

# Norwegian Property :: annual report 2011







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# Presentation of the directors



## Arvid Grundekjøn

*Chair since May 2010*

Mr Grundekjøn (born 1955) was elected mayor of Kristiansand in 2011. He has held a number of senior positions and offices in the business sector, including chief executive and chair of the Anders Wilhelmsen group, chief executive of Royal Caribbean Cruise Line, and chair of Statkraft AS, Linstow ASA, IT Fornebu Eiendom AS, Awilco ASA, and Sparebanken Pluss among others. He is currently chair of Sigmafondene Holding AS, Sigma Fondsførlvaltning AS, Creati AS and others, and a director of the D/S Norden shipping company. He also sits on the Citibank Nordic Advisory Board. Mr Grundekjøn has an MSc in business economics from the Norwegian School of Economics and Business Administration and a law degree from the University of Oslo, and was licensed to practise law in 1981.

Mr Grundekjøn owned 50 000 shares in the company and had no options at 31 December 2011. He is a Norwegian citizen.



## Nils K. Selte

*Director since December 2008*

Mr Selte (born 1965) is chief financial officer of Canica AS, an investment company which concentrates primarily on such sectors as manufacturing, consumer goods, trading and property. At 31 December 2011, Canica and closely associated companies owned about 5.6 per cent of the shares in Norwegian Property. Mr Selte has previously held senior positions in such companies as Hakon Gruppen and ICA. He is a director of Komplett ASA, Jernia AS, several fund management companies and various companies in the Canica group. He has an MBE from the Norwegian School of Management.

Close associates of Mr Selte owned 479 000 shares in the company and held no options at 31 December 2011. He is a Norwegian citizen.



## Synne Syrrist

*Director since December 2008*

Ms Syrrist (born 1972) is a director of Awilco LNG ASA, Awilco Drilling Ltd, Global Rig Company ASA, Sector Epsilon AS, Vetro Solar AS and Castelar Corporate Finance AS. She was previously a partner and financial analyst at First Securities. Ms Syrrist holds an MSc from the Norwegian University of Science and Technology, and qualified as an authorised financial analyst at the Norwegian School of Economics and Business Administration.

Ms Syrrist owned no shares in the company and held no options at 31 December 2011. She is a Norwegian citizen.



## Gry Mølleskog

*Director since December 2008*

Ms Mølleskog (born 1962) became chief of staff to Their Royal Highnesses the Crown Prince and Crown Princess of Norway on 1 January 2012. She was previously senior client partner at Korn Ferry International for five years and has previous experience as chief of staff at the Royal Palace in Oslo. Ms Mølleskog has also held a number of positions with the SAS group – most recently as senior vice president in Stockholm. She is chair of the Norwegian Museum of Cultural History and a director of SAS AB and Quartz+Co AS. She studied at the Norwegian School of Management.

Ms Mølleskog owned no shares in the company and held no options at 31 December 2011. She is a Norwegian citizen.



## Jon Erik Brøndmo

*Director since May 2010*

Mr Brøndmo (born 1964) is chair of a number of investment and property companies, and also serves as a director of Pedra Mining AS, Norse Securities AS, Union Corporate AS and Oslo Apartments AS. He has previously been CFO and vice president IT at Choice Hotels Scandinavia ASA and CFO at Steen & Strøm ASA, and has been a director of Choice Hotels Scandinavia, Home Properties AS and Home Invest AS. He studied finance at the University of Colorado.

Mr Brøndmo owned no shares in the company and had no options at 31 December. He is a Norwegian citizen.

Directors' report 2011:

# Equipped for value creation

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Norwegian Property further strengthened its position during 2011 as a fully integrated property company focused exclusively on office properties. In line with its strategy for active management of the property portfolio, the company entered into several agreements for the purchase and sale of property during 2011. Its position as the majority owner at Aker Brygge was reinforced, and it developed extensive plans for upgrading and modernising this city quarter during the year. At the beginning of 2012, Norwegian Property is well equipped, financially, operationally and organisationally, to implement the investment plans drawn up to exploit the potential of the property portfolio. New loan facilities established during the year give the company a solid financial platform with a diversified maturity profile for its loans as well as capacity for future investment.

## About Norwegian Property

Norwegian Property owned 47 office and commercial properties in Norway at 31 December. Located in Oslo, Bærum, at Gardermoen and in Stavanger, these have a combined fair value before adjustments for deferred tax of NOK 15.7 billion. The group's properties primarily comprise office premises with associated warehousing and car parks, and retail and catering space. The business is organised in parent company Norwegian Property ASA with subsidiaries. The company's head office is in Oslo.

The company's business purpose article 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".

With 49 employees at 31 December, Norwegian Property is listed on the Oslo Stock Exchange with the ticker code NPRO and had a market value of NOK 3 669.7 million at the end of the year.

## The year 2011

### Highlights of 2011

*New credit facilities secure financial freedom of action and investment capacity*

Norwegian Property established new credit facilities totalling NOK 9 960 million in the first half of 2011. These new credits give the

group a solid financial platform with a diversified maturity profile for its borrowings. The facilities ensure refinancing of loans falling due in 2011 and 2012, and provide capacity for future investments.

After the refinancing, the group's net loan-to-value ratio<sup>1</sup> declined from 62.7 per cent at 31 December 2010 to 61 per cent a year later.

### *Major transformation of Aker Brygge*

Aker Brygge, which occupies the former Akers Mekaniske Verksted shipyard, has been a leading centre for industry, retailing and pleasure in Oslo over the past 25 years. Three decades have passed since it was first created, and a number of interventions large and small have occurred in that time. As the majority owner at Aker Brygge, Norwegian Property has unveiled extensive plans for upgrading and modernising the area with a clear goal of creating a far more unified impression which reflects solid quality and provides a good local atmosphere.

Work is already under way, and plans call for "New Aker Brygge" to be completed in 2015.

*Strategic transactions confirm active portfolio management*  
In line with Norwegian Property's strategy for active management of

<sup>1</sup> Net loan-to-value ratio = gross interest-bearing debt less liquid assets less seller credits to the buyer of Norgani divided by the gross fair value of the properties.

the property portfolio, the company entered into several agreements on the purchase and sale of properties in 2011. Agreement was reached during the first half on the purchase of an office section in the Workshops part of Aker Brygge, and four office sections were acquired by Norwegian Property in the area's Terminal Building during August. A further section in the Workshops was taken over by the company in the fourth quarter. The sections in the Workshops and the Terminal Building are regarded as strategically important for ensuring the progress of the planned Aker Brygge upgrading.

Furthermore, the Kolstadgata 1 property at Tøyen in Oslo was sold in October for NOK 32 million. These premises were outside Norwegian Property's strategic priority area, and had been without rental income for more than a year. Norwegian Property regards the transaction as both financially and operationally attractive.

Norwegian Property entered into an agreement in the fourth quarter of 2011 to acquire a site at Drammensveien 149 in the Skøyen area from Esso Norge AS. This site has a tenancy in common with Norwegian Property's existing building at Drammensveien 149 and has previously been used as a service station. Given the positive synergies associated with the existing property, Norwegian Property expects – after rezoning – to be able to construct an office building of 10-12 000 square metres on the acquired site. The transaction was completed in January 2012 at a total purchase price of NOK 99.8 million.

Preliminary agreement was also reached during the year on the sale of Middelthuns gate 17 in Oslo. A binding sales contract was signed by the parties in early 2012 at a gross property value of NOK 700 million, which is NOK 44 million higher than the valuation at 30 September 2011. The property is leased in its entirety to Nordea Bank Norge ASA until 2016.

#### *Strategic commitment to customer satisfaction yields positive results*

A wide-ranging tenant survey has been conducted on behalf of Norwegian Property by the Norwegian Lessee Index (NLI). The results for 2011 showed a substantial improvement in the overall customer satisfaction index (CSI) compared with a similar poll in 2009. The overall CSI rose from 60 to 66 on the NLI's scale and thereby exceeds the average for the NLI's overall database. Customers experienced the greatest improvement in reputation and in dealing with fault reports and complaints. At the same time, they confirm that parts of the portfolio need upgrading and modernising. Norwegian Property's long-term goal in a CSI of more than 70.

## Strategic goals

The board conducted an extensive review of the group's strategy in 2010 with the goal of concentrating its commitment on attractive office properties and of being perceived as a customer-oriented and fully integrated industrial property company. The transformation from a diversified financial player to a focused industrial player had largely been completed by the beginning of 2011. During the year, the company positioned itself for future growth through further development of its existing portfolio on the basis of the strategic goals established in 2010.

### Competitive return on equity

Norwegian Property has a long-term goal of delivering a return on equity before tax of at least 12 per cent, including on-going operational results and the rise in value. In order to deliver a good return, the company's attention is focused on all the long-term value drivers for property players:

- :: marketing and letting
- :: property management
- :: property development
- :: transactions and financing.

The company's ambition is that 30-50 per cent of its ordinary profit after tax, but before value adjustments, will be paid as dividend to the shareholders. In view of the company's efforts to secure good financial freedom of action, the board has signalled that dividend could lie below the long-term target for a time.

### Norway's most customer-oriented property company

Norwegian Property's vision is that the property profession first and foremost involves creating meeting places which encourage engagement and provide favourable conditions for developing relationships between people and with the world at large. This philosophy pervades the whole of the company's property business, which embraces development, administration, day-to-day management and maintenance. The long-term aim is to be regarded as Norway's most customer-oriented property company.

### Recruit, retain and develop staff

Norwegian Property is an expertise-driven organisation, which aims to be an attractive employer where staff thrive. Active efforts will be made to facilitate the development of employees and their expertise in order collectively to form a leading professional team in the

Norwegian property sector.

### Investment strategy

Norwegian Property has a focused strategy for investment based on the following main parameters:

- :: a focus on attractive properties in office clusters close to traffic hubs in the largest Norwegian cities
- :: a principal focus on office properties and possible commercial premises associated with these
- :: a focus on high-quality tenants, a diversified lease-term structure and a high level of inflation adjustment in the leases
- :: a focus on environment-friendly properties.

### Financing strategy

Norwegian Property's ambition is to deliver a competitive financial return over time with a balanced financial risk profile. The main parameters of its financial strategy are:

- :: a goal that the loan-to-value ratio will lie between 55 and 65 per cent over time
- :: borrowing will be based on long-term relationships with banks which have a long-term strategy in the Norwegian property market
- :: The company's ambition is to achieve a stable development in cash flow which requires a relatively high level of interest rate hedging, at 50-80 per cent of total borrowing over time.

### Macroeconomic conditions

Financial markets were affected during 2011 by considerable uncertainty in the international economy. The debt crisis in the eurozone spread to an ever-expanding number of member states during the year, and the industrial countries thereby experienced lower growth than expected. However, the emerging economies grew more strongly than had been predicted at the beginning of the year.

Although weak economic growth and international financial turmoil moderated the expansion of the Norwegian economy, macroeconomic indicators show more positive trends for Norway than for many other nations. According to Statistics Norway (SSB), gross domestic product for mainland Norway grew by 1.9 per cent in 2010 and 2.6 per cent in 2011. Both consumers and companies showed a wait-and-see attitude at the start of 2012, but oil investment is expected to compensate for much of the decline in demand. Low interest rates combined with a strong rise in real incomes lay the ba-

sis for rising consumption. The SSB forecasts an annual GDP growth of 2.5, 2.7 and 3.3 per cent for mainland Norway in 2012, 2013 and 2014 respectively.

According to the SSB's estimates, employment in Norway rose by 1.4 per cent in 2011. Unemployment fell from 3.6 per cent to 3.3 per cent of the workforce in 2011, but is expected to rise somewhat in 2012 and then remain stable. Projections indicate a substantial increase in Norway's total population in the next few decades. The population of Oslo is expected to rise by 1.5-2.2 per cent annually up to 2015, and Stavanger's annual population growth is put at 1.9-2.6 per cent over the same period (source: SSB, January 2012).

## The market for commercial property

According to Akershus Eiendom, overall vacancy in the Oslo area at 31 December 2011 was around 7.5 per cent of total available space. That represented a decline of eight per cent from 1 January. Based on a moderate pace of new building after a strong 2012 and 2013, and a growing degree of demolition and conversion of older, outdated office properties, Akershus Eiendom expects vacancy to lie between 6.5 and eight per cent over the coming three years.

Trends for rents in Oslo over the past 12 months showed a rise for centrally located office properties of a good standard, while developments for older buildings and secondary locations were weak or negative. That confirms a growing price differential between more or less attractive properties, where modern, environment-friendly and space-efficient offices close to public transport are in increasing demand. A big supply of vacated buildings indicates that growth in 2012 could be somewhat weaker, and this impression was reinforced by macroeconomic uncertainty during the autumn.

While only 60 000 square metres of office space were added to the Oslo market in 2011, substantial areas will be completed in 2012 and 2013. The level of speculative new building remains low, but the big volumes due to be completed in 2012 could put some pressure on the second-hand market in certain geographic areas.

Demand in Stavanger is driven to a great extent by activity in the oil and gas business. Rents in that city have fluctuated considerably in recent years, but major oil discoveries in the North Sea during 2011 provide grounds for renewed optimism in the region. It is difficult to find vacant premises of more than 2 000 square metres in central Stavanger and big tenants in the region are therefore willingly relocating to the Forus Industry Park, where larger areas are available. Office vacancy is higher at Forus than in central Stavanger, but the overall vacancy is about five per cent.

The total volume of the Norwegian transaction market for 2011 is

estimated at roughly NOK 35 billion, somewhat lower than the year before. Activity in the transaction market has been high at the beginning of 2012.

## Risk and risk management

The group's activities involve various types of risk: financial, market, development-related, credit and liquidity. The purpose of the group's overall risk management plan is to minimise potentially negative effects on the group's results and equity from volatility in financial markets. Financial derivatives are used by the group to hedge against certain risks.

Risk management in the group is conducted by a central finance department in accordance with guidelines approved by the board. The management team identifies, evaluates and hedges financial risk in close collaboration with the various operational units. The board has established written principles for overall risk management and provided written guidelines for specific risk areas.

### Financial risks

The group's financial risks relate primarily to changes in equity as a result of amendments to the value of the property portfolio, the effect of interest rate changes on profits and liquidity, and liquidity and profit risks when refinancing the group's debt.

Hedging is utilised to dampen the effect of interest rate changes on profits and liquidity. At 31 December, 81.1 per cent (2010: 94 per cent) of the group's interest-bearing debt was covered by interest rate hedges with an average term of 5.1 years (2010: 4.1 years). Fluctuations in short- and long-term market interest rates will accordingly have a limited impact on the group's interest expenses before changes in the value of derivatives.

At 31 December, the group had a total liquidity – including unused drawing rights – of NOK 1 207.1 million (2010: NOK 1 245.5 million). The group constantly seeks to have a liquidity buffer tailored to the repayment profile of its debt and on-going short-term fluctuations in working capital requirements.

The group was in compliance with applicable financial covenants related to its liabilities at 31 December 2011.

### Market risk

Norwegian Property is exposed to changes in market rents, vacancy in the portfolio, turnover-based rents and the rate of inflation. The group has a significant proportion of long-term leases, with an average remaining term at 31 December of 5.1 years (2010: 5.2 years). However, some of the group's buildings have a short remaining

lease term and considerable efforts are accordingly being devoted to re-letting and highlighting the potential of these properties.

The commercial property leases provide fixed revenues over their term. The majority of the leases permit full adjustment for changes in the consumer price index (CPI), so that rents can be adjusted in line with CPI developments.

Vacant space in the group's portfolio was 5.5 per cent of the total at 31 December (2010: 5.8 per cent), with strategic vacancy in anticipation of conversion projects at Aker Brygge and Skøyen accounting for about 2.1 percentage points. In addition, vacancy in Nydalen accounts for about 2.6 percentage points of the total. Conversion work is expected to be extended over about four years, and will lead periodically to increased vacancy in those parts of the portfolio affected by the project.

### Development risk

The group will be initiating extensive conversion and refurbishment projects at a number of its properties in 2012, initially in Stranden 3 (the Workshops) and Bryggegata 7-9 (the Carpentry and Administration Building) at Aker Brygge. Although the projects are regarded as adding value to the group's portfolio, the refurbishment involves risk – including in relation to the future letting ratio and rents for converted areas, cost overruns on procurement and planning, delays, delivery shortfalls and market developments.

To handle the risk associated with development projects, the group has established a competent organisation over the past year with relevant experience from and knowledge of similar development projects. Norwegian Property is also working systematically to develop tools for project management and execution. In addition, the group is benefiting from competent external resources to reduce risk related to its development projects.

### Credit risk

Norwegian Property's portfolio of office properties is characterised by high quality, central locations and a financially sound and well diversified set of tenants. Tenants of the group's office properties normally pay rent quarterly in advance. In addition, most leases require security for rent payments in the form of a deposit account or bank guarantee. The risk of direct losses from defaults or payment problems is accordingly limited, and relates primarily to re-letting of premises.

The group checks the credit rating and history of new tenants. Most tenants have provided bank guarantees or established deposit accounts containing a sum equivalent to three months rent. Rents

are largely invoiced quarterly in advance. Bad debts were limited in both 2010 and 2011.

In connection with the sale of Norgani Hotels in 2010, Norwegian Property provided a NOK 600 million seller credit to the buyer, Sech Holding AB. This group is controlled by Pandox AB and Heches Holding AB, which is controlled in turn by Eiendomsspar and the Sundt family. The loan is secured by a first-priority mortgage on the shares of Norgani Hotel and by guarantees from Pandox AB and Heches Holding AB, with NOK 200 million due to be repaid in November 2012 and NOK 400 million in October 2015.

### Liquidity risk

The group will ensure that it has sufficient liquidity/credit limits to meet its obligations. It will also have a sensible level of liquidity to meet unexpected commitments. The financing strategy aims to maintain flexibility in the market and to cope with fluctuations in rental income. One goal is that liquidity will consist as far as possible of available revolving credit and overdraft facilities rather than cash holdings.

Norwegian Property is well hedged against fluctuations in market interest and exchange rates, which reduces the need for liquidity to meet unexpected commitments in these areas. A positive cash flow was generated by the group from operations, in the form of profit from ordinary operations after ordinary financial items (profit before fair value changes and gain/loss from sale of properties) in both 2011 (NOK 336.8 million) and 2010 (NOK 327.7 million). Other liquidity risk relates first and foremost to servicing instalments on and redemption of loans.

New credit facilities totalling NOK 9 960 million were established by Norwegian Property in June 2011. These are divided into two facilities of equal size provided by Nordea Bank Norge ASA/Skandinaviska Enskilda Bank AB and DnB Nor Bank ASA/Fokus Bank respectively. The new facilities secure the refinancing of loans maturing in 2011 and 2012 while providing capacity for future investment. Following the refinancing, Norwegian Property has no loans which mature before 2013.

An overdraft facility of NOK 100 million was also established in December 2011 with Fokus Bank in order to optimise current liquidity.

At 31 December, the group had interest-bearing debt of NOK 10 164.8 million, with an average remaining term of 4.9 years. Debt instalments and redemption during 2012 total NOK 1 366.2 million, including capitalised expenses, and are classified as current liabilities in the consolidated balance sheet at 31 December 2011. This

amount includes NOK 1 323 million in outstanding bond loans maturing in March 2012, which has already been refinanced through the establishment of new credit facilities in June 2011.

### Group accounts

The group accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS), and consistent accounting principles are applied to all the periods presented

### Going concern assumption

Pursuant to the Norwegian Accounting Act, the board confirms that the going concern assumption is realistic. The annual accounts for 2011 have been prepared on that basis.

### Income statement

The consolidated income statement for 2011 embraces the office portfolio of 47 properties at 31 December. The hotel business organised through Norgani Hotels was divested in 2010 and was accordingly classified as discontinued business in that year.

Gross rental income totalled NOK 1 020.7 million (2010: NOK 1 025.1 million). Adjusted for the purchase and sale of office properties, this represents a decline of NOK 3 million.

Maintenance and other operating costs totalled NOK 85.4 million (2010: NOK 90.3 million). After a temporary increase in maintenance and other operating costs in 2010 and the first half of 2011, this item is now at a normal level. Its temporary increase reflected higher maintenance activity combined with the establishment of an internal management organisation as a result of terminating the contract with Neas on managing the group's properties in May 2011. Other property-related costs totalled NOK 13.6 million (2010: NOK 5.5 million). The 2011 rise reflected increased activity related to development projects and consequent cost recognition. Administrative owner costs totalled NOK 67.4 million (2010: NOK 58.9 million). Operating profit before financial items and fair value adjustments was thereby NOK 854.3 million (2010: NOK 870.4 million). No costs related to research and development activities have been recognised in the 2011 accounts.

Financial income, which consists largely of interest income, totalled NOK 37 million (2010: NOK 24 million). Financial expenses, primarily interest expenses and other costs related to the company's financing, were NOK 554.4 million (2010: NOK 566.7 million). Profit before tax and value adjustments was thereby NOK 336.8 million (2010: NOK 327.7 million).

The positive adjustment to the fair value of the company's prop-

erty portfolio totalled NOK 281.9 million, compared with NOK 170.6 million in 2010. This increase reflects a reduced required return and higher expectations for market rents. The change in fair value for financial instruments used to manage interest and exchange rate risk was negative at NOK 336.1 million (2010: NOK 69.9 million). The income effect of sold properties and settlement of earlier property sales was an accounting gain of NOK 1 million (2010: NOK 9.4 million). Pre-tax profit for the continued business thereby came to NOK 283.6 million (2010: NOK 437.8 million). The decline in profits primarily reflected the above-mentioned fall in the fair value of financial instruments.

NOK 59.7 million is recognised in the 2011 accounts (2010: NOK 86.7 million) as a tax expense for the continued business. As a result, net profit for the year for the continued business was NOK 223.9 million (2010: NOK 351.2 million).

Profit before tax and value adjustments for the discontinued business was NOK 4.8 million (2010: NOK 810.8 million), and reflects the reversal of a provision related to the sale of Norgani. After the result for the discontinued business, net profit for 2011 accordingly came to NOK 228.7 million (2010: loss of NOK 459.6 million).

### Cash flow

Cash flow from operating activities totalled NOK 245.4 million (2010: NOK 364.1 million)<sup>2</sup>.

Cash flow related to the purchase of other investments in fixed assets was negative at NOK 353.2 million (2010: NOK 68 million), and embraced the acquisition of four sections in the Terminal Building, two sections in the Workshops, completion of the Onda restaurant complex and two other ordinary investments at Aker Brygge and in the rest of the property portfolio. Cash flow from the sale of investment properties and operations amounted to NOK 33.1 million (2010: NOK 1 122.6 million), primarily as a result of the divestment of Kolstadgata 1. Net cash flow from investing activities was thereby negative at NOK 320.2 million (2010: positive at NOK 1 054.6 million).

Net cash flow from financing activities was negative at NOK 158 million (2010: NOK 1 418.3 million). The company reduced net interest-bearing debt by NOK 108.2 million in total during 2011, compared with NOK 1 944.5 million the year before. The net change in liquidity was negative at NOK 232.8 million (2010: positive at NOK 0.4 million).

<sup>2</sup> With effect from 2011, the cash effect of net financial expenses is included in net cash flow from operating activities, and comparative figures for 2010 have been restated accordingly (reclassified from "net cash flow from financial activities").



## Balance sheet and liquidity

Cash in hand at 31 December amounted to NOK 15.6 million (2010: NOK 248.4 million). In addition, the company had NOK 1 199.2 million in unused drawing rights at 31 December (2010: NOK 1 000 million). Total equity was NOK 5 164.1 million (2010: NOK 4 988.6 million), representing an equity ratio of 31.8 per cent (2010: 31.4 per cent). Carried equity per share came to NOK 10.36 (2010: NOK 10.01).

Interest-bearing debt at 31 December was NOK 10 164.8 million (2010: NOK 10 294.6 million). At 31 December, the average interest rate on the company's loans was 5.3 per cent (2010: 5.16 per cent). The average loan margin was 1.13 per cent (2010: 0.74 per cent). The average remaining term to maturity for the loans was 4.9 years (2010: two years).

The company had entered into net interest rate hedging contracts totalling NOK 8 866.1 million (2010: NOK 9 337 million) at 31 December, representing a hedging ratio of 81.1 per cent (2010: 94 per cent). The average remaining term of the interest rate hedges was 5.1 years (2010: 4.1 years). The bulk of the hedging is not subject to hedge accounting under IAS 39.

Norwegian Property redeemed its own bonds with a total face value of NOK 121 million in November 2010 and February 2011. As a result, the bond loan was written down in January 2012 by NOK 121 million to NOK 114 million maturing in March 2012.

## Properties

### Commercial property

Gross rental income from the group's office premises totalled NOK 1 020.7 million (2010: NOK 1 025.1 million). The average remaining term of the portfolio's leases at 31 December was 5.1 years (2010: 5.2 years), and rents are adjusted annually by an average of 98.1 per cent of the CPI.

Norwegian Property has financially sound and attractive tenants from both private and public sectors. The 25 largest office tenants accounted for 79 per cent of annual rental income at 31 December 2011.

The group has a portfolio of high-quality properties in the most central and attractive areas of Oslo and Stavanger, and is thereby well positioned to attract new tenants and retain existing ones. Norwegian Property is launching an extensive conversion project in 2012, embracing the properties at Aker Brygge. Expected to extend over roughly four years, the work will periodically result in increased vacancy and reduced rental income for those parts of the portfolio affected by the project. When the new Aker Brygge has been com-

pleted in 2015, Norwegian Property will be able to offer leases for first-class premises in Oslo's most attractive area for offices, retailing, eating out and entertainment.

Norwegian Property is working purposefully to secure leases for the new Aker Brygge, and awarded one to Fokus Bank in 2011 covering about 6 400 square metres in this quarter. The lease runs for 10 years from the expected date of occupation in January 2014. The rent is market-based and reflects the area's attractiveness and the standard of the office space after an extensive refurbishment. In addition, Norwegian Property has expanded the space involved and extended the term by 15 years for leases related to the Druen Restaurant og Vinbar, Åpenbar and Olivia Pizzeria på Aker Brygge restaurants. After the New Year, the group awarded a long-term lease to DNO International ASA for office premises in Stranden 1 at Aker Brygge. This runs for 10 years from the expected date of occupation in the fourth quarter of 2014. The lease covers a total area of roughly 2 400 square metres at an annual rent of NOK 4 250 per square metre, which is adjusted once a year in line with the increase in the CPI.

The biggest renewal in 2011 involved the extension of Statoil's lease for Grenseveien 21 in Stavanger. This covers the whole property until 30 June 2015 on today's terms without investment by the lessor. The total area of the property is 27 721 square metres. The extension is based on the lessee's option pursuant to the previous lease and also means that the lessee has the option to reduce the area utilised by all or part of the building with effect from 1 July 2013.

In addition, a lease was awarded to Codan Forsikring for Drammensveien 134 (building 5) at Skøyen in Oslo. These premises are currently sub-let to Codan by Atea. The lease covers 4 776 square metres of a total area of 7 642 square metres. The rent is market-based but below the amount paid by Atea today. The property will be let without substantial investment.

A total of 84 leases were awarded or renegotiated during 2011. The overall increase in rents under these leases was 5.4 per cent. At 31 December, vacancy in the group's portfolio was 5.5 per cent, compared with 5.8 per cent a year earlier.

### Valuation of the properties

DTZ Realkapital and Akershus Eiendom performed independent valuations of the company's office properties in Norway at 31 December 2011. The valuation models are based on discounting cash flows related to existing leases and the value of market rents after the expiry of existing leases. Individual assessments of current ex-

penses and upgrading costs and the risk of vacancy are made on a property-by-property basis.

The board and executive management have carried out independent assessments of parameters which affect the value of the company's properties, including developments in interest rates, market rents, occupancy, the yield level on property transactions and the quality of the properties. On the basis of these assessments, the board has concluded that the external valuations provide a realistic valuation of the properties. The total carried amount of the company's investment properties, after deducting tax compensation for purchases, was NOK 15 462.8 million at 31 December 2011 (2010: NOK 14 862.5 million).

Sales agreements have been entered into for the Middelthuns gate 17 and C J Hambros plass 2 (Ibsen Quarter) properties. These transactions have been closed in the first quarter of 2012. The two properties had an estimated net sales value of NOK 1 873.4 million at 31 December and were classified as held for sale. NOK 28.2 million in owner-occupied property was included in the other tangible assets item at 31 December, and recognised at fair value.

### Events after the balance sheet date

Since 31 December, Norwegian Property has agreed a property swap with KLP covering KLP's sections in Bryggetorget 1 (the Trust Building) at Aker Brygge and Norwegian Property's C J Hambros plass 2 (Ibsen Quarter) property. Under the transaction model, Norwegian Property is purchasing KLP's sections in Bryggetorget 1 for NOK 620 million. At the same time, KLP is acquiring the companies which own the Ibsen Quarter at a property value of NOK 1 220 million, which is NOK 22 million higher than the carried amount at 30 September 2011. After a deduction of NOK 10 million for the tax position of the Ibsen Quarter's property companies, Norwegian Property is receiving NOK 590 million as a cash settlement in connection with the property swap. With a central location at Aker Brygge and a substantial potential for further value creation, Bryggetorget 1 lies within Norwegian Property's core business and geographical priority area. The transaction was closed in February 2012.

In addition, a site at Drammensveien 149 was acquired during January 2012, and a binding contract on the sale of Middelthuns gate 17 in Oslo was signed in the same month. As a consequence of the redemption of NOK 121 million of the group's own bonds in 2010 and 2011, Norwegian Property wrote down the bond loan in January by a total of NOK 121 million. After the write-down, the remaining portion of the loan is NOK 114 million and matures in March 2012.

## Parent company accounts and coverage of net loss

The parent company, Norwegian Property ASA, had a net loss of NOK 371.2 million in 2011 (2010: NOK 950.9 million). The board proposes that the net loss for the year be covered by a transfer from other paid-in equity.

In accordance with the company's dividend policy, the board will propose to the AGM in April that a dividend of NOK 0.20 per share be paid for fiscal 2011, totalling NOK 99.7 million or about 30 per cent of the group's profit before income tax and value adjustments.

The board proposes the following coverage of the net loss of the parent company:

Transferred from other equity: NOK 371.2 million

Total: NOK 371.2 million

The company's non-restricted equity<sup>3</sup> totalled NOK 1 963.5 million at 31 December 2011.

## Organisation and diversity

The company had 49 employees at 31 December, up from 38 a year earlier. Its organisation was significantly strengthened during 2011, in part within management, operation and maintenance because the group took over the management of its commercial properties in Oslo during the year. This responsibility had previously been outsourced to external partners. Both the finance and property development departments were also further strengthened.

Fredrik W Baumann became director property development in January 2011 and joined the group's executive management team. He had previously served as chief executive of OKK Entreprenør AS, and has long experience from the construction sector and in project and building management. That includes serving as vice president projects at Avantor ASA, where he was also a member of the management team.

The company's executive management comprises five people, including one woman. Weight has been given when recruiting management and key personnel to combining professional expertise and experience of the property sector, while ensuring that personal qualities contribute to an aggressive and efficient organisation.

Fourteen of the company's 49 employees are female. Where equal opportunities and inclusion are concerned, efforts are made to ensure that all employees are given the same opportunities for per-

sonal and professional development and are treated equally regardless of their gender, age, ethnic origin or possible disabilities. As specified in the group's ethical guidelines, it does not accept any form of discrimination – on the basis of gender, race, religion or orientation, for instance.

Benefits, collateral and loans provided to executive personnel are described in [note 20](#) to the consolidated accounts.

## Board of directors

Arvid Grundekjøn was elected chair for a two-year term by the AGM in May 2010. The same meeting elected Jon Erik Brøndmo as a director for a two-year term. Nils K Selte, Synne Syrrist and Gry Mølleskog were re-elected by the same AGM for two-year terms.

## Health, safety and the working environment

No injuries were recorded in Norwegian Property's business during 2011. Overall sickness absence for Norwegian Property ASA amounted to 285.2 work-days or 2.6 per cent, compared with 3.9 per cent in 2010. The board gives weight to ensuring a good working environment in Norwegian Property through appropriate premises, dynamic working conditions and challenging jobs.

## Natural environment and social responsibility

A strategy for corporate environmental and social responsibility has been prepared by Norwegian Property with the goal of being Norway's leading property company for sustainable growth, working for a better society and reducing resource consumption through integrated solutions and the forward-looking use of architecture, aesthetics, technology and materials. The strategy involves zero tolerance of serious personal injuries in connection with Norwegian Property's properties and areas of responsibility.

From an environmental perspective, the practical outcome of the strategy will be reduced energy consumption and carbon emissions for both new and existing buildings, as well as a high level of waste sorting and lower water usage. High standards will also be set for waste sorting on construction sites, water-borne heating in all new buildings and reduced energy consumption during building projects. Goals have also been set for social involvement, reputation and employee satisfaction.

An infrastructure was built up by the company during the year for reporting key environmental figures. The system for reporting and follow-up will be operational from the first quarter of 2012.

In line with its ambitions for environmental and social responsibility, Norwegian Property resolved in the second quarter to invest

in a new seawater-based energy centre for Aker Brygge. Establishing this facility, based on heat pumps and free cooling, offers an environmental benefit in the form of reduced energy consumption and carbon emissions. The project has an investment framework of almost NOK 30 million, and will be self-financing. While the energy required for heating and cooling with traditional solutions is estimated to be about 4 200 000 kWh per year, it would be around 1 400 000 kWh/y with an optimum energy centre. That involves an annual saving for heating and cooling of more than 40 kWh per square metres. In addition, the investment is expected to reduce carbon emissions by 75 per cent.

Norwegian Property will increasingly emphasise conversion and refurbishment projects. Urban development and planning will occupy a key place its forthcoming projects. For new buildings, the company has specific goals for waste sorting, energy classification as a B building at a minimum, and the ambition of a "very good" Breeam certification.

## Shareholders

Norwegian Property had 2 048 shareholders at 31 December, down by 460 from the same time in 2010 (2 508 shareholders). Foreigners owned 56.2 per cent of the shares, compared with 51 per cent a year earlier. Shareholder policies and other aspects of the shareholder structure are described in the investor relations area of the [company's website](#).

## Corporate governance

Norwegian Property's overarching principles for corporate governance are intended to secure an appropriate division of roles between the company's owners, board of directors and executive management. Such a division will ensure that goals and strategies are adopted, that the approved strategies are implemented in practice and that the results achieved are measured and followed up. The principles will also help to ensure that the company's operations are subject to satisfactory controls. An appropriate division of roles and satisfactory controls will contribute to the greatest possible value creation over time to the benefit of shareholders and other stakeholders. One goal is that good corporate governance will contribute to positive relations between Norwegian Property and its shareholders and other stakeholders. Corporate governance in the company will be based on the following main principles:

:: the company will treat all shareholders equally

:: the interests of the shareholders in general will be protected

<sup>3</sup> Non-restricted equity = equity not tied up in the form of share capital and share premium reserve.

- :: the company will provide full, accurate and correlated information about its operations at the right time, and present it simultaneously and with the same content to all recipients
- :: the division of roles between owners, board and executive management will preserve their independence and prevent conflicts of interest
- :: transactions with close associates will be conducted on an arm's-length basis
- :: compliance with the applicable code of practice for good corporate governance will be based on the "comply or explain" principle.

A detailed presentation of the company's corporate governance, including a presentation of its internal controls, is provided at [www.npro.no](http://www.npro.no), in accordance with the Norwegian code of practice for corporate governance.

## Outlook

Weak growth and financial turmoil internationally create uncertainty for the Norwegian economy. Nevertheless, macroeconomic indicators show positive trends for Norway compared with many other nations. According to Akershus Eiendom, vacant space in Oslo was about 7.5 per cent at 31 December, and is expected to lie between 6.5 and eight per cent over the next three years.

Trends for office rents in Oslo over the past 12 months show that these rose for centrally located office properties of a good standard, while developments for older buildings and secondary locations were weak or negative. A big supply of vacated buildings combined with macroeconomic uncertainty indicates that growth could be somewhat weaker in 2012.

Substantial conversion and refurbishment projects will be launched in 2012 to strengthen Aker Brygge's position as Oslo's most attractive city quarter and office area. The company has established a competent organisation with special responsibility for its development projects, and detailed planning, risk assessment and quality control of the various phases were pursued during 2011. Conversion work is expected to extend over a period of about four years, and will periodically lead to vacancies in those parts of the portfolio embraced by the development. A key task for the future will be to secure new tenants for the converted areas.

Since 31 December, Norwegian Property has entered into an agreement on a property swap whereby it will take over office sections in Bryggetorget 1 at Aker Brygge. With a central location and a substantial potential for further value creation, Bryggetorget 1 lies within the company's core business and geographical priority area. Norwegian Property has thereby reinforced its position as the majority owner at Aker Brygge and strengthened its financial standing and freedom of action.

At the beginning of 2012, the company accordingly comes across as well prepared, financially, operationally and organisationally, to implement the investment plans it has drawn up to exploit the potential in its property portfolio.

## Declaration by the directors and chief executive

The board of directors and the chief executive have today reviewed and approved the directors' report and the annual consolidated and parent company financial statements for Norwegian Property ASA at 31 December 2011. The consolidated financial statements have

been prepared in accordance with the IFRS as approved by the European Union and associated interpretations as well as additional Norwegian disclosure requirements in the Norwegian Accounting Act in force at 31 December 2011. The parent company's financial statements have been prepared in accordance with the Norwegian Accounting Act and Norwegian generally accepted accounting principles at 31 December 2011. The directors' report for the group and the parent company complies with the requirements of the Norwegian Accounting Act and Norwegian Accounting Standard no 16 at 31 December 2011.

To the best of our knowledge, we confirm that:

- :: the annual parent company and consolidated financial statements for 2011 have been prepared in accordance with applicable accounting standards
- :: the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss as a whole at 31 December 2011 for the group and the parent company
- :: the directors' report for the group and the parent company provides a true and fair review of the development, financial results and position of the group and the parent company, and of the principal risks and uncertainties facing the group and the parent company.

Oslo, 28 February 2012

The board of directors of Norwegian Property ASA

Arvid Grundekjøn  
Chair

Nils K. Selte  
Deputy Chair

Gry Mølleskog  
Director

Jon Erik Brøndmo  
Director

Synne Syrrist  
Director

Olav Line  
President and CEO

# Income statement 1 Jan-31 Dec

Consolidated

<i>(Amounts in NOK million)</i>	<i>Note</i>	<b>2011</b>	<b>2010</b>
<b>Continued operations</b>			
<b>Gross income</b>		<b>1 020.7</b>	<b>1 025.1</b>
Maintenance and other operating expenses		(85.4)	(90.3)
Other property-related expenses		(13.6)	(5.5)
<b>Total property-related expenses</b>		<b>(99.0)</b>	<b>(95.8)</b>
<b>Operating profit before administrative expenses</b>		<b>921.7</b>	<b>929.3</b>
Administrative expenses	19,20	(67.4)	(58.9)
<b>Profit before net financial cost and value adjustments</b>		<b>854.3</b>	<b>870.4</b>
Financial income	21	37.0	24.0
Financial cost	21	(554.4)	(566.7)
<b>Net financial items</b>		<b>(517.5)</b>	<b>(542.7)</b>
<b>Profit before income tax and value adjustments</b>		<b>336.8</b>	<b>327.7</b>
Change in market value of investment property	8	281.9	170.6
Change in market value of financial derivative instruments	12,13	(336.1)	(69.9)
<b>Unrealised gains and losses</b>		<b>(54.2)</b>	<b>100.7</b>
Gain/(loss) related to property sales	8	1.0	9.4
<b>Realised gains and losses</b>		<b>1.0</b>	<b>9.4</b>
<b>Profit/(loss) before income tax for continued operations</b>		<b>283.6</b>	<b>437.9</b>
Income tax for continued operations	18,22	(59.7)	(86.7)
<b>Profit/(loss) for continued operations</b>		<b>223.9</b>	<b>351.2</b>
<b>Discontinued operations</b>			
Profit/(loss) for discontinued operations	6	4.8	(810.8)
<b>Profit/(loss) for the period</b>		<b>228.7</b>	<b>(459.6)</b>
Minority interests		-	-
<b>Profit/(loss) after minority interests</b>		<b>228.7</b>	<b>(459.6)</b>
Earnings per share attributable to shareholders (amounts in NOK)	23	0.46	(0.94)

# Comprehensive income statement 1 Jan-31 Dec

Consolidated

<i>(Amounts in NOK million)</i>	<b>2011</b>	<b>2010</b>
Profit/(loss) after minority interests	228.7	(459.6)
Value adjustment of owner-occupied property	2.7	-
Currency translation differences for discontinued operations	-	126.3
Gain/(loss) on financial derivative instruments for continued operations	(8.4)	(2.1)
Gain/(loss) on financial derivative instruments for discontinued operations	-	(6.6)
Income tax related to comprehensive income for continued operations	2.4	0.6
Income tax related to comprehensive income for discontinued operations	-	1.8
Reclassification of currency translation differences for discontinued operations	-	(134.8)
Reclassification of financial derivative instruments for discontinued operations	-	13.7
<b>Total comprehensive income</b>	<b>225.3</b>	<b>(460.6)</b>
Total comprehensive income attributable to owners of the company	225.3	(460.6)
Total comprehensive income attributable to non-controlling interests	-	-



# Balance sheet at 31 December

Consolidated

(Amounts in NOK million)	Note	2011	2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
Financial derivative instruments	13	5.0	24.3
Deferred tax asset	18	12.8	70.0
Goodwill	10	-	-
Investment property	8	13 561.3	14 862.5
Owner-occupied property	8	28.2	-
Other tangible assets	9	11.9	2.4
Receivables	6	400.0	600.0
<b>Total non-current assets</b>		<b>14 019.2</b>	<b>15 559.3</b>
<b>Current assets</b>			
Financial derivative instruments	13	2.3	1.8
Accounts receivable	14	69.9	51.9
Other receivables	6,14	235.3	15.5
Cash and cash equivalents	3	15.6	248.4
<b>Total current assets</b>		<b>323.1</b>	<b>317.6</b>
Investment property held for sale	8	1 873.4	-
<b>TOTAL ASSETS</b>		<b>16 215.7</b>	<b>15 876.8</b>

(Amounts in NOK million)	Note	2011	2010
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	15	249.3	249.3
Share premium		3 048.2	3 048.2
Other paid-in equity		6 440.1	6 440.1
Other reserves		1.2	7.3
Retained earnings		(4 574.7)	(4 756.2)
<b>Total equity</b>		<b>5 164.1</b>	<b>4 988.6</b>
<b>Non-current liabilities</b>			
Financial derivative instruments	13	628.8	317.4
Interest-bearing debt	17	8 798.6	10 203.9
<b>Non-current liabilities</b>		<b>9 427.4</b>	<b>10 521.3</b>
<b>Current liabilities</b>			
Financial derivative instruments	13	23.7	9.3
Interest-bearing debt	17	1 366.2	90.7
Trade payables		14.3	14.7
Other liabilities	16	220.0	252.2
<b>Total current liabilities</b>		<b>1 624.2</b>	<b>366.9</b>
<b>Total liabilities</b>		<b>11 051.6</b>	<b>10 888.2</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>16 215.7</b>	<b>15 876.8</b>

Oslo, 28 February 2012

The board of directors of Norwegian Property ASA

Arvid Grundekjøn  
Chair

Nils K. Selte  
Deputy Chair

Gry Mølleskog  
Director

Jon Erik Brøndmo  
Director

Synne Syrrist  
Director

Olav Line  
President and CEO

# Statement of changes in equity

Consolidated

<i>(Amounts in NOK million)</i>	Share capital	Share premium reserve	Other paid-in equity	Retained earnings	Other reserves <sup>1</sup>	Translation differences	Total equity
<b>Total equity 31 December 2009</b>	226.6	2 539.7	6 440.1	(4 296.6)	(0.2)	8.5	4 918.0
Total comprehensive income	-	-	-	(459.6)	7.5	(8.5)	(460.6)
Capital decrease	-	-	-	-	-	-	-
Capital increase	22.7	521.2	-	-	-	-	543.9
Equity issue cost, net of tax	-	(12.7)	-	-	-	-	(12.7)
<b>Total equity 31 December 2010</b>	249.3	3 048.2	6 440.1	(4 756.2)	7.3	-	4 988.6
Total comprehensive income	-	-	-	231.4	(6.1)	-	225.3
Paid dividend	-	-	-	(49.9)	-	-	(49.9)
<b>Total equity 31 December 2011</b>	249.3	3 048.2	6 440.1	(4 574.7)	1.2	-	5 164.1

<sup>1</sup> Other reserves include hedging reserves.

# Cash flow statement 1 Jan-31 Dec

Consolidated

<i>(Amounts in NOK million)</i>	2011	2010
Profit/(loss) before income tax	288.4	(721.7)
Taxes paid in the period	-	(16.8)
Depreciation of fixture, fittings and equipment	2.4	1.6
Gain from fair value adjustment of investment property	(281.9)	534.6
Gain/(loss) from sale of investment property and operations	(1.0)	(69.1)
Gain/(loss) from fair value adjustment of financial derivative instruments	336.1	201.1
Impairment of goodwill	-	570.9
Change in current items	(98.5)	(136.5)
<b>Net cash flow from operating activities</b>	<b>245.4</b>	<b>364.1</b>
Payments for purchase of investment property and operations	(353.2)	(68.0)
Received cash from sale of investment property and discontinued operations	33.1	1 122.6
<b>Net cash flow from investing activities</b>	<b>(320.2)</b>	<b>1 054.6</b>
Net repayment of interest-bearing debt	(108.2)	(1 944.5)
Capital increase	-	526.2
Paid dividend	(49.9)	-
<b>Net cash flow from financial activities</b>	<b>(158.0)</b>	<b>(1 418.3)</b>
<b>Net change in cash and cash equivalents</b>	<b>(232.8)</b>	<b>0.5</b>
Cash and cash equivalents at the beginning of the period	248.4	248.2
Exchange rate effects	-	(0.3)
<b>Cash and cash equivalents at the end of the period</b>	<b>15.6</b>	<b>248.4</b>

The group uses the indirect model for the cash flow statement.

The cash flow statement includes both continuing and discontinued operations. Cash flows for discontinued operations are presented separately in [Note 6](#).

The cash effect of net financial costs are included in net cash flow from operating activities from 2011, and restated accordingly in the comparative figures for 2010 (reclassified from net cash flow from financial activities).

# Notes to the annual accounts

## Consolidated

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## NOTE 1 General information

The real estate investment company Norwegian Property ASA was established in 2006. The business concept of Norwegian Property is to create value through growth from the ownership, development and management of prime commercial properties located in the most attractive clusters in Oslo and in other key growth areas. The tenant portfolio will consist of large, solid private and public tenants. The group owned 47 properties in Oslo and Stavanger at 31 December 2011.

Via Oslo Properties, Norwegian Property took over all the shares in the previously listed Norgani Hotels group in 2007 and 2008. Norgani Hotels owned 73 hotel properties and a convention centre in Sweden, Norway, Finland and Denmark at the beginning of 2010. Norgani Hotels was sold in the autumn of 2010.

Earlier, Norwegian Property ASA had an agreement with Neas ASA concerning the management and operation of the majority of the portfolio of commercial properties. Following the change of strategic direction for the group in 2010, Norwegian Property's ambition is to be a fully integrated real estate company, with professionalism at all stages of the value chain – letting, property management and operations, transactions and property development. Norwegian Property established a management organisation to take over from Neas in 2011. The agreement with Neas related to technical management of Norwegian Property's properties in Stavanger will continue, but with a mutual 12-month rolling termination period.

## NOTE 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of Norwegian Property ASA have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and effective as of 31 December 2011, and additional requirements according to the Norwegian Accounting Act as of 31 December 2011.

IFRS-standards and interpretations published before the reporting of the financial statement, but not mandatory as of 31 December 2011, are not adopted by the group. The company has reviewed the effects of implementing these unimplemented non-obligatory standards and interpretations. No significant

effects have been identified with regard to the annual financial statements, the assessment of reported figures or their presentation as a consequence of a future implementation.

The consolidated financial statement has been prepared on a historical cost basis, with the modifications specified separately.

The preparation of the financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgments in the process of applying the group's accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in [Note 5](#).

## 2.2 Consolidation

### a) Subsidiaries

Subsidiaries are defined as all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies, generally resulting from a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date on which such control ceases.

Purchases of single purpose entities owning only property, with no employees, management or recorded procedure descriptions are not considered as acquisition of business (IFRS 3 Business Combinations are not applicable). Norwegian Property allocates the cost of such purchases between the individual identifiable assets and liabilities acquired, based on their fair value at the date of acquisition.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The acquisition cost is measured as being the fair value of: assets used as consideration, equity instruments issued and liabilities incurred related to transfer of control and direct costs related to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities are recognised at fair value at the date of acquisition, irrespective of any minority interest. The excess cost of acquisition over the fair value of identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement at the date of acquisition.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction indicates evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.



### (b) Transactions and minority interests

Minority interests are included in the group's income statement, and are specified as minority interests. Correspondingly, minority interests are included as part of the group's shareholders' equity and is specified in the consolidated balance sheet.

## 2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

## 2.4 Foreign currency translation

### (a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statement is presented in NOK, which is the company's functional and presentation currency.

### (b) Transactions and balances

Foreign currency transactions are translated into NOK using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

### (c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the balance sheet date
- (ii) Income and expenses for each income statement are translated at average exchange rates
- (iii) All resulting translation differences are recognised as a separate component of equity

On consolidation, exchange rate changes arising from translation of the net investment in foreign entities, and of financial instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such translation differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value of assets arising from the acquisition of a foreign entity are allocated to the acquired entity and translated at the closing rate.

## 2.5 Investment property

Property that is held for long-term rental yields or for capital appreciation or

both, are classified as investment property. Investment property is initially measured at acquisition cost, including related transaction costs. After initial recognition, investment property is carried at fair value according to IAS 40. The fair value of investment property reflects, amongst other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

Changes in fair values are recorded in the income statement under 'gain on fair value adjustments on investment property'.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. Other repairs and maintenance costs are charged to the income statement during the financial period in which they incur. Expenses related to tenants accommodation e.g. replacement of walls, are activated together with the asset's carrying amount simultaneously as the remaining carrying amount of the replaced components is derecognised.

Assets under construction for future use as investment property are also during the construction period recognized as investment property.

If an investment property is used by the company, it is reclassified as property, plant and equipment unless the internal use is insignificant. Fair value at the date of reclassification is the property's acquisition cost. An owner-occupied property is accounted for at revalued value less accumulated depreciation and amortization. An evaluation of fair value for such properties is carried out in the same manner as described for investment properties. Increase in value of owner-occupied property is not recognised in the income statement, but recognised as a change of the revaluation reserve under equity. An impairment of the value is recognised against the revaluation reserve, related to revaluation of the specific building. If impairment exceeds the revaluation reserve, the remainder is recognised against the income statement.

## 2.6 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and write-downs. Historical cost includes expenditure that is directly attributable to the acquisition of the item. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be reliably measured. All other repairs and maintenance are charged to the income statement during the financial period in which they incur.

## 2.7 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of net identifiable assets at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the lowest levels for which there are separately identifiable cash flows. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

## 2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised with the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less selling costs and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

## 2.9 Financial assets

The group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and assets available for sale. The classification is determined according to the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets not carried at fair value are assessed at each balance sheet date whether there is objective evidence that the asset is impaired. If such indication of impairment loss exists, the impairment loss is measured as the difference between the asset's carrying value and the present value of estimated future cash flows. The impairment loss is recognised in profit and loss.

### (a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading purposes. A financial asset is classified within this category if acquired principally for the purpose of short term trade due to favourable short term market movements. Derivatives are classified as held for trade unless they are designated as hedges. Assets in this category are classified as current assets.

### (b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet ([Note 2.11](#)), and are valued at amortised cost using the effective interest method (see [Note 2.11](#) and [Note 2.19](#)).

## 2.10 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently reassessed at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as hedges of net investments or a highly probable forecast transaction (cash flow hedge).

The group documents, at the inception of the transaction, the relationship between the hedging instrument and hedged item, as well as its risk management objectives and strategy for undertaking the hedge transactions. The group also documents whether the derivatives that are used in hedging are effective in offsetting changes in fair values or cash flows related to the hedged items. Such

assessments are documented both at hedge inceptions and on an ongoing basis.

The fair values of various derivative instruments used for hedging purposes are disclosed in [Note 12](#). Changes in the hedging reserve in shareholders' equity are shown in the consolidated statement of changes in equity. The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is greater than 12 months or as a current asset or liability when the remaining maturity is less than 12 months.

#### *(a) Derivatives not included as hedge accounting*

The majority of the group's interest rate- and currency swaps are assumed not to qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement under 'changes in market value of financial derivatives'.

#### *(b) Cash flow hedge*

The effective portion of changes in fair value derivatives that are designed for and qualify as cash flow hedges are recognised within equity. The gain or loss relating to the ineffective portion is recognised in the income statement under other financial income (costs).

Amounts taken directly to equity are recognised in the income statement in the period where the hedged item affects profit or loss (for example, when the planned hedged sale takes place). The gain or loss related to the effective portion of interest rate swaps hedging floating rate loans is recognised in the income statement under financial expenses. Gain or loss related to the effective portion of a currency future contract hedging export sales is recognised as revenues. The gain or loss related to the ineffective portion is recognised in the income statement under other financial income (costs).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at the time remains in equity and is reversed when the forecast transaction is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement under 'changes in market value of financial derivatives'.

#### *(c) Net investment hedge*

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss related to the ineffective portion is recognised immediately in the income statement under 'change in market value of financial derivative instruments'. Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed or sold.

### 2.11 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is made when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficul-

ties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and recoverable amount which is the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and changes in the provision are recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement under other operating expenses.

### 2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand; bank deposits, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown under borrowings in current liabilities on the balance sheet.

### 2.13 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Costs directly attributable to the issuing of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### 2.14 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

### 2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the duration of the borrowings.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### 2.16 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary differences will not reverse in the foreseeable future.

### 2.17 Revenue recognition

Revenue includes rental income, service charges and management charges from properties, and income from property trading. Revenue comprises the fair value of the consideration received for the services in the ordinary course of the group's activities. Revenue is shown net of value added tax, rebates and discounts and after eliminating sales within the group.

#### *(a) Rental income*

Rental income is recognised over the life of the rental period.

#### *(b) Other income*

Other income is recognised as it is earned.

### 2.18 Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the group's financial statements in the period in which the dividends are approved by the Company's shareholders.

### 2.19 Interest expense

Interest expenses on borrowings are recognised under 'financial costs' in the income statement using the effective interest rate method. The effective interest rate method is used to allocate amortised cost on financial assets and financial liabilities and for correct accrual of interest income and interest expense. The effective interest rate distributes the future cash flows throughout the duration of the loan and indicates the real net value of the financial asset or liability.

The calculation of the effective interest rate takes into account all estimated contractual cash flows related to the financial instrument (such as payment terms), but do not account for future losses. When calculating the effective interest rate, all fees are included and distributed over the relevant period (term to maturity).

### 2.20 Pensions

Norwegian Property ASA operates a defined contribution plan for all employees. Norgani Hotels AS including subsidiaries operated defined contribution plans for all new employees. Some employees were included in a former defined benefit plan in Norway. A defined contribution pension scheme is an arrangement whereby the group pays fixed (defined) amounts to a privately held administrated scheme. The group has no legal or other obligations to pay further amounts in the event that the pension scheme itself has insufficient assets to pay contributions to employees relating to rights earned in current or previous periods. Contributions are recognized as employee benefits expense when they fall due. Prepaid contributions are recognized as an asset to the extent that the cash refunds or reductions in future payments are available.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability

recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the straight-line earnings method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, in excess of the greater of 10 percent of the value of plan assets or 10 percent of the defined benefit obligation, are charged or credited to income over the employees' expected average remaining working lives. Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

## NOTE 3 Financial risk management

The group's activities imply exposure to a variety of financial risks: market risk (including foreign exchange, interest rate and price risk), credit risk, liquidity risk, and capital risk management. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's profit/loss and equity. The group use hedging instruments designed to mitigate certain risks.

Risk management for the group is managed by the corporate treasury department in accordance with guidelines approved by the board. The management identifies, evaluates and hedges financial risks in close cooperation with the group's operational units. The board provides written policies for overall risk management and written guidelines for specific areas such as foreign exchange and interest rate risk.

### 3.1 Market risk

#### Foreign exchange risk

After the sale of Norgani Hotels in the autumn of 2010, the group no longer operates internationally and its exposure to currency risk is limited to a few leases in foreign currency. Rental income and operating costs for Norgani Hotels in foreign currencies, related to foreign subsidiaries, was not subject to currency hedging. In 2010, 75.3 per cent of Norgani Hotels' revenue was related to Sweden, Finland and Denmark. For 2011, 3.1 per cent (NOK 32 million) of Norwegian Property's (commercial properties) rental income are in foreign currency (EUR), and in practice all operational costs (2010: 3.0 per cent, NOK 31 million). This means that the group at the end of 2011 has minimal exposure to currency risk. The group has entered into hedging agreements to reduce its exposure in foreign currencies.

Gains and losses on the group's hedging contracts are classified as "changes in market value of financial derivatives" in the income statement. Notional principal amounts and the maturity for the group's total portfolio of forward exchange contracts at 31 December 2011 are specified in local currencies (million) in the table below (see also [Note 13](#)).

Currency	Notional principal amount in currency	< 1 year	1-2 years	3-5 years	Over 5 years
EUR	(24.7)	(4.0)	(3.6)	(11.6)	(5.5)

#### Price risk

Rental income is exposed to changes in market rents, revenue-based rent and inflation. The group prefers long-term leases. The average duration of rental contracts at 31 December 2011 was 4.9 years (2010: 5.2 years).

Rental agreements for commercial properties secure a fixed revenue during the lease term. The majority of leases have a 100 per cent CPI adjustment clause allowing the company to adjust rents in line with CPI changes. The company seeks to secure such regulation clauses in all new leases. CPI regulation in 2011 was 1.4 per cent for leases regulated in October and 1.2 per cent for leases regulated in November, which increased annual rental income at the end of 2011 by NOK 14 million. Rent related to the shopping centre at Aker Brygge in Oslo is partly revenue-based.

#### Interest rate risk

The group is subject to interest rate risk related to floating rate loans. Norwegian Property has a policy of hedging a minimum of 70 per cent of floating rate loans outstanding. At 31 December, 81 per cent of such loans (including interest-bearing receivables and cash) were hedged (2010: 94 per cent).

In order to mitigate interest rate risk, the group has entered into interest rate swap agreements totalling NOK 13.2 billion at 31 December (2010: NOK 13.5 billion). The average credit margin on floating rate borrowings at 31 December 2011 was 113 basis points (2010: 74 basis points). The average basis rate of the loan portfolio at 31 December 2011 was 5.30 per cent (2010: 5.16 per cent). The average remaining maturity of hedging agreements was 5.1 years (2010: 4.1 years). Notional principal amounts and the maturity for the group's total portfolio of interest rate hedges at 31 December 2011 are specified in local currencies (million) in the table below (see also [note 13](#)).

Currency	Notional principal amount in currency	< 1 year	1-2 years	3-5 years	Over 5 years
NOK	(13 180.1)	(4 473.6)	(1 427.5)	(2 661.0)	(4 618.0)

If the average interest rate at 31 December 2011 was 25 basis points higher/lower, and all other variables were constant, the group's profit/loss after tax would be NOK 18 million lower/higher (2010: NOK 19 million).

### 3.2 Credit risk

The majority of the group's rental revenues come from solid tenants. Tenants are preferably large, solid companies and public institutions, which reduces the risk related to leases. New tenants are checked against credit rating agencies for an acceptable credit history. Most tenants have provided bank guarantees or made deposits of sum equivalent to three months' rent. Rents are generally invoiced quarterly in advance. Credit loss during 2011 and 2010 has been limited. The group's trade receivables at the balance sheet date are entirely in NOK.

See also [Note 6](#) for a description of the interest-bearing seller's credit of NOK 600 million. The claim is secured by first-priority pledge on the shares of the divested company and by the surety from Pandox AB and Heche Holding AB.

### 3.3 Liquidity risk

The group aims to ensure that liquidity/credit facilities are sufficient to meet its foreseeable obligations as well as securing a reasonable capacity to meet unforeseen obligations. The funding strategy aims to maintain flexibility and withstand fluctuations in rental income. The liquidity reserve should largely consist of revolving credit and overdraft facilities, rather than cash and cash equivalents. The liquidity reserve at 31 December is specified in the table below.

(Amounts in NOK million)	2011	2010
Cash and cash equivalents	15.6	248.4
- of which restricted cash and cash equivalents	(7.7)	(2.9)
<b>Available cash and cash equivalents</b>	<b>7.9</b>	<b>245.5</b>
Unused credit and overdraft facilities	1 199.2	1 000.0
<b>Liquidity reserve</b>	<b>1 207.1</b>	<b>1 245.5</b>

As described above, the group has a high level of hedging against changes in market interest rates and foreign currencies, reducing the need for liquidity reserves to meet unforeseen obligations related to these areas. The group has generated positive cash flows from operations, related to results from ordinary operations/financial items (profit/loss before value changes, changes in exchange rates and gain/loss from sale of properties), for both 2011 (NOK 336 million) and 2010 (NOK 331 million). Additional liquidity risks are mainly related to instalments and maturity of liabilities. The maturity of liabilities for the group is specified in the table below. The classification is based on the maturity specified in the contracts. Amounts in the table are undiscounted cash flows (NOK million).

31 December 2011	Book value	Expected cash flow	< 1 year	1-2 years	3-5 years	> 5 years
interest-bearing debt <sup>1</sup>	10 164.8	10 206.8	1 375.2	1 029.8	3 753.1	4 048.7
Trade payables	14.3	14.3	14.3	-	-	-
Other liabilities <sup>2</sup>	220.0	154.1	154.1	-	-	-

31 December 2010	Book value	Expected cash flow	< 1 year	1-2 years	3-5 years	> 5 years
interest-bearing debt <sup>1</sup>	10 294.6	10 314.9	104.8	9 755.1	44.0	411.0
Trade payables	14.7	14.7	14.7	-	-	-
Other liabilities <sup>2</sup>	252.2	167.8	167.8	-	-	-

<sup>1</sup> The difference between the capitalised amount and expected cash flow reflects activated costs.

<sup>2</sup> The difference between carrying value and expected cash flow due to deferred revenue.

## NOTE 4 Determination of fair value

The consolidated financial statements have been prepared on a historical cost basis except for investment property, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) which are recognised at fair value through profit and loss.

### Investment property

All group investment properties are valued at fair value based on a quarterly valuation update, and each property is valued at 31 December 2011 by two independent experts. DTZ Realkapital and Akershus Eiendom have performed a valuation of all properties. Based on the external valuations and supplementary internal analysis of the market for the rental portfolio, management makes an overall fair value assessment to determine whether the external valuations fairly represent the value of investment properties. All properties are periodically subject to inspections and technical reviews. See also [Note 5](#) for critical accounting estimates and judgements.

### Financial instruments and derivatives

Estimated fair value for the group's financial instruments are based on market value and valuation methods as described below.

#### Cash and cash equivalents

Fair value is assumed to be equal to the carried amount.

#### Interest-bearing liabilities

The group recognises interest-bearing liabilities at amortised cost. In notes to the financial statement (see [Note 17](#)) information is provided on the estimated fair value of interest-bearing liabilities. Bonds are valued at market price at 31 December and bank loans to the estimated fair value where it is taken into account the estimated difference between the current margin and market conditions.

#### Accounts receivable/other receivables and trade payables/other liabilities

In principle, recognised initially at fair value and subsequently measured at amortised cost. However, discounting is not normally assumed to have a significant effect on this type of receivable and liability.

### Shares and interests

Fair value of any listed shares and interests is calculated at the market price listed at the balance sheet date. Shares and interests which are not listed are calculated using accepted and acknowledged valuation techniques, or carried at cost if fair value cannot be reliably measured.

### Derivatives

The fair value of financial derivatives, including currency forward exchange contracts/swaps and interest rate swaps, is determined by the net present value of future cash flows, calculated using quoted interest rate curves and exchange rates at the balance sheet date. The technical calculations are generally prepared by banks. The company has checked and tested the valuation for reasonableness.

When determining the fair value of net obligations to acquire investment properties, the valuation of the investment property is based on the same principles described for ordinary valuation of investment properties. The liability is the net present value of future cash flows agreed in relation to the takeover of the property.

The table below shows the assessment of fair value derivatives (amounts in NOK million).

	Determination of fair value at 31 December 2011 using			Total estimated fair value
	Given market value for corresponding assets and liabilities (level 1)	Other significant observable input (level 2)	Other significant non-observable input (level 3)	
<b>Assets</b>				
Financial derivatives	-	7.3	-	7.3
<b>Liabilities</b>				
Financial derivatives	-	652.4	-	652.4
<b>Total</b>	-	<b>(645.1)</b>	-	<b>(645.1)</b>

Level 1: Financial instruments valued based on quoted prices in active markets for identical assets.

Level 2: Financial instruments valued based on observable market information not covered by level 1.

Level 3: Financial instruments valued based on information that is not observable under the level 2.

There have been no movements between the levels.

## NOTE 5 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations about future events which are believed to be reasonable under current circumstances.

Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual figures. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year are outlined below.

### Fair value of investment properties

Investment property is valued at its fair value on the basis of a quarterly valuation update. Procedures for determining fair value for investment properties are described in [Note 4](#). In line with these principles, the portfolio of commercial properties has been externally valued every quarter since incorporation in 2006.

Properties are valued by discounting future cash flows. Both contractual and expected cash flows are included in the calculations. Fair value assessment of investment properties therefore depends largely on assumptions related to market



rents, discount rates and inflation. Market rents in the primary valuations are based on individual assessments of each property and on segmentations of different areas within the properties if relevant. Macroeconomic assumptions for interest rate levels, inflation expectations and so forth are updated as part of the calculations. Inflation expectations are based on consensus views from banks and public statistical agencies (from 0.90 to 2.50 per cent in the calculation period). Cash flows from current leases are discounted with individual discount rates compared with cash flows from renewals at market rent and residual values, based on an assessment of properties and tenants. Current rent is discounted on the basis of discount rates in the interval 5.00-12.00 per cent, based on individual assessments of the single properties.

The sensitivity of the fair value assessment of investment properties depends mainly on assumptions related to yield, interest rates, inflation and the market rent for properties. The table below shows examples of how changes related to each of these variables influenced property values at 31 December 2011, assuming all other variables remained constant (amounts in NOK million).

Variables	Changes of variables	Value change <sup>1</sup>
Exit yield	+ 0.25 per cent	(157)
Discount rate	+ 0.25 per cent	(530)
Inflation	+ 1 per cent	25
Market rent	+ 10 per cent	1 459

<sup>1</sup> The calculations have been carried out by DTZ Realkapital in connection with the valuations at 31 December 2011.

#### Fair value of financial derivatives

The group's financial derivatives include currency forward contracts/swap contracts, interest rate swap contracts and the obligation to acquire investment properties. The procedures for valuing financial derivatives are described in [Note 4](#).

#### NOTE 6 Discontinued operations

The hotel business, Norgani Hotels, was divested in 2010. Below is a breakdown of results for discontinued operations for 2010, which is presented net on a single line in the income statement. Prior period comparatives have been restated accordingly. The figures for discontinued operations in 2010 include the operation of Norgani Hotels until the end of the third quarter.

Norwegian Property acquired Norgani Hotels in 2007 and the acquisition was accounted for as acquisitions in accordance with IFRS 3. All other purchases made by the group since its inception in 2006 are treated as a purchase of assets.

In 2010, Norgani Hotels was sold to a company controlled by Pandox AB, Eiendomsspar AS and Sundt AS. The sale was part of the reorganisation of Norwegian Property as a focused commercial property business. It was also released financial capacity to develop Norwegian Property from a financial to an industrial real estate business.

The group had no other discontinued operations at 31 December 2011, and has not reported other discontinued operations since its inception in 2006.

(Amounts in NOK million)	2011	2010
<b>Gross income</b>	-	540.1
Maintenance and other operating expenses	-	(59.9)
Other property-related expenses	-	(43.0)
<b>Operating profit before administrative expenses</b>	-	437.2
Net financial cost related to hotel properties	-	(213.5)
Net financial cost related to Oslo Properties	-	(35.6)
<b>Profit before income tax and value adjustments</b>	-	188.0
Change in market value of investment property	-	(705.2)
Change in market value of financial derivative instruments	-	(131.2)
Impairment of goodwill	-	(570.9)
<b>Loss before income tax for discontinued operations</b>	-	(1 219.2)
Income tax	-	348.8
<b>Loss after tax for discontinued operations</b>	-	(870.5)
Gain from sale of discontinued operations	4.8	59.7
Income tax	-	-
<b>Loss for the period for discontinued operations</b>	4.8	(810.8)

Net cash flow from discontinued operations is included in the group's reported cash flow, as specified below.

(Amounts in NOK million)	2011	2010
Net cash flow from operating activities	(17.1)	364.7
Net cash flow from investing activities	-	961.2
Net cash flow from financial activities	-	(952.8)
<b>Net change in cash and cash equivalents</b>	(17.1)	373.1

Cash flow from discontinued operations in 2011 is related to payment of the provisions. Gain/(loss) on sale of discontinued operations in 2011 is related to reversal of provisions. The corresponding gain/(loss) for 2010 is presented in the table below (amounts in NOK million).

<b>Net sales proceeds:</b>	
Cash consideration, less settlement of intercompany debt and transaction costs <sup>1</sup>	440.7
Deferred settlement (seller's credit) <sup>2</sup>	600.0
<b>Net sales proceeds</b>	<b>1 040.7</b>
<b>Net assets for discontinued operations:</b>	
Investment property	8 439.1
Other non-current assets	10.9
Current assets	129.0
Interest-bearing liabilities	(6 259.8)
Interest-bearing intercompany liabilities	(583.2)
Deferred tax asset	(146.3)
Financial derivative instruments	(351.2)
Other liabilities	(136.4)
<b>Net assets</b>	<b>1 102.2</b>
<b>Calculation of transaction profit/loss:</b>	
Net sales proceeds	1 040.7
Net assets	(1 102.2)
Foreign exchange differences and financial derivative instruments reclassified from equity to profit on sale	121.1
<b>Transaction gain/(loss)<sup>3</sup></b>	<b>59.7</b>

<sup>1</sup> The cash effect from the sale in 2010 amounted to NOK 978.2 million in the form of gross compensation adjusted for deferred settlement, paid transaction costs and cash in the Norgani Hotels AS group when sold.

<sup>2</sup> An interest-bearing seller's credit with a fixed annual interest rate of five per cent and a maturity of two years for NOK 200 million and for years for NOK 400 million.

<sup>3</sup> The carrying value of investment properties is equal to the sales value and profit/loss is the effect of other items. Transaction costs are expensed at a total of NOK 82.3 million kroner in connection with the sale.

## NOTE 7 Segment information

Norwegian Property's main activity, following the sale of Norgani Hotels, is 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.

## NOTE 8 Investment property and owner-occupied property

Changes in the carrying amount of investment property are specified in the table below. Future minimum annual rent payments receivable under non-cancellable operating leases are specified in [Note 11](#).

<i>(Amounts in NOK million)</i>	2011	2010
Opening balance 1 January	14 862.5	23 732.7
Disposals on sale of business <sup>1</sup>	-	(8 439.1)
Disposal of properties <sup>2</sup>	(30.7)	(168.7)
Additions through acquisition of properties and on-going investments	346.8	68.0
Fair value adjustment of investment property	281.9	(534.6)
Fair value adjustment of owner-occupied property	2.4	-
Exchange rates changes	-	204.2
<b>Total value investment property at 31 December<sup>3</sup></b>	<b>15 462.9</b>	<b>14 862.5</b>
Of which investment property held for sale <sup>4</sup>	(1 873.4)	-
<b>Investment property and owner-occupied property at 31 December</b>	<b>13 589.5</b>	<b>14 862.5</b>
Owner-occupied property (see specification below)	(28.2)	-
<b>Investment property at 31 December</b>	<b>13 561.3</b>	<b>14 862.5</b>

<sup>1</sup> Disposals in 2010 relate to Norgani Hotels (see [Note 6](#)).

<sup>2</sup> Disposals in 2011 relate to the sale of the Kolstadgaten 1 property. Similarly, disposals in 2010 relate to the sale of the Oksnøyveien 3 property.

<sup>3</sup> The carrying amount at 31 December 2011 included a reduction of NOK 192.1 million (2010: NOK 199.9 million) related to tax compensation received when acquiring investment properties (single-purpose entities). Rental income and property-related costs relating to the assets are shown in the income statement (continuing operations) and in [Note 6](#) for discontinued operations.

<sup>4</sup> Related to the properties Middelthunsgate 17 and Ibsenkvartalet (C. J. Hambros Plass 2) at 31 December 2011. The group has entered into preliminary agreements for the sale of these properties in 2011, with final agreements signed in 2012. The properties are valued at net realisable value at 31 December 2011.

Gain on disposal of investment property in 2011 at NOK 1 million relates to the sale of Kolstadgaten 1 and some minor transfers of land to public purposes related to two properties. Similarly, for 2010 NOK 9.4 million relates to the sale of the property Oksnøyveien 3 and final settlement related to Grev Wedels Plass 9.

Apart from covenants in loan agreements, no restrictions apply to the timing of the realisation of the investment properties or how the revenue from any sale can be used.

Changes in the balance sheet item owner-occupied property are specified in the table below.

<i>(Amounts in NOK million)</i>	2011	2010
Opening balance 1 January	-	-
Addition by transfer from investment property to owner-occupied property	25.8	-
Fair value adjustment of owner-occupied property, comprehensive income	2.7	-
Depreciation expense	(0.3)	-
<b>Book value owner-occupied property at 31 December</b>	<b>28.2</b>	<b>-</b>
Accumulated acquisition costs at 1 January	-	-
Accumulated acquisition costs at 31 December	25.8	-
Accumulated depreciation at 1 January	-	-
Accumulated depreciation at 31 December	0.3	-

## NOTE 9 Other tangible assets

Changes in other tangible assets are specified in the table below.

<i>(Amounts in NOK million)</i>	Fixture, fittings and equipment
<b>Acquisition costs</b>	
At 31 December 2009	14.4
Additions 2010	1.4
Disposals on sale of business 2010	(8.4)
At 31 December 2010	7.4
Additions 2011	12.9
Disposal/transferred to investment property 2011	(2.9)
<b>At 31 December 2011</b>	<b>17.4</b>
<b>Accumulated depreciation</b>	
At 31 December 2009	7.4
Depreciation 2010	1.6
Disposals on sale of business 2010	(4.0)
At 31 December 2010	5.0
Depreciation 2011	2.1
Disposal/transferred to investment property 2011	(1.6)
<b>At 31 December 2011</b>	<b>5.5</b>
<b>Book value</b>	
At 31 December 2010	2.4
<b>At 31 December 2011</b>	<b>11.9</b>

## NOTE 10 Goodwill

Changes in the carrying amount of goodwill are specified in the table below.

<i>(Amounts in NOK million)</i>	2011	2010
Opening balance 1 January	-	580.2
Exchange rate effects	-	(9.3)
Impairment of goodwill	-	(570.9)
<b>Carrying amount at 31 December</b>	<b>-</b>	<b>-</b>

Goodwill was entirely related to the acquisition of Oslo Properties/Norgani Hotels, and was written down in connection with the sale of Norgani Hotels in 2010 (see [Note 6](#)).

## NOTE 11 Operating leases

The group is lessor for investment properties. The future minimum annual rents receivable under non-cancellable operating leases are as follows:

<i>(Amounts in NOK million)</i>	2011	2010
Within 1 year	96.0	36.8
Between 1 and 5 years	1 579.3	1 533.7
Later than 5 years	3 047.1	3 696.1
<b>Total</b>	<b>4 722.4</b>	<b>5 266.7</b>

The figures presented above relate to contract values for the following year (not CPI-adjusted) for contracts entered into at 31 December.

## NOTE 12 Financial instruments

Financial assets represent contractual rights for the group to receive cash or other financial assets in the future. Financial liabilities correspondingly represent contractual obligations for the group to carry out future payments. Financial instruments are included in several accounting lines in the group's balance sheet and income statement and are classified in different categories in accordance with their accounting treatment. A specification of the group's financial instruments is presented below.

Per 31 December 2011	Financial instruments at fair value through profit or loss	Derivatives designated as hedging instruments	Loans and receivables	Total <sup>1</sup>	Per 31 December 2010	Financial instruments at fair value through profit or loss	Derivatives designated as hedging instruments	Loans and receivables	Total <sup>1</sup>
<i>(Amounts in NOK million)</i>					<i>(Amounts in NOK million)</i>				
<b>Financial assets</b>					<b>Financial assets</b>				
Long-term derivatives	5.0	-	-	5.0	Long-term derivatives	14.2	10.1	-	24.3
Long-term receivables <sup>2</sup>	-	-	400.0	400.0	Long-term receivables <sup>2</sup>	-	-	600.0	600.0
Short-term derivatives	0.6	1.7	-	2.3	Short-term derivatives	1.8	-	-	1.8
Short-term receivables <sup>3</sup>	-	-	305.2	305.2	Short-term receivables <sup>3</sup>	-	-	67.4	67.4
Cash and cash equivalents	-	-	15.6	15.6	Cash and cash equivalents	-	-	248.4	248.4
<b>Financial liabilities</b>					<b>Financial liabilities</b>				
Long-term derivatives	628.8	-	-	628.8	Long-term derivatives	317.4	-	-	317.4
Long-term interest-bearing debt	-	-	8 798.6	8 798.6	Long-term interest-bearing debt	-	-	10 203.9	10 203.9
Short-term derivatives	23.6	-	-	23.6	Short-term derivatives	9.3	-	-	9.3
Short-term interest-bearing debt	-	-	1 366.2	1 366.2	Short-term interest-bearing debt	-	-	90.7	90.7
Short-term liabilities <sup>4</sup>	-	-	234.3	234.3	Short-term liabilities <sup>4</sup>	-	-	266.9	266.9
<b>Profit/loss related to financial instruments</b>					<b>Profit/loss related to financial instruments</b>				
Rental income	-	-	-	1 020.7	Rental income	-	-	-	1 025.1
Operating cost	-	-	-	(166.4)	Operating cost	-	-	-	(154.7)
Financial income	-	-	37.0	37.0	Financial income	-	-	24.0	24.0
Financial cost	-	-	(554.4)	(554.4)	Financial cost	-	-	(566.7)	(566.7)
Change in market value of financial instruments	(336.1)	-	-	(336.1)	Change in market value of financial instruments	(69.9)	-	-	(69.9)
<b>Gain/loss recognised in equity</b>					<b>Gain/loss recognised in equity</b>				
Recognised in equity, before tax	-	(8.4)	-	(8.4)	Recognised in equity, before tax	-	10.4	-	10.4

<sup>1</sup> Accounting items not specified in the table above, but included in the group's financial statement, do not contain financial instruments.

The carrying amount of financial instruments in the group's balance sheet is assumed to represent fair value, with the exception of long-term receivables/seller's credit (see footnote 2).

<sup>2</sup> An interest-bearing seller's credit with a fixed annual interest rate of five per cent and maturity of two years for NOK 200 million and five years for NOK 400 million (see Note 6). The estimated fair value at 31 December 2011 was NOK 636 million (2010: NOK 590 million).

<sup>3</sup> Short-term receivables under loans and receivables include short-term share of seller's credit (see footnote 2) and prepaid expenses (NOK 15.5 million for 2010 and NOK 35.3 million for 2011).

<sup>4</sup> Short-term liabilities under loans and receivables include prepaid rental income (NOK 84.4 million for 2010 and NOK 65.9 million for 2011).



## NOTE 13 Derivatives

(All amounts in NOK million or EUR, SEK or DKK million where specified)

### Specification of derivatives in the financial statement

The group is subject to interest rate risk related to floating rate loans. As described in [Note 3](#) the policy, after the divestment of Norgani Hotels, is to hedge a minimum of 70 per cent of floating rate loans outstanding. Currency swap agreements are used to secure a small number of leases in foreign currency (see [Note 3](#)).

Derivatives are carried at fair value. Below is a specification of derivatives in the balance sheet at 31 December.

	2011		2010	
	Assets	Liabilities	Assets	Liabilities
<i>(Amounts in NOK million)</i>				
Interest rate contracts, included as hedge accounting	-	-	10.1	-
Interest rate contracts, not included as hedge accounting	-	623.8	7.5	310.7
Exchange rate contracts, not included as hedge accounting	5.0	5.0	6.7	6.7
<b>Derivatives, non-current assets/-liabilities</b>	<b>5.0</b>	<b>628.8</b>	<b>24.3</b>	<b>317.4</b>
Interest rate contracts, included as hedge accounting	1.7	-	-	-
Interest rate contracts, not included as hedge accounting	0.6	23.6	-	9.3
Exchange rate contracts, not included as hedge accounting	-	-	1.8	-
<b>Derivatives, current assets/-liabilities</b>	<b>2.3</b>	<b>23.6</b>	<b>1.8</b>	<b>9.3</b>
<b>Total derivatives</b>	<b>7.3</b>	<b>652.4</b>	<b>26.1</b>	<b>326.7</b>
<b>Net financial derivatives in the balance sheet</b>		<b>(645.1)</b>		<b>(300.6)</b>

No inefficiencies related to hedge accounting were accounted for in 2011 and 2010.

Annual changes of net derivatives in the balance sheet are specified in the table below.

	2011	2010
<i>(Amounts in NOK million)</i>		
<b>Net book value of derivatives, 1 January</b>	<b>(300.6)</b>	<b>(462.5)</b>
Addition and changes in fair value, contracts included as hedge accounting	(8.4)	11.8
Additions/disposals of hedging contracts related to business combinations/divestiture	-	351.2
<b>Net additions of financial derivatives during the year, not recognised in the income statement</b>	<b>(8.4)</b>	<b>362.9</b>
Net fair value adjustments of derivatives during the year, recognised in the income statement	(336.1)	(201.1)
<b>Net book value of derivatives, 31 December</b>	<b>(645.1)</b>	<b>(300.6)</b>

### Interest rate derivatives

Below follows a specification of principal notional amounts per business segment and currency for the group's interest rate derivatives at 31 December.

All group interest rate derivatives are cash flow hedges. The maturity is specified in [Note 3](#).

	Currency	2011	2010
Notional principal amount	NOK	(713.4)	(713.4)
<b>Interest rate swaps included as hedge accounting</b>	<b>NOK</b>	<b>(713.4)</b>	<b>(713.4)</b>
Notional principal amount	NOK	13 893.5	14 247.6
<b>Interest rate swaps not included as hedge accounting</b>	<b>NOK</b>	<b>13 893.5</b>	<b>14 247.6</b>
<b>Total interest rate swaps</b>	<b>NOK</b>	<b>13 180.1</b>	<b>13 534.3</b>

Floating rates are 3-month NIBOR with the exception of the EUR-contracts, where the floating rate in general is 3-month EURIBOR. Gains and losses relating to derivative contracts which do not qualify for hedge accounting are realised through profit and loss until the underlying hedged loan is fully repaid. Gains and losses related to contracts qualifying for hedge accounting are accounted for in equity until the underlying hedged loans is fully repaid.

### Foreign exchange derivatives

Below follows a specification of principal notional amounts per currency for the group's exchange rate derivatives at 31 December (cash flow hedges). The maturity is specified in [Note 3](#).

	Currency	2011	2010
Notional principal amount	EUR	(24.7)	(37.5)

## NOTE 14 Current receivables

Accounts receivable and other receivables at 31 December are specified in the table below.

	2011	2010
<i>(Amounts in NOK million)</i>		
Accounts receivable	71.0	53.6
Provision for impairment of receivables	(1.1)	(1.7)
Net accounts receivable	69.9	51.9
Other current receivables <sup>1</sup>	235.3	15.5
<b>Total current receivables</b>	<b>305.2</b>	<b>67.4</b>

<sup>1</sup> NOK 200 million relates to the short-term interest bearing seller's credit (see [Note 6](#)). The remainder is primarily related to accrued income/deferred expenses.

No material legal claims or disputes over services and/or maintenance charges brought against the group existed at the date of this report.

## NOTE 15 Share capital and shareholders

The tables below specify changes in the share capital after the incorporation of Norwegian Property ASA, the average number of shares in the last two years, the largest shareholders and shares owned by directors and senior executive officers at 31 December 2011.

## Changes in share capital and average number of shares

Date	Type of change	Changes in share capital (NOK)	Share capital after change (NOK)	No of shares after change	Face value (NOK)	Price per share (NOK)
20.07.05	Incorporation	-	100 000	1 000	100.00	100.00
26.04.06	Share split	-	100 000	4 000	25.00	-
22.05.06	Private placement	875 000 000	875 100 000	35 004 000	25.00	50.00
22.05.06	Impairment	100 000	875 000 000	35 000 000	25.00	-
22.05.06	Private placement	162 500 000	1 037 500 000	41 500 000	25.00	50.00
09.06.06	Consideration issue	508 853 050	1 546 353 050	61 854 122	25.00	50.00
22.06.06	Consideration issue	46 100 000	1 592 453 050	63 698 122	25.00	50.00
<b>30.06.06</b>			<b>1 592 453 050</b>	<b>63 698 122</b>	<b>25.00</b>	
04.07.06	Consideration issue	370 175	1 592 823 225	63 712 929	25.00	50.00
18.07.06	Private placement	150 000 000	1 742 823 225	69 712 929	25.00	50.00
28.08.06	Consideration issue	20 000 000	1 762 823 225	70 512 929	25.00	50.00
28.08.06	Consideration issue	25 000 000	1 787 823 225	71 512 929	25.00	50.00
<b>30.09.06</b>			<b>1 787 823 225</b>	<b>71 512 929</b>	<b>25.00</b>	
16.10.06	Consideration issue	50 000 000	1 837 823 225	73 512 929	25.00	50.00
14.11.06	Consideration issue, IPO	563 636 375	2 401 459 600	96 058 384	25.00	53.50
05.12.06	Consideration issue, Green Shoe	61 363 625	2 462 823 225	98 512 929	25.00	50.00
<b>31.12.06</b>			<b>2 462 823 225</b>	<b>98 512 929</b>	<b>25.00</b>	
29.03.07	Private placement	174 216 025	2 637 039 250	105 481 570	25.00	71.75
<b>31.12.07</b>			<b>2 637 039 250</b>	<b>105 481 570</b>	<b>25.00</b>	
17.06.08	Private placement	2 403 846 150	5 040 885 400	201 635 416	25.00	26.00
<b>31.12.08</b>			<b>5 040 885 400</b>	<b>201 635 416</b>	<b>25.00</b>	
24.06.09	Depreciation of face value	(4 940 067 692)	100 817 708	201 635 416	0.50	-
27.08.09	Private placement	100 817 708	201 635 416	403 270 832	0.50	6.00
07.09.09	Private placement	25 000 000	226 635 416	453 270 832	0.50	6.00
<b>31.12.09</b>			<b>226 635 416</b>	<b>453 270 832</b>	<b>0.50</b>	
18.03.10	Private placement	22 663 000	249 298 416	498 596 832	0.50	12.00
<b>31.12.10</b>			<b>249 298 416</b>	<b>498 596 832</b>	<b>0.50</b>	
<b>31.12.11</b>			<b>249 298 416</b>	<b>498 596 832</b>	<b>0.50</b>	

	2011	2010
Average number of shares (million shares)	498.6	489.0
Number of shares issued at 31 December (million shares)	498.6	498.6

## List of main shareholders at 31 December 2011

Largest shareholders	Type of account	Country	Number of shares	Share
Folketrygdfondet	ORD	NOR	39 345 495	7.9%
Canica AS	ORD	NOR	27 895 467	5.6%
BNYM AS Emea Asia 25 Omnibus	NOM	USA	23 501 678	4.7%
Awilhelmsen Capital AS	ORD	NOR	23 254 334	4.7%
State Street Bank and Trust Co.	NOM	USA	16 830 777	3.4%
Skandinaviska Enskilda Banken	NOM	SWE	15 840 872	3.2%
BNP Paribas Secs Services Paris	NOM	FRA	15 749 359	3.2%
Citibank NA London Branch	NOM	GBR	15 572 315	3.1%
Bank of New York Mellon	NOM	USA	11 984 971	2.4%
JPMorgan Chase Bank	NOM	GBR	8 571 724	1.7%
Fondsfinans Spar	ORD	NOR	7 792 590	1.6%
JPMorgan Chase Bank	NOM	GBR	7 761 335	1.6%
State Street Bank & Trust Co.	NOM	USA	7 669 013	1.5%
Euroclear Bank S.A./N.V. ('Ba')	NOM	BEL	7 411 501	1.5%
Vital Forsikring ASA	ORD	NOR	6 108 018	1.2%
Trondheim Kommunale Pensjonskass	ORD	NOR	6 090 723	1.2%
Fram Holding AS	ORD	NOR	6 000 000	1.2%
BNP Paribas Secs Services Paris	NOM	FRA	5 655 995	1.1%
BNP Paribas Sec Service Paris	NOM	FRA	5 574 269	1.1%
Aweco Invest AS	ORD	NOR	5 486 765	1.1%
Other			234 499 631	47.0%
<b>Total number of shares at 31 December 2011</b>			<b>498 596 832</b>	<b>100.0%</b>

## Shares held by directors and senior executive officers at 31 December 2011

Shareholder	Number of shares
<b>Board of directors</b>	
Arvid Grundekjøn, Chair	50 000
Nils K Selte, Deputy Chair	479 000
<b>Senior executives</b>	
Olav Line, CEO	62 000
Svein Hov Skjelle, EVP & CFO	34 000
Aili Klami, EVP Leasing & Marketing	7 000
<b>Shares held by the board of directors and senior executive officers at 31 December 2011</b>	<b>632 000</b>

The company has not issued share options.

## NOTE 16 Other short-term liabilities

Other short-term liabilities at 31 December are specified in the table below.

(Amounts in NOK million)	2011	2010
Public duties	8.1	9.8
Tax payable	-	-
Accrued salaries	3.9	2.0
Accrued interest	101.1	106.6
Deferred income	65.9	84.4
Other payables	41.0	49.6
<b>Total other short-term liabilities</b>	<b>220.0</b>	<b>252.2</b>

## NOTE 17 Interest-bearing debt

The table below present an overview at 31 December of group interest-bearing debt, including hedging ratio, average interest rate and remaining duration.

	2011	2010
Total interest-bearing debt at face value (NOK million)	10 206.8	10 314.9
- Of which hedged (NOK million)	8 866.0	10 050.0
Hedging ratio, excluding cash and interest-bearing receivables (per cent)	87	97
Interest-bearing receivable (NOK million)	600.0	600.0
Cash and cash equivalents (NOK million)	15.6	248.4
Hedging ratio, including cash and interest-bearing receivables (per cent)	81	94
Committed unutilised credit facilities (NOK million)	1 199.2	1 000.0
Average interest rate, including margin (per cent)	5.30	5.16
Average margin (per cent)	1.13	0.74
Average remaining duration, borrowings (years)	4.9	2.0
Average remaining duration, hedging contracts (years)	5.1	4.1

Group interest-bearing long-term and short-term debt at 31 December is specified in accordance with the type of debt and the currency in the table below.

(Amounts in NOK million)	Currency	2011			2010		
		Long-term	Short-term	Total	Long-term	Short-term	Total
Bank borrowings	NOK	8 831.6	52.2	8 883.8	8 826.1	104.8	8 930.9
Bonds	NOK	-	1 323.0	1 323.0	1 384.0	-	1 384.0
<b>Total interest-bearing debt</b>	NOK	<b>8 831.6</b>	<b>1 375.2</b>	<b>10 206.8</b>	<b>10 210.1</b>	<b>104.8</b>	<b>10 314.9</b>
Capitalised borrowing cost	NOK	(33.0)	(9.0)	(42.0)	(6.2)	(14.1)	(20.3)
<b>Total book value interest-bearing debt</b>	NOK	<b>8 798.6</b>	<b>1 366.2</b>	<b>10 164.8</b>	<b>10 203.9</b>	<b>90.7</b>	<b>10 294.6</b>
Fair value of bank loans, excess value/(reduced value) for the group in relation to book value	NOK	61.6	39.5	101.1	25.5	25.3	50.8
Fair value of bonds, excess value/(reduced value) for the group in relation to book value	NOK	-	1.5	1.5	(2.5)	-	(2.5)

Total fair value of interest-bearing debt consists of bonds valued at market price at 31 December 2011 and bank loans at estimated fair value, where account is taken on the estimated difference between the current margin and market conditions. Excess value indicating that the current margins are more favorable than the current market conditions for the group.

The maturity of the group's long-term interest-bearing debt at 31 December is specified in the table below (short-term interest-bearing debt falls due within one year from the balance sheet date).

(Amounts in NOK million)	2011	2010
Between 1-2 years (2013 and 2014/2012 and 2013)	1 029.8	9 755.1
Between 3-5 years (2015, 2016 and 2017/2014, 2015 and 2016)	3 753.1	44.0
Later than 5 years (after 2017/after 2016)	4 048.6	411.0
<b>Total</b>	<b>8 831.6</b>	<b>10 210.1</b>

The carrying amount of group assets pledged as security at 31 December is specified in the table below.

(Amounts in NOK million)	2011	2010
Investment property	15 462.9	14 862.5
Receivables	-	67.4
Cash and cash equivalents	-	248.4
<b>Total</b>	<b>15 462.9</b>	<b>15 178.3</b>
Liabilities secured	10 206.8	10 314.9

Assets owned by limited liability partnerships are only pledged as security for own borrowings.

Norwegian Property ASA issued three tranches of bonds in the Norwegian capital market in March 2007, with a duration of three and five years respectively. Four properties are pledged as second priority security for these borrowings. One of the bonds was due in March 2010, and was replaced in January 2010 by the placement of a new bond with a maturity as for other bonds in March 2012. Total remaining loan amount at the end of 2011 totaled NOK 1 323 million.

The loan facilities consist of two in amount equal facilities established in June 2011, with a total remaining borrowing

limit of NOK 9 933 million at the end of 2011. The term of the facilities is respectively four and seven years and is secured by two separate property portfolios. Drawn amount at the end of 2011 totaled NOK 7 473 million, NOK 1 344 million has been dedicated for the refinancing of bonds maturing in March 2012 and NOK 1 116 million is a revolving credit limit.

Group subsidiaries had additional borrowings of NOK 1 411 million at 31 December 2011.

The terms of the main loan facility are:

:: Interest: NIBOR + margin.

:: Interest rate hedging: minimum 60 per cent with average duration of three years.

:: Financial covenants: the company must comply with agreed senior interest cover and loan-to-value (LTV) thresholds.

The agreed senior interest cover at 31 December 2011 is a minimum 1.4 and an agreed LTV ratio of less than 80 per cent. Requirements in the loan agreements are adhered to both by year-end and for the interim periods in 2011.

:: Instalments are based on the level of LTV.

:: Other covenants: negative pledge, restrictions on granting loan guarantees, restrictions on acquisitions and change of control.

:: Security: the facilities are secured by pledges on properties. The main facility is also secured by first priority pledges on subsidiary shares/interests and intercompany loans. No significant bank guarantees have been issued on behalf of the parent company.

## NOTE 18 Deferred tax

The carrying amount of deferred tax at 31 December is specified in the tables below.

Deferred income tax assets and liabilities are offset where the group has a legally enforceable right to offset current tax assets against current tax liabilities, and where the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

<i>(Amounts in NOK million)</i>	2011	2010
<b>Deferred tax assets</b>		
Deferred tax assets to be reversed after more than 12 months	12.8	70.0
Deferred tax assets to be reversed within 12 months	-	-
<b>Deferred tax assets</b>	<b>12.8</b>	<b>70.0</b>
<b>Deferred tax liabilities</b>		
Deferred tax liabilities to be recovered after more than 12 months	-	-
Deferred tax liabilities to be recovered within 12 months	-	-
<b>Deferred tax liabilities</b>	<b>-</b>	<b>-</b>
<b>Net deferred tax liabilities</b>	<b>(12.8)</b>	<b>(70.0)</b>

Changes in carrying amount of deferred tax are specified as follows:

At 1 January	(70.0)	365.5
Changes related to business combinations	-	(146.3)
Recognised through profit and loss (see <a href="#">Note 6</a> and <a href="#">Note 22</a> )	59.7	(262.1)
Tax on exchange rate and interest rate hedges charged to equity	(2.4)	(2.4)
Tax on issue expense charged to equity	-	(5.0)
Exchange rate effect	-	(19.7)
<b>At 31 December</b>	<b>(12.8)</b>	<b>(70.0)</b>

The following amounts are charged to equity and included in net deferred tax at the balance sheet date:

Tax on issue expenses	(128.2)	(128.2)
Tax on financial derivative instruments charged to equity	0.5	2.8
<b>Total deferred tax charged to equity</b>	<b>(127.7)</b>	<b>(125.3)</b>

Changes in deferred tax assets and deferred tax liabilities:

<i>(Amounts in NOK million)</i>	Properties	Fair value gain/(loss)	Other income statement items	Total
<b>Total at 31 December 2009</b>	1133.1	(223.2)	(350.7)	559.2
Deferred tax on purchase/sale of businesses	(847.4)	174.3	333.2	(340.0)
Recognised deferred tax	(197.5)	(56.3)	(8.4)	(262.1)
Tax charged to equity	-	(2.4)	(5.0)	(7.4)
Exchange rate effect	(88.2)	23.5	44.9	(19.8)
<b>Total at 31 December 2010</b>	<b>-</b>	<b>(84.2)</b>	<b>14.1</b>	<b>(70.0)</b>
Recognised deferred tax	-	(94.1)	153.8	59.7
Tax charged to equity	-	(2.4)	-	(2.4)
<b>Total at 31 December 2011</b>	<b>-</b>	<b>(180.6)</b>	<b>167.8</b>	<b>(12.8)</b>

Purchases of single-purpose entities owning only property with no employees, management or recorded procedure descriptions are not considered to be an acquisition of a business (IFRS 3 Business Combinations is not applicable). Hence, the deferred income tax is not accounted for, since it arises from initial recognition of an asset or liability in a transaction other than a business combination which at the time of the transaction affects neither accounting nor taxable profit or loss.

## NOTE 19 Other operating expenses

Other operating expenses (owner-related costs) for continued operations are specified in the table below.

<i>(Amounts in NOK million)</i>	2011	2010
Payroll expenses (see <a href="#">Note 20</a> )	55.0	34.1
Depreciation	2.4	0.8
Other expenses	10.0	24.0
<b>Total other operating expenses</b>	<b>67.4</b>	<b>58.9</b>



## NOTE 20 Payroll costs and remuneration of executive officers and auditor

Payroll costs for continued operations, including pension cost (pension obligation) and remuneration of directors, executive officers and the auditor are specified in the tables below.

### Payroll costs

Payroll costs for the year are specified as follows:

(Amounts in NOK million)	2011	2010
Salaries and remuneration	44.1	27.0
Social security costs	6.7	4.2
Pension costs	2.2	2.0
Other employee expenses	2.0	1.0
<b>Total payroll costs</b>	<b>55.0</b>	<b>34.1</b>
Number of employees for continued operations at 31 December	49	38
Number of full-time equivalent positions for continued operations at 31 December	49	38
Average number of employees for continued operations	44	26

Pursuant to the Act on mandatory occupational pensions, Norwegian Property ASA must operate certain pension plans. The company has a plan which satisfies these requirements. Norwegian Property ASA operates a defined contribution plan for all employees.

### Remuneration of executive officers for 2011

Remuneration of senior management in 2011 are specified in the table below (amounts in NOK):

Name	Title	Salary <sup>1</sup>	Bonuses <sup>1</sup>	Other benefits <sup>1</sup>	Pension/ insurance benefits <sup>2</sup>
Olav Line <sup>3</sup>	CEO	3 149 819	2 000 000	248 752	79 782
Svein Hov Skjelle <sup>3</sup>	EVP & CFO	2 310 857	528 000	116 931	77 620
Aili Klami	EVP Leasing & Marketing	1 501 023	321 360	140 498	98 248
Fredrik W. Baumann <sup>4</sup>	EVP Property Development	2 006 081	-	110 475	80 088
Bjørge Aarvold <sup>3</sup>	EVP Property Management	1 407 101	324 000	118 989	80 918
<b>Total</b>		<b>10 374 881</b>	<b>3 173 360</b>	<b>735 645</b>	<b>416 656</b>

<sup>1</sup> Paid benefits in 2011.

<sup>2</sup> Paid in connection with defined contribution pension plans and employee insurances in 2011.

<sup>3</sup> Olav Line, Svein Hov Skjelle and Bjørge Aarvold have been granted loans by the company of NOK 600 000, NOK 90 000 and NOK 340 000 respectively at 31 December 2011. Interest is charged in accordance with the prevailing standard rate for low-interest loans in employment (cf section 5-12.4 of the Norwegian Taxation Act).

<sup>4</sup> Frederick W. Baumann was hired at the beginning of January 2011.

Fees paid to directors in 2011 are presented in the table below (amounts in NOK).

Name		Remuneration <sup>1</sup>
Arvid Grundekjøn	Chair	724 588
Nils K. Selte	Deputy Chair	530 219
Jon Erik Brøndmo	Director	323 489
Gry Mølleskog	Director	323 489
Synne Syrrist	Director	323 489
<b>Total</b>		<b>2 225 274</b>

<sup>1</sup> Paid benefits in 2011.

### Declaration of management benefits:

This declaration relates to benefits received by key management personnel for work performed in the group. The group will always ensure that it has a professional management to safeguard shareholder interests. In order to achieve this, the company is required to offer competitive remuneration as part of a total compensation package.

This statement applies for the coming fiscal year. The Board will base its work on the declaration after the treatment at the Annual General Meeting in 2012. In 2011, the Group has followed the guidelines on executive pays stated in the annual accounts statement on executive salaries for 2010, presented to the General Assembly in 2011. Any changes to the principles in this statement, compared with previous years, are explained.

#### 1. Principles for base salary

Key management employees will receive a competitive base annual salary, based on the individual's responsibilities and level of expertise.

#### 2. Bonus principles

Key management employees can also receive variable bonus payments. Bonus payments are determined by the individual's own performance in meeting key targets for the group as a whole, a specific function or a subsidiary in which the individual is employed. Key targets will consist of performance improvement initiatives or financial targets, including the company's share price performance. Targets in relation to the chief executive officer's own performance will be established by the board, while the chief executive officer will establish targets for other key management personnel. The targets must be measurable wherever possible. Bonus payment must not exceed 125 per cent of the chief executive officer's annual salary or 30 per cent of annual base salary for other key management employees.

Three senior executives have been granted loans from the company, based on individual agreements with the individual. Interest is charged in accordance with the prevailing standard rate for low-interest loans in employment.

#### 3. Principles for non-cash related benefits

Key management employees can be offered certain non-cash-related compensation benefits, such as a company car scheme, insurance and pension arrangements. Non-cash-related benefits should basically contain telephones and newspapers. Key management employees have the right to belong to the company's defined contribution pension plan. Conditions of the pension plan can vary between employees.

The group has currently no employee option programmes. The Board is considering introducing an employee share scheme for employees in 2012, where the company provides employees (including senior management) to buy discounted shares in the company with a total share value of NOK 100 000 per year. Such a scheme would aim to increase interest among the employees of the company's goals and achievements through share ownership, as well as helping to motivate, reward and retain employees.

#### 4. Payment after termination of contract

At 31 December, two key management employees had agreements in place with the company for payment of salary

after a termination of their contract. Periods of notice are six months and severance pay is limited to six and twelve months' salary. Payment of salary after the termination of a contract can occur in special instances. Approval by the chair is required for payments of salary after contract termination for any employees where this right is not already documented in their employment contract.

#### 5. Decision-making process for remuneration

The board determines the chief executive officer's annual salary.

The board prepares annual guidelines which are submitted to shareholders at the annual general meeting for ratification in accordance with section 5-6 of the Norwegian Public Limited Liabilities Companies Act.

#### Auditor's fee for 2011<sup>1</sup>

Type of fees	Fees
Statutory audit	1 590 000
Other certification services	117 000
Tax/VAT advice	31 000
Other services	40 000
<b>Total</b>	<b>1 778 000</b>

<sup>1</sup> Fees to Deloitte AS and cooperating companies, which in 2011 has been the auditor for all group companies. The fees are net of VAT (amounts in NOK).

#### NOTE 21 Net financial items

Net financial items for continued operations are specified in the table below.

(Amounts in NOK million)	2011	2010
Interest income (loans and receivables)	35.1	23.5
Foreign currency gains (loans and receivables)	1.8	0.5
Other financial income (loans and receivables)	-	0.1
<b>Total financial income</b>	<b>37.0</b>	<b>24.0</b>
Interest costs (loans and receivables)	(519.3)	(538.3)
Foreign currency loss (loans and receivables)	(1.1)	(3.7)
Other financial expenses (loans and receivables)	(34.0)	(24.7)
<b>Total financial expenses</b>	<b>(554.4)</b>	<b>(566.7)</b>
<b>Net financial items</b>	<b>(517.5)</b>	<b>(542.7)</b>

#### NOTE 22 Income tax expense

The table below specifies income tax expenses for continued operations in terms of current tax and deferred tax respectively, and the calculation of income tax expense based on profit before tax.

(Amounts in NOK million)	2011	2010
Current tax	-	-
Deferred tax (see Note 18)	59.7	86.7
<b>Income tax expense</b>	<b>59.7</b>	<b>86.7</b>
Profit before tax:	283.6	437.9
Tax calculated at a tax rate of 28 per cent	79.4	122.6
Deferred tax asset not capitalised <sup>1</sup>	(18.4)	(47.8)
Permanent differences	(1.3)	11.8
<b>Income tax expense</b>	<b>59.7</b>	<b>86.7</b>

<sup>1</sup> Mainly related to deferred tax asset on investment properties not capitalised when fair value exceeds the tax basis but is lower than the group's acquisition cost.

#### NOTE 23 Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares outstanding during the year.

	2011	2010
Net profit attributable to shareholders (NOK million)	228.7	(459.6)
Weighted average number of outstanding shares (million)	498.6	489.0
Basic earnings per share (NOK per share)	0.46	(0.94)

Norwegian Property has not issued options or other financial instruments which have a dilutive effect on outstanding shares. The company has no treasury shares. Diluted earnings per share are therefore the same as basic earnings per share.

#### NOTE 24 Dividend per share and dividend policy

The board's ambition is that, over time, a substantial portion of Norwegian Property's value creation will be distributed to shareholders in the form of a dividend. The long-term goal is for dividend to account for 30-50 per cent of operating profit after tax but before fair value adjustment.

In 2011, for the fiscal year 2010, a dividend of NOK 0.10 per share was paid. At the 2012 Annual General Meeting the board is planning to propose a dividend of NOK 0.20 per share.

## NOTE 25 Related-party disclosures

Parties are considered to be related if one party has the ability to exercise significant influence over the group in making strategic or operating decisions. Significant influence is normally obtained by ownership, participation in decision-making bodies and management, or by agreements.

All transactions, agreements and business relationships with related parties are made on normal commercial terms.

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 relationship related to the board and senior management are described in [Note 15](#) and [Note 20](#).

## NOTE 26 Contingent liabilities and assets

The group has a liability if it is committed to give up financial resources to another party at a future date. An uncertain liability is a liability of uncertain timing or amount. A contingent liability is a category of uncertain liabilities, where the possible obligation is depending on whether some uncertain future events occur that the group can not fully influence. Similarly, a contingent asset relates to possible rights for the company to receive financial resources at a future date.

### Guarantees in connection with the sale of properties and companies

The seller normally emits guarantees in connection with the sale of properties in connection with formal, physical etc. conditions related to the transferred properties and/or companies. The guarantees typically include conditions related to legal status, ownership of shares, validity of financial statements and VAT/tax-issues, contractual issues, liens, environmental matters, insurance coverage, assessment of defects etc. The seller must typically cover financial losses for the buyer of any errors or omissions that may be linked to the guarantees.

In connection with sale of properties/companies in 2008, 2009 and 2010 and the sale of Norgani Hotels in 2010, Norwegian Property has issued this kind of guarantees to buyers. Provisions are made related to circumstances which are likely to entail an obligation for Norwegian Property.

In connection with the sale of Norgani Hotels it is particularly guaranteed that the value of defined tax loss carryforwards in Sweden and Finland are present. If parts of these tax losses are found invalid, the seller shall refund the portion of the share purchase price attributable to these losses, limited respectively to SEK 35.7 million and EUR 1.0 million. Norwegian Property has assessed that there is no need to make provisions related to these guarantees.

### Possible right to demand ground rent

The group company Aker Brygge AS owns most of the sections in the Verkstedhallene at Aker Brygge. Verkstedhallene ANS is a subsidiary of Aker Brygge AS and has the land rights. The group believes that the right to demand ground rent follows from the agreement with other section owners. Such ground rent has not previously been collected. The other section owners claim that such ground rent cannot be charged. The dispute was brought before Oslo City Court in 2011, with the proclamation of judgment on 3 February 2012. Aker Brygge AS is not granted the right to charge ground rent. The appeal deadline is four weeks from 3 February 2012. Aker Brygge AS will appeal the case to the Court of Appeal.

## NOTE 27 Events after the balance sheet date

Events after the balance sheet date are events, favourable or unfavourable, that occurs between the balance sheet date and the date that the financial statements are authorised for issue. Such events can be events that provides information of conditions that existed at the balance sheet date resulting in adjustments in the financial statement, or events that do not require such adjustments.

In november 2011 a preliminary agreement to sell Middelthunsgate 17 in Oslo was signed (see [Note 8](#)). In January 2012 all reservations are withdrawn and a binding contract signed by the parties. By the end of 2011 the property is valued at net realizable value agreed upon in connection with the transaction. The buyer is a joint venture company owned by Veidekke Eiendom and OBOS. The property is currently leased to Nordea. The buyer plans to develop the property for residential purposes. Final takeover of the property will take place in March 2012.

In January 2012, Norwegian Property has entered into an agreement with KLP to perform a property swap which involves KLP's sections in Bryggetorget 1 at Aker Brygge ("Fondbygget") and C. J. Hambros plass 2 ("Ibsenkvartalet") owned by Norwegian Property. The transaction model implies that Norwegian Property acquires Fondbygget for NOK 620 million. Simultaneously, KLP acquires the companies owning Ibsenkvartalet to a price of NOK 1 220 million (see [Note 8](#)). A deduction of NOK 10 million is made as a result of the tax position of the companies owning Ibsenkvartalet, and consequently Norwegian Property will receive NOK 590 million in cash compensation in connection with the property swap. At the end of 2011, Ibsenkvartalet is valued at net realizable value agreed upon in connection with the transactions. With a central location at Aker Brygge in Oslo and a considerable potential for further value creation, Bryggetorget 1 lies right within the core business and geographical priority area of Norwegian Property. Fondbygget will be central in the development of the new Aker Brygge. At the same time, Norwegian Property disposes of a property which is for the most part fully let with long-term leases, and consequently a limited potential for increased rent levels in the medium-term perspective. The agreement involves an additional strengthening of Norwegian Property's financial position, that will contribute to the implementation of major investment projects planned for the portfolio.

In October 2011, a preliminary agreement for the purchase of a plot in Drammensveien 149 at Skøyen in Oslo was signed. All conditions related to the preliminary agreement was lifted by the parties in January 2012, and the transaction was completed. Total purchase price amounted to NOK 99.8 million.

As a consequence of buy-backs of the own bond (ISIN NO 0010564412) to a total value of NOK 121 million done in 2010 and 2011, Norwegian Property ASA has redeemed the bond by a total of NOK 121 million. The remaining outstanding amount after the redemption is NOK 114 million with maturity in March 2012 (see [Note 17](#)).

# Income statement 1 Jan-31 Dec

<i>(Amounts in NOK million)</i>	<i>Note</i>	<b>2011</b>	<b>2010</b>
Management and service fee, group companies	12	21.3	-
<b>Total operating revenue</b>	2	<b>21.3</b>	<b>-</b>
Payroll costs	9	(55.0)	(34.1)
Depreciation	5	(2.1)	(0.8)
Other operating costs		(36.2)	(21.7)
<b>Total operating costs</b>		<b>(93.2)</b>	<b>(56.6)</b>
<b>Operating profit</b>		<b>(71.9)</b>	<b>(56.6)</b>
Financial income	10, 12	537.5	117.6
Financial expenses	10, 12	(904.0)	(1 036.4)
<b>Net financial items</b>		<b>(366.6)</b>	<b>(918.8)</b>
<b>Profit before tax</b>		<b>(438.5)</b>	<b>(975.5)</b>
Income tax expense	11	67.3	24.5
<b>Profit for the year</b>		<b>(371.2)</b>	<b>(950.9)</b>
<b>Proposed allocations:</b>			
Transferred from other paid-in equity		(371.2)	(950.9)

# Balance sheet at 31 December

(Amounts in NOK million)	Note	2011	2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
Deferred tax assets	11	270.2	202.9
Tangible assets	5	11.9	2.4
Investments in subsidiaries	4, 12	5 273.2	5 261.3
Intercompany balances	12	5 080.0	2 391.5
<b>Total non-current assets</b>		<b>10 635.2</b>	<b>7 858.1</b>
<b>Current assets</b>			
Intercompany balances	12	3 016.5	4.0
Other receivables		1.4	7.9
Cash and cash equivalents	3	13.2	221.5
<b>Total current assets</b>		<b>3 031.1</b>	<b>233.4</b>
<b>TOTAL ASSETS</b>		<b>13 666.3</b>	<b>8 091.5</b>

(Amounts in NOK million)	Note	2011	2010
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		249.3	249.3
Share premium		1 930.7	1 930.7
Other paid-in equity		1 963.5	2 384.6
<b>Total equity</b>	6	<b>4 143.6</b>	<b>4 564.6</b>
<b>Non-current liabilities</b>			
Interest-bearing debt	7	7 402.7	1 383.4
Intercompany balances	12	-	1 723.2
<b>Total non-current liabilities</b>		<b>7 402.7</b>	<b>3 106.7</b>
<b>Current liabilities</b>			
Interest-bearing debt	7	1 351.4	-
Intercompany balances	12	26.9	39.1
Trade payables		3.7	3.4
Provision hedge contracts	8	625.6	320.0
Other current liabilities		112.5	57.6
<b>Total current liabilities</b>		<b>2 120.0</b>	<b>420.2</b>
<b>Total liabilities</b>		<b>9 522.7</b>	<b>3 526.8</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>13 666.3</b>	<b>8 091.5</b>

Oslo, 28 February 2012

The board of directors of Norwegian Property ASA

Arvid Grundekjøn  
Chair

Nils K. Selte  
Deputy Chair

Gry Mølleskog  
Director

Jon Erik Brøndmo  
Director

Synne Syrrist  
Director

Olav Line  
President and CEO



# Cash flow statement 1 Jan-31 Dec

<i>(Amounts in NOK million)</i>	2011	2010
Ordinary profit before tax	(438.5)	(975.5)
Depreciation fixture, fittings and equipment	2.1	0.8
Net financial items	366.6	918.8
Changes in current items	20.2	(105.5)
<b>Net cash flow from operating activities</b>	<b>(49.6)</b>	<b>(161.4)</b>
Purchase of tangible assets	(11.5)	(0.1)
Investments in subsidiaries	-	(1.0)
Payments regarding loans to subsidiaries	(7 415.5)	(214.9)
<b>Net cash flow from investment activities</b>	<b>(7 427.1)</b>	<b>(216.0)</b>
Changes in borrowings	7 412.1	(127.6)
Net financial items	(93.8)	87.2
Capital increase	-	531.2
Dividend	(49.9)	-
<b>Net cash flow from financing activities</b>	<b>7 268.4</b>	<b>490.8</b>
Net change in cash and cash equivalents	(208.3)	113.4
Cash and cash equivalents 1 January	221.5	108.1
<b>Cash and cash equivalents 31 December</b>	<b>13.2</b>	<b>221.5</b>

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## NOTE 1 General information

The Norwegian Property ASA group is a real estate investment company established in 2006. The business concept of Norwegian Property is to create added value through the ownership, development and management of first class, centrally located commercial properties in Oslo and other central growth areas. The portfolio will consist of large solid private and public sector tenants. The group owned 47 properties in Oslo and Stavanger at 31 December 2011.

Via Oslo Property, Norwegian Property took over all the shares in the previously listed Norgani Hotels group in 2007 and 2008. Norgani Hotels owned 73 hotels and one congress centre until 1 January 2010 in Sweden, Norway, Finland and Denmark. Norgani Hotels was sold in the autumn of 2010.

## NOTE 2 Summary of significant accounting policies

The financial statements are prepared in accordance with the Norwegian Accounting Act and Norwegian generally accepted accounting principles.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### Subsidiaries/associates

Subsidiaries and associated companies are accounted for using the cost method. The investments are recorded at the acquisition price of the shares unless impairment is required. Impairment is implemented at fair value when a fall in value is caused by reasons which cannot be assumed to be transient and is deemed necessary according to generally accepted accounting principles. Impairment is reversed when the basis for it no longer exists.

Dividends and other distributions are recognised in the year for which they are proposed by the subsidiary. When dividend/group contribution significantly exceeds the part of the retained earnings for the group from subsidiaries after the acquisition, the excess part is considered a repayment of invested capital and deducted from the value of the investment in the balance sheet.

### Tangible assets

All tangible assets are stated at historical cost, less depreciation. Historical cost includes expenditure directly attributable to the acquisition of the item.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be reliably measured. All other repairs and maintenance costs are charged to the income statement during the financial period in which they incur.

### Trade receivables

Trade receivables and other receivables are recognised initially at face value, less provision for impairment. Provision for impairment of trade receivables is based on individual assessments of each receivable.

### Cash and cash equivalents

Cash and cash equivalents include cash in hand, bank deposits, other current highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown under borrowings in current liabilities in the balance sheet.

### Share capital and share premium

Shares are classified as equity when there is no obligation to transfer cash or other assets. Costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method. Any differences between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the duration of the borrowings.

### Management fee and other operating revenue

No management fee was charged to subsidiaries in 2010. Service fee are charged directly by the external party. At the same time, the group was building up a service team to take over service and management of the properties. The internal organisation is in business from 2011 and management fee is charged to subsidiaries.

### Interest expense

Interest expenses on borrowings are recognised under "financial costs" in the income statement using the effective interest rate method. The effective interest rate method is used to allocate amortised cost on financial assets and financial liabilities and for correct accrual of interest income and interest expense. The effective interest rate allocates future cash flows throughout the duration of the loan and indicates the real net value of the financial asset or liability.

When calculating the effective interest rate, the group estimates all contractual cash flows related to the financial instrument (such as terms of payment) but does not take future loss into account. When calculating the effective interest rate, all fees are included and distributed over the relevant period (term to maturity).

### Interest hedging agreements

The group is exposed to interest rate risk related to floating rate loans. The company uses forward rate agreements to reduce interest rate risk. Unrealised losses related to these contracts are recognised in the income statement.

### Foreign currency translation

Monetary items in foreign currency are translated at the closing rate at the balance sheet date.

### Pensions

Norwegian Property ASA operates a defined contribution plan for all employees. A defined contribution pension plan is a scheme where the group pays fixed (defined) amounts to a privately held managed plan. The group has no legal or other obligations to pay further amounts in the event that the pension scheme itself has insufficient assets to pay contributions to employees relating to rights earned in current or previous periods. Contributions are recognised as an employee benefit expense when they fall due. Prepaid contributions are recognised as an asset to the extent that cash refunds or reductions in future payments are available.

### Deferred income tax

Tax in the income statement consist of tax payable and changes in deferred tax. Deferred income tax is calculated at 28 per cent on the basis of the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, and tax loss carried forward at 31 December. Tax increasing or reducing temporary differences which are reversed or can be reversed in the same period are offset. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

### Classifications

Assets held for sale or for use in the ordinary business cycle, or owned mainly for the purpose of trade, or expected to be realised within 12 months or represent cash and cash equivalents are classified as current assets. All other assets are classified as non-current assets. Liabilities which are expected to be settled in the ordinary course of business, are mainly held for trade or are expected to be settled within 12 months are classified as current liabilities. All other liabilities are classified as non-current liabilities.

### Estimates

The preparation of the income statement in accordance with Norwegian generally accepted accounting principles requires the use of estimates and assumptions which affect the income statement and the valuation of assets and liabilities as well as information related to insecure assets and liabilities at the balance sheet date. Contingent losses which are probable and quantifiable are recognised as they occur.

### Cash flow statement

The preparation of the cash flow statement is based on the indirect method. Cash and cash equivalents include cash in hand, bank deposits and other current liquid investments.

## NOTE 3 Financial risk management

The company's activities imply exposure to a variety of financial risks: market risk, credit risk and liquidity risk.

### 3.1 Market Risk

Market risk for the company is primarily related to interest rate risk and to a lesser degree of currency and price risk. At the end of 2011, the company has no exposure to currency risk and the company's revenue for 2011 is entirely related to management fees from subsidiaries.

The company is subject to interest rate risk related to floating rate loans. In order to mitigate interest rate risk, the

group has entered into interest rate swap agreements. Notional principal amounts and the maturity for the company's total portfolio of interest rate hedges at 31 December 2011 are specified in local currencies (million) in the table below.

Currency	Notional principal amount in currency	< 1 year	1-2 years	3-5 years	> 5 years
NOK	(12 774.1)	(4 473.6)	(1 427.5)	(2 523.0)	(4 350.0)

### 3.2 Credit risk

The company's receivables are mainly related to intercompany balances, where credit risk is considered low

### 3.3 Liquidity risk

The company aims to ensure that liquidity/credit facilities are sufficient to meet its foreseeable obligations as well as securing a reasonable capacity to meet unforeseen obligations. The liquidity reserve should largely consist of revolving credit and overdraft facilities, rather than cash and cash equivalents. The liquidity reserve at 31 December is specified in the table below.

(Amounts in NOK million)	2011	2010
The company's net balance in the group accounts	3 025.5	(1 501.8)
Intercompany net balance in the group accounts <sup>1</sup>	(3 012.3)	1 723.2
<b>Cash and cash equivalents</b>	<b>13.2</b>	<b>221.4</b>
Restricted bank deposits	(7.7)	(2.8)
<b>Available cash and cash equivalents</b>	<b>5.5</b>	<b>218.6</b>
Unused credit and overdraft facilities	1 199.2	1 000.0
<b>Liquidity reserve</b>	<b>1 204.7</b>	<b>1 218.6</b>

<sup>1</sup> Subsidiaries' deposits in the parent company's group accounts are included as liquid assets in Norwegian Property ASA.

As described above, the company has a high level of hedging against changes in market interest rates, reducing the need for liquidity reserves to meet unforeseen obligations related to these areas. Liquidity risk is mainly related to installments and maturity of liabilities. The maturity of liabilities for the company is specified in the table below. The classification is based on the maturity specified in the contracts. The amounts in the table specify the timing of repayment of notional principal amounts (NOK million).

31 December 2011	Book value	Expected cash flow	< 1 year	1-2 years	3-5 years	> 5 years
interest-bearing debt <sup>1</sup>	8 754.1	8 796.1	1 360.5	37.5	3 741.9	3 656.2
Trade payables	3.7	3.7	3.7	-	-	-
Other liabilities <sup>2</sup>	764.9	139.3	139.3	-	-	-

31 December 2010	Book value	Expected cash flow	< 1 year	1-2 years	3-5 years	> 5 years
interest-bearing debt <sup>1</sup>	1 383.4	1 384.0	1 384.0	-	-	-
Trade payables	3.4	3.4	3.4	-	-	-
Other liabilities <sup>2</sup>	2 140.0	1 820.0	96.8	-	-	1 723.2

<sup>1</sup> The difference between the carrying value and expected cash flow reflects activated costs.

<sup>2</sup> The difference between carrying value and expected cash flow related to provision for hedge contracts.

## NOTE 4 Investments in subsidiaries

Investments in subsidiaries are specified in the table below at 31 December 2011. Several of the companies own shares in other companies, as described in their respective annual accounts.

<i>(Amounts in NOK million)</i>	Acquired/ established	Commercial properties	Share	Voting share	Net book value
<b>Sub-holding companies:</b>					
Norwegian Property Holding AS <sup>1</sup>		Oslo	100.0%	100.0%	
Norwegian Property Holding	17.01.07				4 086.5
Oslo Properties AS		Oslo	100.0%	100.0%	
Oslo Properties	17.09.07				20.0
Norwegian Property Utvikling AS		Oslo	100.0%	100.0%	
Norwegian Property Utvikling	22.06.10				1.0
<b>Properties ("single purpose entities"):</b>					
Skøyen Bygg AS		Oslo	100.0%	100.0%	
Skøyen Bygg	09.06.06				215.0
Middelthunsgate 17 AS		Oslo	100.0%	100.0%	
Middelthunsgate AS		Oslo	100.0%	100.0%	
Middelthunsgate 17	09.06.06				298.7
Telebygget AS		Stavanger	100.0%	100.0%	
Telebygget 1 AS		Stavanger	100.0%	100.0%	
Telebygget	09.06.06				78.0
Drammensveien 134-1 AS		Oslo	100.0%	100.0%	
Drammensveien 134 AS		Oslo	100.0%	100.0%	
Drammensveien 134	09.06.06				145.2
Finnestadveien 44 ANS		Stavanger	100.0%	100.0%	
Finnestadveien 44	22.06.06				124.9
Gardermoen Næringseiendom AS		Oslo	100.0%	100.0%	
Gardermoen Næringseiendom KS		Oslo	100.0%	100.0%	
Gardermoen Næringseiendom	08.09.06				113.0
Maridalsveien 323 Eiendom AS		Oslo	100.0%	100.0%	
Maridalsveien 323	21.03.07				191.0
<b>Total shares in subsidiaries</b>					<b>5 273.2</b>

<sup>1</sup> The company owns the group's premises ("single purpose" entities) which are not owned directly by Norwegian Property ASA.

Changes in book value for the year are as follows:

<i>(Amounts in NOK million)</i>	2011	2010
Book value at 1 January	5 261.3	5 569.8
Net additions book value of shares in subsidiaries	301.5	1.0
Depreciation of shares in subsidiaries	(281.6)	(566.2)
Group contribution recognised against shares in subsidiaries	(8.1)	256.7
<b>Book value at 31 December</b>	<b>5 273.2</b>	<b>5 261.3</b>

## NOTE 5 Tangible assets

Changes in tangible assets are specified in the table below.

### Acquisition cost

<i>(Amounts in NOK million)</i>	IT-systems and other intangible assets <sup>1</sup>	Fixtures and equipment	Total
<b>At 31 December 2009</b>	<b>0.2</b>	<b>7.2</b>	<b>7.4</b>
Additions	-	0.1	0.1
<b>At 31 December 2010</b>	<b>0.2</b>	<b>7.3</b>	<b>7.4</b>
Additions	12.6	0.3	12.9
Disposals	(0.2)	(2.7)	(2.9)
<b>At 31 December 2011</b>	<b>12.6</b>	<b>4.9</b>	<b>17.4</b>

### Accumulated depreciation

<i>(Amounts in NOK million)</i>	IT-systems and other intangible assets <sup>1</sup>	Fixtures and equipment	Total
<b>At 31 December 2009</b>	<b>0.1</b>	<b>4.2</b>	<b>4.3</b>
Depreciation and impairment 2010	0.1	0.7	0.8
<b>At 31 December 2010</b>	<b>0.2</b>	<b>4.9</b>	<b>5.1</b>
Depreciation from disposals 2011	-	(1.6)	(1.6)
Depreciation and impairment 2011	1.6	0.5	2.1
<b>At 31 December 2011</b>	<b>1.8</b>	<b>3.8</b>	<b>5.6</b>
<b>Book value at 31 December 2009</b>	<b>0.1</b>	<b>3.0</b>	<b>3.1</b>
<b>Book value at 31 December 2010</b>	<b>-</b>	<b>2.4</b>	<b>2.3</b>
<b>Book value at 31 December 2011</b>	<b>10.8</b>	<b>1.1</b>	<b>11.9</b>

<sup>1</sup> Additions in 2011 include IT systems under development that will be depreciated from the time of completion (NOK 3.1 million).

The company uses straight-line depreciation and the useful life of the assets are four years for IT equipment, five years for licenses, cars and equipment, and ten years for fixtures.

## NOTE 6 Equity

<i>(Amounts in NOK million)</i>	Share capital	Share premium	Other paid-in equity	Total equity
<b>Equity at 31 December 2009</b>	<b>226.6</b>	<b>1 422.2</b>	<b>3 335.5</b>	<b>4 984.4</b>
Capital increase 2010	22.7	521.2	-	543.9
Equity issue cost, net after tax	-	(12.7)	-	(12.7)
Loss for the year	-	-	(950.9)	(950.9)
<b>Transactions with shareholders</b>	<b>22.7</b>	<b>508.5</b>	<b>(950.9)</b>	<b>(419.8)</b>
<b>Equity at 31 December 2010</b>	<b>249.3</b>	<b>1 930.7</b>	<b>2 384.6</b>	<b>4 564.6</b>
Dividend paid in 2011	-	-	(49.9)	(49.9)
Loss for the year	-	-	(371.2)	(371.2)
<b>Transactions with shareholders</b>	<b>-</b>	<b>-</b>	<b>(421.1)</b>	<b>(421.1)</b>
<b>Equity at 31 December 2011</b>	<b>249.3</b>	<b>1 930.7</b>	<b>1 963.5</b>	<b>4 143.6</b>

The company had a share capital amounting to NOK 249 268 000 at 31 December 2011, consisting of 498 596 832 shares with a face value of NOK 0.50.

The company's largest shareholders at 31 December 2011 are specified in the table below.

Largest shareholders	Type of account	Country	Number of shares	Share
Folketrygdfondet	ORD	NOR	39 345 495	7.9%
Canica AS	ORD	NOR	27 895 467	5.6%
BNYM AS Emea Asia 25 Omnibus	NOM	USA	23 501 678	4.7%
Awilhelmsen Capital AS	ORD	NOR	23 254 334	4.7%
State Street Bank and Trust Co.	NOM	USA	16 830 777	3.4%
Skandinaviska Enskilda Banken	NOM	SWE	15 840 872	3.2%
BNP Paribas Secs Services Paris	NOM	FRA	15 749 359	3.2%
Citibank NA London Branch	NOM	GBR	15 572 315	3.1%
Bank of New York Mellon	NOM	USA	11 984 971	2.4%
JPMorgan Chase Bank	NOM	GBR	8 571 724	1.7%
Fondsfinans Spar	ORD	NOR	7 792 590	1.6%
JPMorgan Chase Bank	NOM	GBR	7 761 335	1.6%
State Street Bank & Trust Co.	NOM	USA	7 669 013	1.5%
Euroclear Bank S.A./N.V. ('BA')	NOM	BEL	7 411 501	1.5%
Vital Forsikring ASA	ORD	NOR	6 108 018	1.2%
Trondheim Kommunale Pensjonskass	ORD	NOR	6 090 723	1.2%
Fram Holding AS	ORD	NOR	6 000 000	1.2%
BNP Paribas Secs Services Paris	NOM	FRA	5 655 995	1.1%
BNP Paribas Sec Service Paris	NOM	FRA	5 574 269	1.1%
Aweco Invest AS	ORD	NOR	5 486 765	1.1%
Other			234 499 631	47.0%
<b>Total number of shares at 31 December 2011</b>			<b>498 596 832</b>	<b>100.0%</b>

Shares held by directors and senior executive officers at 31 December 2011 are specified in the table below.

Shareholder	Number of shares
<b>Board of directors</b>	
Arvid Grundekjøn, Chair	50 000
Nils K Selte, Deputy Chair	479 000
<b>Senior executives</b>	
Olav Line, CEO	62 000
Svein Hov Skjelle, EVP & CFO	34 000
Aili Klami, EVP Leasing & Marketing	7 000
<b>Shares held by the board of directors and senior executive officers at 31 December 2011</b>	<b>632 000</b>

The company has not issued share options.



## NOTE 7 Interest-bearing debt

The company's interest-bearing long-term and current debt at 31 December is specified in the table below.

(Amounts in NOK million)	Currency	2011			2010		
		Long-term	Short-term	Total	Long-term	Short-term	Total
Bank borrowings	NOK	7 435.7	37.4	7 473.1	-	-	-
Bonds	NOK	-	1 323.0	1 323.0	1 384.0	-	1 384.0
<b>Total interest-bearing debt</b>	NOK	<b>7 435.7</b>	<b>1 360.4</b>	<b>8 796.1</b>	<b>1 384.0</b>	<b>-</b>	<b>1 384.0</b>
Capitalised borrowing cost	NOK	(33.0)	(9.0)	(42.0)	(0.6)	-	(0.6)
<b>Total book value interest-bearing debt</b>	NOK	<b>7 402.7</b>	<b>1 351.4</b>	<b>8 754.1</b>	<b>1 383.4</b>	<b>-</b>	<b>1 383.4</b>

The loan facilities consist of two in amount equal facilities established in June 2011, with a total remaining borrowing limit of NOK 9 933 million at the end of 2011. The term of the facilities is respectively four and seven years and is secured by two separate property portfolios. Drawn amount at the end of 2011 totaled NOK 7 473 million, NOK 1 344 million has been dedicated for the refinancing of bonds maturing in March 2012 and NOK 1 116 million is a revolving credit limit. The bonds consists of three tranches in the Norwegian capital market totalling NOK 1 323 million. The tranches fall due in the first quarter of 2012. Four properties are pledged as second priority security for these borrowings. No significant bank guarantees have been issued on behalf of the parent company.

The maturity of the group's long-term interest-bearing debt at 31 December is specified in the table below (current interest-bearing debt falls due within one year from the balance sheet date).

(Amounts in NOK million)	2011	2010
Between 1-2 years (2013 and 2014/2012 and 2013)	75.0	1 384.0
Between 3-5 years (2015, 2016 and 2017/2014, 2015 and 2016)	3 723.2	-
Later than 5 years (after 2017/after 2016)	3 637.5	-
<b>Total</b>	<b>7 435.7</b>	<b>1 384.0</b>

The book value of assets pledged as security for debt at 31 December is as follows:

(Amounts in NOK million)	2011	2010
Shares and interests in subsidiaries <sup>1</sup>	1 165.7	5 261.3
Long-term receivables, intercompany <sup>1</sup>	5 080.0	2 391.5
Current receivables, intercompany	-	4.0
<b>Total</b>	<b>6 245.6</b>	<b>7 656.8</b>
Liabilities secured	8 796.1	1 384.0

<sup>1</sup> Shares in subsidiaries of Norwegian Property ASA owning properties are pledged as collateral for debt at 31 December 2011. Long-term intercompany loans are also pledged. The shares of property companies owned by other group entities are also pledged as security for corporate facilities in Norwegian Property ASA.

The terms of the main loan facilities are:

:: Interest: NIBOR + margin.

:: Interest rate hedging: minimum 60 per cent with average duration of three years.

:: Financial covenants: the company must comply with agreed senior interest cover and loan-to-value (LTV) thresholds.

The agreed senior interest cover at 31 December 2011 is a minimum 1.4 per cent and an agreed LTV ratio of less than 80 per cent. Requirements in the loan agreements are adhered to both by year-end and for the interim periods in 2011.

:: Instalments are based on the level of LTV.

:: Other covenants: negative pledge, restrictions on granting loan guarantees, restrictions on acquisitions and change of control.

:: Security: the facilities are secured by pledges on properties. The main facility is also secured by first priority pledges on subsidiary shares/interests and intercompany loans. No significant bank guarantees have been issued on behalf of the parent company.

## NOTE 8 Derivatives

The company is subject to interest rate risk related to floating rate loans, and has entered into hedging agreements to reduce such interest rate risks. Unrealised losses on such contracts are recognised.

The majority of Norwegian Property's floating rate loans are hedged with interest rate hedge contracts. Norwegian Property has a policy of hedging a minimum of 70 per cent of the interest-bearing debt outstanding. Hedging of the interest rate risk is conducted by the parent company, Norwegian Property ASA, both for the parent company and for the subsidiaries. Part of the interest rate hedged is thereby allocated to the subsidiaries. Despite the hedging positions, the company's financial assets and cash flow will be exposed to fluctuations in the short-term interest rate. As a result of these fluctuations, the interest rate cost will vary. Notional principal amounts for the company's interest rate hedges at 31 December are specified in the table below.

(Amounts in NOK million)	Currency	2011	2010
Interest rate contracts	NOK	(713.4)	(713.4)
Interest rate contracts	NOK	13 487.5	13 830.6
<b>Total interest rate contracts</b>	NOK	<b>12 774.1</b>	<b>13 117.3</b>

The fair value of derivatives is determined by the net present value of future cash flows, calculated using quoted interest rate curves and exchange rates at the balance sheet date. The technical calculations are generally prepared by banks. The company has checked and tested the valuation for reasonableness. Fair value of the company's derivatives at 31 December is specified in the table below.

(Amounts in NOK million)	2011		2010	
	Assets	Liabilities	Assets	Liabilities
Interest rate contracts	2.3	625.6	17.6	320.0

## NOTE 9 Payroll costs and remuneration of executive officers and auditor

Payroll expenses for the year are specified as follows:

(Amounts in NOK million)	2011	2010
Pay and other remuneration	44.1	27.0
Social security costs	6.7	4.2
Pension costs (defined contribution plan)	2.2	2.0
Other payroll expenses	2.0	1.0
<b>Total payroll expenses</b>	<b>55.0</b>	<b>34.1</b>
Employees at 31 December	47	38
Full-time equivalent positions at 31 December	47	38
Average number of employees	43	26

Pursuant to the Norwegian Act on Mandatory Occupational Pensions, Norwegian Property ASA must operate certain pension plans. The company has plans which satisfy these requirements. Norwegian Property ASA operates a defined contribution plan for all employees.

Remuneration of senior management in 2011 are specified in the table below (amounts in NOK):

Name	Title	Salary <sup>1</sup>	Bonuses <sup>1</sup>	Other benefits <sup>1</sup>	Pension/ insurance benefits <sup>2</sup>
Olav Line <sup>3</sup>	CEO	3 149 819	2 000 000	248 752	79 782
Svein Hov Skjelle <sup>3</sup>	EVP & CFO	2 310 857	528 000	116 931	77 620
Aili Klami	EVP Leasing & Marketing	1 501 023	321 360	140 498	98 248
Fredrik W. Baumann <sup>4</sup>	EVP Property Development	2 006 081	-	110 475	80 088
Bjørge Aarvold <sup>3</sup>	EVP Property Management	1 407 101	324 000	118 989	80 918
<b>Total</b>		<b>10 374 881</b>	<b>3 173 360</b>	<b>735 645</b>	<b>416 656</b>

<sup>1</sup> Paid benefits in 2011.

<sup>2</sup> Paid in connection with defined contribution pension plans and employee insurances in 2011.

<sup>3</sup> Olav Line, Svein Hov Skjelle and Bjørge Aarvold have been granted loans by the company of NOK 600 000, NOK 90 000 and NOK 340 000 respectively at 31 December 2011. Interest is charged in accordance with the prevailing standard rate for low-interest loans in employment (cf section 5-12.4 of the Norwegian Taxation Act).

<sup>4</sup> Frederick W. Baumann was hired at the beginning of January 2011.

Fees paid to directors in 2011 are presented in the table below (amounts in NOK):

Name	Remuneration <sup>1</sup>
Arvid Grundekjøn	724 588
Nils K. Sette	530 219
Jon Erik Brøndmo	323 489
Gry Mølleskog	323 489
Synne Syrrist	323 489
<b>Total</b>	<b>2 225 274</b>

<sup>1</sup> Paid benefits in 2011.

Auditor's fee for 2011 are specified in the table below:

Type of fees	2011
Statutory audit	500 000
Other certification services	8 000
Tax/VAT advice	31 000
Other services	25 000
<b>Total</b>	<b>564 000</b>

Applicable fees to Deloitte AS and cooperating companies, which in 2011 has been the auditor of the company. The fees are net of VAT (amounts in NOK).

## NOTE 10 Net financial items

<i>(Amounts in NOK million)</i>	2011	2010
<b>Financial income</b>		
Income investment subsidiaries <sup>1</sup>	7.8	48.5
Interest income from group companies	182.6	133.7
Changes in value of hedging contracts	-	(66.0)
Other interest income	30.9	0.9
Reversal of impairment receivables against subsidiaries <sup>2</sup>	314.4	-
Other financial income	1.8	0.5
<b>Total financial income</b>	<b>537.5</b>	<b>117.6</b>
<b>Financial expenses</b>		
Interest costs to group companies	-	(50.2)
Interest costs loans	(304.8)	(95.0)
Impairment of shares in subsidiaries <sup>2</sup>	(281.6)	(566.2)
Changes in value of hedging contracts <sup>2</sup>	-	(314.4)
Unrealised loss on interest rate hedge contracts	(305.6)	-
Other financial expenses	(12.0)	(10.7)
<b>Total financial expenses</b>	<b>(904.0)</b>	<b>(1 036.4)</b>
<b>Net financial items</b>	<b>(366.6)</b>	<b>(918.8)</b>

<sup>1</sup> Income from investments in subsidiaries relates to recognised group contribution and other distributions from subsidiaries.

<sup>2</sup> Subsidiaries are valued using the cost method, with impairment to fair value when this is considered to be lower than the acquisition cost.

## NOTE 11 Income tax

<i>(Amounts in NOK million)</i>	2011	2010
<b>The major components of the income tax expense for the year are:</b>		
Tax payable	-	-
Changes in deferred tax	(67.3)	(24.5)
<b>Income tax expense</b>	<b>(67.3)</b>	<b>(24.5)</b>
<b>Calculation of the tax base for the year:</b>		
Profit before tax	(438.5)	(975.5)
Permanent differences	(38.1)	797.6
Changes in temporary differences	321.9	67.7
<b>Tax base for the year</b>	<b>(154.7)</b>	<b>(110.2)</b>
<b>Specification of temporary differences and deferred tax:</b>		
Tangible assets	(1.8)	(0.8)
Provision hedge contracts	(625.6)	(320.0)
Limited liability partnerships	(51.9)	(37.2)
Tax loss carried forward	(911.1)	(686.6)
<b>Total temporary differences</b>	<b>(1 590.4)</b>	<b>(1 044.5)</b>
Of which not capitalised (provision hedge contracts)	625.6	320.0
<b>Basis for deferred tax</b>	<b>(964.9)</b>	<b>(724.5)</b>
Deferred tax, 28 per cent	(67.3)	(31.3)
Of which recognised against equity	-	6.8
Tax on group contribution	-	-
<b>Changes in deferred tax in the income statement</b>	<b>(67.3)</b>	<b>(24.5)</b>
<b>Deferred tax in the balance sheet</b>	<b>(270.2)</b>	<b>(202.9)</b>
<b>Reconciliation of tax expense and calculated effective tax rate:</b>		
Calculated tax expense on profit before tax, 28 per cent	(122.8)	(273.1)
Permanent differences, 28 per cent	(10.7)	228.3
Changes of temporary differences not capitalised, 28 per cent	85.6	18.5
Changes from previous years	(19.4)	1.8
<b>Income tax expense</b>	<b>(67.3)</b>	<b>(24.5)</b>
Effective tax rate (per cent)	15.3	2.5

## NOTE 12 Related-party disclosures

All transactions, agreements and business relationships with related parties are made on normal commercial terms. Financial relationship related to the board and senior management are described in [Note 6](#) and [Note 9](#). Income statement and balance sheet items related to group companies are specified in the table below.

<i>(Amounts in NOK million)</i>	2011	2010
<b>Income statement:</b>		
Management and service fee, group companies	21.3	-
Income on investments in subsidiaries ( <a href="#">Note 10</a> )	7.8	48.5
Interest income from group companies ( <a href="#">Note 10</a> )	182.6	133.7
Interest costs to group companies ( <a href="#">Note 10</a> )	-	(50.2)
<b>Balance sheet:</b>		
Investments in subsidiaries ( <a href="#">Note 4</a> )	5 273.2	5 261.3
Non-current assets, intercompany balances	5 080.0	2 391.5
Current assets, intercompany balances	3 016.5	4.0
Non-current liabilities, intercompany balances	-	1 723.2
Current liabilities, intercompany balances	26.9	39.1

## NOTE 13 Contingent liabilities

Norwegian Property ASA has provided a guarantee for the fulfillment of the loan agreement between Nykredit and the subsidiaries Skøyen Bygg ANS, Skøyen Bygg AS, Skøyen Bygg 2 AS, Skøyen Bygg 3 AS, Skøyen Bygg 4 AS and Skøyen Bygg 5 AS on the amount of NOK 939.6 million.

Norwegian Property ASA has no substantial contingent liabilities through guarantees or other circumstances related to the ordinary course of business.

## NOTE 14 Events after the balance sheet date

In november 2011 a preliminary agreement to sell the property Middelthunsgate 17 in Oslo was signed, including the company with registered rights to the plot. In January 2012 all reservations are withdrawn and a binding contract signed by the parties. Final takeover of the property will take place in March 2012.

In October 2011, a preliminary agreement for the purchase of a plot in Drammensveien 149 at Skøyen in Oslo was signed by a subsidiary of Norwegian Property ASA. All conditions related to the preliminary agreement was lifted by the parties in January 2012, and the transaction was completed. Total purchase price amounted to NOK 99.8 million.

As a consequence of buy-backs of the own bond (ISIN NO 0010564412) to a total value of NOK 121 million done in 2010 and 2011, Norwegian Property ASA has redeemed the bond by a total of NOK 121 million. The remaining outstanding amount after the redemption is NOK 114 million with maturity in March 2012 (see [Note 7](#)).



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Translation from the original Norwegian version

To the Annual Shareholders' Meeting of Norwegian Property ASA

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of Norwegian Property ASA, which comprise the financial statements for the parent company and the financial statements for the group. The financial statements of the parent company comprise the balance sheet as at December 31, 2011, the income statement and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information. The financial statements of the group comprise the balance sheet as at December 31, 2011, the income statement, the statement of comprehensive income, the statement of changes in equity, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *The Board of Directors and the Managing Director's Responsibility for the Financial Statements*

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian accounting act and accounting standards and practices generally accepted in Norway for the company accounts and in accordance with International Financial Reporting Standards as adopted by EU for the group accounts, and for such internal control as The Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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#### *Opinion on the financial statements for the parent company*

In our opinion, the financial statements of the parent company are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Norwegian Property ASA as at December 31, 2011, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian accounting act and accounting standards and practices generally accepted in Norway.

#### *Opinion on the financial statements for the group*

In our opinion, the financial statements of the group are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the group Norwegian Property ASA as at December 31, 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

#### **Report on Other Legal and Regulatory Requirements**

##### *Opinion on the Board of Directors' report and the allocation coverage of the loss*

Based on our audit of the financial statements as described above, it is our opinion that the information concerning the financial statements presented in the Board of Directors report and in the statement of corporate governance principles and practices, the going concern assumption and the proposal for the coverage of the loss, complies with the law and regulations and that the information is consistent with the financial statements.

##### *Opinion on Registration and Documentation*

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 28 February 2012  
Deloitte AS

Eivind Skaug (signed)  
State Authorised Public Accountant (Norway)

[Translation has been made for information purposes only]

# Address, customer centre and contacts

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