Corporate governance

The object of corporate governance for Norwegian Property is to secure a clear and appropriate division of roles between shareholders, the board of directors and the executive management, and reassuring control of the company. An appropriate division of roles and reassuring control will contribute to the highest possible value creation over time to the benefit of the owners and other stakeholders. A goal is that good corporate governance will contribute to a positive trust-based relationship between Norwegian Property and the company's shareholders and other stakeholders.

Presentation on corporate governance

Norwegian Property observes the reporting requirements specified in section 33b of the Norwegian Accounting Act. As a listed company, it also complies with the stock exchange recommendation of 1 March 2017, available on the Oslo Børs website, and the latest version of the code of practice from the Norwegian Corporate Governance Board (NCGB), published in October 2018. The code is available on the NCGB website at www.nues.no. These recommendations go beyond the legal requirements.

The board's presentation of the way Norwegian Property has implemented the applicable Norwegian code of practice for corporate governance of 17 October 2018 is set out below. Reference is made to this presentation in the directors' report for 2018, and it is available on the company's website. The presentation covers each section of the code, and possible variances from the code are specified under the relevant section.

Overall principles for corporate governance have been drawn up by the board of Norwegian Property. The board has also prepared a set of formal documents which specify guidelines, instructions and policies intended to ensure compliance in practice with good corporate governance. The board regularly assesses the company's formal documents, most recently in October 2018. Guidelines for ethics and corporate social responsibility (CSR) as well as principles for investor communication are available at http://www.npro.no under "formal documents".

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

COLLABORATIVE

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

COURAGEOUS

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

PROACTIVE

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

ATTENTIVE

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

Business

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

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

Within the framework of its articles, the company has presented goals and strategies for its business in the directors' report.

The board has formulated guidelines for ethics and CSR in accordance with the group's values base. Norwegian Property's guidelines are available at www.npro.no. The core of the CSR guidelines is the company's responsibility for the people, society and environment affected by its operations, and they deal among other considerations with human rights, anti-corruption, labour conditions, health and safety, discrimination and environmental aspects. More details are provided in the presentation on CSR. These guidelines are subject to annual consideration by the board and were updated most recently in October 2018.

Equity and dividends

Equity

Consolidated equity at 31 December 2018 totaled NOK 8 002.8 million. The equity ratio at the same date was 46.9 per cent. The board regards the equity ratio as satisfactory in relation to the group's goals, strategy and risk profile.

To secure good financial freedom of action, the company has a long-term ambition that the relationship between net interest-bearing debt and gross fair value of the properties will be in the range of 45-55 per cent over a business cycle. The company's financial flexibility is assessed at any given time in relation to the company's goals, strategy and risk profile. At 31 December 2018, the relationship between net interest-bearing debt and gross fair value (net loan to value - LTV) was 47.3 per cent.

Dividend

Pursuant to the company's dividend policy, a goal for Norwegian Property is to pay competitive quarterly dividends. It aims to pay a dividend of 30-50 per cent of its profit after tax payable, but before fair-value adjustments. The dividend can be higher in times of good cash flow or property sales. An independent assessment of the group's financial position and prospects will be carried out before a dividend is determined.

Dividends corresponding to 44.5 per cent of the basis for calculating such payments have been paid for 2018. The board has been mandated by the general meeting to determine quarterly dividends on the basis of the approved financial statements for 2017. Although net LTV is somewhat below target, retaining funds for new investment has been felt to desirable. The property market is also considered to be experiencing a boom at present, which makes it appropriate stay in the lower part of the measurement scale for LTV.

The dividend policy is also described in note 24 to the consolidated financial statements in this annual report and in the investor relations section of the company's website.

Board mandates

The AGM of 19 April 2018 mandated the board to increase the company's share capital by up to NOK 27 420 000, corresponding to just under 10 per cent of the company's share capital when the mandate was awarded. The board mandate is motivated by the desire to be in a position to issue new shares in return for cash payment, as settlement for property transactions, and/or as a component in fulfilling incentive schemes for employees and/or directors. As a consequence of these purposes, it was also resolved that the board could decide to waive the pre-emptive right of existing shareholders to new shares. In line with the NCGB code, a separate vote was held on each of the three purposes. This mandate had not been utilised at 31 December 2018.

In addition, the board was mandated to raise convertible loans totalling NOK 750 000 000. This was because the board wanted to have the opportunity to issue new shares in combination with additional debt, partly in order to optimise the financing structure in Norwegian Property ASA. This mandate had not been utilised at 31 December 2018.

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

The board was also mandated to purchase the company's own shares up to a total nominal value of NOK 27 420 000. The grounds were that the board could acquire the company's own shares with the intention of using them as settlement for property transactions, fulfilment of incentive scheme for employees and/or directors, and/or in other circumstances which are considered attractive for the shareholders in general. In this case, too, separate votes were held for each purpose. Norwegian Property made no purchases of its own shares during 2018.

The board was mandated to determine the payment of dividend on the basis of the company's financial statements for 2017. This decision was motivated by the desire to give the board the opportunity to pay dividend on a rolling basis if it considered this to be appropriate in light of the company's position. Norwegian Property paid a quarterly dividend of NOK 0.07 per share during 2018.

All board mandates remain valid until the company's AGM in 2019, but in any event not beyond 30 June 2019.

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

Equal treatment of shareholders and transactions with close associates

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

No share issues were conducted by Norwegian Property in 2018. Pursuant to the code, the reasons for waiving the pre-emptive right of existing shareholders must be published in a stock exchange announcement in connection with a capital increase. The board will endeavour to comply with this point should such circumstances arise in the future.

Norwegian Property did not purchase or sell any of its own shares in 2018. Possible future transactions will be conducted on the stock exchange or in another manner at the stock market price.

The board and the executive management are concerned to ensure equal treatment of all the company's shareholders and that transactions with close associates (related parties) take place on an arm's length basis. Note 25 to the consolidated financial statements details transactions with close associates (related parties). Financial relationships related to the directors and executive personnel are described in notes 21 and 22.

Freely negotiated shares

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

The board considers good liquidity of the share to be important for Norwegian Property to be regarded as an attractive investment, and the company works actively to attract interest from the investor market.

General meetings

Notice, registration and participation
The board makes provision for as many as possible of its shareholders to exercise their rights by attending the general meeting. The 2019 AGM is scheduled to take place on 11 April. The company's financial calendar is published as a stock exchange announcement and in the investor relations section of the company's website.

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

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

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

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

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

Nomination committee

The company's articles of association call for the appointment of a nomination committee. Pursuant to the articles, the nomination committee will comprise two or three members. Its composition must take account of the interests of shareholders in general. The committee is independent of the board and the executive management, and otherwise composed pursuant to the code.

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

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

The present nomination committee was elected at the AGM of 19 April 2018 and comprises Marianne Johnsen and Robin Bakken. Bakken has served as chair since 13 April 2016. No regular directors or executive personnel are represented on the nomination committee. Deadlines for submitting nominations to the nomination committee are published on the company's website. The deadline for submitting nominations to the nomination committee (info@npro.no) for consideration by the 2019 AGM was 1 March 2019.

Board of directors, composition and independence

The company does not have a corporate assembly. Pursuant to the articles of association, the board of Norwegian Property will comprise three to nine directors. The board currently has seven shareholder-elected directors. Directors and the chair of the board have been elected by the general meeting until the AGM in 2019. See the provisions of the Public Limited Liability Companies Act. The board's composition is intended to secure the interests of the shareholders in general, while the directors also collectively possess a broad business and management background and an in-depth understanding of the property market, purchase and sale of businesses, financing and capital markets. In addition, account has been taken of the need for the board to function well as a collegiate body. The background and experience of directors are presented on the company's website and on page 15 of this annual report. The board has been composed in such a way that it can act independently of special interests. The company's executive management is not represented on the board.

Two of the seven directors are independent of the company's executive management, significant commercial partners and substantial shareholders, while four are related to substantial shareholders and one has an option agreement and an agreement to provide support to the company over and above regular board work. These are:

- Cecilie Astrup Fredriksen is an employee of Seatankers Management Co Ltd in London, and a director of a number of companies – including Mowi ASA and Ship Finance International Ltd. These companies are related parties to the largest shareholder in Norwegian Property, Geveran Trading Co Ltd.
- Kathrine Astrup Fredriksen is an employee of Seatankers Management Co Ltd in London, and a director of Seadrill Ltd. She has previously been a director of Frontline Ltd, Golar LNG and others. These companies are related parties to the largest shareholder in Norwegian Property, Geveran Trading Co Ltd.
- Lars Erich Nilsen has been employed by Seatankers Management Norway AS since 2014. This company is a related party to the largest shareholder in Norwegian Property, Geveran Trading Co Ltd.
- Kjell Sagstad is senior director of Niam and head of the company's Norwegian business. A company managed by Niam has a substantial shareholding in Norwegian Property.
- Carl Erik Krefting has an option agreement with Norwegian Property and has also entered into an agreement to support the company in assignments over and above regular board work. He is also the owner of Carucel Holding AS, which has entered into a total return swap (TRS) agreement for 4 326 842 shares in Norwegian Property.

Ten board meetings were held in 2018.

Work of the board of directors

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

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

The board appoints the CEO. The division of labour between the board and the CEO is specified in greater detail in standing instructions for the latter. The CEO is responsible for the company's executive management.

The board has considered it appropriate to appoint sub-committees to advise it. Pursuant to the Norwegian Public Limited Liability Companies Act, an audit committee of three directors has been established to support the board in the exercise of its responsibility for financial reporting, internal control, auditing and overall risk management. At 31 December 2018, the committee comprised Bjørn Henningsen (chair), Kjell Sagstad and Lars Erich Nilsen. Members of the committee are independent of the business, and their work is governed by a separate instruction. A compensation committee comprising two directors has also been established to assist the board over the employment terms of the CEO and the strategy and main principles for remunerating the company's senior executives. This committee comprised Merete Haugli and Carl Erik

Krefting at 31 December 2018. It is again governed by a separate instruction and consists of members who are independent of the company's executive management.

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

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

Pursuant to the company's ethical guidelines, no employee must work on matters in which they have a personal interest or where such an interest could be perceived to exist.

Risk management and internal control

Risk areas and internal control environment

Through its business activities, Norwegian Property manages considerable financial assets which are exposed to substantial risk factors, such as the money market and the letting market. The group's management model is based on an appropriate delegation of profit responsibility, clearly defined operating parameters and effective internal control.

Overall goals have been established and the company's strategy is updated continuously. On the basis of this strategy, the values base and the ethical guidelines, overall instructions have been established for the board which specify authorisations for delegating responsibility to defined roles in the organisation. Policies have furthermore been established for control and risk management in the most important risk areas, such as operations and finance.

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

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

Reporting

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

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

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

A special review of the quarterly valuations of investment properties is conducted by management, and meetings are held with the external players responsible for the valuations where particular attention is paid to market views and risk conditions. Separate accounting documentation is prepared for significant accounting items and transactions which are not of a routine character. External valuations of financial interest-rate derivatives by the banks are quality-assured through the preparation of monthly internal value assessments. All other balance sheet items are reconciled and documented on a continuous basis throughout the year. Significant profit and loss accounts and accounts related to direct and indirect taxation are also reconciled on a continuous basis.

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

Remuneration of the board of directors

Directors' fees are determined by the general meeting on the basis of recommendations from the nomination committee. These fees have been based on the board's responsibility, expertise and time taken as well as the complexity of the business and have not been related to results. One director has been awarded options as compensation for providing advisory services to the company in addition to his directorship. This was resolved by the AGM in 2018. It does not accord with the NCGB code but is justified on the grounds that the director in question has special expertise and that it is in this company's interest to utilise this expertise over and above the person's regular duties as a director.

Other directors have not undertaken special assignments for the company other than their work on the board. They are unable to accept such assignments without approval from the board in each case.

Further details on the remuneration paid to individual directors are provided in note 21 to the consolidated financial statements. An overview of shares owned by the directors and their close associates is included in note 22 to the consolidated financial statements.

Remuneration of executive personnel

The group's guidelines for the remuneration of senior executives are described in note 21 to the consolidated financial statements. This note also provides further details about remuneration in 2018 for certain senior executives. The guidelines are presented to the AGM as a separate item on the agenda. The declaration of management benefits is posted to the company's website under formal documents.

These guidelines specify the main principles for the company's executive pay policy and have been framed with the aim of ensuring that the interests of shareholders and senior executives coincide. The CEO, who took office at 1 January 2018, has a personal share option scheme (see note 22).

Profit-related remuneration in the form of a bonus programme is based on the attainment of goals for the group or for a department or company in which the recipient is employed. Such goals may comprise the attainment of various improvement measures or financial criteria, including the development of the company's share price. A ceiling has been set on the size of profit-related remuneration for those employees entitled to receive this.

Information and communication

Through the company's established principles for investor communication, available on its website under principles and guidelines, the board has determined guidelines for reporting financial and other information. Based on openness and equal treatment of players in the securities market, the guidelines also cover communication with shareholders outside the general meetings.

Reporting of financial and other information will be timely and accurate, while simultaneously being based on openness and equal treatment of players in the securities market. Information is published in the form of annual and interim reports, press releases, stock exchange announcements and investor presentations. All information considered to be significant for valuing the company will be distributed and published in both Norwegian and English via Cision and the Oslo Børs company disclosure system, and the company's website exists in both Norwegian and English versions.

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

The company publishes a financial calendar every year with an overview of the dates of important events, including the AGM, publication of interim reports and open presentations. This calendar is made available as a stock exchange announcement and on the company's website as soon as it has been approved by the board and is also reproduced in the annual report.

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

Takeovers

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

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

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

Auditor

An audit committee of three directors has been appointed. This committee is intended to support the board in the exercise of its responsibility for financial reporting, internal control, auditing and overall risk management. Its work is governed by an instruction. The company's auditor, PwC, conducted the following work during 2018 in relation to fiscal 2018.

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

PwC attended three meetings with the audit committee, which included reviewing the main features of the plan for executing the audit for the year and presenting results from the audit.

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

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