</b>	<b>217,835</b>	<b>(607,071)</b>	<b>(774,969)</b>
<b>Oslo Properties</b>	<b>(20)</b>	<b>(60)</b>	<b>(38)</b>	<b>(124)</b>	<b>(42)</b>
<b>Operating profit after fair value adjustments and gains</b>	<b>428,907</b>	<b>(259,576)</b>	<b>851,699</b>	<b>(657,754)</b>	<b>(378,571)</b>
Net financial items for commercial properties	(138,119)	(153,701)	(289,426)	(287,781)	(633,063)
Net financial items for hotel properties	(68,505)	(83,867)	(141,527)	(170,967)	(338,169)
Net financial items for Oslo Properties/acquisition financing	(12,753)	(22,347)	(21,425)	(47,848)	(84,734)
Financial derivative instruments for commercial properties	(82,744)	59,213	(197,454)	(137,316)	68,329
Financial derivative instruments for hotel properties	(67,379)	20,812	(88,050)	(71,671)	(32,811)
<b>Net financial items</b>	<b>(369,499)</b>	<b>(179,890)</b>	<b>(737,882)</b>	<b>(715,583)</b>	<b>(1,020,448)</b>
<b>Commercial properties</b>	<b>142,533</b>	<b>(70,131)</b>	<b>147,022</b>	<b>(475,656)</b>	<b>(168,294)</b>
<b>Hotel properties</b>	<b>(70,352)</b>	<b>(346,928)</b>	<b>(11,742)</b>	<b>(849,709)</b>	<b>(1,145,949)</b>
<b>Oslo Properties/acquisition financing</b>	<b>(12,773)</b>	<b>(22,407)</b>	<b>(21,463)</b>	<b>(47,972)</b>	<b>(84,776)</b>
<b>Profit before income tax</b>	<b>59,408</b>	<b>(439,466)</b>	<b>113,817</b>	<b>(1,373,337)</b>	<b>(1,399,019)</b>
Income tax expense	1,090	45,441	(12,715)	179,841	230,076
<b>Profit after income tax</b>	<b>60,497</b>	<b>(394,025)</b>	<b>101,103</b>	<b>(1,193,496)</b>	<b>(1,168,943)</b>

## CONSOLIDATED BALANCE SHEET

<i>Figures in NOK 1.000</i>	<b>6/30/2010</b>	<b>6/30/2009</b>	<b>12/31/2009</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Financial derivative instruments	18,397	24,594	12,190
Goodwill	527,253	703,987	580,230
Investment property	23,730,395	24,442,558	23,732,704
Fixtures and equipment	6,519	8,641	6,997
Shares and interests	1,610	1,837	1,691
Receivables	8,995	10,201	8,883
<b>Total non-current assets</b>	<b>24,293,169</b>	<b>25,191,818</b>	<b>24,342,695</b>
<b>Current assets</b>			
Financial derivative instruments	25,437	60,835	24,273
Accounts receivable	91,985	178,216	93,037
Other receivables	191,809	83,531	4,825
Cash and cash equivalents	634,641	231,197	248,216
<b>Total current assets</b>	<b>943,872</b>	<b>553,779</b>	<b>370,351</b>
<b>Total assets</b>	<b>25,237,042</b>	<b>25,745,597</b>	<b>24,713,046</b>
<b>EQUITY</b>			
Paid in equity	9,732,592	7,737,153	9,206,357
Other reserves	(36,294)	231,210	8,282
Retained earnings	(4,195,540)	(4,321,198)	(4,296,643)
<b>Total equity</b>	<b>5,500,758</b>	<b>3,647,165</b>	<b>4,917,996</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred tax liability	381,623	413,422	365,497
Financial derivative instruments	-	18,532	-
Interest bearing liabilities	17,727,266	19,644,173	17,781,348
<b>Total non-current liabilities</b>	<b>18,108,889</b>	<b>20,076,127</b>	<b>18,146,845</b>
<b>Current liabilities</b>			
Financial derivative instruments	767,618	767,009	498,959
Interest bearing liabilities	233,904	647,631	597,492
Accounts payable	18,334	26,149	15,486
Other liabilities	607,540	581,516	536,268
<b>Total current liabilities</b>	<b>1,627,395</b>	<b>2,022,305</b>	<b>1,648,205</b>
<b>Total liabilities</b>	<b>19,736,285</b>	<b>22,098,432</b>	<b>19,795,050</b>
<b>Total equity and liabilities</b>	<b>25,237,042</b>	<b>25,745,597</b>	<b>24,713,046</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>Figures in NOK 1.000</i>	30.06.2010	31.12.2009
<b>Total equity including minority interests, beginning of year</b>	<b>4,917,996</b>	<b>5,001,160</b>
Total profit after tax according to the comprehensive income statement	56,527	(1,552,368)
Share issue, net of cost and after tax	526,235	1,469,204
Dividend payments	-	-
Changes of minority interests	-	-
<b>Total equity including minority interests, end of period</b>	<b>5,500,758</b>	<b>4,917,996</b>

<i>Figures in NOK 1.000</i>	Equity attributable to shareholders of the company					Minority interests	Total Equity
	Share capital	Share premium	Other paid in equity	Other reserves	Retained earnings		
<b>Total equity 31.12.2008</b>	<b>5,040,885</b>	<b>1,196,268</b>	<b>1,500,000</b>	<b>391,708</b>	<b>(3,127,701)</b>	-	<b>5,001,160</b>
Equity decrease	(4,940,068)	-	4,940,068	-	-	-	-
Equity increase	125,818	1,383,995	-	-	-	-	1,509,813
Total cost related to share issues, net of tax	-	(40,609)	-	-	-	-	(40,609)
Financial derivatives accounted to equity	-	-	-	50,398	-	-	50,398
Currency translation differences	-	-	-	(433,824)	-	-	(433,824)
Profit for the period	-	-	-	-	(1,168,942)	-	(1,168,942)
<b>Total equity 31.12.2009</b>	<b>226,635</b>	<b>2,539,654</b>	<b>6,440,068</b>	<b>8,282</b>	<b>(4,296,643)</b>	-	<b>4,917,996</b>
Equity increase	22,633	521,279	-	-	-	-	543,912
Total cost related to share issues, net of tax	-	(17,677)	-	-	-	-	(17,677)
Financial derivatives accounted to equity	-	-	-	(3,547)	-	-	(3,547)
Currency translation differences	-	-	-	(41,029)	-	-	(41,029)
Profit for the period	-	-	-	-	101,103	-	101,103
<b>Total equity 31.12.2010</b>	<b>249,268</b>	<b>3,043,256</b>	<b>6,440,068</b>	<b>(36,294)</b>	<b>(4,195,540)</b>	-	<b>5,500,758</b>

## CONSOLIDATED CASH FLOW STATEMENT

<i>Figures in NOK 1.000</i>	2nd Quarter 01.04 - 30.06		Year to date 01.01 - 30.06		Last year 01.01 - 31.12
	2010	2009	2010	2009	2009
Profit before income tax	59,408	(439,466)	113,817	(1,373,338)	(1,399,018)
- Paid taxes in the period	-	(177)	-	(359)	(24,862)
+ Depreciation of tangible assets	839	755	1,264	1,508	3,976
+/- Gain from sale of investment property	(6,144)	-	(11,770)	(9,954)	7,104
-/+ Gain from fair value adjustment of investment property	(115,301)	557,982	(162,490)	1,205,261	1,517,369
-/+ Gain from fair value adjustment of financial derivative instruments	150,122	(118,313)	285,504	170,698	(35,518)
+ Impairment of goodwill	43,675	74,471	43,675	212,245	308,832
+/- Net financial items ex. market value adj. of financial derivative instruments	179,877	259,915	412,878	506,595	1,055,965
+/- Change in short-term items	(93,104)	33,718	(179,051)	(36,392)	46,185
<b>= Net cash flow from operating activities</b>	<b>219,372</b>	<b>368,885</b>	<b>503,827</b>	<b>676,264</b>	<b>1,480,033</b>
+ Received cash from sale of tangible fixed assets and single purpose entities	-	-	169,274	1,052,387	1,052,387
- Payments for purchase of tangible fixed assets and single purpose entities	(7,168)	(21,923)	(17,678)	(55,269)	(77,439)
<b>= Net cash flow from investing activities</b>	<b>(7,168)</b>	<b>(21,923)</b>	<b>151,596</b>	<b>997,118</b>	<b>974,948</b>
+ Net change in interest bearing debt	(79,089)	(84,533)	(382,363)	(1,059,424)	(2,730,818)
- Net financial items ex. market value adj. and currency gain/loss	(154,348)	(257,736)	(412,878)	(529,532)	(1,055,965)
+ Capital increase	-	-	526,235	-	1,450,638
+/- Payments related to other financing activities	-	-	-	(20,000)	(35,109)
<b>= Net cash flow from financial activities</b>	<b>(233,437)</b>	<b>(342,269)</b>	<b>(269,006)</b>	<b>(1,608,956)</b>	<b>(2,371,254)</b>
<b>= Net change in cash and cash equivalents</b>	<b>(21,233)</b>	<b>4,693</b>	<b>386,417</b>	<b>64,427</b>	<b>83,727</b>
+ Cash and cash equivalents at the beginning of the period	655,874	230,735	248,216	174,220	174,220
+/- Exchange rates	-	(4,231)	8	(7,450)	(9,731)
<b>Cash and cash equivalents at the end of the period</b>	<b>634,641</b>	<b>231,198</b>	<b>634,641</b>	<b>231,197</b>	<b>248,216</b>

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