

INTERIM REPORT  
FIRST QUARTER 2017



NORWEGIAN  
PROPERTY

## IMPORTANT EVENTS IN THE FIRST QUARTER OF 2017

### Rental income affected by sale of properties

Overall rental income came to NOK 196.6 million, down from NOK 230.5 million in the same period of 2016. This reduction reflected net property sales. Operating profit before fair-value adjustments came to NOK 79.9 million.

### Net profit of NOK 212.1 million and ordinary earnings per share (EPS) of NOK 0.39

Positive fair-value adjustments for investment properties totalled NOK 196.7 million, while positive fair-value adjustments for financial derivatives came to NOK 10.6 million. After NOK 75.1 million in calculated tax expense, net profit for the period came to NOK 212.1 million. That yielded ordinary earnings per share (EPS) of NOK 0.39 for the first quarter. Carried equity per share came to NOK 12.10 at 31 March 2017, up from NOK 11.83 at 31 December 2016 (Epra NAV: NOK 13.19 and Epra NNAV: NOK 12.87 at 31 March 2017).

### Leases

Leases with a total annual rental income of NOK 25.7 million were awarded in the first quarter of 2017. The most important of these were:

- Faroe Petroleum Norge AS leased 2 023 square metres at Badehusgaten 37 in Stavanger.
- The National Insurance Court leased 2 287 square metres at Sandakerveien 130 in Nydalen, Oslo.
- Bull Hill Capital AB (Beringer) leased 2 057 square metres at the Workshop Building in Aker Brygge.

### Refining the portfolio

Active efforts are made by Norwegian Property to refine its portfolio. Collaboration agreements have been entered into for developing several of the properties.

- Norwegian Property has entered into an agreement with Base Property on joint development and replanning of the Forusbeen 35 property in Stavanger. This is currently vacant, and the goal is to develop it into residential accommodation, sheltered accommodation and associated commercial activity.
- An agreement has been entered into by Norwegian Property with Avantor on a replanning collaboration covering Gullhaug Torg 3 and Avantor's neighbouring properties. The property is currently fully let on long-term leases, but opportunities for a substantially higher utilisation of the properties in the future are under consideration on the basis of their location close to a traffic hub.
- The main track being pursued for Snarøyveien 36 at Fornebu is letting the property as office premises when the current lease with the Aker system expires in November 2019. In parallel, Norwegian Property is working with Fornebuporten to explore the opportunities for transforming the property into residential accommodation.

### Dividend

The board has resolved to pay a dividend of NOK 0.07 per share for the first quarter of 2017.



## KEY FIGURES<sup>1</sup>

Profit and loss		1Q 2017	1Q 2016	Year 2016
Revenues	NOK mill.	196.6	230.5	900.9
Operating profit before admin expenses	NOK mill.	166.2	203.7	790.1
Operating profit before value adjustments	NOK mill.	153.7	188.8	732.8
Profit before income tax and value adjust	NOK mill.	79.9	84.6	331.3
Profit before income tax	NOK mill.	287.2	154.6	977.4
Profit after income tax	NOK mill.	212.1	99.8	764.5
EPRA-earnings	NOK mill.	60.7	63.4	251.8

Balance sheet		1Q 2017	1Q 2016	Year 2016
Market value of property portfolio	NOK mill.	14 340.7	16 375.1	14 112.1
Total equity	NOK mill.	6 633.7	5 878.7	6 488.9
Interest-bearing debt	NOK mill.	6 973.6	9 391.0	6 767.2
Equity ratio	Per cent	45.1	35.5	45.3
Pre-tax return on equity	Per cent	17.5	10.6	15.9

Cash flow		1Q 2017	1Q 2016	Year 2016
Net cash flow from operating activities	NOK mill.	56.6	110.1	137.7
Cash and cash equivalents	NOK mill.	210.5	24.8	46.2

Key numbers; per share		1Q 2017	1Q 2016	Year 2016
Number of shares issued, end of the period	Number	548 425 596	548 425 596	548 425 596
Average number of shares in period	Number	548 425 596	548 425 596	548 425 596
Profit before income tax	NOK	0.52	0.28	1.78
Earnings per share (EPS)	NOK	0.39	0.18	1.39
EPRA-earnings	NOK	0.11	0.12	0.45
Net cash flow from operating activities	NOK	0.10	0.20	0.25
Interest-bearing debt	NOK	12.72	17.12	12.34
<b>NAV</b>	NOK	<b>12.10</b>	<b>10.72</b>	<b>11.83</b>
Deferred property tax	NOK	0.71	0.58	0.61
Fair value of fin. derivative instruments	NOK	0.39	0.96	0.47
<b>EPRA NAV</b>	NOK	<b>13.19</b>	<b>12.26</b>	<b>12.91</b>
Fair value of deferred tax	NOK	0.18	0.16	0.22
Fair value of fin. derivative instruments	NOK	(0.46)	(0.96)	(0.55)
Fair value of debt	NOK	(0.04)	(0.02)	(0.01)
<b>EPRA NNAV</b>	NOK	<b>12.87</b>	<b>11.44</b>	<b>12.56</b>

<sup>1</sup> Figures not derived directly from the accounts are explained in the list of definitions at the end of this report. When calculating key figures per share related to profit and cash flow, the numbers are divided by the average number of shares in the period, while key figures per share related to the balance sheet are divided by the number of shares at the end of the period.



## FINANCIAL PERFORMANCE

### RESULTS FOR THE FIRST QUARTER OF 2017

Rental income for Norwegian Property totalled NOK 196.6 million in the first quarter. That compares with the NOK 230.5 million achieved for the same period of 2016. On a like-for-like basis, that means income for the first quarter was unchanged.

Property-related operational expenses totalled NOK 16.8 million (NOK 12.4 million<sup>2</sup>) for the quarter. Other property-related expenses came to NOK 13.6 million (NOK 14.4 million). Administrative expenses were NOK 12.5 million (NOK 14.9 million). Operating profit before fair-value adjustments thereby amounted to NOK 153.7 million (NOK 188.8 million) for the first quarter.

Valuation of the property portfolio yielded an unrealised fair-value increase of NOK 196.7 million (NOK 109 million).

Net realised financial expenses came to NOK 73.8 million (NOK 104.3 million) for the first quarter. Market interest rates showed no significant change during the first quarter, and a reduction in residual times to maturity meant that the profit component related to fair-value adjustments for financial derivatives made a positive contribution of NOK 10.6 million (negative at NOK 39.1 million).

Pre-tax profit for the first quarter was NOK 287.2 million (NOK 154.6 million). The reduction in the provision for non-payable deferred tax expense for the quarter was NOK 75.1 million (increase of NOK 54.8 million). Net profit was thereby NOK 212.1 million (NOK 99.8 million).

### VALUATION OF PROPERTIES

Two independent valuers have valued all the properties in the group's portfolio of offices based on the same methods and principles applied in previous periods. The accounting valuation at 31 March 2017 is based on an average of the two valuations.

At 31 March, the group's portfolio of investment properties was valued at NOK 14 340.7 million (NOK 16 375.1 million). Properties used by the owner were carried separately on the balance sheet in the amount of NOK 84.6 million at 31 March, and recognised at fair value.

The positive fair-value adjustment came to NOK 196.7 million in the first quarter. The net negative adjustment to the fair value of properties with a high level of vacancy and greater uncertainty related to re-letting came to NOK 55.4 million. Other properties had a positive fair-value adjustment of NOK 252.1 million.

### CASH FLOW

Net operational cash flow was positive at NOK 56.6 million (NOK 110.1 million) for the first quarter. The cash-flow effect of investment related to the property portfolio came to NOK 33.5 million (NOK 40.2 million) and applies to adjustments for lessees associated with new and renegotiated leases as well as ongoing capital spending. Net cash flow from financing activities was positive at NOK 141.2 million (negative at NOK 130.8 million) after an increase of NOK 207 million in interest-bearing debt and dividend paid of NOK 65.8 million. The net increase in the holding of cash and cash equivalents for the quarter was NOK 164.3 million (reduction of NOK 31 million).

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<sup>2</sup> Figures in brackets refer to the corresponding period of the year before.



## BALANCE SHEET

The company held NOK 210.5 million (NOK 24.8 million) in cash and cash equivalents at 31 March. In addition came NOK 900 million (NOK 408 million) in unutilised credit facilities. Equity totalled NOK 6 633.7 million (NOK 5 878.7 million), representing an equity ratio of 45.1 per cent (35.5 per cent). Carried equity per share was NOK 12.10 (NOK 10.72). Equity per share was NOK 13.19 (NOK 12.26) based on the Epra NAV standard and NOK 12.87 (NOK 11.44) based on Epra NNNAV. Outstanding shares at 31 March totalled 548 425 596 (548 425 596).

## FINANCING

### KEY FIGURES<sup>1</sup>

The table below presents key figures related to interest-bearing debt and hedges at 31 March 2017.

Interest bearing debt and hedging		31.03.2017	31.03.2016	31.12.2016
Interest-bearing debt	NOK mill.	6 973.6	9 391.0	6 767.2
Cash and cash equivalents	NOK mill.	210.5	24.8	46.2
Interest-hedging ratio	Per cent	63.8	63.4	63.3
Unutilised credit facilities	NOK mill.	900.0	408.0	1 058.0
Remaining time to maturity for interest hedge agreements	Years	4.3	3.9	4.1
Average interest rate	Per cent	3.87	4.32	4.20
Average interest margin	Per cent	1.61	1.40	1.64
Remaining time to maturity for interest-bearing debt	Years	2.1	1.5	2.3
Market value of property portfolio	NOK mill.	14 340.7	16 375.1	14 112.1
Gross debt to asset ratio (gross LTV)	Per cent	48.6	57.3	48.0
Net debt to asset ratio (net LTV)	Per cent	47.2	57.2	47.6

## INTEREST HEDGES

The table below presents the maturity structure for interest-rate hedges at 31 March 2017.

Maturity profile of interest hedges		< 1 year	1 > 2 year	2 > 3 year	3 > 4 year	4 > 5 year	> 5 year	Total
Amount	NOK mill.	2 749	450	300	1 450	300	1 750	6 999
Average basic interest for amount due	Per cent	1.0	1.0	3.2	4.0	2.2	2.7	2.2
Share of total liabilities	Per cent	39	6	4	21	4	25	100

Norwegian Property's interest hedge ratio is currently 63.8 per cent. The company works continuously to tailor interest hedges to a lower level of interest rates.

## INTEREST-BEARING LIABILITIES

The carrying amount of interest-bearing liabilities totalled NOK 6 973.6 million (NOK 9 391 million) at 31 March.

Where the bond loans are concerned, NOK 417 million related to two of the loans were held by the company as treasury bonds at 1 January. This holding was sold in the market during January 2017.



## **OPERATIONS**

### **COMMERCIAL PROPERTY MARKET**

Office vacancy in Oslo is estimated to seven per cent. It is expected to decline over the next few years as a result of space being converted to other applications (primarily residential), limited newbuild activity and continued growth in employment. Rental levels are generally stable, but the decline in vacant space is expected to be positive for rental developments in the time to come. In its bulletin on property space for the first quarter, Arealstatistikk reports record-high letting volumes.

Demand for commercial property is still cautious in Stavanger. However, signs indicate that the market is bottoming out and Norwegian Property is experiencing greater activity in the letting market.

Activity in the transaction market was good during the first quarter. Many buyer groups are still active and hunting for good objects, but few objects are being offered for sale through structured processes in the market. Many transactions are therefore based on direct dialogue between buyer and seller. Prime yield was unchanged during the quarter at 3.75 per cent, but downward pressure continued to be exerted on yields for secondary properties. A good dynamic in the letting market is positive for the valuations.

### **THE PROPERTY PORTFOLIO**

Norwegian Property owned a total of 32 office and commercial properties at 31 March. These are located in central areas of Oslo and Bærum (91.9 per cent of gross current rental income at 31 March), at Gardermoen (3.8 per cent of gross rental income) and in Stavanger (4.3 per cent of gross rental income). The group's properties primarily comprise offices with associated warehousing and parking, and retail and restaurant space.

Total ongoing annual rental income (run rate) from the portfolio was NOK 776.1 million at 31 March, a reduction on a like-by-like basis of NOK 18.2 million from 1 January. This decrease relates mainly to the Drammensveien 60 property, which is being readied for occupation by new tenants in 2018. Vacancy in the property portfolio totalled 23.8 per cent of total space at 31 March, up from 20.3 per cent from 1 January. When leases due to commence in the future are taken into account, vacancy related to a great extent to properties in Stavanger.

The average remaining duration of the leases is 4.8 years. The average rent adjustment factor for the consumer price index is 99.8 per cent for the total portfolio.

### **SHAREHOLDER INFORMATION**

The company had 1 638 registered shareholders at 31 March, down by 33 from 31 December. Non-Norwegian shareholders held 68.3 per cent of the share capital at 31 March, unchanged from 31 December. The number of shares traded during the first quarter averaged 83 526 shares per day. Corresponding daily turnover was 0.3 million in 2016, 0.9 million in 2015 and 1.1 million in 2014. The company's share capital totalled NOK 274 223 416 at 31 March, divided between 548 446 832 shares with a par value of NOK 0.50 per share. Of these, Norwegian Property ASA held 21 236 as treasury shares at 31 March. The largest shareholders registered with the Norwegian Central Securities Depository (VPS) at 31 March are presented below.



#	Name	Share (per cent)	Number of shares	Account type	Nationality
1	GEVERAN TRADING CO LTD	57.61	315 969 937		CYP
2	FOLKETRYGDFONDET	13.44	73 701 642		NOR
3	NIAM V PROSJEKT AS c/o Langham Hall UK	12.30	67 437 425		NOR
4	The Bank of New York c/o BNYMSANV RE SAN	4.33	23 730 241	NOM	NLD
5	State Street Bank an A/C WEST NON-TREATY	0.96	5 230 788	NOM	USA
6	CEK HOLDING AS	0.59	3 255 807		NOR
7	State Street Bank an A/C CLIENT OMNIBUS F	0.48	2 650 029	NOM	USA
8	STATE STREET BANK & SSB, : ISHARES EUROP	0.41	2 261 143	NOM	IRL
9	J.P. Morgan Chase Ba A/C VANGUARD BBH	0.35	1 921 295	NOM	USA
10	KLP AKSJENORGE INDEK	0.32	1 767 321		NOR
11	BNP Paribas Securiti S/A TR PROPERTY INVE	0.30	1 641 484	NOM	GBR
12	J.P. Morgan Bank Lux JPML SA RE CLT ASSET	0.29	1 584 380	NOM	LUX
13	NIKI AS	0.27	1 500 000		NOR
14	KAS BANK N.V. S/A CLIENT ACC TREAT	0.27	1 490 620	NOM	NLD
15	MATHIAS HOLDING AS	0.26	1 400 000		NOR
16	Skandinaviska Enskil SEB AB, UCITS V - Fi	0.22	1 194 261	NOM	FIN
17	J.P. Morgan Securiti A/C CUSTOMER SAFE KE	0.21	1 158 000	NOM	USA
18	State Street Bank an SSBTC A/C UK LO. BR.	0.20	1 102 898	NOM	USA
19	SANDEN A/S	0.18	1 000 000		NOR
20	KOLBERG MOTORS AS	0.16	900 504		NOR
	<b>Total 20 largest shareholders</b>	<b>93.15</b>	<b>510 897 775</b>		<b>8/20 NOR</b>

## BOARD OF DIRECTORS

The annual general meeting took place on 6 April 2017. Martin Mæland (chair), Bjørn Henningsen (deputy chair), Kjell Sagstad, Kathrine Astrup Fredriksen, Cecilie Astrup Fredriksen and Merete Haugli were re-elected to the board. Lars Erich Nilsen was elected as a new director.



## **OUTLOOK**

Vacancy in Oslo is now estimated at seven per cent, and is expected to continue declining as a result of growth in employment, conversion of space to other applications and extremely limited newbuild activity. The letting market in Stavanger remains demanding.

The Oslo portfolio, which now accounts for 95 per cent of the property value in the group, has little vacancy. Operationally, the company is devoting particular attention to properties with high vacancy (as in Stavanger) and where leases are approaching their expiry date. Norwegian Property has entered into several agreements with other property players on developing the company's properties where this is considered to offer potential added value for the company. These partnerships cover properties in Stavanger, Nydalen and Fornebu. The company is also working actively with other long-term development opportunities in the portfolio – particularly in the Nydalen district, where exciting developments are looming. In a demanding transaction market, the board is also continuing to concentrate on opportunities which strengthen the company's position in its core areas – which are primarily Oslo's central business district and Nydalen.

The AGM renewed the board's mandate to determine dividend payments between AGMs. A dividend of NOK 0.07 has been approved by the board for the first quarter of 2017. In the long term, the company's ambition is to pay a dividend corresponding to 30-50 per cent of ongoing operational profit after tax payable. A further ambition is for dividend payments to make stable and rising progress.

**The board of directors of Norwegian Property ASA**

Oslo, 4 May 2017





## FINANCIAL INFORMATION

### CONSOLIDATED CONDENSED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

Amounts in NOK million	Note	1Q 2017	1Q 2016	Year 2016
<b>Revenue</b>		<b>196.6</b>	<b>230.5</b>	<b>900.9</b>
Property-related operational expenses		(16.8)	(12.4)	(54.2)
Other property-related expenses		(13.6)	(14.4)	(56.6)
<b>Total property-related expenses</b>		<b>(30.4)</b>	<b>(26.8)</b>	<b>(110.8)</b>
Administrative expenses		(12.5)	(14.9)	(57.3)
<b>Total operating expenses</b>		<b>(42.9)</b>	<b>(41.7)</b>	<b>(168.1)</b>
<b>Operating profit before fair-value adjustments</b>		<b>153.7</b>	<b>188.8</b>	<b>732.8</b>
Change in market value of investment property	3	196.7	109.0	475.1
<b>Operating profit</b>		<b>350.4</b>	<b>297.9</b>	<b>1 207.9</b>
Financial income	2	1.0	0.1	1.1
Financial cost	2	(74.7)	(104.4)	(402.6)
<b>Realised net financial items</b>		<b>(73.8)</b>	<b>(104.3)</b>	<b>(401.6)</b>
Change in market value of financial derivative instruments	2, 4	10.6	(39.1)	171.0
<b>Net financial items</b>		<b>(63.2)</b>	<b>(143.3)</b>	<b>(230.5)</b>
<b>Profit before income tax</b>		<b>287.2</b>	<b>154.6</b>	<b>977.4</b>
Income tax	7	(75.1)	(54.8)	(212.9)
<b>Profit for the period</b>		<b>212.1</b>	<b>99.8</b>	<b>764.5</b>
Profit attributable to non-controlling interests		-	-	-
<b>Profit attributable to shareholders of the parent company</b>		<b>212.1</b>	<b>99.8</b>	<b>764.5</b>
Value adjustment of owner-occupied property	3	(1.5)	1.4	1.7
<b>Total other comprehensive income</b>		<b>(1.5)</b>	<b>1.4</b>	<b>1.7</b>
Other comprehensive income which may subsequently be reclassified to profit or loss, net of tax		-	-	-
<b>Total comprehensive income</b>		<b>210.6</b>	<b>101.2</b>	<b>766.2</b>
Total comprehensive income attributable to shareholders of the parent company		210.6	101.2	766.2
Total comprehensive income attributable to non-controlling interests		-	-	-



## CONSOLIDATED CONDENSED BALANCE SHEET

Amounts in NOK million	Note	31.03.2017	31.03.2016	31.12.2016
Financial derivative instruments	4	3.1	5.8	6.6
Investment property	3	14 256.1	16 287.1	14 025.1
Owner-occupied property	3	84.6	88.0	87.0
Other fixed assets		48.3	45.0	48.8
<b>Total non-current assets</b>		<b>14 392.1</b>	<b>16 425.9</b>	<b>14 167.5</b>
Financial derivative instruments	4	3.8	-	1.6
Receivables		88.6	115.0	115.9
Cash and cash equivalents	6	210.5	24.8	46.2
<b>Total current assets</b>		<b>302.8</b>	<b>139.9</b>	<b>163.8</b>
<b>Total assets</b>		<b>14 694.9</b>	<b>16 565.8</b>	<b>14 331.2</b>
Share capital		274.2	274.2	274.2
Share premium		2 295.2	3 412.3	2 295.2
Other paid in equity		7 557.3	6 440.1	7 557.3
Retained earnings		(3 493.0)	(4 247.9)	(3 637.8)
<b>Total equity</b>		<b>6 633.7</b>	<b>5 878.7</b>	<b>6 488.9</b>
Deferred tax	7	546.7	313.9	472.1
Financial derivative instruments	4	285.5	709.2	338.9
Interest bearing liabilities	6	6 508.5	4 513.5	6 755.8
Other liabilities	3	57.5	57.6	57.5
<b>Total non-current liabilities</b>		<b>7 398.1</b>	<b>5 594.2</b>	<b>7 624.2</b>
Financial derivative instruments	4	4.5	1.3	5.7
Interest bearing liabilities	6	465.2	4 877.5	11.4
Other liabilities		193.6	214.1	201.1
<b>Total current liabilities</b>		<b>663.2</b>	<b>5 092.9</b>	<b>218.2</b>
<b>Total liabilities</b>		<b>8 061.3</b>	<b>10 687.1</b>	<b>7 842.4</b>
<b>Total equity and liabilities</b>		<b>14 694.9</b>	<b>16 565.8</b>	<b>14 331.2</b>



## CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN EQUITY

Amounts in NOK million	Share capital	Share premium	Other paid in equity	Retained earnings	Total equity
<b>Total equity 31.12.2015</b>	<b>274.2</b>	<b>3 412.2</b>	<b>6 440.1</b>	<b>(4 349.1)</b>	<b>5 777.5</b>
Total comprehensive income	-	-	-	101.2	101.2
<b>Total equity 31.03.2016</b>	<b>274.2</b>	<b>3 412.3</b>	<b>6 440.1</b>	<b>(4 247.9)</b>	<b>5 878.7</b>
Total comprehensive income	-	(1 117.2)	1 117.2	665.0	665.0
Paid dividend	-	-	-	(54.8)	(54.8)
<b>Total equity 31.12.2016</b>	<b>274.2</b>	<b>2 295.2</b>	<b>7 557.3</b>	<b>(3 637.8)</b>	<b>6 488.9</b>
Total comprehensive income	-	-	-	210.6	210.6
Paid dividend	-	-	-	(65.8)	(65.8)
<b>Total equity 31.03.2017</b>	<b>274.2</b>	<b>2 295.2</b>	<b>7 557.3</b>	<b>(3 493.0)</b>	<b>6 633.7</b>

## CONSOLIDATED CONDENSED STATEMENT OF CASH FLOW

Amounts in NOK million	Note	1Q 2017	1Q 2016	Year 2016
Profit before income tax		287.2	154.6	977.4
Depreciation of tangible assets		1.7	2.4	9.0
Fair value adjustment of investment property	3	(196.7)	(109.0)	(475.1)
Fair value adjustment of financial derivative instruments	4	(53.3)	38.6	(329.7)
Change in short-term items		17.7	23.6	(43.9)
<b>Net cash flow from operating activities</b>		<b>56.6</b>	<b>110.1</b>	<b>137.7</b>
Received cash from sale of investment property		-	29.9	3 039.3
Payments for purchase of investment property and other fixed assets		(33.5)	(40.2)	(391.7)
<b>Net cash flow from investing activities</b>		<b>(33.5)</b>	<b>(10.3)</b>	<b>2 647.6</b>
Net change in interest-bearing debt	6	207.0	(130.8)	(2 740.1)
Paid dividend		(65.8)	-	(54.8)
<b>Net cash flow from financial activities</b>		<b>141.2</b>	<b>(130.8)</b>	<b>(2 794.9)</b>
<b>Net change in cash and cash equivalents</b>		<b>164.3</b>	<b>(31.0)</b>	<b>(9.6)</b>
Cash and cash equivalents at the beginning of the period		46.2	55.8	55.8
<b>Cash and cash equivalents at the end of the period</b>		<b>210.5</b>	<b>24.8</b>	<b>46.2</b>



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### NOTE 1 - GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

The Norwegian Property ASA real estate group owns commercial properties in the Oslo and Stavanger region. The holding company, Norwegian Property ASA, is a public limited company with its headquarters at Bryggegata 9, Oslo (Norway). The company's shares are listed on the Oslo Stock Exchange under the ticker NPRO.

This interim report is prepared in accordance with IAS 34 - Interim Financial Reporting. The interim financial statements are prepared in accordance with applicable IFRS standards and interpretations. The accounting policies used in preparing the interim report accord with the principles applied in preparing the annual accounts for 2016. The interim report presents condensed financial statements, and does not contain all the information required for full annual financial statements. The report should therefore be read in conjunction with the financial statements for 2016. No significant changes have been made to accounting policies from those used when preparing the financial statements for 2016.

In accordance with the requirements of the section 3, sub-section 3 of the Norwegian Accounting Act, Norwegian Property presents annual statements on corporate governance and social responsibility. The latest disclosures are contained in the annual report for 2016.

The financial statements include Norwegian Property ASA and subsidiaries. Sold properties are included in the accounts until the completion of the transactions. Acquired properties are included in the financial statements from the date of acquisition.

Norwegian Property's business consists of the ownership and management of commercial properties in Norway. No material differences in risks and returns exist in the economic environments in which the company operates. Consequently, the company is only present in one business segment and one geographic market, and no further segment information has been prepared.

Management makes estimates and assumptions concerning the future. The accounting estimates will by definition seldom be fully in accordance with the final outcome. Estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities relate primarily to the valuation of investment property.

The interim report of Norwegian Property ASA was approved at a board meeting on 4 May 2017. This report has not been audited.

### NOTE 2 - NET FINANCIAL ITEMS

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

Amounts in NOK million	1Q 2017	1Q 2016	Year 2016
Interest income on bank deposits	0.9	0.1	1.1
<b>Total financial income</b>	<b>0.9</b>	<b>0.1</b>	<b>1.1</b>
Interest expense on borrowings	(74.7)	(104.4)	(402.6)
<b>Total financial cost</b>	<b>(74.7)</b>	<b>(104.4)</b>	<b>(402.6)</b>
<b>Realised net financial items</b>	<b>(73.8)</b>	<b>(104.3)</b>	<b>(401.5)</b>
Change in market value of financial derivative instruments	10.6	(39.1)	171.0
<b>Net financial items</b>	<b>(63.2)</b>	<b>(143.4)</b>	<b>(230.5)</b>



### NOTE 3 - INVESTMENT PROPERTY

Changes in the carrying amount of investment property are specified in the table below.

Amounts in NOK million	Note	1Q 2017	1Q 2016	Year 2016
Total value of investment property, opening balance		14 112.1	16 256.2	16 256.2
Disposals of properties at book value	1	-	(30.1)	(3 033.8)
Additions through acquisition of and on-going investment in properties		32.8	37.4	381.3
Recognised in the income statement for the period		198.2	110.1	507.9
Recognised in other comprehensive income for the period		(2.4)	1.5	0.5
<b>Total value of investment property, closing balance</b>	2	<b>14 340.7</b>	<b>16 375.1</b>	<b>14 112.1</b>
Of which owner-occupied property	3	(84.6)	(88.0)	(87.0)
<b>Book value of investment property</b>		<b>14 256.1</b>	<b>16 287.1</b>	<b>14 025.1</b>

<sup>1</sup> Disposals in 2016 apply to Strandsvingen 10, Stortingsgata 6, Verkstedveien 1, Verkstedveien 3 and Drammensveien 134.

<sup>2</sup> Norwegian Property has entered into an agreement to sell Nedre Skøyen vei 24-26 and Hovfaret 11 in Oslo. The agreed takeover date is March 2019 on the expiry of the lease for the properties, and Norwegian Property is entitled to rental income and has operating responsibility for the properties until then. These properties are classified in the balance sheet as ordinary investment property at the present value of the contractual cash flows. Classification as investment properties held for sale is subject to expected realisation within one year from the balance sheet date.

<sup>3</sup> Owner-occupied property is accounted for at fair value and revaluation is included in other comprehensive income.

Investment property at fair value through profit or loss is specified in the following table broken down by valuation method.

Amounts in NOK million	31.03.2017			
	Level 1	Level 2	Level 3	Total
Investment property	-	-	14 256.1	14 256.1
Owner-occupied property	-	-	84.6	84.6
<b>Total</b>	-	-	<b>14 340.7</b>	<b>14 340.7</b>

Amounts in NOK million	31.03.2016			
	Level 1	Level 2	Level 3	Total
Investment property	-	-	16 287.1	16 287.1
Owner-occupied property	-	-	88.0	88.0
<b>Total</b>	-	-	<b>16 375.1</b>	<b>16 375.1</b>

Level 1: Observable market value for similar assets or liabilities, Level 2: Significant other observable inputs for similar assets, Level 3: Significant other unobservable inputs

The company's policy is to make transfers between levels at the time of the incident or circumstance which caused the transfer. No movements between levels have occurred in 2016 and 2017.



#### NOTE 4 - FINANCIAL DERIVATIVES

Change in net derivatives in the balance sheet (mainly interest-rate derivatives) is specified in the table below. All group interest-rate derivatives are cash flow hedges, and the group does not use hedge accounting for these derivatives.

Amounts in NOK million	1Q 2017	1Q 2016	Year 2016
Net book value of derivatives, opening balance	(336.4)	(666.1)	(666.1)
Buyout of derivatives	42.7	0.4	158.6
Fair value adjustments of derivatives	10.6	(39.1)	171.0
<b>Net book value of derivatives, closing balance</b>	<b>(283.1)</b>	<b>(704.7)</b>	<b>(336.4)</b>
Of which classified as non-current assets	3.1	5.8	6.6
Of which classified as current assets	3.8	-	1.6
Of which classified as non-current liabilities	(285.5)	(709.2)	(338.9)
Of which classified as current liabilities	(4.5)	(1.3)	(5.7)

#### NOTE 5 - FINANCIAL INSTRUMENTS

Book value and fair value of financial instruments are specified in the table below.

Amounts in NOK million	31.03.2017		31.03.2016	
	Book value	Fair value	Book value	Fair value
Non-current derivatives	3.1	3.1	5.8	5.8
Current derivatives	3.8	3.8	-	-
Current receivables	88.6	88.6	115.0	115.0
Cash and cash equivalents	210.5	210.5	24.8	24.8
<b>Total financial assets</b>	<b>305.9</b>	<b>305.9</b>	<b>145.6</b>	<b>145.6</b>
Non-current derivatives	285.5	285.5	709.2	709.2
Non-current interest-bearing liabilities	6 508.5	6 532.6	4 513.5	4 516.6
Current derivatives	4.5	4.5	1.3	1.3
Current interest-bearing liabilities	465.2	465.2	4 877.5	4 888.7
Other current liabilities	191.4	191.4	213.4	213.4
<b>Total financial liabilities</b>	<b>7 455.0</b>	<b>7 479.1</b>	<b>10 314.9</b>	<b>10 329.2</b>

The estimated fair value of financial instruments is based on market prices and valuation methods. For cash and cash equivalents, fair value is assumed to be equal to the book value. Interest-bearing receivables and liabilities are measured at the present value of future cash flows. Account is taken of the estimated difference between the current margin and market conditions (market value higher than the book value of debt in the listing indicates a negative equity effect when the applicable borrowing margin is less favourable than current market conditions). The fair value of financial derivatives, including forward currency contract swaps and interest-rate swaps, is the estimated present value of future cash flows, calculated by using quoted swap curves and exchange rates at the balance sheet date. The technical calculations are performed by the banks. Other receivables and other current liabilities are carried principally at fair value and subsequently measured at amortised cost. However, discounting is not usually considered to have any significant effect on these types of assets and liabilities.



Financial instruments at fair value through profit or loss are specified in the table below, by valuation method.

Amounts in NOK million	31.03.2017			
	Level 1	Level 2	Level 3	Total
Non-current derivatives (assets)	-	3.1	-	3.1
Current derivatives (assets)	-	3.8	-	3.8
Non-current derivatives (liabilities)	-	(285.5)	-	(285.5)
Current derivatives (liabilities)	-	(4.5)	-	(4.5)
<b>Total</b>	-	<b>(283.1)</b>	-	<b>(283.1)</b>

Amounts in NOK million	31.03.2016			
	Level 1	Level 2	Level 3	Total
Non-current derivatives (assets)	-	5.8	-	5.8
Non-current derivatives (liabilities)	-	(709.2)	-	(709.2)
Current derivatives (liabilities)	-	(1.3)	-	(1.3)
<b>Total</b>	-	<b>(704.7)</b>	-	<b>(704.7)</b>

Level 1: Observable market value for similar assets or liabilities, Level 2: Significant other observable inputs for similar assets, Level 3: Significant other unobservable inputs

The company's policy is to make transfers between levels at the time of the incident or circumstance, which caused the transfer. No movements between levels have occurred in 2016 and 2017.

#### NOTE 6 - NET INTEREST-BEARING POSITION

Change in the net interest-bearing position is specified in the table below.

Amounts in NOK million	Note	1Q 2017	1Q 2016	Year 2016
Loan facilities at par value, opening balance		6 792.3	9 532.4	9 532.4
Increase in loan facilities		417.0	-	3 635.0
Reduction in loan facilities		(210.0)	(130.8)	(6 375.1)
<b>Loan facilities at par value, closing balance</b>		<b>6 999.3</b>	<b>9 401.6</b>	<b>6 792.3</b>
Capitalised borrowing cost		(25.7)	(10.6)	(25.1)
<b>Book value of interest-bearing debt</b>		<b>6 973.6</b>	<b>9 391.0</b>	<b>6 767.2</b>
Of which classified as non-current liabilities		6 508.5	4 513.5	6 755.8
Of which classified as current liabilities		465.2	4 877.5	11.4
Interest-bearing debt	1	(6 973.6)	(9 391.0)	(6 767.2)
Cash and cash equivalents		210.5	24.8	46.2
<b>Net interest-bearing position</b>		<b>(6 763.1)</b>	<b>(9 366.2)</b>	<b>(6 720.9)</b>

<sup>1</sup> Unutilised credit facilities amounted to NOK 900 million at 31 March 2017, NOK 408 million at 31 March 2016 and NOK 1 058 million at 31 December 2016.

The group is exposed to interest rate risk on floating-rate borrowings. The general policy in accordance with the applicable loan agreements is that at least 60 per cent of the company's interest-bearing debt at any time will be hedged. At 31 March 2017, 63.8 per cent of such loans was secured (31 March 2016: 63.4 per cent). The total average interest margin on variable-rate loans was 161 basis points (140 basis points). The loan portfolio has an average interest rate of 3.90 per cent (4.32 per cent), and remaining time to maturity for interest-bearing debt was 2.1 years (1.5 years). Remaining time to maturity for interest hedging agreements was 4.3 years (3.9 years).



## NOTE 7 - DEFERRED TAX AND INCOME TAX

The change in deferred tax and tax expense is presented in the table below.

Amounts in NOK million	Note	1Q 2017	1Q 2016	Year 2016
Profit before income tax		287.2	154.6	977.4
Income tax calculated at 24 per cent (25 per cent for 2016)		68.9	38.6	244.3
Changed tax rate on the closing balance	1	-	-	(19.7)
Temporary differences		6.2	16.1	(11.8)
<b>Income tax</b>		<b>75.1</b>	<b>54.8</b>	<b>212.9</b>
Deferred tax, opening balance		472.1	258.7	258.7
Recognised through profit and loss		75.1	54.7	212.9
Recognised through comprehensive income		(0.5)	0.5	0.6
<b>Deferred tax, closing balance</b>		<b>546.7</b>	<b>313.9</b>	<b>472.1</b>

<sup>1</sup> The company tax rate in Norway was reduced from 25 to 24 per cent at the beginning of 2017. Deferred tax at 31 December 2016 is therefore calculated on the basis of a tax rate of 24 per cent.

## NOTE 8 - RELATED-PARTY DISCLOSURES

No agreements or significant transactions with related parties have been carried out in 2017.

Intercompany balances and transactions with subsidiaries (which are related parties of Norwegian Property ASA) are eliminated in the consolidated financial statements and are not covered by the information given in this note. Financial matters related to directors and senior management are described in the annual financial statements of the group (see note 14 and 19 to the financial statements for 2016).

## NOTE 9 - EVENTS AFTER THE BALANCE SHEET DATE

In accordance with the mandate from the annual general meeting in 2017 the board decided on 4 May 2017 that a dividend of NOK 0.07 per share will be paid on the basis of accounts at 31 March 2017.

No other significant events have occurred after the balance sheet date at 31 March 2017.





## DEFINITIONS

Run rate for annual rent	Contracted annualised rental income for the property portfolio at the balance sheet date.
Weighted remaining duration of leases	Remaining contractual rent of current leases at the balance sheet date divided by the total contractual rent for the entire lease term.
Space vacancy	Space which does not generate rent at the balance sheet date divided by total space.
Gross yield	Gross yield on the balance sheet date for a property or portfolio of properties is calculated as contractual annualised rental income divided by market value.
Net yield	When calculating net yield, maintenance and property-related costs are deducted from contractual annualised rental income, which is then divided by the market value.
Prime yield	Yield for a fully leased property of best structural quality, with tenants in the best category and in the best location.
Property-related operational expenses	Property-related expenses include administrative costs related to the management of the properties as well as operating and maintenance costs.
Other property-related expenses	Other property-related expenses include income-related costs related to leasing, marketing and so forth, the owner's share of service charges, project-related property costs and depreciation related to the properties.
Administrative expenses	Administrative expenses relate to costs which are not directly related to the operation and leasing of properties, and include costs related to the overall ownership and corporate functions.
Operating profit before administrative expenses	Revenues net of property expenses.
Profit before income tax and value adjustments	Profit before tax, adjusted for fair value adjustments of investment properties and financial derivatives.
EPRA-earnings	Calculation based on the period's profit after tax, adjusted for changes in the value of investment properties and financial derivatives, as well as income tax expense for adjustments made.
Like for like	Change in rental income from one period to another based on the same income-generating property portfolio, with rental income adjusted for purchases and sales of properties.
Independent valuers	Akershus Eiendom and Cushman & Wakefield.
Market value of property portfolio	The market value of all the group's properties regardless of accounting classification.
Interest-bearing debt	Book value totals for long-term and short-term interest-bearing debt, less holdings of own bonds.
Net interest-bearing debt	Interest-bearing debt, less holdings of bonds as well as cash and cash equivalents.
Equity ratio	Total equity divided by total equity and liabilities.
Pre-tax return on equity	Annualised pre-tax profit in the period divided by average total equity for the period in the balance sheet.
Unutilised credit facilities	The difference between total available credit facilities, based on the current loan agreements, and amounts at the balance sheet date which are deducted and accounted for as interest-bearing debt in the balance sheet.
Interest hedging ratio	The share of interest-bearing liabilities hedged at the balance sheet date.
Base interest rate	A weighted average of the fixed and floating average interest-rates at the balance sheet date. The fixed average interest rate is calculated as the weighted average of the fixed interest rate paid by the company in relation to outstanding interest-rate contracts and loans. The floating average interest-rate is calculated as the weighted average of the Nibor rate paid on interest-bearing debt. The interest-rate base does not include accrued finance charges or margin.



Average interest rate	Weighted average interest rate on interest-bearing debt and fixed-rate interest agreements at the balance sheet date.
Average interest margin	The weighted average of the interest margin on the outstanding interest-bearing debt at the balance sheet date.
Remaining time to maturity for interest-bearing debt	Weighted remaining period until maturity for interest-bearing debt at the balance sheet date.
Remaining time to maturity for interest hedge agreements	The weighted remaining period until maturity for interest hedge agreements at the balance sheet date.
LTV	Debt to asset ratio (loan to value).
Gross debt to asset ratio (gross LTV)	Interest-bearing debt divided by the fair market value of the property portfolio at the balance sheet date.
Net debt to asset ratio (net LTV)	Net interest-bearing debt divided by the fair market value of the property portfolio at the balance sheet date.
Earnings per share (EPS)	Net earnings for the period divided by the average number of shares during the period. Diluted earnings per share are identical to basic earnings per share, unless otherwise specified.
NAV	Net asset value, the book value of total equity in the balance sheet.
EPRA NAV	EPRA (European Public Real-Estate Association) recommendations for calculating NAV from an ordinary long-term operational perspective of the business. Based on total equity in the balance sheet, adjustments are made for the carrying amount of deferred tax related to fair value adjustments of investment properties and for fair value of financial instruments after tax in the balance sheet.
EPRA NNNAV	EPRA recommendations for the calculation of NAV where EPRA NNNAV (triple net asset value) in relation to the EPRA NAV includes estimated realisable fair values at the balance sheet date for deferred taxes, financial instruments and liabilities.
Related party	A related party has significant influence on the group's strategy or operational choices. The ability to influence another party is normally achieved through ownership, through participation in group decision-making bodies and management, or through agreements.
Events after the balance sheet date	Significant events after the balance sheet date which provide information on conditions which existed at the balance sheet date, resulting in adjustments to the financial statements, or events after the balance sheet date which do not require such adjustments.



## CONTACT INFORMATION

### NORWEGIAN PROPERTY ASA

Postal address: P.O. Box 1657 Vika, NO-0120 Oslo, Norway

Visiting address: Bryggegata 9, Aker Brygge Oslo, Norway

Telephone: +47 22 83 40 20 | Fax: +47 22 83 40 21 | [www.npro.no](http://www.npro.no)

### IR & MEDIA RELATIONS

Svein Hov Skjelle, CEO

+47 930 55 566 | [shs@npro.no](mailto:shs@npro.no)

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

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