

2Q 2012

FINANCIAL REPORT FOR THE SECOND QUARTER
AND FIRST HALF OF 2012



IMPORTANT EVENTS IN THE SECOND QUARTER AND FIRST HALF OF 2012

CONVERSIONS TEMPORARILY AFFECT OPERATIONS, LETTING MARKET POSITIVE

Stable operations, temporarily affected by conversions

Norwegian Property achieved stable operations for the group's on-going business in the second quarter. At the same time, conversion projects initiated in the portfolio led to a temporary increase in vacant space and a transient decline in rental income for certain large properties. Rental income accordingly totalled NOK 228.5 million, yielding a profit before fair-value adjustments and gain/loss of NOK 185.3 million. Norwegian Property thereby achieved a profit before fair-value adjustments and one-off costs of NOK 70.6 million and a pre-tax loss of NOK 48.8 million.

Vacancy forecast down for Oslo office market

Statistics Norway recently upgraded its forecast for Norwegian jobs growth in 2012 from 1.1 to 2.1 per cent. Higher employment means an increase in space requirements and, although substantial additional capacity is being completed this year, contributes to a reduction in forecast vacancy from the previous quarter. These expectations assume that the pace of new-build activity will slow somewhat after 2012, combined with a growing trend for office premises to be converted to housing. Vacancy in Oslo is accordingly predicted to remain stable at seven per cent over the next three years. By comparison, vacancy for 2013-15 was expected to be around eight per cent at 31 March. (Source: Akershus Eiendom, June 2012.)

Positive trend for leasing

Work on awarding new leases has a high priority, and a number of new and renegotiated contracts were entered into during the second quarter in Stavanger, at Lysaker, Skøyen and Nydalen, and in downtown Oslo. A total of 14 new or renegotiated leases were awarded during the second quarter, with a combined value of about NOK 45.9 million and a positive change of 7.0 per cent in comparative annual rent. Market demand is directed particularly at centrally located office properties of a good standard which are close to public transport. The new leases were entered into on good terms and represent in a number of cases a solid increase in annual rent for the individual properties. Work on awarding new leases which highlight the value potential of the portfolio will remain a high priority in the time to come.

Quality enhancement at Aker Brygge

Norwegian Property is undertaking a substantial modernisation and quality enhancement at Aker Brygge over the next three years. The first stage embraces Stranden 3 (Workshops) and Bryggegata 7-9 (Administration Building and Carpentry Shop), which are part of Oslo's industrial history. The Bryggegata 7-9 premises are being unified with a modern and elegant glass entrance section. The facades at Stranden 3 are being restored to their original appearance and will regain much of their historical character. Internally, this building will provide well-lit and modern office premises with clearly defined entrance areas from their own streets. That will strengthen the identity of the individual buildings as well as Aker Brygge's position as Oslo's most attractive office district – which has been confirmed by several new leases awarded in the first half of 2012.

KEY FIGURES

Profit and loss for continued operations		2Q 2012	2Q 2011	1H 2012	1H 2011	2011
Gross income	NOK million	228.5	252.5	475.6	506.2	1 020.7
Operating profit before adm. expenses	NOK million	200.4	227.5	420.1	458.7	921.7
Profit before value adj. and loss/gain	NOK million	185.3	210.6	387.6	425.0	854.3
Profit before income tax and value adjustments	NOK million	43.8	76.5	101.1	166.7	336.8
Profit before income tax	NOK million	-48.8	119.0	57.5	678.1	283.6
Profit after income tax	NOK million	-35.0	126.7	42.3	620.9	223.8

Balance sheet		2Q 2012	2Q 2011	1H 2012	1H 2011	2011
Market value of investment portfolio	NOK million	14 621.8	15 634.4	14 621.8	15 634.4	15 654.9
Equity	NOK million	5 105.5	5 556.0	5 105.5	5 556.0	5 164.1
Interest bearing debt	NOK million	9 860.4	10 240.9	9 860.4	10 240.9	10 164.8
Equity ratio	Per cent	32.2	34.2	32.2	34.2	31.8
Pre-tax return on equity (annualized)	Per cent	-3.8	8.6	2.2	25.7	5.6

Cash flow		2Q 2012	2Q 2011	1H 2012	1H 2011	2011
Cash flow from operating activities	NOK million	-38.7	-98.9	45.2	18.2	245.4
Cash position	NOK million	681.8	88.6	681.8	88.6	15.6

Key numbers, shares		2Q 2012	2Q 2011	1H 2012	1H 2011	2011
No. of shares issued	Number	498 575 596	498 596 832	498 575 596	498 575 596	498 596 832
Average number of shares in period	Number	498 563 413	498 596 832	498 580 123	498 596 832	498 596 832
Pre-tax profit per share for continued operations ¹	NOK	-0.10	0.24	0.12	1.36	0.57
Basic earnings per share for continued operations (EPS) ¹	NOK	-0.07	0.25	0.08	1.25	0.45
Basic earnings per share for total operations (EPS) ¹	NOK	-0.07	0.25	0.08	1.25	0.46
Operating cash flow per share	NOK	-0.08	-0.20	0.09	0.04	0.49
Interest bearing debt per share	NOK	19.78	20.54	19.78	20.54	20.39
Book value per share	NOK	10.24	11.14	10.24	11.14	10.36
Deferred property tax per share	NOK	0.36	0.39	0.36	0.39	0.39
Financial derivative instr. per share	NOK	1.00	0.39	1.00	0.39	0.93
Net asset value per share (EPRA)²	NOK	11.61	11.92	11.61	11.92	11.67

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 includes both ordinary deferred tax relating to properties and tax compensation at purchase (accounted for as a reduction of investment properties). Financial derivative instruments 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 PERFORMANCE

RESULTS FOR THE SECOND QUARTER 2012

Rental income for Norwegian Property totalled NOK 228.5 million for the second quarter of 2012. That compares with the NOK 252.5 million received in the same period of 2011. Adjusted for the acquisition and sale of properties during the period, this represents a decline of NOK 4.4 million in rental income for the second quarter.

Maintenance and other operating costs totalled NOK 14.7 million (NOK 16.7 million³) for the quarter. Other property-related expenses came to NOK 13.4 million (NOK 8.3 million) and include costs related to estate agency services, which were somewhat higher than normal because of a high level of letting activity during the quarter. Administrative expenses came to NOK 15 million (NOK 16.9 million). Operating profit before fair-value adjustments and gain/loss thereby amounted to NOK 185.3 million (NOK 210.6 million).

Fair-value adjustments to the property portfolio yielded an unrealised gain of NOK 0.7 million (NOK 146.3 million). Net realised financial expenses came to NOK 141.5 million (NOK 134.1 million), including a one-off expense of NOK 26.8 million owing to the termination of an interest swap contract during the period. Otherwise, net financial expenses were influenced by the fact that the group received cash settlements in the first quarter for the sale of properties which were deposited in frozen bank accounts at the same time as established credit facilities were maintained during the second quarter.

The income element related to financial derivatives decreased in value by NOK 93.4 million (increase of NOK 104.8 million).

The pre-tax loss for the second quarter came to NOK 48.8 million (profit of NOK 119 million). Estimated non-payable tax income for the quarter was NOK 13.9 million (NOK 7.6 million). The net loss was NOK 35 million (profit of NOK 126.7 million).

RESULTS FOR THE FIRST HALF OF 2012

Rental income for Norwegian Property totalled NOK 475.6 million for the first half of 2012. That compares with the NOK 506.2 million received in the same period of 2011. Adjusted for the acquisition and sale of properties during the period, this represents a decline of NOK 5.8 million in rental income for the first half.

Maintenance and other operating costs totalled NOK 28.8 million (NOK 31.2 million) for the quarter. Other property-related expenses came to NOK 26.7 million (NOK 16.3 million), while administrative expenses came to NOK 32.5 million (NOK 33.7 million). Operating profit before fair-value adjustments and gain/loss for the first half thereby amounted to NOK 387.6 million (NOK 425 million).

Fair-value adjustments to the property portfolio resulted in an unrealised gain of NOK 0.9 million (NOK 474 million). The net gain from the sale of investment properties was NOK 2.4 million (NOK 1 million). Net realised financial expenses came to NOK 286.5 million (NOK 258.3 million), including one-off expenses of NOK 45 million owing to the termination of interest swap contracts during the period.

The income element related to financial derivatives decreased in value by NOK 46.8 million in the first half (increase of NOK 36.4 million).

Pre-tax profit for the first half came to NOK 57.5 million (NOK 678.1 million). Estimated non-payable tax for the period was NOK 15.2 million (NOK 57.1 million). Net profit was NOK 42.3 million (NOK 620.9 million).

³ Figures in brackets refer to the corresponding periods of the year before.

VALUATION OF PROPERTIES

Two independent external valuers have valued all the properties in the group's portfolio of offices based on the same methods and principles applied in previous periods.

At 30 June 2012, the group's portfolio of commercial properties was valued at NOK 14 621.8 million (NOK 15 634.4 million) before adjustments for deferred tax. Properties used by the owner are included under other tangible assets in the amount of NOK 28.2 million at 30 June and recognised at fair value.

A reduction in the remaining term of certain properties on long leases and a marginally negative market trend for yield expansion on less attractive properties drew down the valuations somewhat. At the same time, new leases made a positive contribution – including agreements for the properties at Maskinveien 32 in Stavanger, Stortingsgaten 6 in Oslo and Drammensveien 134 (building 5) at Skøyen. The overall result of this was a positive fair-value adjustment for the office portfolio of NOK 0.7 million (NOK 146.3 million) in the second quarter and NOK 0.9 million in the first half.

CASH FLOW

Net cash flow from operating activities before financial items for the second quarter was negative at NOK 38.7 million (NOK 98.9 million).

Investment in non-current assets in the second quarter totalled NOK 102.6 million (NOK 67.7 million), and embraced investments in the property portfolio related to the conversion of certain large properties. Net negative cash flow from investing activities thereby amounted to NOK 102.6 million (NOK 66.7 million).

Net cash flow from financing activities was negative at NOK 111.3 million (positive at NOK 12.3 million) as a result of payment of dividend and redemption of debt during the quarter.

The net decrease in cash and cash equivalents in the second quarter was NOK 252.6 million (NOK 153.3 million).

Net cash flow from operating activities before financial items in the first half was NOK 45.2 million (NOK 18.2 million). Net cash flow from investing activities amounted to NOK 1 029.9 million (negative at NOK 104.3 million), and embraced the acquisition of a site at Drammensveien 149, the sale of Middelthuns gate 17 and a property swap whereby Norwegian Property acquired Bryggetorget 1 at Aker Brygge in exchange for C J Hambros plass 2 and a cash settlement. These transactions all took place in the first quarter. Net cash flow from financing activities for the first half was negative at NOK 408.9 million (NOK 73.7 million).

BALANCE SHEET

The company held NOK 681.8 million (NOK 88.6 million) in cash and cash equivalents at 30 June. In addition, it had NOK 1 216 million (NOK 1 066 million) in unutilised credit facilities. Equity totalled NOK 5 105.5 million (NOK 5 556 million), corresponding to an equity ratio of 32.2 per cent (34.2 per cent). Carried equity per share was NOK 10.24 (NOK 11.14). Equity per share based on the Epra standard was NOK 11.61 (NOK 11.92). Outstanding shares at 30 June totalled 498 575 596 (498 596 832).

FINANCING

The table below presents interest-bearing debt and hedges at 30 June 2012.

Interest bearing debt and hedging as of 30 June 2012		
		30 June 2012
Interest bearing debt	NOK million	9 860.4
Vendor financing	NOK million	600.0
Cash and cash equivalents	NOK million	681.8
Interest hedging ratio, including vendor financing (%)	Per cent	74.0
Unused credit facilities	NOK million	1 216.0
Average time to maturity, hedging	Year	5.82
Average interest rate (incl. margin)	Per cent	5.02
Average margin	Per cent	1.22
Average residual term, borrowing	Year	4.31
Property value	NOK million	14 621.8
Interest bearing debt / value (LTV)	Per cent	67.4
Net interest bearing debt / value (net LTV)	Per cent	62.8
Net interest bearing debt deducting vendor financing / value (net LTV)	Per cent	58.7

INTEREST HEDGES

Maturity profile interest hedges		< 1 year	1 > 2 years	2 > 3 years	3 > 4 years	4 > 5 years	> 5 years
Amount	NOK million	1 471.8	405.0	957.8	955.0	1 353.8	4 717.3
Average interest rate	Per cent	1.8	3.8	3.3	4.4	4.2	4.5
Share of total liabilities	Per cent	14.9	4.1	9.7	9.7	13.7	47.9

Norwegian Property has historically had a very high interest hedge ratio, and the effective hedge ratio was 74 per cent at 30 June. The company is currently working to tailor its interest hedging to a lower level of interest rates, and accordingly replaced an interest swap contract with a total cost of NOK 26.3 million during the quarter.

INTEREST-BEARING LIABILITIES

Interest-bearing liabilities after capitalised costs totalled NOK 9 860.4 million (NOK 10 240.9 million) at 30 June. Apart from scheduled repayments of interest-bearing liabilities, none of Norwegian Property's borrowing facilities mature in 2012.

OPERATIONS

COMMERCIAL PROPERTY MARKET

Rental developments for office properties in Oslo over the past six months show that centrally located premises with a good standard in the city centre and at Skøyen experienced growth, while older buildings and secondary locations made weak or negative progress. This confirms that the gap between more and less attractive properties is widening, and that modern, environment-friendly and space-efficient offices located close to public transport are in increasing demand. A large supply of vacated buildings combined with macro-economic uncertainty indicates that 2012 could produce somewhat weaker growth. (Source: Akershus Eiendom, June 2012.)

Vacancy in Oslo's office market was just under seven per cent at 30 June, down from eight per cent a year earlier. Vacant premises over 5 000 square metres have marginally declined in recent quarters, and lie primarily in less attractive geographical office locations. (Source: Akershus Eiendom, June 2012.)

Statistics Norway recently upgraded its forecast for Norwegian jobs growth in 2012 from 1.1 to 2.1 per cent. Higher employment means an increase in space requirements and, although substantial additional capacity is being completed this year, contributes to a reduction in forecast vacancy from the previous quarter. These expectations assume that the pace of new-build activity will slow somewhat after 2012, combined with a growing trend for office premises to be converted to housing. Vacancy in Oslo is accordingly predicted to remain stable at seven per cent over the next three years. By comparison, vacancy for 2013-15 was expected to be around eight per cent at 31 March.

Demand in Stavanger is largely driven by activities in the oil and gas sector. Finding vacant premises larger than 2 000 square metres in the city centre is difficult. As a result, large tenants often opt for the Forus business park, where the availability of big premises is better. Office vacancy is higher at Forus than in the city centre, but lies overall at around three per cent for the area.

The transaction market had a strong start in 2012, with several major commercial property deals. Activity was somewhat lower in the second quarter, and the volume of transactions in the first half totalled NOK 18 billion compared with NOK 37 billion for 2011 as a whole.

THE PROPERTY PORTFOLIO

Norwegian Property owned a total of 42 office and commercial properties at 30 June. These are located in central areas of Oslo and Bærum (80.6 per cent of gross rental income), at Gardermoen (2.8 per cent of gross rental income) and in Stavanger (16.5 per cent of gross rental income). The group's properties primarily embrace offices with associated warehousing and parking, and commercial and restaurant space.

Total contractual rental income from the portfolio was NOK 923.5 million at 30 June, a decline of NOK 2.8 million from 31 March. Vacancy in the property portfolio totalled 8.9 per cent of total space at 30 June, up from 8.4 per cent at 31 March. This increase reflects strategic vacancy as a result of conversion projects at Aker Brygge and Skøyen in Oslo. The buildings being converted in these two locations had a vacancy of 45.4 per cent at 30 June, compared with 36.5 per cent at the end of the first quarter. Vacancy for available space was 4.7 per cent at the end of the second quarter, unchanged from 31 March 2012.

A total of 14 new or renegotiated leases were awarded during the second quarter, with a combined value of about NOK 45.9 million and a positive change of 7.0 per cent in comparative annual rent. The most significant of these include the lease awarded to Aon Norway AS and the Storting (parliament) administration for office premises at Stortingsgaten 6 in Oslo. Collectively, these leases mean that all the office space in this building is fully leased when the present tenant, Fokus Bank, moves to Aker Brygge in 2014.

At Lysaker, a lease was awarded to L'Oréal Norge AS for just over 2 000 square metres at Lysaker torg 35. The present tenant, If Skadeforsikring AS, is due to move out in the spring of 2013, and L'Oréal Norge is the first new tenant to be secured for this building. The final portion of the office space due to fall vacant in Drammensveien 134 (building 5) at Skøyen when Atea's lease expires in the second half of 2012 has been filled. Just over 1 400 square metres in Maridalsveien 323 at Nydalen was leased to Boots Norge AS. Due for occupation in the fourth quarter, this amounts to about one third of the vacant space in the building.

In Stavanger, a five-year lease was awarded to Songa Offshore for the whole Maskinveien 32 property at Forus.

Other leases awarded in the portfolio to new tenants include ones for Sandakerveien 138, Gullhaugveien 9-13 and Gjerdrums vei 16 in Nydalen. Leases were also renegotiated at Aker Brygge.

Norwegian Property has relatively few leases which expire in the remainder of 2012, and the average remaining term of its leases is 5.1 years. In the valuation of the property portfolio, today's market rate for rents is estimated to be about 7.9 per cent higher than the average contractual rent. The average rent adjustment factor for the CPI is 98.2 per cent of the total portfolio.

RISK AND UNCERTAINTY FACTORS

Norwegian Property is exposed through its business operations to market risk related to demand for commercial premises, the availability of new buildings on the market and the impact of this on rent levels, and vacancy in the portfolio. The group's rental income is also affected by the general level of inflation, since annual rents are adjusted once a year in line with the increase in the consumer price index. Beyond the minimum amount payable, rental income from leases where part of the rent is turnover-based will vary with the level of tenant performance.

As a result of planned and initiated development projects, vacancy in the portfolio increased somewhat during the first half and means a temporary loss of rental income. In addition to periodically locking up space, the development projects present risks in the form of cost overruns, delays, deficient deliveries and negative market trends. The group has established a competent department over the past year to handle planned and current development projects, and has developed tools for good project management and execution. In addition, the organisation will benefit from external project expertise which complements its internal resources.

The company's financial risk relates primarily to changes in equity caused by changes to the fair value of the property portfolio, the profit and liquidity effect of interest rate variations, liquidity, and the profit effects of refinancing its debt. Efforts are made to reduce the profit and liquidity effect of interest rate variations through hedging. An increase in current and non-current market interest rates would accordingly have a limited effect on the company's interest costs. Norwegian Property seeks to maintain an on-going liquidity reserve which is tailored to the redemption profile of its debt and to short-term fluctuations in the need for working capital.

Norwegian Property's portfolio of office properties is characterised by high quality, with a solid and diversified set of tenants. The latter normally pay rent on a quarterly basis in advance. In addition, security for rent payments is provided for most of the leases in the form of deposit accounts or bank guarantees. The risk of direct loss from bankruptcy or payment problems accordingly appears to be limited, and relates primarily to the re-letting of premises.

In connection with the sale of Norgani Hotels, Norwegian Property provided a NOK 600 million seller credit to the buyer. The loan is secured by a first-priority mortgage on the shares of Norgani Hotel AS and by guarantees from the buyer, with NOK 200 million due to be repaid in November 2012 and NOK 400 million in November 2015.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

In line with its strategy for environmental and social responsibility, Norwegian Property built up an infrastructure during 2011 for reporting key figures based on Epra's recommendations. The infrastructure for measurement and follow-up of the portfolio had been completed at 30 June, and the first measurements were made for such factors as energy and water consumption, waste and carbon footprint. These data will be used in the first instance for quality assurance of the established systems, and will function as a comparative basis for later measurements. Properties being completely refurbished will have the measurement infrastructure installed during the refurbishment process.

SHAREHOLDER INFORMATION

The company had 1 911 registered shareholders at 30 June, a reduction of 50 from 31 March and 373 from 30 June last year. Non-Norwegian shareholders held 55.4 per cent of the share capital at 30 June, compared with 56.5 per cent at 31 March. The number of shares traded during the second quarter averaged 0.7 million per day, on a par with the January-March average. The company's share capital totalled NOK 249 298 416 at 30 June, divided between 498 596 832 shares with a par value of NOK 0.50 per share. Of these, Norwegian Property held 21 236 as treasury shares at 30 June. The largest shareholders registered with the Norwegian Central Securities Depository (VPS) at 30 June 2012 are presented below.

#	Name	Share (%)	No. of shares	Account type	Nationality
1	FOLKETRYGDFONDET	9.09	45 339 197	ORD	NOR
2	CANICA AS	5.59	27 895 467	ORD	NOR
3	STATE STREET BANK AN A/C CLIENT OMNIBUS F	4.87	24 302 676	NOM	USA
4	BNYM AS EMEA ASIA 25 BANK OF NEW YORK MEL	4.71	23 469 897	NOM	USA
5	AWILHELMSSEN CAPITAL OMLØP	4.66	23 254 334	ORD	NOR
6	BANK OF NEW YORK MEL S/A MELLON NOMINEE 1	3.51	17 516 391	NOM	USA
7	SKANDINAVISKA ENSKIL A/C CLIENTS ACCOUNT	3.48	17 357 324	NOM	SWE
8	Citibank NA London B S/A STICHTING PGGM D	3.12	15 572 315	NOM	NLD
9	FONDSFINANS SPAR	2.44	12 150 000	ORD	NOR
10	BNP PARIBAS SECS SER S/A BP2S LUX/FIM/LUX	2.32	11 579 671	NOM	LUX
11	STATE STREET BANK & A/C CLIENT FUND NUMB	2.26	11 267 037	NOM	USA
12	JPMORGAN CHASE BANK NORDEA RE:NON-TREATY	1.62	8 097 390	NOM	GBR
13	EUROCLEAR BANK S.A./ 25% CLIENTS	1.48	7 370 766	NOM	BEL
14	JPMORGAN CHASE BANK NORDEA TREATY ACCOUN	1.27	6 322 621	NOM	GBR
15	STATE STREET BANK AN A/C CLIENT OMNIBUS D	1.25	6 233 917	NOM	USA
16	DNB LIVSFORSIKRING A	1.23	6 108 018	ORD	NOR
17	FRAM HOLDING AS	1.20	6 000 000	ORD	NOR
18	AWECO INVEST AS	1.10	5 486 765	ORD	NOR
19	VERDIPAPIRFONDET DNB	1.09	5 417 287	ORD	NOR
20	FRAM REALINVEST AS	1.05	5 250 000	ORD	NOR
Total 20 largest shareholders		57.34	285 991 073		9/20 NOR

CLOSE ASSOCIATES

Norwegian Property ASA acquired 150 000 shares in Norwegian Property ASA (NPRO) in the market on 1 June 2012 at an average price of NOK 7.94 per share. The purpose was to use the shares in the company's share purchase scheme for employees.

Primary insiders in Norwegian Property have purchased a total of 51 320 shares as part of the share purchase programme for employees. Other employees purchased a total of 77 444 shares. Allocations were made from the treasure shares held by Norwegian Property ASA. Following these allocations, Norwegian Property ASA owned 21 236 of its own shares at 30 June.

OUTLOOK

Rental developments for office properties in Oslo over the past six months show that centrally located premises with a good standard in the city centre and at Skøyen experienced growth, while older buildings and secondary locations made weak or negative progress. This confirms that the gap between more and less attractive properties is widening, and that modern, environment-friendly and space-efficient offices located close to public transport are in increasing demand. A large supply of vacated buildings combined with macro-economic uncertainty indicates that 2012 as a whole could produce somewhat weaker growth.

Vacancy in Oslo's office market was just under seven per cent at 30 June, down from eight per cent a year earlier. Higher employment means an increase in space requirements and, although substantial additional capacity is being completed this year, contributes to a reduction in forecast vacancy from the previous quarter. These expectations assume that the pace of new-build activity will slow somewhat after 2012, combined with a growing trend for office premises to be converted to housing. Vacancy in Oslo is accordingly predicted to remain stable at seven per cent over the next three years. By comparison, vacancy for 2013-15 was expected to be around eight per cent at 31 March.

Norwegian Property has succeeded in awarding a number of new leases on favourable terms, both in downtown Oslo and at Skøyen. This confirms that market demand is good for centrally located office properties with a good standard. A particularly gratifying development was a more positive trend at Nydalen, where the market has been demanding at times.

Work on awarding new leases which highlight the value potential of the portfolio will remain a high priority in the time to come.

DECLARATION BY THE DIRECTORS AND CHIEF EXECUTIVE

The board of directors and the chief executive have today reviewed and approved the directors' report for the half-year and the summary consolidated half-yearly financial statements for Norwegian Property ASA at 30 June 2012. The half-yearly financial statements have been prepared in accordance with IAS 34 – Interim financial reporting as approved by the European Union as well as additional Norwegian disclosure requirements in the Norwegian Securities Trading Act.

To the best of the directors' and chief executive's knowledge, the half-yearly financial statements for the first half of 2012 have been prepared in accordance with applicable accounting standards, and the information in the financial statements gives a true and fair view of the group's overall assets, liabilities, financial position and profit or loss at 30 June 2012.

To the best of the directors' and chief executive's knowledge, the directors' report for the half-year provides a true and fair review of important events in the accounting period and their influence on the half-yearly financial statements. To the best of the directors' and chief executive's knowledge, the description of the principal risks and uncertainty factors facing the group in the next accounting period and the description of significant transactions by close associates also provide a true and fair picture.

Oslo, 13 July 2012

Nils K. Selte
Chair

Gry Mølleskog
Director

Gunnar Bøyum
Director

Synne Syrrist
Deputy chair

Jon Erik Brøndmo
Director

Olav Line
President and CEO

FINANCIAL INFORMATION (UNAUDITED)

ACCOUNTING POLICIES AND CONSOLIDATED ENTITIES

This interim report has been prepared in accordance with IAS 34 – Interim financial reporting. Financial statements for the period have been prepared in accordance with applicable IFRS standards and interpretations. The accounting policies applied in the preparation of the interim financial statements are consistent with the principles applied in the annual financial statements for 2011. Properties sold are recognised in the financial statements until the relevant transactions have been completed. This report has not been audited.

CONSOLIDATED INCOME STATEMENT

The specification of results from discontinued operations is presented separately in note 2.

Amounts in NOK million	Note	2Q 2012	2Q 2011	1H 2012	1H 2011	2011
Gross income		228.5	252.5	475.6	506.2	1 020.7
Maintenance and other operating expenses		-14.7	-16.7	-28.8	-31.2	-65.1
Other property-related expenses		-13.4	-8.3	-26.7	-16.3	-33.9
Property-related expenses		-28.1	-25.0	-55.5	-47.5	-99.0
Administrative expenses		-15.0	-16.9	-32.5	-33.7	-67.4
Total operating expenses		-43.2	-41.9	-87.9	-81.2	-166.4
Operating profit before value adj. and loss/gain		185.3	210.6	387.6	425.0	854.3
Change in market value of investment property		0.7	146.3	0.9	474.0	281.9
Gain/(loss) related to property sales		-	1.0	2.4	1.0	1.0
Operating profit		186.0	357.9	390.9	900.0	1 137.1
Financial income	1	11.9	8.7	21.6	19.3	37.0
Financial cost	1	-153.4	-142.8	-308.1	-277.6	-554.4
Realized net financial items		-141.5	-134.1	-286.5	-258.3	-517.5
Change in market value of financial derivative instruments	1	-93.4	-104.8	-46.8	36.4	-336.1
Net financial items		-234.9	-238.9	-333.3	-221.9	-853.6
Profit before income tax for continued operations		-48.8	119.0	57.5	678.1	283.6
Deferred income tax for continued operations		13.9	7.6	-15.2	-57.1	-59.7
Profit for continued operations		-35.0	126.7	42.3	620.9	223.8
Profit for discontinued operations	2	-	-	-	-	4.8
Profit for the period		-35.0	126.7	42.3	620.9	228.6
Profit attributable to non-controlling interests		-	-	-	-	-
Profit attributable to owners of the Company		-35.0	126.7	42.3	620.9	228.6
Other comprehensive income						
Gain/loss on financial derivative instruments		-1.7	-2.2	-1.7	-5.0	-8.4
Income tax related to comprehensive income		0.5	0.6	0.5	1.4	2.4
Value adjustment of owner-occupied property	3	0.2	-	0.3	-	2.7
Total other comprehensive income		-1.1	-1.6	-1.0	-3.6	-3.3
Total comprehensive income		-36.0	125.1	41.4	617.3	225.3
Total comprehensive income attributable to owners of the Company		-36.0	125.1	41.4	617.3	225.3
Total comprehensive income attributable to non-controlling interests		-	-	-	-	-

CONSOLIDATED BALANCE SHEET

Amounts in NOK million	Note	30.06.2012	30.06.2011	31.12.2011
ASSETS				
Financial derivative instruments		0.8	4.8	5.0
Deferred tax asset		-	14.6	12.8
Investment property ⁴	3	14 412.6	15 414.9	13 561.3
Property, plant and equipment	3	44.2	33.2	40.1
Receivables		400.0	600.0	400.0
Total non-current assets		14 857.6	16 067.4	14 019.2
Financial derivative instruments		0.2	5.1	2.3
Accounts receivable		57.2	37.3	69.9
Other receivables		279.2	48.2	235.3
Cash and cash equivalents		681.8	88.6	15.6
Assets held for sale	3	-	-	1 873.4
Total current assets		1 018.2	179.2	2 196.5
Total assets		15 875.9	16 246.6	16 215.7
EQUITY AND LIABILITIES				
Paid in equity		9 737.5	9 737.5	9 737.5
Other reserves		-	3.7	1.2
Retained earnings		-4 632.0	-4 185.2	-4 574.7
Total equity		5 105.5	5 556.0	5 164.1
Deferred tax		2.7	-	-
Financial derivative instruments		690.3	279.1	628.8
Interest bearing liabilities		9 815.5	8 844.2	8 798.6
Total non-current liabilities		10 508.6	9 123.3	9 427.3
Financial derivative instruments		4.2	0.1	23.7
Interest bearing liabilities		44.9	1 396.7	1 366.2
Trade payables		22.3	22.4	14.3
Other liabilities		190.3	148.1	220.0
Total current liabilities		261.8	1 567.3	1 624.3
Total liabilities		10 770.3	10 690.6	11 051.6
Total equity and liabilities		15 875.9	16 246.6	16 215.7

⁴ After deduction of deferred taxes at time of acquisition of NOK 181.1 million as of 30 June 2012, NOK 193.8 million per 30 June 2011 and NOK 192.1 million as of 31 December 2011.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in NOK million	2Q 2012	2011
Total equity including minority interests, beginning of the period	5 164.1	4 988.6
Total comprehensive income	41.4	225.3
Paid dividends	-99.7	-49.9
Total equity including minority interests, end of period	-0.3	-

Amounts in NOK million	Share capital	Share premium	Other paid in equity	Other reserves	Retained earnings	Total equity
Total equity 31.12.2010	249.3	3 048.2	6 440.1	7.2	-4 756.2	4 988.6
Financial derivatives accounted to equity, net of tax (28%)	-	-	-	-6.0	-	-6.0
Paid dividends	-	-	-	-	-49.9	-49.9
Profit for the period	-	-	-	-	228.7	228.7
Value adjustment of owner-occupied property	-	-	-	-	2.7	2.7
Total equity 31.12.2011	249.3	3 048.2	6 440.1	1.2	-4 574.7	5 164.1
Financial derivatives accounted to equity, net of tax (28%)	-	-	-	-1.2	-	-1.2
Paid dividends	-	-	-	-	-99.7	-99.7
Profit for the period	-	-	-	-	42.3	42.3
Treasury shares	-	-	-	-	-0.3	-0.3
Value adjustment of owner-occupied property	-	-	-	-	0.3	0.3
Total equity 30.06.2012	249.3	3 048.2	6 440.1	-	-4 632.0	5 105.5

CONSOLIDATED CASH FLOW

The cash flow statement includes both continuing and discontinued operations.

Amounts in NOK million	2Q 2012	2Q 2011	1H 2012	1H 2011	2011
Profit before income tax	-48.8	119.0	57.5	678.0	288.4
Depreciation of tangible assets	0.2	1.0	1.0	1.1	2.4
Gain/loss from sale of investment property and operations	-	-1.0	-2.4	-1.0	-1.0
Fair value adjustment of investment property	-0.7	-146.3	-0.9	-474.0	-281.9
Fair value adjustment of financial derivative instruments	93.4	104.8	46.8	-36.4	336.1
Change in short-term items	-82.7	-176.3	-56.9	-149.5	-98.5
Net cash flow from operating activities	-38.7	-98.9	45.2	18.2	245.4
Received cash from sale of investment property and discontinued operations	-	1.0	1 905.1	1.0	33.1
Payments for purchase of investment property	-102.6	-67.7	-875.2	-105.3	-353.2
Net cash flow from investing activities	-102.6	-66.7	1 029.9	-104.3	-320.2
Net repayment of interest bearing debt	-11.3	62.1	-308.9	-23.9	-108.2
Paid dividend	-99.7	-49.9	-99.7	-49.9	-49.9
Other financing activities	-0.3	-	-0.3	-	-
Net cash flow from financial activities	-111.3	12.3	-408.9	-73.7	-158.0
Net change in cash and cash equivalents	-252.6	-153.3	666.2	-159.8	-232.8
Cash and cash equivalents at the beginning of the period	934.4	241.9	15.6	248.4	248.4
Cash and cash equivalents at the end of the period	681.8	88.6	681.8	88.6	15.6

NOTE 1 NET FINANCIAL ITEMS

A specification of net financial items in the income statement is presented below.

Amounts in NOK million	2Q 2012	2Q 2011	1H 2012	1H 2011	2011
Capital gains	11.9	8.7	21.6	17.5	35.1
Currency gains	-	-	-	1.8	1.8
Total financial income	11.9	8.7	21.6	19.3	37.0
Capital cost	-122.3	-124.7	-253.3	-254.0	-519.3
Termination fee financial instruments	-26.3	-	-43.3	-	-
Currency losses	-0.5	-0.3	-1.7	-0.4	-1.1
Other financial cost	-4.3	-17.8	-9.8	-23.1	-34.0
Total financial cost	-153.4	-142.8	-308.1	-277.6	-554.4
Realized net financial items	-141.5	-134.1	-286.5	-258.3	-517.5
Change in market value of financial derivative instruments	-93.4	-104.8	-46.8	36.4	-336.1
Net financial items	-234.9	-238.9	-333.3	-221.9	-853.6

NOTE 2 DISCONTINUED OPERATIONS

The hotel business, Norgani Hotels, was sold in 2010. Results for discontinued operations are presented net on a single line in the income statement. The profit element for 2011 relates in its entirety to the reversal of provisions.

NOTE 3 INVESTMENT PROPERTY AND ASSETS HELD FOR SALE

Contracts for the sale of the Middelthuns gate 17 and C J Hambros plass 2 (Ibsen Quarter) properties were entered into in 2011. These transactions were completed in the first quarter of 2012. The two properties were classified at 31 December 2011 as assets held for sale.

Properties used by the owner are included under other tangible assets in the amount of NOK 28.2 million at 30 June 2012 and 31 December 2011. The company had no properties used by the owner at 30 June 2011. Such property is recognised at fair value, and fair-value adjustments are included in other income and expenses.

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For further information on Norwegian Property, including presentation material relating to this interim report and financial information, please visit www.npro.no.

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