

Interim report

Third quarter 2018



30.09.2018

NORWEGIAN PROPERTY ASA

Important events in the third quarter of 2018

Positive rental income trend for Aker Brygge properties

Overall rental income came to NOK 202.2 million, up from NOK 197.7 million in the third quarter of 2017. Income from the properties at Aker Brygge rose by 4.8 per cent in the third quarter of 2018 and by 7.2 per cent for the first nine months compared with last year.

Profit up before tax and fair-value adjustments

Profit before tax and fair-value adjustments came to NOK 91.1 million (NOK 82.1 million). This increase related primarily to the growth in rental income and the reduction in realised net financial items from implemented refinancing activities.

Valuation of investment properties and financial derivatives

The valuation of the property portfolio resulted in an unrealised positive fair-value adjustment of NOK 66.7 million (NOK 326.4 million), related primarily to rising market rents in the areas where the group has the bulk of its property assets. Higher market rents and reduced residual times to maturity contributed to NOK 37.6 million (NOK 9.1 million) in positive fair-value adjustments for financial derivatives.

Net profit of NOK 127.4 million and ordinary EPS of NOK 0.23

Pre-tax profit came to NOK 195.4 million (NOK 417.6 million). After NOK 68 million in estimated tax expense,

net profit for the period came to NOK 127.4 million. That yielded ordinary earnings per share (EPS) of NOK 0.23 for the third quarter. Carried equity per share came to NOK 14.22 at 30 September 2018, up from NOK 14.05 at 30 June.

New leases

Leases with a total annual rental income of NOK 20.5 million were awarded in the third quarter of 2018. These include a lease to Broadnet for about 8 200 square metres at Snarøyveien 36. About a third of the space which will become vacant at this property up to the fourth quarter of 2019 has now been re-let.

Property transactions

Agreement was reached with Telenor during the second quarter on the purchase of five commercial units totalling about 1 100 square metres in the Dock Building at Aker Brygge. Takeover occurred at the beginning of the third quarter. Telenor is the tenant for part of this space. The gross property value is NOK 20.5 million.

At the beginning of the third quarter, Norwegian Property entered into an agreement with Avinor on cancelling long-term land leases at Gardermoen. The cancellation will come into force at 31 December 2019, when the lease held by SAS expires. At that point, Avinor will take over the buildings on the leased land for a gross property value of just over NOK 40 million. Norwegian Property retains the rental income and operational responsibility for the properties until the date of the takeover.

Dividend

The board has resolved to pay a dividend of NOK 0.07 per share for the third quarter of 2018.

Key figures

The table below presents key financial figures¹ for the group.

Profit and loss		3Q-18	3Q-17	30.09.18	30.09.17	31.12.17
Revenues	NOK mill.	202.2	197.7	598.0	590.8	784.3
Operating profit before admin expenses	NOK mill.	168.4	166.2	494.3	498.4	660.3
Operating profit before value adjustments	NOK mill.	156.7	154.7	456.2	457.9	606.6
Profit before income tax and value adjustments	NOK mill.	91.1	82.1	259.8	236.9	316.8
Profit before income tax	NOK mill.	195.4	417.6	394.0	1 030.5	1 407.0
Profit after income tax	NOK mill.	127.4	616.2	252.3	1 086.7	1 348.7
Balance sheet		3Q-18	3Q-17	30.09.18	30.09.17	31.12.17
Market value of property portfolio	NOK mill.	15 570.9	15 036.4	15 570.9	15 036.4	15 360.5
Total equity	NOK mill.	7 801.1	7 433.8	7 801.1	7 433.8	7 654.8
Interest-bearing debt	NOK mill.	6 951.9	7 054.7	6 951.9	7 054.7	6 950.4
Equity ratio	Per cent	49.2	48.1	49.2	48.1	49.1
Pre-tax return on equity	Per cent	10.1	17.5	6.8	17.5	19.9
Cash flow		3Q-18	3Q-17	30.09.18	30.09.17	31.12.17
Net cash flow from operating activities	NOK mill.	142.2	120.4	337.0	224.3	234.6
Cash and cash equivalents	NOK mill.	154.7	259.3	154.7	259.3	89.2
Key figures; per share		3Q-18	3Q-17	30.09.18	30.09.17	31.12.17
Number of shares issued, end of the period	Number	548 425 596	548 425 596	548 425 596	548 425 596	548 425 596
Average number of shares in the period	Number	548 425 596	548 425 596	548 425 596	548 425 596	548 425 596
Profit before income tax	NOK	0.36	0.76	0.72	1.88	2.57
Earnings per share (EPS)	NOK	0.23	1.12	0.46	1.98	2.46
Net cash flow from operating activities	NOK	0.26	0.22	0.61	0.41	0.43
Interest-bearing debt	NOK	12.68	12.86	12.68	12.86	12.67
NAV, book value	NOK	14.22	13.55	14.22	13.55	13.96
Deferred property tax	NOK	1.20	0.79	1.20	0.79	1.12
Fair value of fin. derivative instruments	NOK	0.20	0.38	0.20	0.38	0.32
NAV, adjusted	NOK	15.62	14.72	15.62	14.72	15.40
Fair value of deferred tax	NOK	(0.43)	0.15	(0.43)	0.15	(0.52)
Fair value of fin. derivative instruments	NOK	(0.23)	(0.45)	(0.23)	(0.45)	(0.38)
Fair value of debt	NOK	(0.03)	(0.04)	(0.03)	(0.04)	(0.03)
NNNAV	NOK	14.93	14.39	14.93	14.39	14.47

¹ 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 developments

Results

Operating revenue

Operating revenue for Norwegian Property totalled NOK 202.2 million in the third quarter. That compares with NOK 197.7 million for the same period of 2017. On a like-for-like basis, this represents an increase of NOK 4.5 million for the third quarter.

Revenues from the properties at Aker Brygge rose by 4.8 per cent in the period, which related to office rental as well as restaurants and retail. At the same time, income was reduced for Snarøyveien 36, where the tenant has exercised its option to reduce the leased space.

Operating costs

Operations-related property costs totalled NOK 18.4 million (NOK 16.2 million²) for the quarter. The rate of Oslo's property tax has been increased from two to three per mille in 2018.

Other property-related expenses came to NOK 15.3 million (NOK 15.3 million). The 2018 figure includes increased operating costs for vacated space at Snarøyveien 36.

Owner administrative expenses were NOK 11.7 million (NOK 11.5 million).

Operating profit before fair-value adjustments

On the basis of the above, operating profit before fair-value adjustments amounted to NOK 156.7 million (NOK 154.7 million) for the third quarter.

Fair-value adjustments for investment property

Valuation of the property portfolio yielded an unrealised fair-value increase of NOK 66.7 million (NOK 326.4 million), and the total market value of the property portfolio carried in the balance sheet amounted to NOK 15 570.9 million.

Net financial items

Net realised financial expenses came to NOK 65.6 million (NOK 72.6 million). This reduction primarily reflect-

ed refinancing activities implemented in 2017 and at the beginning of 2018.

Increased market rents and reduced residual times to maturity contributed to a positive fair-value adjustment for financial derivatives of NOK 37.6 million (NOK 9.1 million).

Profit for the period

Pre-tax profit for the third quarter was NOK 195.4 million (NOK 417.6 million). The increase in the provision for non-payable deferred tax expense for the quarter was NOK 68 million (reduction of NOK 198.6 million). Net profit for the period was thereby NOK 127.4 million (NOK 616.2 million).

Balance sheet

The carrying amount of the group's total assets in the balance sheet was NOK 15 860.8 million (NOK 15 442.2 million), with investment property accounting for NOK 14 609.3 million (NOK 14 969.1 million), properties used by the owner for NOK 76.2 million (NOK 67.3 million) and investment property held for sale for NOK 885.5 million.

The company held NOK 154.7 million (NOK 259.3 million) in cash and cash equivalents.

Total interest-bearing liabilities in the balance sheet came to 6 951.9 million (NOK 7 054.7 million), with non-current interest-bearing liabilities totalling NOK 6 344.4 million (NOK 5 348.2 million) and current interest-bearing liabilities amounting to NOK 607.5 million (NOK 1 706.5 million).

Financial derivatives accounted for a net liability item of NOK 141.5 million (NOK 265 million), where NOK 163.4 million (NOK 267.7 million) was classified as liabilities and NOK 21.9 million (NOK 2.7 million) as assets.

Equity at 30 September totalled NOK 7 801.1 million (NOK 7 433.8 million), representing an equity ratio of 49.2 per cent (48.1 per cent). Carried equity per share was NOK 14.22 (NOK 13.55). Outstanding shares at 30 September totalled 548 425 596 (548 425 596).

² Figures in brackets refer to the corresponding period of the year before.

Cash flow

Net operational cash flow was positive at NOK 142.2 million (NOK 120.4 million) for the third quarter, with NOK 49.8 million related to improvements in short-term working capital items.

The cash effect of investing in fixed assets came to NOK 57.4 million (NOK 61.1 million) in the third quarter, and related to the acquisition of five commercial units in the Dock Building at Aker Brygge as well as adjustments for lessees associated with new and renegotiated leases and ongoing operational investment.

Net cash flow from financing activities was negative at NOK 40.6 million (positive at NOK 83 million) after a reduction of NOK 2.2 million in interest-bearing debt and a dividend payment of NOK 38.4 million.

The net increase in cash and cash equivalents for the quarter at NOK 44.3 million (NOK 142.3 million).

Financing

Key figures

The table below presents key figures related to interest-bearing debt and hedges at 30 September 2018.

Interest bearing debt and hedging		30.09.18	30.09.17	31.12.17
Interest-bearing debt	NOK mill.	6 951.9	7 054.7	6 950.4
Cash and cash equivalents	NOK mill.	154.7	259.3	89.2
Interest-hedging ratio	Per cent	62.6	61.7	63.6
Unutilised credit facilities	NOK mill.	900.0	900.0	900.0
maturity for interest hedge agreements	Years	4.0	4.1	3.9
Average interest rate	Per cent	3.61	3.76	3.48
Average interest margin	Per cent	1.38	1.54	1.39
Remaining time to maturity for interest-bearing debt	Years	2.7	2.8	3.3
Market value of property portfolio	NOK mill.	15 570.9	15 036.4	15 360.5
Gross debt to asset ratio (gross LTV)	Per cent	44.6	46.9	45.2
Net debt to asset ratio (net LTV)	Per cent	43.7	45.2	44.7

Interest-bearing liabilities

Interest-bearing liabilities totalled NOK 6 951.9 million (NOK 7 054.7 million) at 30 September. In addition, the group had undrawn credit facilities of NOK 900 million (NOK 900 million).

No changes were made to the group's loan portfolio during the third quarter other than payment of regular instalments.

Interest hedges

The table below presents the maturity structure for interest-rate hedges on the group's interest-bearing debt at 30 September 2018.

Maturity profile of interest hedges	Amount (NOK mill.)	Interest ¹ (per cent)	Share of total liabilities (per cent)
< 1 year	2 952	1.0	42
1 > 2 year	350	4.3	5
2 > 3 year	1 100	3.4	16
3 > 4 year	650	3.4	9
4 > 5 year	500	2.2	7
> 5 year	1 400	2.1	20
Total	6 952	2.1	100

¹ Average basic interest for amount due.

Norwegian Property's interest hedge ratio was 62.6 per cent at 30 September 2018.

Market and operations

Commercial property market

Office vacancy in Oslo is estimated to be 5.8 per cent, and is somewhat lower in both the city centre and the Nydalen district. Vacancy is expected to decline over the next few years as a result of decisions already taken to convert space to other applications (primarily residential), limited newbuild activity and continued growth in employment. Activity in the letting market is good. Rents are rising in a number of areas. Declining vacancy is expected to be positive for rent developments in the time to come.

In Stavanger, interest in city centre space is rising. Oil-related enterprises are also showing growing interest in space in the Forus area which is flexible in terms of both size and lease duration.

The level of activity in the transaction market was very high last year. This has persisted in 2018, with many property transactions in various segments at sharp yield levels. Long-term market interest rates have risen slightly in 2018. Further increases in these rates are expected to have a negative effect on investor willingness to accept exposure to investment property. However, many buyer groups are active and hunting for good objects.

Prime yield for Oslo is still estimated to be 3.75 per cent, with downward pressure on yields for secondary properties.

The property portfolio

Norwegian Property owned a total of 32 office and commercial properties at 30 September. These are located in central areas of Oslo and Bærum (92 per cent of ongoing annual rental income at 30 September), at Gardermoen (3.8 per cent) and in Stavanger (4.2 per cent). The group's properties primarily comprise offices with associated warehousing and parking, and retail and restaurant space.

Two independent valuers have valued all the properties in the group's portfolio, based on the same methods and principles applied in previous periods. The accounting valuation at 30 September 2018 is based on an average of the two valuations.

At 30 September, the group's portfolio of investment properties was valued at NOK 15 507.9 million (NOK 15 036.4 million). Investment properties held for sale and properties used by the owner were carried

separately on the balance sheet at NOK 885.5 million and NOK 76.2 million respectively, and recognised at fair value. Investment properties held for sale relate to Nedre Skøyen vei 24-26 and Hovfaret 11, which are covered by agreements to sell in the first quarter of 2019. Fair-value adjustments recognised in profit and loss for the investment properties in the third quarter were positive at NOK 66.7 million.

Total ongoing annual rental income (run rate) from the portfolio was NOK 789.8 million at 30 September, down by NOK 6.9 million on a like-by-like basis from 1 July. This related primarily to premises being vacated at Maskinveien 32 in Stavanger.

Overall financial vacancy in the property portfolio totalled 5.7 per cent. This vacancy related to a great extent to properties in the Stavanger region and at Fornebu in Bærum local authority. Financial vacancy for the properties in the Oslo region (the portfolio outside Stavanger) came to 2.8 per cent.

The weighted average remaining duration of the leases is 3.8 years.

The average rent adjustment factor for the consumer price index is 99.7 per cent for the total portfolio.

Shareholder information

The company had 1 506 registered shareholders at 30 September, down by 34 from 30 June.

Non-Norwegian shareholders held 69 per cent of the share capital at 30 September, a slight increase from 30 June.

The number of shares traded during the third quarter averaged 123 063 per day. For 2017 as a whole, the daily average was 227 590 shares. Corresponding daily turnover was 0.3 million in 2016 and 0.9 million in 2015.

The company's share capital totalled NOK 274 223 416 at 30 September, divided between 548 446 832 shares with a par value of NOK 0.50 per share.

Norwegian Property ASA held 21 236 shares in the company as treasury shares at 30 September.

The largest shareholders registered with the Norwegian Central Securities Depository (VPS) at 30 September 2018 are presented below.

Shareholder	Type of acc.	Country	Number of shares	Share
GEVERAN TRADING	ORD	CYP	325 410 616	59.33
FOLKETRYGDFONDET	ORD	NOR	73 751 642	13.45
NIAM V PROSJEKT	ORD	NOR	67 437 425	12.30
THE BANK OF NEW YORK STICHTING DEPOSITARY	NOM	NLD	23 131 995	4.22
DANSKE BANK	NOM	USA	4 261 628	0.78
STATE STREET BANK AN A/C WEST NON-TREATY	ORD	NOR	3 290 952	0.60
NIKI	NOM	USA	2 000 000	0.36
SALT VALUE	ORD	NOR	1 917 969	0.35
GOLDMAN SACHS INT. SEC.	NOM	GBR	1 713 138	0.31
THE BANK OF NEW YORK C/O BNYMSANV.	ORD	NOR	1 661 674	0.30
KAS BANK N.V. S/A CLIENT ACC. TREATY	ORD	NOR	1 591 737	0.29
STATE STREET BANK AN A/C CLIENT OMNIBUS	NOM	LUX	1 514 217	0.28
MORGAN STANLEY INV.	ORD	NOR	1 455 509	0.27
MATHIAS HOLDING	NOM	FIN	1 400 000	0.26
EIKA NORGE	NOM	NLD	1 373 905	0.25
SKANDINAVISKA ENSKIL SEB AB, UCITS V - FI.	ORD	NOR	1 370 112	0.25
ESPEDAL & CO	ORD	NOR	1 264 767	0.23
JPMORGAN CHASE BANK, BTC A FUNDS MAX TAX	ORD	NOR	1 102 326	0.20
NORDEA BANK	NOM	USA	1 000 000	0.18
BANAN II	ORD	GBR	1 000 000	0.18
OTHER			30 797 220	5.62
Total number of shares			548 446 832	100.00

Outlook

Vacancy in Oslo is estimated at 5.8 per cent, and is expected to continue declining as a result of growth in employment, conversion of space to other applications and limited newbuild activity. Activity in parts of Stavanger's letting market is increasing slightly.

The Oslo portfolio, which accounts for just over 90 per cent of the property value in the group, has little vacancy.

Norwegian Property has entered into agreements with other property players on making joint applications for planning permission to develop the company's properties where this is considered to offer potential added value for the company. At 30 September, such partnerships covered properties in Stavanger. The company is also working actively with other long-term development opportunities in the portfolio and where it sees an exciting development potential.

In a demanding transaction market, the board is concerned to take advantage of opportunities which strengthen the company's position in its core areas – which are primarily Oslo's central business district and Nydalen.

The board has a mandate from the company's AGM to determine dividend payments between AGMs. A dividend of NOK 0.07 has been approved by the board for the third quarter of 2018.

The company's goal is to pay 30-50 per cent of ordinary profit after tax payable but before fair-value adjustments to shareholders in the form of dividend. Before the dividend is set, an assessment is made of the group's financial position and prospects, including a possible increase in capital requirements for investment in properties and changes to the revenue base as a result of property sales.

Interim accounts

Consolidated condensed income statement and statement of comprehensive income

Amounts in NOK million	Note	3Q-18	3Q-17	30.09.18	30.09.17	31.12.17
Revenue		202.2	197.7	598.0	590.8	784.3
Property-related operational expenses		(18.4)	(16.2)	(55.0)	(49.0)	(66.0)
Other property-related expenses		(15.3)	(15.3)	(48.7)	(43.5)	(58.0)
Total property-related expenses		(33.7)	(31.5)	(103.7)	(92.5)	(124.0)
Administrative expenses		(11.7)	(11.5)	(38.1)	(40.5)	(53.7)
Total operating expenses		(45.5)	(43.0)	(141.9)	(132.9)	(177.7)
Operating profit before fair-value adjustments		156.7	154.7	456.2	457.9	606.6
Change in market value of investment property	4	66.7	326.4	48.0	766.7	1 046.7
Operating profit		223.4	481.1	504.2	1 224.6	1 653.3
Financial income	3	0.4	0.4	1.4	1.9	2.5
Financial cost	3	(66.0)	(73.0)	(197.7)	(222.9)	(292.4)
Realised net financial items		(65.6)	(72.6)	(196.4)	(221.0)	(289.9)
Change in market value of financial derivative instruments	3, 5	37.6	9.1	86.2	26.9	43.6
Net financial items		(28.0)	(63.5)	(110.2)	(194.1)	(246.3)
Profit before income tax		195.4	417.6	394.0	1 030.5	1 407.0
Income tax	8	(68.0)	198.6	(141.7)	56.2	(58.3)
Profit for the period		127.4	616.2	252.3	1 086.7	1 348.7
Profit attributable to non-controlling interests		-	-	-	-	-
Profit attributable to shareholders of the parent company		127.4	616.2	252.3	1 086.7	1 348.7

Amounts in NOK million	Note	3Q-18	3Q-17	30.09.18	30.09.17	31.12.17
Value adjustment of owner-occupied property	4	2.9	1.9	4.9	0.7	3.7
Total other comprehensive income		2.9	1.9	4.9	0.7	3.7
Other comprehensive income which may subsequently be reclassified to profit or loss, net of tax		-	-	-	-	-
Total comprehensive income		130.3	618.1	257.2	1 087.4	1 352.3
Total comprehensive income attributable to shareholders of the parent company		130.3	618.1	257.2	1 087.4	1 352.3
Total comprehensive income attributable to non-controlling interests		-	-	-	-	-

Consolidated condensed balance sheet

Amounts in NOK million	Note	30.09.18	30.09.17	31.12.17
Financial derivative instruments	5	21.4	1.7	2.3
Investment property	4	14 609.3	14 969.1	15 289.8
Owner-occupied property	4	76.2	67.3	70.8
Other fixed assets		44.0	46.0	42.3
Total non-current assets		14 750.8	15 084.2	15 405.1
Financial derivative instruments	5	0.5	1.0	0.4
Receivables		69.3	97.7	81.4
Cash and cash equivalents	7	154.7	259.3	89.2
Investment property held for sale	4	885.5	-	-
Total current assets		1 110.0	358.1	171.1
Total assets		15 860.8	15 442.2	15 576.2
Share capital		274.2	274.2	274.2
Share premium		2 295.2	2 295.2	2 295.2
Other paid in equity		7 557.3	7 557.3	7 557.3
Retained earnings		(2 325.6)	(2 692.9)	(2 471.9)
Total equity		7 801.1	7 433.8	7 654.8
Deferred tax	8	674.7	416.1	531.5
Financial derivative instruments	5	161.0	265.3	233.1
Interest bearing liabilities	7	6 344.4	5 348.2	6 940.5
Other liabilities		2.3	57.4	57.4
Total non-current liabilities		7 182.4	6 087.0	7 762.5
Financial derivative instruments	5	2.4	2.4	0.5
Interest bearing liabilities	7	607.5	1 706.5	9.9
Other liabilities		267.3	212.5	148.6
Total current liabilities		877.2	1 921.4	159.0
Total liabilities		8 059.7	8 008.4	7 921.4
Total equity and liabilities		15 860.8	15 442.2	15 576.2

Consolidated condensed statement of changes in equity

Amounts in NOK million		Share capital	Share premium	Other paid in equity	Retained earnings	Total equity
Total equity	31.12.16	274.2	2 295.2	7 557.3	(3 637.8)	6 488.9
Total comprehensive income		-	-	-	1 087.4	1 087.4
Paid dividend		-	-	-	(142.6)	(142.6)
Total equity	30.09.17	274.2	2 295.2	7 557.3	(2 692.9)	7 433.8
Total comprehensive income		-	-	-	264.9	264.9
Paid dividend		-	-	-	(44.0)	(44.0)
Total equity	31.12.17	274.2	2 295.2	7 557.3	(2 471.9)	7 654.8
Total comprehensive income		-	-	-	257.2	257.2
Employee share-option scheme		-	-	-	4.3	4.3
Paid dividend		-	-	-	(115.2)	(115.2)
Total equity	30.09.18	274.2	2 295.2	7 557.3	(2 325.6)	7 801.1

Consolidated condensed statement of cash flow

Amounts in NOK million	Note	3Q-18	3Q-17	30.09.18	30.09.17	31.12.17
Profit before income tax		195.4	417.6	394.0	1 030.5	1 407.0
Depreciation of tangible assets		1.3	1.6	4.2	4.9	7.5
Fair value adjustment of investment property	3	(66.7)	(326.4)	(48.0)	(766.7)	(1 046.7)
Fair value adjustment of financial derivative instruments	4	(37.5)	(10.1)	(89.4)	(71.4)	(105.5)
Change in short-term items		49.8	37.7	76.2	27.0	(27.8)
Net cash flow from operating activities		142.2	120.4	337.0	224.3	234.6
Payments for purchase of investment property and other fixed assets		(57.4)	(61.1)	(149.0)	(154.3)	(187.5)
Net cash flow from investing activities		(57.4)	(61.1)	(149.0)	(154.3)	(187.5)
Net change in interest-bearing debt	6	(2.2)	121.3	(7.3)	285.6	182.4
Paid dividend		(38.4)	(38.4)	(115.2)	(142.6)	(186.5)
Net cash flow from financial activities		(40.6)	83.0	(122.4)	143.0	(4.1)
Net change in cash and cash equivalents		44.3	142.3	65.5	213.1	43.0
Cash and cash equivalents at the beginning of the period		110.5	117.0	89.2	46.2	46.2
Cash and cash equivalents at the end of the period		154.7	259.3	154.7	259.3	89.2

Notes to the condensed financial statements

NOTE 1: General information

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 Støperigata 2, Oslo (Norway). The company's shares are listed on the Oslo Stock Exchange under the ticker NPRO.

The interim report of Norwegian Property ASA was approved at a board meeting on 24 October 2018. This report has not been audited.

NOTE 2: Accounting policies

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 2017. 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 2017.

No significant changes have been made to accounting policies compared with the principles used in the preparation of the financial statements for 2017, but the group has implemented the following new standards and changes of standards in the 2018 interim financial statement:

- IFRS 9 Financial Instruments addresses the classification, measurement and recognition of financial assets and liabilities and hedge accounting. The complete version of IFRS 9 was issued in July 2014. It replaces the parts of IAS 39 that relate to similar issues. Under IFRS 9, financial assets are classified into three categories: fair value through other comprehensive income, fair value through profit and amortised cost. The measurement category is determined on initial recognition of the asset. The classification depends on the entity's business model for managing its financial instruments and the characteristics of the cash flows of the individual instrument. Equity instruments shall initially be measured at fair value. The company may elect to present value changes in other comprehensive income, but the choice is binding and subsequent gain or loss cannot be reclassified to income. Impairment due to credit risk should be recognised based on expected loss rather than the current model where losses must be incurred. For finan-

cial liabilities, the standard is based on IAS 39. The biggest change is where the fair value option is adopted for financial liabilities, the changes in fair value due to changes in own credit risk are recognised in other comprehensive income. IFRS 9 simplifies the requirements for hedge accounting by linking hedging effectiveness more closely to management's risk control and provides a greater scope for assessment. Meanwhile hedge documentation is still required. The standard is effective for the financial year 2018. Implementation of the standard has not had a material effect on the accounts of Norwegian Property.

- IFRS 15 Income from customer contracts is related to revenue recognition. The standard requires a division of the customer contract in the individual performance obligations. A performance obligation can be a product or a service. Revenue is recognised when a customer obtains control of the product or service and thus can determine the use and receive the benefits of the product or service. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations. The standard is effective for the financial year 2018. Implementation of the standard has not had a material effect on the accounts of Norwegian Property, as the group's income is mainly accounted for in accordance with IAS 17.

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 2017.

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.

NOTE 3: Net financial items

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

Amounts in NOK million	3Q-18	3Q-17	30.09.18	30.09.17	31.12.17
Interest income on bank deposits	0.4	0.5	1.4	1.9	2.5
Total financial income	0.4	0.5	1.4	1.9	2.5
Interest expense on borrowings	(66.0)	(73.0)	(197.7)	(222.9)	(292.4)
Total financial cost	(66.0)	(73.0)	(197.7)	(222.9)	(292.4)
Realised net financial items	(65.6)	(72.6)	(196.4)	(221.0)	(289.9)
Change in market value of financial derivative instruments	37.6	9.1	86.2	26.9	43.6
Net financial items	(28.0)	(63.5)	(110.2)	(194.1)	(246.3)

NOTE 4: Investment property

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

Amounts in NOK million	Note	3Q-18	3Q-17	30.09.18	30.09.17	31.12.17
Total value of investment property, opening balance		15 434.6	14 643.8	15 360.5	14 112.1	14 112.1
Acquisition and on-going investment in properties		66.2	61.0	157.8	153.3	188.0
Recognised in the income statement for the period		66.7	329.4	47.2	771.3	1 057.1
Recognised in other comprehensive income for the period		3.4	2.2	5.4	(0.2)	3.3
Total value of investment property, closing balance		15 570.9	15 036.4	15 570.9	15 036.4	15 360.5
Of which investment property held for sale	1	(885.5)	-	(885.5)	-	-
Investment property, not held for sale		14 685.4	15 036.4	14 685.4	15 036.4	15 360.5
Of which owner-occupied property	2	(76.2)	(67.3)	(76.2)	(67.3)	(70.8)
Book value of investment property		14 609.3	14 969.1	14 609.3	14 969.1	15 289.7

¹ 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. From first quarter 2018, these properties are classified in the balance sheet as investment properties held for sale at the present value of contractual cash flows.

Norwegian Property has also entered into an agreement with Avinor on cancelling long-term land leases at Gardermoen. The cancellation will come into force at 31 December 2019, when the lease held by SAS expires. At that point, Avinor will take over the buildings on the leased land, and Norwegian Property retains the rental income and operational responsibility for the properties until the date of the takeover. In the balance sheet the properties are classified as ordinary investment property, valued at the present value of agreed cash flows. Classification as investment property held for sale assumes expected realisation within one year from the balance sheet date.

² 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	Level 1 ¹	Level 2 ¹	Level 3 ¹	Total
	30.09.18			
Investment property	-	-	14 609.3	14 609.3
Owner-occupied property	-	-	76.2	76.2
Investment property held for sale	-	-	885.5	885.5
Total	-	-	15 571.0	15 571.0
	30.09.17			
Investment property	-	-	14 969.1	14 969.1
Owner-occupied property	-	-	67.3	67.3
Total	-	-	15 036.4	15 036.4
	31.12.17			
Investment property	-	-	15 289.7	15 289.7
Owner-occupied property	-	-	70.8	70.8
Total	-	-	15 360.5	15 360.5

¹ 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 2017 and 2018.

NOTE 5: Financial derivatives

Change in net derivatives in the balance sheet (mainly interest-rate derivatives) is specified in the table below¹.

Amounts in NOK million	3Q-18	3Q-17	30.09.18	30.09.17	31.12.17
Net book value of derivatives, opening balance	(179.0)	(275.1)	(230.9)	(336.4)	(336.4)
Buyout of derivatives	(0.1)	1.0	3.2	44.6	62.0
Fair value adjustments of derivatives	37.6	9.1	86.2	26.9	43.6
Net book value of derivatives, closing balance	(141.5)	(265.0)	(141.5)	(265.0)	(230.9)
Of which classified as non-current assets	21.4	1.7	21.4	1.7	2.3
Of which classified as current assets	0.5	1.0	0.5	1.0	0.4
Of which classified as non-current liabilities	(161.0)	(265.3)	(161.0)	(265.3)	(233.1)
Of which classified as current liabilities	(2.4)	(2.4)	(2.4)	(2.4)	(0.5)

¹ All group interest-rate derivatives are cash flow hedges, and the group does not use hedge accounting for these derivatives.

NOTE 6: Financial instruments

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

Amounts in NOK million	30.09.18		30.09.17		31.12.17	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Non-current derivatives	21.4	21.4	1.7	1.7	2.3	2.3
Current derivatives	0.5	0.5	1.0	1.0	0.4	0.4
Current receivables	69.3	69.3	97.7	97.7	81.4	81.4
Cash and cash equivalents	154.7	154.7	259.3	259.3	89.2	89.2
Total financial assets	245.9	245.9	359.8	359.8	173.3	173.3
Non-current derivatives	161.0	161.0	265.3	265.3	233.1	233.1
Non-current interest-bearing liabilities	6 344.4	6 360.0	5 348.2	5 367.1	6 940.5	6 959.5
Current derivatives	2.4	2.4	2.4	2.4	0.5	0.5
Current interest-bearing liabilities	607.5	607.6	1 706.5	1 711.5	9.9	9.9
Other current liabilities	264.4	264.4	209.5	209.5	132.0	132.0
Total financial liabilities	7 379.7	7 395.4	7 532.0	7 555.9	7 316.0	7 335.0

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 (interest-rate and currency derivatives), 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	Level 1 ¹	Level 2 ¹	Level 3 ¹	Total
	30.09.18			
Non-current derivatives (assets)	-	21.4	-	21.4
Current derivatives (assets)	-	0.5	-	0.5
Non-current derivatives (liabilities)	-	(161.0)	-	(161.0)
Current derivatives (liabilities)	-	(2.4)	-	(2.4)
Total	-	(141.5)	-	(141.5)
30.09.17				
Non-current derivatives (assets)	-	1.7	-	1.7
Current derivatives (assets)	-	1.0	-	1.0
Non-current derivatives (liabilities)	-	(265.3)	-	(265.3)
Current derivatives (liabilities)	-	(2.4)	-	(2.4)
Total	-	(265.0)	-	(265.0)
31.12.17				
Non-current derivatives (assets)	-	2.3	-	2.3
Current derivatives (assets)	-	0.4	-	0.4
Non-current derivatives (liabilities)	-	(233.1)	-	(233.1)
Current derivatives (liabilities)	-	(0.5)	-	(0.5)
Total	-	(230.9)	-	(230.9)

¹ 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 2017 and 2018.

NOTE 7: Net interest-bearing position

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

Amounts in NOK million	Note	3Q-18	3Q-17	30.09.18	30.09.17	31.12.17
Loan facilities at par value, opening balance		6 969.6	6 956.5	6 974.7	6 792.3	6 792.3
Increase in loan facilities		-	424.0	230.0	1 511.0	2 911.0
Reduction in loan facilities		(2.2)	(302.7)	(237.3)	(1 225.4)	(2 728.6)
Loan facilities at par value, closing balance	1	6 967.4	7 077.8	6 967.4	7 077.8	6 974.7
Capitalised borrowing cost		(15.6)	(23.2)	(15.6)	(23.2)	(24.3)
Book value of interest-bearing debt		6 951.9	7 054.7	6 951.9	7 054.7	6 950.4
Of which classified as non-current liabilities		6 344.4	5 348.2	6 344.4	5 348.2	6 940.5
Of which classified as current liabilities		607.5	1 706.5	607.5	1 706.5	9.9
Interest-bearing debt		(6 951.9)	(7 054.7)	(6 951.9)	(7 054.7)	(6 950.4)
Cash and cash equivalents		154.7	259.3	154.7	259.3	89.2
Net interest-bearing position		(6 797.2)	(6 795.3)	(6 797.2)	(6 795.3)	(6 861.2)

¹ Unutilised credit facilities amounted to NOK 900 million at both 30 September 2018, 30 September 2017 and 31 December 2017.

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 30 September 2018, 62.6 per cent of such loans was secured (30 September 2017: 61.7 per cent). The total average interest margin on loans was

138 basis points (154 basis points). The loan portfolio has an average interest rate of 3.61 per cent (3.76 per cent), and remaining time to maturity for interest-bearing debt was 2.7 years (2.8 years). Remaining time to maturity for interest hedging agreements was 4.0 years (4.1 years).

NOTE 8: Deferred tax and income tax

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

Amounts in NOK million	Note	3Q-18	3Q-17	30.09.18	30.09.17	31.12.17
Profit before income tax		195.4	417.6	394.0	1 030.5	1 407.0
Income tax calculated at 23 per cent (24 per cent for 2017)		44.9	100.2	90.6	247.3	337.7
Changed tax rate on the closing balance	1	-	-	-	-	(23.3)
Temporary differences		23.0	(298.8)	51.0	(303.6)	(256.1)
Income tax		68.0	(198.6)	141.7	(56.2)	58.3
Deferred tax, opening balance		605.8	614.0	531.5	472.1	472.1
Recognised through profit and loss		68.0	(198.6)	141.7	(56.2)	58.3
Recognised through comprehensive income		0.9	0.6	1.5	0.2	1.1
Deferred tax, closing balance		674.7	416.1	674.7	416.1	531.5

¹ The company tax rate in Norway was reduced from 24 to 23 per cent at the beginning of 2018. Deferred tax at 31 December 2017 is therefore calculated on the basis of a tax rate of 23 per cent.

NOTE 9: Related-party disclosures

No agreements or significant transactions with related parties have been carried out in 2018.

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 2017).

NOTE 10: Events after the balance sheet date

In accordance with the mandate from the annual general meeting in 2018 the board decided on 24 October 2018 that a dividend of NOK 0.07 per share will be paid after the presentation of the accounts at the end of the third quarter of 2018.

No other significant events have occurred after the balance sheet date at 30 September 2018.

Definitions

Below is an explanation of figures and notions mentioned in the interim report, which are not derived directly from the accounts.

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.
Financial vacancy rate	Annualised market rent for space that, at the balance sheet date, do not generate rental income divided by total annualised rent for total space (contract rent for leased space and market rent for vacant 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.
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, book value	Net asset value, the book value of total equity in the balance sheet.
NAV, adjusted	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.
NNNAV	In relation to the Adjusted NAV, NNNAV (triple net asset value) 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.
Oslo CBD	Oslo Central Business District is considered the most attractive area for office space in Oslo. The area is usually limited to the districts of Aker Brygge, Tjuvholmen and Vika.

Other information

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Further information

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

Disclaimer

The information included in this Report contains certain forward-looking statements that address activities, events or developments that Norwegian Property ASA ("the Company") expects, projects, believes or anticipates will or may occur in the future. These statements are based on various assumptions made by the Company, which are beyond its control and are subject to certain additional risks and uncertainties. The Company is subject to a large number of risk factors including but not limited to economic and market conditions in the geographic areas and markets in which Norwegian Property is or will be operating, counterparty risk, interest rates, access to financing, fluctuations in currency exchange rates, and changes in governmental regulations. For a further description of other relevant risk factors we refer to Norwegian Property's Annual Report for 2017. As a result of these and other risk factors, actual events and our actual results may differ materially from those indicated in or implied by such forward-looking statements. The reservation is also made that inaccuracies or mistakes may occur in the information given above about current status of the Company or its business. Any reliance on the information above is at the risk of the reader, and Norwegian Property disclaims any and all liability in this respect.