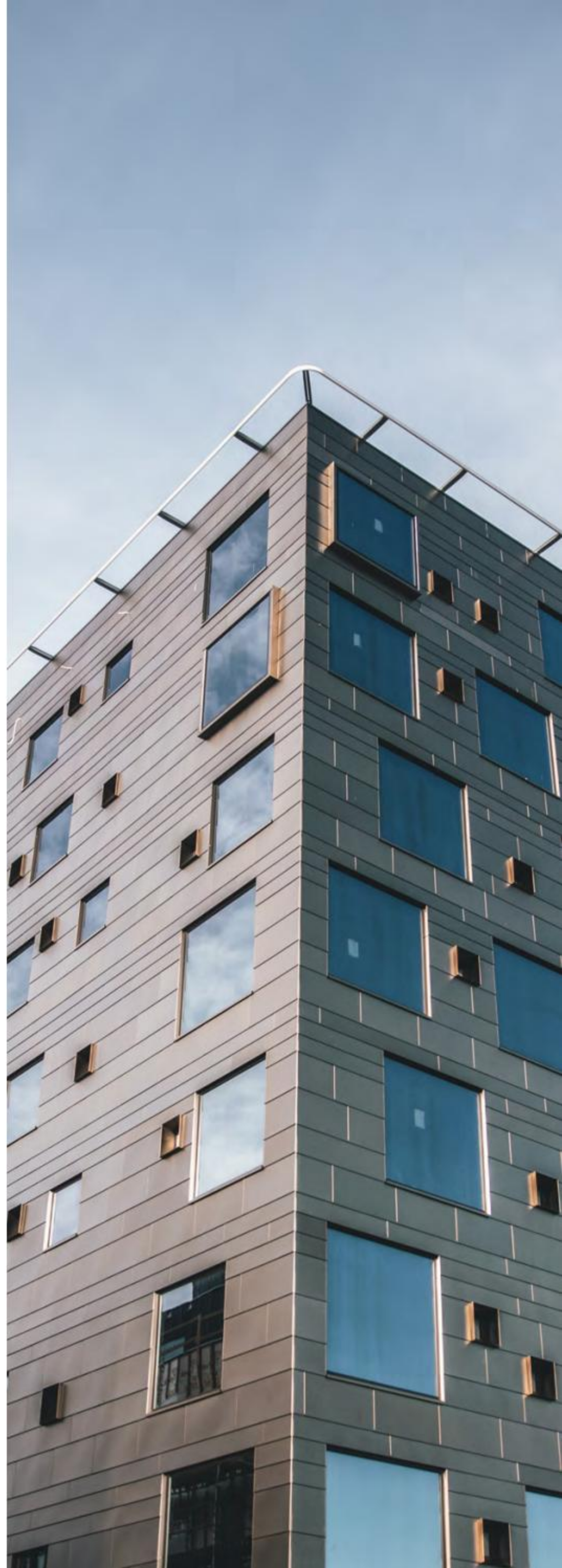




# Annual report

R8 Property  
2019



*R8 Property AS Annual Report 2019*

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## THIS IS R8 PROPERTY

R8 Property AS (The Company) is the mother company of R8 Property AS (the Group), and 36 daughter companies. The headquarter is located in Porsgrunn, Telemark. Since the company was established in 2010, R8 Property has built a solid property portfolio in Skien, Porsgrunn, Sandefjord, Tønsberg and Oslo. The Properties are owned by R8 Property through single-purpose companies.

This spring, R8 Property has developed the company's new business strategy in collaboration with Accenture. We're still dedicated to the development of modern and future-oriented commercial property, and this focus is at the heart of the strategy set towards 2025. We want to be a driving force when it comes to sustainable buildings. And we want to use technology and passion to inspire and enlighten collaborators, politicians, other property developers, tenants and people about how we can change the way we build and manage property.

To take a further step with our technology commitment, R8 Property hired Wasim Rashid and Daniel Bentes in January this year. They will build and develop our technology department, and came from DNB where they respectively worked as EVP Head of Platforms and Platform Strategy Lead. Their first project will be launched when Powerhouse Telemark opens in the autumn of 2020. This might be a game changer for the property business.

R8 Property is an industry leader when it comes to customer satisfaction. 2019 was the fifth consecutive year with first place in the national survey, Norwegian Tenant Index. The company is evolving every year to sustain and increase the customer satisfaction. This year R8 Property came in with a score of 88 out of 100. To adapt the customer needs regarding flexibility and services, we've acquired Evolve Business Space - a coworking concept with 18 locations in Oslo, Drammen, Tønsberg, Fredrikstad and Porsgrunn. Evolve will have 3 floors in Powerhouse Telemark, and also has a floor in Kammerherreløkka.

Until now, we've only focused on commercial property. To establish and develop R8 Home, we hired the very experienced real estate agent Magnus Watvedt to have exclusively focus on residential projects. This includes - amongst other projects - Skien Brygge, which will be a new neighbourhood in Skien city centre.

## KEY FIGURES

OPERATIONAL	2019	2018
Market value of real estate portfolio (tNOK)	2 409 000	1 731 500
Total area (gross sqm)	112 850	90 720
Occupancy rate (%)	85.3	86.2
WAULT (years)	7.3	6.8
<b>FINANCIAL</b>		
Rental income (tNOK)	99 755	70 149
Profit before value adjustment (tNOK)	- 2 539	11 882
Profit after tax (tNOK)	59 177	60 733
EPRA earnings (tNOK)	7 832	11 266
Net cash flow from investment activities (tNOK)	- 378 985	-128 770
Net nominal interest-bearing debt (tNOK)	1 581 274	1 123 762
Debt ratio (LTV) (%)	65.6	64.9
Interest coverage ratio (ICR) (%)	0.6	1.25
Equity ratio (%)	30.4	29.5
<b>NUMBERS PER SHARE</b>		
Earnings (NOK)	28.9	45.9
EPRA Earnings (NOK)	4.0	8.3
Cash earnings (NOK)	-1.3	19.2
Net asset value - EPRA NAV (NOK)	406.7	377.4
EPRA NNNNAV (NOK)	377.9	346.7
Number of shares	1 972 064	1 364 500

KEY FIGURES



**7.3 years**  
*Unexpired lease terms  
 (weighted average)*

**121.4 mNOK**  
*Gross rent per year  
 (run rate)*

**85.3%**  
*Occupancy*

**112 850 m<sup>2</sup>**  
*Total area in  
 portfolio*

## HIGHLIGHTS



### MARCH

Eirik Engaas (39) started as our new CFO. He's specialised within finance, property development and investment analysis. He came from ISS Facility Services AS, where he worked as Nordic Head of Property for the Telenor portfolio.

The new Kammerherreløkka quarter and the Comfort Hotel Porsgrunn opened. The city's population was invited to entertainment, cake, coffee and speeches from the mayor Robin Kåss, R8 Property's CEO Emil Eriksrød and the hotel manager, Teo K. Luisa. The quarter consists of a commercial property with 5 floors, as well as the hotel with 8 floors and 134 rooms.

Arkaden was nominated to become Marketer of the Year, in a national competition directed by Markedsføringsforeningen i Oslo. This was mainly because of all the events and happenings Arkaden has offered to people living in Skien. Arkaden was in competition with big, national companies like DNB, Norwegian and Thon Hotels, who became the winner.

# HIGHLIGHTS

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## APRIL

The official opening of Comfort Hotel Porsgrunn was a successful event. The guests were especially invited by Bane NOR Eien-dom, Comfort Hotel Porsgrunn and R8 Property, and had an unforgettable night with lovely food, live entertainment and speeches. Petter Stordalen, the founder of Nordic Choice Hotels and the most famous "son of Porsgrunn" held an extraordinary and personal speech.



## AUGUST

In cooperation with Skanska, we created an event at Arendalsuka with the theme "How to decrease the climate crisis by focus on energy effective buildings". The speakers were i.e. from Snøhetta, Skanska and ZERO, and Emil Eriksrød talked about how important it is that the politicians are positive and solution oriented, and that it's possible to develop profitable projects by building energy effective.

R8 Home was established. This is a daughter company of R8 Property, whose purpose is residential projects. Magnus Watvedt was hired as the Managing Director. He has more than 15 years of experience from real estate, both as a director and real estate agent.



## JUNE

R8 Property agreed to purchase the coworking company Evolve Business Space. The company was established in 2004, and has 18 locations in Oslo, Akershus, Tønsberg, Drammen, Fredrikstad and Porsgrunn. The first part of the agreement, 50% ownership, was implemented in January 2020.



## SEPTEMBER

We launched the news that R8 Property is going to build Norner's new technology centre: Polymer Exploration Centre. The building is next to Powerhouse Telemark, and will be a global research- and technology centre for the plastic industry. With this centre, Norner will be one of the world's best developers within sustainable plastic solutions.



## HIGHLIGHTS

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### OCTOBER

This became a month we won't ever forget, with huge ups and downs.

First of all, we raised mNOK 130 in an emission targeting existing and selected new investors. The capital will be used to further growth and new investments, especially within sustainable property projects.

In the aftermath of the emission, the financial newspaper Finansavisen published an article with the intention to undermine R8 Property's trust and reputation. The nine pages article, included strong and severe accusations towards our CEO Emil Eriksrød and the company. This article became our most demanding test regarding crisis management, but it also gave us the possibility to check our standing with our financial partners. It turned out that the article, and the extra work we got because of it, resulted in even better trust and connections with our investors, banks, board members, financial partners and employees. They gave us their full support, and we especially want to thank both Carl Erik Krefting (Carucel) and our Chair George Aubert, who on their own initiative made public statements that they were very sceptical to both the article and the methods of journalism. The end game is that R8 Property now is stronger than ever, because all of our financial partners and stakeholders did renewed and extended due diligence on R8 Property. Their feedback was that they still believe in us - and they still invest in us.

We bought our first property in Oslo, Henrik Ibsens gt 40-42, an attractive building next to The Royal Palace and Slottsparken.

# HIGHLIGHTS

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## NOVEMBER

For the fifth time in a row, R8 Property won the Norwegian Tenant Index as the most preferred landlord among tenants. We got 88 points out of 100, which was two points more than the runners up, Aspelin Ramm and Entra.



R8 Property and R8 Management were recertified as Eco-lighthouse businesses. This is both a documentation and a commitment that we are focused on green, environmental solutions.

## DECEMBER

Skien Brygge, which is a collaboration between Bane NOR Eiendom, Skien Boligbyggelag and R8 Property, signed a letter of intent with the hotel director Teo K. Luisa about building a new hotel: Comfort Hotel Skien Brygge.



To take a further step with our technology commitment, R8 Property hired Wasim Rashid and Daniel Bentes. They will build and develop our technology department, and came from DNB where they respectively worked as EVP Head of Platforms and Platform Strategy Lead.

We took over the Telenor building in Kongens gate in Skien. This building has solid lease agreements, and a perfect location, next to the bus and taxi hub. The municipality has big development plans for this area.

# HISTORICAL AND CHALLENGING TIMES



As I am writing this, we're in the middle of the biggest global crisis the world has seen in a century. We can not predict the full scope of the final consequences yet, but there's no doubt that there will be worldwide changes that are both necessary and unwanted. Because of COVID-19, better known as the corona pandemic, we experience a bigger uncertainty than ever before; both globally, nationally - and of course in our own neighbourhoods and workplaces.

I haven't met any of my colleagues during the last month, except in video meetings. The whole country is essentially "shut down"; including schools and kindergartens, stores, cinemas, soccer fields, restaurants and so on. Everyone is part in the voluntary national "dugnad", which means staying at home, and avoid contact with others to stop the infection from additional spread.

### **The future is uncertain**

This crisis has a tremendous effect on our daily life, both personally and professionally. The pandemic has hit everyone hard, including our employees, tenants and business partners. Luckily, 25% of our portfolio income is from public tenants, like Gassnova, Skatteetaten, NAV, Kriminalomsorgen and HELFO. Further, another 25% of our portfolio income is from tenants we consider very solid, i.e. banks, insurance and IT companies. We've worked hard to build a strong portfolio, and now we truly see the importance of stable and economically sound tenants.

Because of the uncertainty of the pandemic's further expansion, it's hard to predict the company's situation during the next months and the years to come. Presently, some of our tenants are having difficulties paying rent, decreasing our income, resulting in the sad but necessary decision to temporary and partly layoffs among our employees.

The times are more challenging than ever, and with that in mind, it's comforting and reassuring to look back on a year with extremely good financial results. In 2019 R8 Property generated the best profit after tax ever. Although R8 Property had great results in the end of 2019, there's unfortunately no doubt that the pandemic will have a negative impact on our financial statements this year. Further, the uncertainty forces us to put some upcoming projects on hold.

### **A strong culture is essential**

I've always been very proud of our culture, and our employees. And now, when everyone are remote working and we're not able to meet on a regular basis over a coffee cup, it's extremely important that every one of us still "feel" the culture in our hearts and minds. I have strong trust in my colleagues, I know that they do everything possible to maintain their high degree of engagement and motivation. R8's core values; trust, courage and engagement still makes sense in the worst global crisis we've ever seen. We need to have trust in each other. We still need to have the courage to think positively and challenge ourselves to new and innovative solutions. We need to feel the engagement to be able to be innovative and make changes.

Maybe it's a paradox, but after a few years with discussions and internal workshops, R8 Property finally has hired Accenture to help us develop our new business strategy. This strategy will be our guidance for the next few years, both when it comes to the organization, communication, projects, technology, employments and so on. The business strategy will be finished before summer.

### **Proptech is the future**

Every crisis creates possibilities, and makes us aware of unleashed potential. The corona pandemic is no exception. We know that proptech is the future within our business, and that tenants are more committed to both technology and sustainability. To greet this future and be innovators/early adopters, we hired Wasim Rashid and Daniel Bentes this winter, to establish R8 Technology. They have worked together in big companies like DNB, Telia and Schibsted, and have an extremely interesting competence and experience. We will see the result of their first project already this autumn. We're very lucky to have them in our family, and I know that they will have a crucial impact on the company in the months and years to come.

### **Spaces as a service**

In last year's annual report, I said that we have to develop our business model to adapt to the customer needs regarding flexibility and services. To directly address our ambition, we bought Evolve Business Space - a coworking concept with 18 locations in Oslo, Drammen, Tønsberg, Fredrikstad and Porsgrunn. Evolve will have 3 floors in Powerhouse Telemark, and also has a floor in Kammerherreløkka.

## Letter from CEO

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### A new era

As mentioned under "Highlights" in this annual report, 2019 was packed with unforgettable happenings. Most importantly - both for us and the community - was the opening of the Kammerherreløkka quarter, and the Comfort Hotel Porsgrunn. This city has had only one hotel for the last century. The space that used to be a hub for taxis and buses, now includes a beautiful hotel with 134 rooms, and welcoming meeting rooms. The hotel delivered far beyond budget in 2019, and Porsgrunn is now able to compete with other cities regarding national conferences.

In August we established R8 Home and hired Magnus Watvedt, to have exclusively focus on residential projects. This includes - amongst other projects - Skien Brygge, which will be a new neighbourhood in Skien city centre. In collaboration with Bane NOR Eiendom and Skien Boligbyggelag, we signed a letter of intent with the hotel director Teo K. Luisa to develop Comfort Hotel Skien Brygge. This will be one of our biggest and most exciting projects in the future.

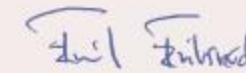
Last but not least, most importantly during the autumn of 2019, we raised mNOK 130 in an emission targeting existing and selected new investors. In the aftermath of the emission, the financial newspaper Finansavisen published an article with the intention to undermine R8 Property's trust and reputation. The article included strong and severe accusations towards myself and the company, and became our most demanding test regarding crisis management.

I would like to thank our investors, board members, banks, financial partners and employees for stepping up for us, reaffirming their belief in R8 Property. Thanks to you, the end game is that R8 Property now is stronger than ever.

In the end of the year, we bought our first property in Oslo, Henrik Ibsens gt. 40-42, an attractive building next to The Royal Palace and Slottsparken, where Evolve will be the biggest tenant.

Also, for the fifth consecutive year, we won the Norwegian Tenant Index (Norsk Leietakerindeks / NLI) for 2019 with the score of 88 out of 100. Not to forget that Arkaden won the NLI for shopping centres for the second consecutive year.

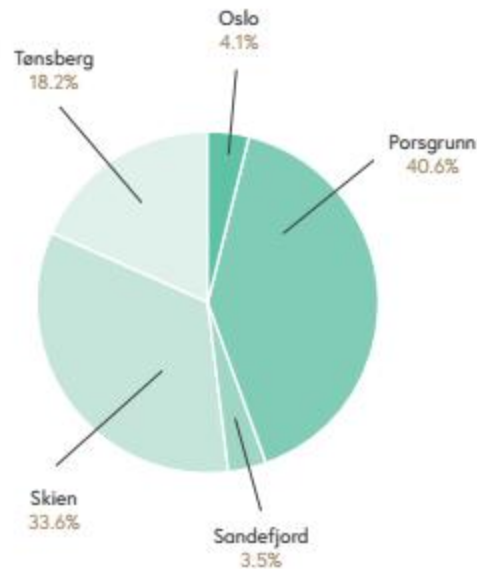
*All in all, I still strongly believe that the future is bright, but we need to use this global crisis to be even more aware of unleashed potential and new possibilities. We need to maintain and develop our fantastic culture, and we need to challenge ourselves and other collaborators.*



Emil Eriksrød, CEO and founder

## Key figures

### Geographic exposure (area)



25

Management properties

7

Project properties

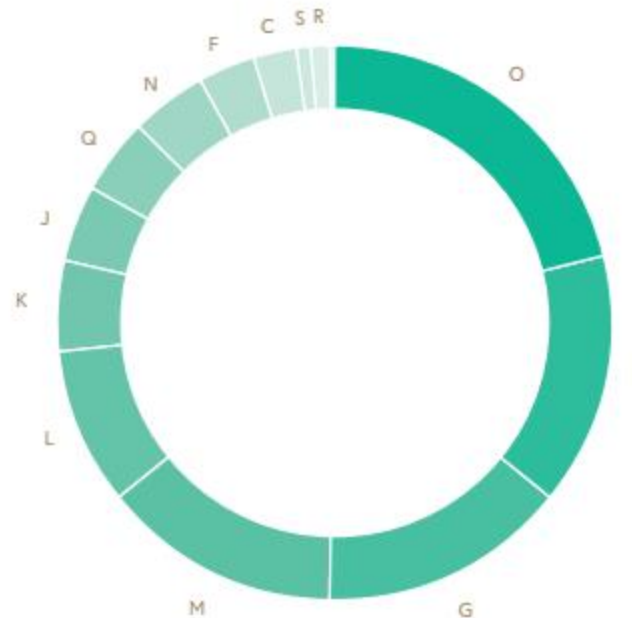
1 508 NOK

Average rent per sqm (management portfolio)

7.3 years

Average vault

O - Public administration and defence; compulsory social security	21.1%
I - Accommodation and food service activities	14.8%
G - Wholesale and retail trade and repair of motor vehicles and motorcycles	14.6%
M - Other professional, scientific and technical activities	14%
L - Real estate activities	9.2%
K - Financial and insurance activities	5%
J - Information and communication	4.6%
Q - Human health and social work activities	4.5%
N - Administrative and support service activities;	4.4%
F - Construction of buildings	3.5%
I - Accommodation and food service activities	2.3%
S - Other personal service activities	1.1%
R - Arts, entertainment and recreation	1.1%
H - Transportation and storage	



## Property portfolio

The Group's management portfolio consists of 25 (14) properties with a total of 95 062 (70 022) square meters. 8 of the properties are situated in Porsgrunn, 12 in Skien, 4 in Tønsberg and 1 in Sandefjord. As of 31 December 2019, this portfolio had a market value of 1 881.0 (1 230.5) millions. The occupancy was at 84.7 (85.3) per cent and the average rolling rent was 1 508 (1 455) kroner per square meters. The average duration of the existing lease agreements was 6.2 (4.8) years. The group's project portfolio consists of 7 projects. 1 in Oslo, 4 in Porsgrunn, 1 in Tønsberg and 1 in Skien. The Group uses Newsec for property valuations on a quarterly basis and all market values used in the balance sheet are based on valuations from Newsec. Valuation of the management portfolio is performed on a property-by-property basis, using individual DCF models and taking into the account the property's current characteristics combined with the external appraiser's estimated return requirements and expectations as to future market development.

	Area (sqm)	Occupancy sqm	Occupancy %	No. of properties	Market value (tNOK)	Market value (NOK/sqm)	Wault <sup>1)</sup> (yrs)	Annual rent (tNOK)	Annual rent (NOK/sqm)	Wault <sup>2)</sup> (yrs)	Net direct yield (%)	Net yield (valuation) (%)	Market rent <sup>3)</sup> (tNOK)	Market rent <sup>3)</sup> (NOK/sqm)
31.12.2019														
Office	59 235	51 726	87.3	17	1 111 500	18 764	3.3	70 841	1 370	3.3	5.8	6.4	85 424	1 142
Urban Estate	26 730	20 572	77.0	6	459 500	17 190	8.6	31 578	1 535	8.7	5.0	7.2	45 213	1 691
Hotels	9 097	8 197	90.1	2	310 000	34 077	12.7	18 928	2 309	12.7	5.3	6.3	21 979	2 416
Total management portfolio	95 062	80 495	84.7	25	1 881 000	19 787	6.1	121 356	1 508	6.2	5.5	6.5	152 616	1 605
Project Office	17 788	15 719	88.4	7	528 000	29 683	11.4							
Total project portfolio	20 698	15 719	88.4	7	528 000	29 683	11.4							
Total property portfolio	112 850	96 214	85.3	32	2 409 000	21 374	7.3							

<sup>1)</sup> Wault weighted on property market value

<sup>2)</sup> Wault weighted on annual rent

<sup>3)</sup> includes market rent from available areas

## Project portfolio

The project portfolio consisted of four projects in 2019.

Powerhouse Telemark is a future-oriented project. With its high ambitions when it comes to energy consumption, the Powerhouse Telemark differs from other projects. During its lifetime a Powerhouse produces more renewable energy than it uses for materials, production, operation, renovation and demolition. Upon completion, this will be one of the most energy-efficient and environmentally friendly office buildings in the world. Powerhouse Telemark is also aiming for a BREEAM Excellent classification. The construction started in Q4 - 2018 and is on schedule toward commencement during summer 2020. The project attracts great interest from media as well as the local community. The size of the building is 8.358 sqm and is leased to solid and attractive tenants. The building will also be the future head office of all the companies in the R8 Group.

Eeks Gård is a renovation project in Rådhusgata 2 in Skien. The building is located at the city square and has an attractive location near public transportation, market place, shopping mall (Arkaden) and the waterfront. The building will also have an exterior renaissance that will contribute greatly to the overall look of the city square in Skien. This project finished in January 2020, NAV Skien moved in to their new Activity Based Workspace (ABW) facilities on January 31st.

The Kammerherreløkka development project, joint venture with Bane NOR Eiendom AS, finished in the spring of 2019. The project consists of an office building (2.767 sqm), a hotel (6.282 sqm) and a parking garage with a capacity of 86 cars. The hotel building is fully let to Comfort Hotel Porsgrunn. This project is located on the public transportation hub in Porsgrunn, and is considered to be one of the most important development areas in Telemark in the years to come.

Polymer Exploration Centre is a development project adjacent to Powerhouse Telemark. The project (4,450 sqm) is customized for single tenant Norner AS, a Norwegian subsidiary of global giant SCG Chemicals, and one of the leading entities within plastic R&D in the world. The project will break ground in May 2020, and is set to be finalized in the autumn of 2021.

## Tenant lease overview

R8 Property tenant base in the management portfolio comprises of both private and public sector tenants with leases up to 20 years. Public sector tenants upheld 24.2% of the management portfolio by the end of December 2019. The 10 largest tenant's share of R8 Property's rental income represents 43.0% of revenues.

Tenant	in % of rent	Sector
HELFO	12.4%	Public
Comfort Hotel Porsgrunn	9.6%	Private
Kriminalomsorgen Region Sør	3.5%	Public
Skien Sportsbar AS (O'Learys)	3.1%	Private
Telenor Norge AS	2.7%	Public
Emerson Process Norway	2.6%	Private
Gassnova SF	2.4%	Public
Gjensidige Forsikring ASA	2.3%	Private
DNB Bank ASA	2.3%	Private
Asplan Viak AS	2.1%	Private

### Maturity profile in the management portfolio





# COMPANY STRUCTURE

R8 Property started 2019 with 3 property owning sub-groups in R8 Office, R8 Hotels and R8 Retail. During 2019 R8 Retail was renamed R8 Urban Estate - a name better reflecting the underlying portfolio of properties, location and tenants across different segments. Further, R8 Property added two new subgroups in 2019, both ownership tools to the groups development projects within both commercial and residential property in R8 Projects and R8 Home.

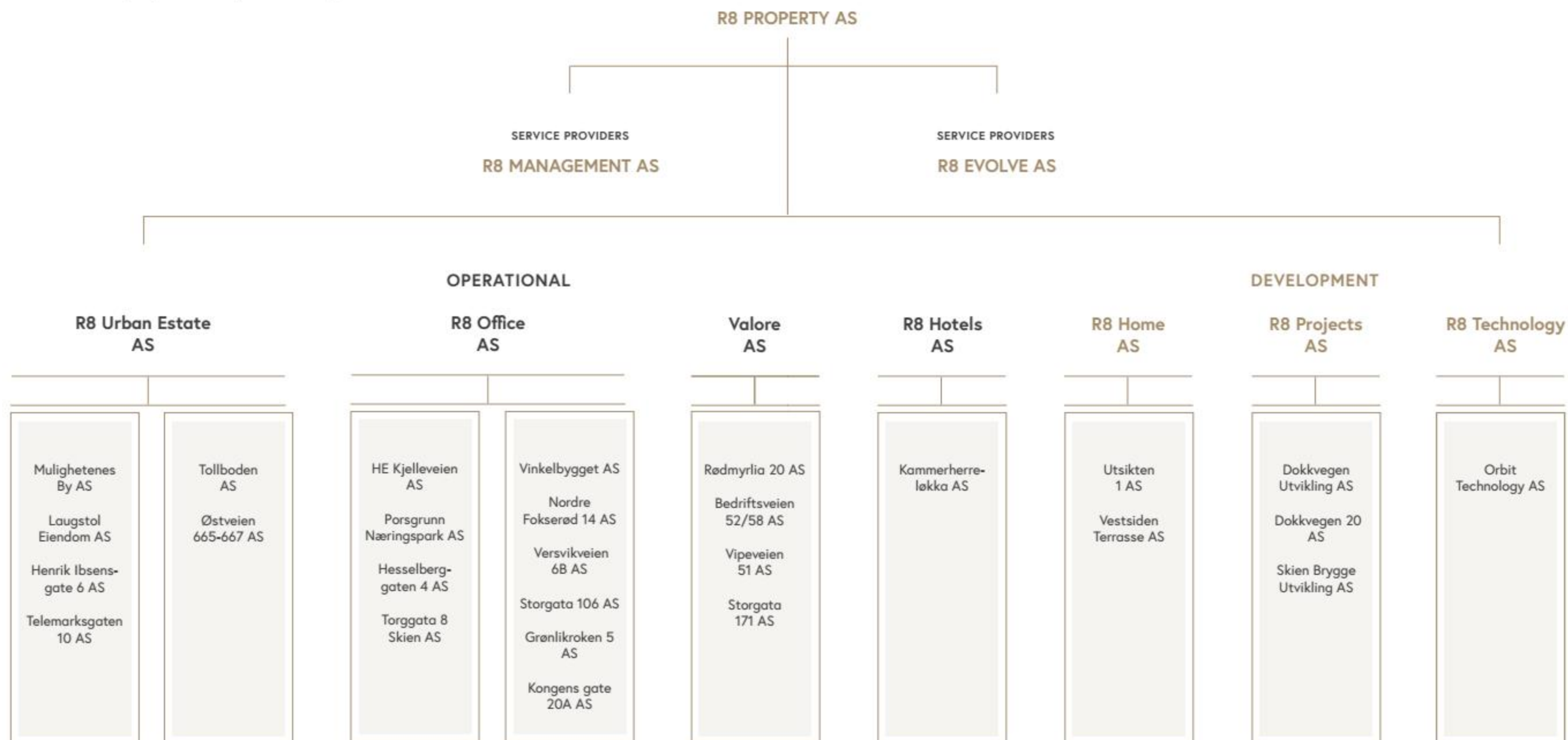
R8 Property's operational activities and management across property owning sub-groups is organized in R8 Management and our coworking business under R8 Evolve. R8 Technology is the group's corporate leg leading our commitments and investment in technology and proptech.

R8 Property AS holds 100 percent of the shares in each sub-group, with the exception of R8 Evolve in which the company holds 50 percent (R8 Property has an agreement to acquire the remaining 50% over the coming years).

# Company structure

The main purpose of the group's structure is to have flexibility in the future when the Group is aiming to expand the portfolio and include other related businesses. The company structure will continually be optimized to have flexibility with regard to funding, ownership and key partners going forward.

\*The company structure is updated 1st of May 2020.



The companies Rådhusgt 2 AS and HIG 40-42 Prosjekt AS has a temporary placement as a subsidiary of R8 Property. It is expected that these two companies are placed under the right segment no later than 2021.



# The Management



## Emil Eriksrød

CEO/FOUNDER

Emil Eriksrød returned as company CEO on January 1st 2019, after a year and a half as Chair of R8 Property. He specializes in investment, development and management of commercial property. Emil has previously worked as Chief Financial Officer for Hathon Holding. He also has extensive experience as an entrepreneur, a career he started in parallel with the studies. Since 2010, he has worked to build up an investment portfolio, which as of December 2019 had a market value of 2,5 billion NOK.

## Eirik Engaas

CFO

Eirik Engaas became CFO in R8 Property in March 2019. Eirik has an MBA with specialization in finance. His long and broad experience within financial instruments, financial statement analysis, real estate, management and projects is very important for R8 Property. He plays a crucial part of the Company's operational and growth strategies.

Eirik previously worked at the international company ISS Facility Services AS for five years, where he was Nordic Head of Property for the Telenor portfolio.



## Wasim Rashid

CDO

R8 Property's strong focus on technology resulted in the hiring of Wasim Rashid as Chief Digital Officer in January 2020. Wasim is specialized within new business models and technology, and has a broad experience with change management in big companies like DNB, Telia and Schibsted.





## Ronny Sundvall

MANAGING DIRECTOR,  
R8 MANAGEMENT

Ronny Sundvall is specialized within marketing and business growth. When he became the managing director of R8 Management in 2016, he had 8 years experience as managing director at the biggest shopping center in Telemark, Herkules. Together with the employees in R8 Management, Ronny is the lead for the group's professional responsibility and care of tenants.



## Marianne Wollan

MANAGING DIRECTOR, R8 EVOLVE

Marianne Wollan founded and established Evolve Business Space 15 years ago, in August 2005. Evolve is a coworking concept with 18 locations in Oslo, Drammen, Tønsberg, Fredrikstad and Porsgrunn. They offer their tenants beautiful and central locations, combined with the possibility of working and networking with other tenants, across industries, competence and experience.





## Magnus Watvedt

MANAGING DIRECTOR, R8 HOME

Magnus Watvedt has over 15 years experience from real estate, mainly as a real estate agent in Oslo, where he also owned and managed Privatmegleren Allé Eiendomsmegling. Magnus is in charge of our residential commitment and upcoming housing projects, among others what is going to be our biggest development project - Skien Brygge.

## Tommy Thovsland

DEVELOPMENT DIRECTOR,  
R8 PROPERTY / CEO, R8 GROUP

Although Tommy Thovsland's official title is CEO of R8 Group, he delivers significant services to R8 Property, mainly to work with early phase project development in our biggest projects. Tommy is educated chemical engineer, and has experience as business developer in LEARN.



## Elin Tufte Johansen

CHIEF HUMAN OFFICER, R8 GROUP

Elin Tufte Johansen has more than 15 years of experience within organizational development, change management and leadership. She's involved in several projects, especially within employments and the strategic development of R8 Property. Elin also offers important support for our managing directors and the management team.





# CORPORATE GOVERNANCE

R8 Property has ambitions to exercise good corporate governance at a level similar to listed companies. Through these ambitions we aim to strengthen confidence in the company and contribute to the greatest possible value creation over time. The objective is to professionalize the whole Company; its shareholders, the board and the executive management through a clear division of roles and responsibilities. R8 Property is currently in the process of implementing the applicable Norwegian code of practice for corporate governance of 30 October 2014. The code of practice is available on the Norwegian Committee for Corporate Governance homepage: [www.nues.no](http://www.nues.no).

The following report on corporate governance is done in alignment with how listed companies report on corporate governance. Below is a description of how the Company has complied with the recommendation given by NUES. The report covers each section of the code, and possible variances from the code are specified under the relevant section.

### Implementation and reporting on corporate governance

The board wishes to apply good corporate governance to contribute to a good trust-based relationship between R8 Property and the company's shareholders, the capital market, and other stakeholders. The administration has in 2019 completed several tasks regarding role clarity, resource allocation and the division of authorization and responsibilities both within the Company and between the companies in the R8 Property. These tasks are described in each relevant section.

### Business

The Group's business is stated in §3 of the statutes: "The company's purpose is owning, operating and rental of real estate, owning shares in other companies, investing in stocks and other securities, and other activities that are naturally associated with this." Main strategy and objectives within this framework are stated in the Board's annual report.

### Capital and dividends

#### EQUITY

The Group's equity as of 31 December 2019 was 778.1 (532,3) million and gives an equity ratio of 30.4 (29.4) per cent. The Board considers the equity situation as satisfactory and in line with the company's objectives, strategies, and risk profile. R8 Property is dependent on a satisfactory financial flexibility, and the Board has therefore set the ambition that the relationship between net interest bearing debt and gross fair value will be in the range of 60–65 per cent.

#### DIVIDEND

The Group has long-term growth objectives and the growth rate is high. To ensure the financial flexibility to sustain the high growth rate the main short-term principle is not to distribute large dividends to shareholders. Nevertheless, when results are strong, moderate dividends are accepted. It is considered essential that the level of dividend does not set significant limits to planned investment projects.

### Authorization

The Articles of Association do not contain provisions allowing the Board to decide that the company will buy back or issue shares. It is also not issued other authorizations to the Board of R8 Property.

In the general assembly in April 2019 the Board of Directors was given the power of attorney to increase the share capital by up to 394 737 new shares with pair value of NOK 2.50, total NOK 150 000 060. The objective for the proposal was the Board's wish to be able to issue new shares to support the company's growth, and strengthen the capital reserve.

It was also decided that the preferential right of the existing shareholders pursuant to Section 10-4 of the Norwegian Public Limited Companies Act may be deviated from if new shares are issued within the frame described.

The power of attorney also included share capital increase against contribution in kind, cf Section 10-2 of the Norwegian Public Limited Companies Act, and allows share capital increase regarding mergers pursuant to Section 13-5 of the Norwegian Public Limited Companies Act.

The described power of attorney is valid for one year until the company's Annual General Meeting in 2020.

### Equal treatment of shareholders and transactions with related parties

There is only one class of shares in R8 Property and all shares have equal rights. There are no voting rights restrictions in the statutes.

R8 Property issued 342 331 new shares in 2019, through a private placement in September 2019 - generation gross proceeds of NOK 130 085 780. There has also been several transactions of shares in 2019, both between existing shareholders while also introducing new investors.

The change in shareholder composition demands increased professionalism in the company's communication with shareholders to ensure equal treatment of the shareholders. In order to support R8 Property's ongoing professionalization, and offer flexibility and value to our investors, the company and the company's shares were registered in the Norwegian VPS Security Center (Verdipapirsentralen - VPS) at July 31st 2019. The company presented all its quarterly reports in 2019 to the public (through r8property.no) to provide the same information to all its shareholders and stakeholders. In the event of a share issue in the future, existing shareholders in R8 Property have preferential rights to the capital increase.

The preferential rights are safeguarded by sharing information in good time for the existing shareholders. All transactions with related parties is subject to an independent valuation from a chartered accountant or other expert. This is to ensure that transactions with close associates and intercompany agreements are carried out correctly on an arm's length basis.

Guidelines on conflicts of interest have been developed and included in the instructions for the company's board of directors, and to ensure that directors inform the board if they have a significant direct or indirect interest in an agreement being entered by the company. To avoid unintentional conflicts of interest, the company will present an overview which identifies the various roles of its directors, the offices they hold and so forth. This overview will in the future be updated when required and in the event of changes in the board's composition.

#### **Transferability**

There are no restrictions on share transferability. The shares are considered liquid with a shareholder base of 47 investors as of 31.12.2019. During 2019 the company entered into an agreement with Arctic Securities to be R8 Property's preferred broker for transactions of shares and provide a marketplace for buyers and sellers. The board considers good liquidity of the share to be positive for the company to be regarded as an attractive investment. The company also works actively to attract interest from the investor market.

The executive management holds information meetings with existing shareholders, and meets with potential new shareholders and investors.

#### **General meetings**

The board encourages as many as possible of its shareholders to exercise their rights by attending the General meeting. The 2020 Annual General Meeting is scheduled to take place on May 20th, 2020. The company's financial calendar is decided by the Board. Notice of the general meeting, with comprehensive documentation is made available to shareholders no later than 7 days before the meeting takes place.

Due to corona pandemic and the capacity in the administration, the company will in 2020 be unable to make the information available 21 days in advance as recommended by NUES.

All relevant documents relating to the general assembly will be accurate so that all shareholders can decide on the issues that are submitted to be negotiated.

The chair will ensure a thorough and fair conduct of the general assembly. A chairperson opens the meeting and the general assembly elects the chairperson. R8 Property has not yet prepared its own procedures that ensures an independent chairperson for the general assembly.

The directors and senior executives are present at the general assembly together with the auditor.

Shareholders who are unable to attend are encouraged to appoint a proxy. The attached summons to the general assembly should be attached to related documents and form of proxy. This form has been prepared so that it will allow voting on each case to be negotiated, and candidates for election. In the general assembly summons, the procedures relating to participation and voting, as well as use of proxy, are explained.

Minutes from the general meeting is sent to the shareholders at the latest 14 days after the meeting.

#### **Nomination committee**

The NUES recommendations call for the appointment of a nomination committee. R8 Property does not yet have a nomination committee. However, the company aims to appoint a nomination committee at the general meeting in 2021 to be prepared for any future changes in the shareholder composition. The committee will then be independent of the board and the executive management. Members of the nomination committee and its chair will be elected by the general meeting and their remuneration will be determined by the general meeting.



#### **Corporate assembly, board of directors and independence**

The Company does not have a corporate assembly due to its small number of employees. The board currently has six shareholder-elected members. Board members and the chair of the board are elected by the Annual General Meeting each year. The board's composition is intended to secure the interests of the shareholders in general. The background and experience of board members are presented on the company's website and in this annual report.

However, five of the six board members are independent of R8 Property's executive management and significant commercial partners. According to the NUES' principles, the majority of the shareholder-elected members of the board should be independent of the company's executive personnel and material business contacts. It is recommended that "at least two of the members of the board elected by shareholders should be independent of the company's main shareholder(s)". This is the case in today's board. The five independent shareholders are Runar Rønningen, Leif Oddvin Jensen, Christina Sundby, George Emil Aubert and Knut Bråthen.



One board member is a part of the executive management of R8 Property or closely related to the main shareholder. This is:

- Emil Eriksrød is the founder of the company and the main shareholder.
- Tommy Thovsland is CEO of the entire R8 Group (mother) while still being hired to work with development projects for R8 Property. Tommy also holds 20.000 shares in R8 Property.

To counteract independence issues the administration has developed routines and guidelines that ensures equal treatment of shareholders and transactions with related parties. It is not expected that there will be changes in the Board composition at the Annual General Meeting in May 2020. There has been consistently good attendance at the Board meetings in 2019. The Board's expertise is considered substantial with regards to economy, market understanding, and business operations.

The Board currently consists of five men and one woman.

#### **The work of the board of directors**

The board has the overall responsibility for managing the company and for supervising the chief executive officer and the company's activities. Its principal tasks includes determining the company's strategy and monitoring its operational implementation. It also holds a control function to ensure acceptable management of the company's assets. The board appoints the CEO.

Instructions which describe the rules of procedure for the board's work and its consideration of matters have been adopted by the board. The division of labour between the board and the CEO is specified in greater detail in standing instructions for the CEO. Instructions for the management clarifies the duties, powers, and responsibilities of the CEO. The CEO is responsible for the company's executive management. Responsibility for ensuring that the board conducts its work in an efficient and correct manner rests with the chair.



The board establishes an annual plan for its meetings, and evaluates its work and expertise at the end of each meeting. Also, once a year, the board evaluates its own work and that of the CEO. As of 31 December 2019, R8 Property has not established an audit committee or remuneration committee. It is considered as part of the Board's evaluation whether it is appropriate to establish these committees in 2020.

### Risk management and internal control

#### RISK AREAS AND GENERAL RISK MANAGEMENT

Through its activities, the company has earned substantial financial assets that are exposed to several risk factors. Most of these factors are directly or indirectly affected by macroeconomic situation such as interest rates, the letting market, the property development market and so on. The financial risk has been revised and presented to the board through a new financial strategy.



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The strategy has been discussed by the board in 2019 and the administration reports to the board in each meeting with regards to relevant KPIs within the following risk areas: overall funding, operations and liquidity, interest rate risk, and financial leverage. The target level of each KPI is revised yearly. During 2019 several measures have been implemented or initiated to prevent and reduce risk. In addition to the contents in the financial strategy the following measurements are made in addition to others:

#### LEGAL RISK

During 2019 the company has hired legal assistance when considering agreements with substantial obligations such as large rental agreements, turnkey contracts in development projects and so on. Although there is a cost associated to buying legal services, it is considered important to reduce the risk in agreements with potentially high financial consequences.

#### MARKET (PROPERTY VALUE) RISK

Each quarter the company obtains professional third-party valuations of its properties to ensure that the values presented in the reports are as accurate as possible, and to become aware of market changes as early as possible. Also, the company considers the property value market risk when setting the target levels in the financial strategy.

#### MARKET (INCOME) RISK

The Company's income is mainly based on leases and the average duration is continuously monitored. R8 Property seeks to diversify the different maturities on the different leases to spread risk. Also, the portfolio is diversified when it comes to both industry and geographical segments. To counteract on the market risk related to the letting activity the company has a high degree of service to its tenants. For the fifth consecutive year

the company won the Norwegian Tenant Index, a research survey measuring the degree of content and satisfaction for the tenants.

The company believes that providing good services to its' tenants help reduce the letting risk.

Guidelines are made to ensure that all tenants with expiring contracts the next year are contacted. Also, when new lease agreements are negotiated, gaining long term contracts is a main objective. The focus on development projects with high environmental and energy standards, such as Powerhouse Telemark, has proven important to be able to sign long-term lease agreements and to diversify the risk over many years.

#### INTEREST RATE RISK

The financial strategy contains several KPIs set up to reduce the interest rate risk. For instance, interest coverage ratio, average time to maturity (hedges) and percentage of fixed interest rate. As an example, minimum 30 percent of the current interest-bearing debt have fixed interest rates. This fixed rates percentage will increase in H1 2020. The setup of the company's debt structure is considered continually, to obtain the desired diversification and financial flexibility.

#### OPERATIONAL RISK

The debt coverage ratio (DCR) (net income from property management / total debt service) is a measure of the cash flow available to pay current debt obligations. The ratio states net income from property management as a multiple of debt obligations due within the period, including interest and principal. The DCR is an important KPI and will be closely monitored and reported to the board in each meeting. The target for the debt coverage ratio is set in the Company's financial strategy.

The operational risk in R8 Property also relates to human error or system failure associated with daily operations. During 2019 the company expanded its workforce considerably to ensure adequate resources for all tasks and mitigate the risk and vulnerability connected to key employees. Further, the board members have very significant knowledge and experience within property and do contribute with their expertise when needed.

#### GENERAL RISK MANAGEMENT AND REPORTING TO THE BOARD

The board is briefed on developments on the risks facing the company on a continuous basis through the operating reports. The administration prepares periodic operating reports which are considered at the board meetings. These reports are based on management reviews of the various parts of the business, and contain an update of the status concerning important operational conditions, financial conditions, project development and a description of the status in risk areas. In addition, quarterly financial reports are prepared and reviewed by the board and presented to the public through the company website and social media.

The financial KPIs are followed up through periodic reports along with updates of forecasts for the year. Reporting also includes non-financial key figures related to the various business areas.

Balance sheet items are reconciled and documented on a continuous basis throughout the year. Significant profit and loss accounts and accounts related to direct and indirect taxation are also reconciled on a continuous basis.

#### INTERNAL CONTROL

Risk management and internal control is addressed by the board. The board also reviews the external auditor's findings and assessments after the interim and annual financial audits. The auditor's report is presented by the auditor in board meetings and reviewed by the board. There are eight employees in the Company as of 31. December 2019. Because of significant agreements with related companies, many of the authorizations involve key employees in related companies such as R8 Consulting and R8 Management. The authorizations are given through contractual agreements and follow recognized principles of authorization. The board performs an annual review of risk areas and the internal control system. The review will seek to pay attention to the recommendation set by NUES, such as:

- changes relative to previous years' reports in respect of material risks and the company's ability to cope with changes in its business and external changes
- the extent and quality of management's routine monitoring of risks and the internal control system
- the extent and frequency of management's reporting to the board on the results of such monitoring
- whether reporting makes it possible for the board to carry out an overall evaluation of the internal control situation in the company and how risks are being managed
- instances of material shortcomings or weaknesses in internal
- how well the company's external reporting process functions

### Remuneration of the board of directors

Directors' fees are determined by the General Meeting. These fees are based on the Board's responsibility, expertise and time taken as well as the complexity of the business, and are not related to results. The board members are not awarded options. For 2019 the remuneration was NOK 75 000 for the ordinary board members. The Chair had an active role in the company in 2019 and the remuneration was NOK 200 000. Further information on the various board members' remuneration is provided in note 11 of the financial statements.

### Remuneration of executive personnel

The current remuneration for company CEO has been settled by the Chair in consultation with other board members. Senior executives in the company will be subject to a stock option program, starting in 2020. There will be a set number of shares offered to each executive, with a duration of up to three years. Senior executives' remuneration is further described in note 11 in the financial statement.

### Information and communication

The board has decided that the company seeks transparency to secure the general interest and shareholders' interests in the company. An annual financial calendar is set which includes the dates of any quarterly report and the dates for the presentation of the annual report. All quarterly and annual reports are published on the company's website: r8property.no. The annual report and the minutes of the General Meeting are presented in English. This is to prepare information that will be relevant and beneficial in the future in terms of attracting foreign investors and capital markets. The company also uses the press, social media and the website to inform the public about milestones and news regarding the company. Transactions of a significant nature and those of public interest will be made public through the media or press conferences. Through the company's established principles for investor communication, the board has determined guidelines for financial reporting and other information.

### Company takeovers

The Board has not issued guidelines related to the receipt of bids for the company's shares. In 2020 the offer will be managed within the confines of the law and in terms of equal treatment of shareholders and their interests. Ordinary operations will as far as possible be shielded from such transactions. The Board does not intend to prevent or obstruct any takeover bid for the company or its shares, but will ensure that shareholders have sufficient time and information to be able to form a view of a possible offer for the company's business or shares.

The Board will always ensure that the shareholders' common interests are safeguarded.

### Auditor

The company has no audit committee, and the Board itself oversees self-evaluation of the Board's work. In 2019, the Group's auditor, EY, has undergone the following tasks related to fiscal year 2019:

- Presented the main features of the audit work to the board
- Participated in the board meeting related to the 2019 annual financial statements
- Confirmed that the requirements for auditor independence are met
- Sent an overview of services other than audit services that are provided to the Company

The Board reports on the auditor's total remuneration between auditing and other services at the Company's Annual General Meeting. The Meeting approves the choice of auditor and the auditor's fee each year.



R8 PROPERTY  
CORPORATE SOCIAL  
RESPONSIBILITY

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## ENVIRONMENT

Both R8 Property and R8 Management are recently re-certified Eco-lighthouse businesses, and work proactively to reduce the environmental impact of the business. The Group seeks to reduce the carbon footprint and set an example of how to develop sustainable projects for the future: Buildings that contribute to local energy collection and production, reuse of water, green roofs that contribute to attenuation, and sustainable use of local materials and suppliers. When establishing new buildings or when renovating existing buildings, R8 Property focuses on measures giving positive effects to the environment. Measures may include replacement of ventilation, better heat recirculation, energy-saving lighting, and organizing electric vehicle parking. This year we will introduce emission totals/ emission accounting as a part of our standard operations, and further seek to employ this to both our property portfolio and tenants.

## POWERHOUSE TELEMAR

In January, CNN Style published the article "The most anticipated buildings set to shape the world in 2020". Amongst 10 global buildings, Powerhouse Telemark was the only one in Europe to be mentioned, next to Berlin Brandenburg Airport. There is no doubt that to greet the future in a sustainable way, energyplus buildings will be part of the solution. Powerhouse Telemark will become a signature building for all of Telemark and a world class eco-building that challenges traditional property culture and architecture. The building will be finished summer 2020, and we aim to build more powerhouses in the years to come.

## EDUCATION AND EMPLOYMENT

One of the most important tasks associated with a better community is to create and contribute to increased employment. Through its business and activities R8 Property contributes positively to employment in the operating regions. Several major construction projects contribute to significant employment with subcontractors. The Group also invests heavily in urban development with the desire to contribute to city centers in terms of new jobs, activities and quality of life.

During the last year we've donated money to build a school in Sierra Leone. Sami Town School is a secondary school with 350 pupils, and one of the employees in R8 Management has been on site to help out with the building process.

Our partnership with Lyk-Z & daughters has been helpful to several youths with personal challenges, and we'll continue our collaboration with this great organization. Frog Online Identity works to empower adolescents and young adults to participate in social venues, basic educational programs, and employment. The goal is to improve the individuals' quality of life so they find the motivation to go back to school or work and through this contribute to positive development for the individual and the local society.



Coastal cleanup



R8 Flying Start: Yvonne Aasbø, managing director R8 Edge, the winner Maritsa Kissamitaki and Emil Eriksrød, CEO and founder R8 Property.

## SUSTAINABLE FOOTBALL

R8 is one of Odds Ballklubb's major sponsors. Odds Ballklubb is the most environmental and sustainable football club in Norway. Odd was the first Norwegian football club to provide energy to the stadium with solar panels.

Because of the corona pandemic, it's still unsure whether there will be played any football in the national series this year. Regardless, we still take part in digital meetings with other sponsors, and we also want Odd to be a collaborator in relation with Powerhouse Telemark.

## R8 FLYING START

For the third year in a row, we named the winner of R8 Flying Start. In collaboration with Innovation Norway Telemark and Vekst i Grenland we established this competition for entrepreneurs 3 years ago. The winner in 2019 was Maritsa Kissamitaki and her company Future Synthesis. Her product is a mechatronic head, which can use and test different technologies, sensors, motors, mechatronic, automation, 3D printing and microphones e.g. She received the prize at the Entrepreneurship Week, which was a free one-year lease agreement with R8 Property, as well as 70 hours of counselling from R8 Consulting, R8 Edge and R8 Property's founder, Emil Eriksrød.

# R8 TUSEN TAKK FOR STØTTEN I 2019



## SPONSORSHIPS AND COOPERATION AGREEMENTS

In addition to the agreements mentioned above, R8 Property and the R8 Group contribute with both money and/or services to a wide variety of clubs and organizations. We are dedicated to children and youth, and therefore it's natural to support different football clubs, theatre groups et cetera. Most of these sponsorships are given locally in Grenland. Also, we have a "fund" for all R8 employees, where they can apply for economical support for their own (or their children's) organizations.

## NRK TELETHON

The NRK Telethon is a yearly event where we contribute with money as well as volunteering calls to other companies ("ringedugnad"). It is the largest information campaign and fundraising event in Norway, and with the funds from 2019's Telethon, CARE will make a better life for women in some of the world's most vulnerable areas.

## THE BOARD OF DIRECTORS



GEORGE EMIL AUBERT  
CHAIR OF THE BOARD

George Emil Aubert is educated IT engineer, and has a broad business experience. He was one of the founders of Syscom AS in Oslo, where he worked for 26 years until he moved back to Skien in 2014. He's CEO of the family businesses Aubert Invest and Holta & co, as well as the endowment of Sonja & Emil Aubert.

George is also Chair or board member of Telemark Museum, Aubert Invest, Holta & co, Skiens Aktiemølle, Broerne 6, Trebua Invest, Tenera, Stiftelsen Backe, Vauvert and Hovund's fund. George owned and controlled 66.700 shares i R8 Property at December 31st 2019.



TOMMY THOVSLAND  
BOARD MEMBER

Tommy is educated as a chemical engineer at Telemark University College in Porsgrunn and has experience as business developer at LEARN AS. Although Tommy is employed in a different company, he delivers significant services to R8 Property and is hired to work with development projects. Tommy Thovslund became CEO of the entire R8 Group in March 2018, but still works with early phase project development for R8 Property. Tommy owned and controlled 20.000 shares i R8 Property at December 31st 2019.





KNUT BRÅTHEN  
BOARD MEMBER

Knut has an MBA from BI and has been the CEO of the family Office company Ing. K.A.Bråthen AS (IKAB AS) since 1990. In 2006 he established Grenland Barnehagedrift, which he managed until 2016 when the company was sold to Læringsverkstedet.

Knut Bråthen is also board member in Grenland Energy AS and Safelink AS. Knut owned and controlled 179.198 shares in R8 Property at December 31st 2019.



CHRISTINA SUNDBY  
BOARD MEMBER

Christina Sundby, Runar Rønningen and Leif Oddvin Jensen were elected as new board members at the General Assembly in April 2019. Christina is CFO of Carucel Holding AS, and has more than 30 years experience within finance, shipping, property and board work. She has an MBA from Fribourg in Switzerland. Christina owned and controlled 1.500 shares in R8 Property at December 31st 2019. She is also related to Carucel Invest AS and Carl Erik Krefting, which owned and controlled 64.657 shares in R8 Property AS at December 31st 2019.



RUNAR RØNNINGEN  
BOARD MEMBER

Runar has over 20 years experience within financial journalism, asset management and investments. His education is from NHH, where he got an MBA in finance, and also became a European certificated financial analyst. Runar has also completed a master course in negotiations at Harvard University. Runar was CEO of Pioneer Group from 2010-2019, and established Oslo Capital Partners AS in 2019 together with Martin P. Hoff. Runar owned and controlled 10.000 shares in R8 Property at December 31st 2019.



LEIF ODDVIN JENSEN  
BOARD MEMBER

Leif Oddvin graduated from BI with a degree in accounting and auditing. He has experience from financial positions in different companies. Leif Oddvin works in the family office, Brødrene Jensen AS, and is currently head of the company. He is also a board member in a wide range of companies.

Leif owned and controlled 228.711 shares in R8 Property at December 31st 2019.



R8 PROPERTY

## REPORT FROM THE BOARD OF DIRECTORS

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2019 has been a year of continued growth and a strong emphasis on project development. Despite significant costs related to early phase project development, the financial results came out as good as expected. Operating revenues increased from NOK 83.7 million for 2018 to NOK 113.4 million in 2019, and net profit came in at NOK 59.2 million. Fair-value adjustments for investment properties were up NOK 78.7 million from 31 December 2018 to 31 December 2019.

### THE COMPANY

R8 Property AS is the mother company in the Group. The Group's properties are primarily comprised of office premises, healthcare, retail and hotel space. The business is organized in parent company R8 Property AS with subsidiaries. The head office is in Porsgrunn. The properties have a market value of mNOK 2409.0 (mNOK 1731.5). The portfolio consists of properties and development projects in Skien, Porsgrunn, Sandefjord, Tønsberg and Oslo. The Group's purpose is to acquire, develop and own properties in central and attractive locations. In addition, the company also develops service functions through R8 Management and has a set goal to have Norway's most satisfied tenants (we scored 88 points and first place for 5th year in a row in recent survey).

### MARKET ACTIVITIES

There were several significant transactions in R8 Property in 2019. In Q2 the second phase of the private placement from 2018 were completed, adding 6 new properties to our portfolio located in Skien, Porsgrunn and Tønsberg. Also in Q2, R8 Property signed a letter of intent to acquire our first property in Oslo - Henrik Ibsens gate 40-42 - a transaction that was completed in Q4. In Q3 we signed a letter of intent to purchase Kongens Gate 20A in Skien, Telenor regional headquarter, this transaction was also completed in Q4.

R8 Property has over time been searching for the proper way to facilitate the trend towards flexibility and simplicity for tenants - resulting in an agreement in Q2 to acquire coworking company Evolve Business Space. The first phase of the transaction was completed in Q1 this year, with subsequent transactions - to complete the purchase - over the next couple of years.

Annual rent for the company's properties has increased from NOK 70.1 million in 2018 to NOK 99.8 million by the end of 2019. As of 31 December 2019, R8 Property had a management portfolio of 25 properties totaling 95 062 square meters and 7 projects totaling 17 788 square meters.

#### SEVERAL PROPERTIES WERE ACQUIRED THROUGH 2019:

Address	Area(sqm)	Ownership	City	Segment	Aquisition
Østveien 665 - 667	22 413	100%	Tønsberg	Retail	Q1
Rødmyrlia	343	100%	Skien	Valore	Q2
Vipeveien 51	5 418	100%	Porsgrunn	Valore	Q2
Bedriftsveien 52-58	6 282	100%	Skien	Valore	Q2
Storgata 171-175	1 927	100%	Porsgrunn	Valore	Q2
Langbrygga 1	3 286	100%	Skien	Retail	Q2
Henrik Ibsensgate 40-42	1 927	100%	Oslo	Office	Q4
Kongens Gate 20A	3 286	100%	Skien	Office	Q4

#### PROJECT DEVELOPMENT

To secure a profitable growth, the Group's strategy is to have an ongoing portfolio in project development. The Kammerherreløkka project finished in Q2 2019 with a grand opening of both the office building and hotel. The Group had four on-going projects in 2019; Henrik Ibsens gate 40-42 in Oslo, Powerhouse Telemark and Polymer Exploration Center in Porsgrunn and Eeks Gård in Skien.

#### RISK AND RISK MANAGEMENT

Both the administration and the Board assesses risk on an ongoing basis. Risk management is carried out by the administration under policies approved by the Board. The Group's risk factors consist of financial and non-financial risks.

#### Financial risk

In 2019 the financial risks of the Group have been monitored through the KPIs set forth in the financial strategy. Several risk areas are established and reported on a regular basis. The target level of each KPI have been decided by the board in 2019. The Group seeks a good balance between debt and equity. The Group has defined a target for the Loan-To-Value ratio of approximately 65-70 per cent. The Group is exposed to interest rate risk. Changes in interest rate levels will have an impact on the Group's cash flow. The risk is managed by actively using interest rate swaps and by spreading maturities. The target is to obtain fixed interest rates at minimum 35-60 percent of the debt portfolio, average remaining term to maturity

of 2-7 years and to diversify the maturity structure. Refinancing risk is reduced by entering long-term loans. Liquidity risk is monitored and managed through ongoing cash management and frequent reporting. There are covenants in the Group's bank loan agreements. At 31 December 2019, the Group "was not in breach of any covenants."

#### Market risk

The market value of the Group's property portfolio is affected by cyclical fluctuations in the economy. A decrease in the market value will reduce the Group's Equity and increase Loan-to-Value ratios. To reduce the risk concerning changes in the market the Group limits exposures to certain industries and groups of tenants. There is always a risk that yield changes in the market will reduce the value of the portfolio and cause changes in loan-to-value ratios.

To reduce the risk of sudden changes in the Company's property values the value of the portfolio is monitored on a quarterly basis by independent external experts in valuation of properties.

#### Credit risk

The Group seeks to reduce the credit risk by obtaining a diversification in the tenant portfolio. As of 31 December, 24.2 percent of the portfolio consists of public tenants and 75.8 percent of private tenants. Also, there is a spread between different industries and geographical exposure between five different cities/ areas.

Through 2019 there has also been a focus on obtaining tenants with a higher credit rating, and the company has participated and won several public procurements.

#### Development risk

R8 Property's development activity may involve risk related to project costs, future letting ratio, level of rent, cost overruns, delays, delivery shortfalls and market developments. To reduce the development risk, the Group has hired personnel with relevant experience and knowledge in addition to using external resources, for instance legal expertise, when needed. The Group will continue to actively manage resource needs due to a large project pipeline.

### Reputational risk

R8's brand and reputation are important advantages in competition with other companies. The Company focuses on maintaining the positive brand and preventing negative issues concerning the Group.

### RESTRUCTURING

Through 2019 there has been restructuring and optimization of the Group structure to be better prepared for future growth. We have established two subsidiaries; R8 Home AS and R8 Projects AS. The shareholders and the issued shares in R8 Property are not affected by the additions. All subsidiaries of R8 Property are owned 100 percent, except Kammerherreløkke AS (which is owned 50 percent), Dokkvegen Utvikling AS (which is owned 50%) and R8 Evolve AS (\* formalized January 3rd 2020 in which R8 Property has a 50% ownership - although there is an agreement in place to purchase the remaining outstanding shares over the next couple of years).

During the year R8 Property, including subsidiaries, acquired 100 percent of Henrik Ibsens gate 40-42 Oslo AS, Kongens Gate 20A AS, Østveien 665-667 AS and Valore AS. Further the company co-founded Dokkvegen Utvikling AS with a 50 percent ownership.

### ORGANIZATION AND WORKING ENVIRONMENT

R8 Property had eight employees as of 31 December 2019. Seven of them are men, and we will strive to get a better gender balance in the future. This is twice as many employees as in 2018. There was no long-term or short-term absence in 2019. The work environment is good although the work pressure at times is high. The board consists of 5 men and 1 woman. The Board will continue to strive to improve the gender balance. There were no injuries or accidents within the Group in 2019.

### CORPORATE GOVERNANCE

R8 Property works in accordance with the principles of conducting transparent business to build and maintain a high level of trust among shareholders, banks and financial institutions, tenants, and society in general.

### CORPORATE SOCIAL RESPONSIBILITY

The Group strives to constantly improve and to operate in accordance with responsible, ethical, and honorable business principles. The three core areas of contribution to society are environment, social engagement and community support.

### Exterior environment

The Group aims to conduct business so that the impact on resources and the environment is kept to a minimum and well within the requirements imposed by authorities and contracting parties.

### GROUP ACCOUNTS

#### Going concern

The financial statements have been prepared based on the going concern assumption. This is based on an evaluation of the financial position and budgets and forecasts for 2020. R8 Property group has an equity of NOK 778 million and positive result in 2019. The group has short term debt that is due in December 2020. The company has been in dialogue with the banks, and they have confirmed their intention of renewing the loan facilities depending on formal approval. Liquidity management is an important and prioritized task, especially due to high activity and costs related to project development.

The board was pleased with the private placement in 2019 that generated gross proceeds of NOK 130 million, and the company will also, if necessary, take actions in 2020 to improve the liquidity situation.

Events after 31 December 2019 have a significant impact on the financial statements, and the company follows the situation closely and is prepared to take the actions necessary: see 'Outlook'

### Financial risk

The financial statements show that the Group had another year of strong results in 2019. The result comes from both net income in property management and growth in property values. Profit before tax amounted to NOK 76.6 million (70.5 million), up by 6.2 million from the year before, and close to the expected result. Net profit amounted to NOK 59.2 million (60.7 million). The profit includes a change in value of investment properties of NOK 78.7 million (37.6 million). Fair-value for investment properties is NOK 2 409.0 million (1 731.5 million). The financial results are in line with expectations going into 2020, but the risks have increased in 2020 due to the Covid19 virus, see 'Outlook'.

### Statement of income, balance sheet, and statement of cash flows

The annual report has been prepared in compliance with IFRS. This accounting principle has been applied consistently throughout 2019.

### Income

Total operating income for the Group increased from NOK 83.7 million in 2018 to 113.4 million in 2019. The Group's financial income totaled NOK 3.1 million (1.3 million). Financial costs, primarily interest costs and other costs associated with the Group's financing activities, totaled NOK 47.4 million (30.3 million). Profits before tax was NOK 76.6 million (70.5 million), and total comprehensive income after tax was NOK 59.2 million (60.7 million). Tax expense was NOK 17.5 million (9.7 million).

### Balance sheet

As of 31 December 2019, the Group's assets had a book value of NOK 2 550.8 million (1 805.0 million). Of the total assets, investment properties accounted for NOK 2 409.0 million (1 731.5 million). Total accounting equity in the Group was 778.1 million (532.3 million).

### Cash flow statement

Net cash flow from operating activities was NOK - 4.3 million in 2019 (3.5 million). The net cash flow from investments was NOK -379.0 million (-128.8 million). There were NOK 6.2 million (Vipeveien 43) from property transactions (0.0 million).

Upgrades and construction of investment properties amounted to NOK 294.7 million (135.6 million) and primarily relates to the construction of Eeks Gård, Powerhouse Telemark, Kammerherreløkka and development of Arkaden. Net cash flow from financing activities was NOK 413.8 million (144.2 million). Net proceeds of interest bearing debt was NOK 321.1 million (97.1 million). During 2019 R8 Property has made a repayment of NOK 24.7 million (28.6 million) in bank loans. The net change in cash and cash equivalents was NOK 30.5 million at 31 December 2019 (18.9 million). One of the objectives in the financial strategy is to define a level on liquidity buffer that fits the size and the growth ambitions for the Group.

### Financial structure and exposure

R8 Property's collective loan portfolio is comprised of long and short-term financing in the Norwegian capital market. At the end of the year, loans totaled NOK 1 581.2 million (1 123.7 million), 36 per cent (25 percent) of which was tied up in different interest rate swaps. The overall loan portfolio has an average time to maturity of 3.2 years.

Average interest cost at 31 December 2019 was 4.45 per cent (3.9 per cent).

As a general principle R8 Property's financing is based on a negative pledge of the Group's assets. The Group has adopted a financial strategy with a medium loan-to-value ratio. The Group's loan-to-value ratio at 31 December 2019 was 65.6 per cent up from 64.9 percent at the end of 2018.

Events after the balance sheet date: see 'Outlook'.

### PROFIT FOR THE YEAR AND ALLOCATIONS

In 2019, R8 Property AS, the parent company of the Group, made a profit after tax of NOK -9.9 (-1.8) million, as set out in the financial statements prepared in accordance with the Norwegian Accounting Act and Norwegian generally accepted accounting principles. The Board proposes that the profit after tax of NOK -9.9 (-1.8) million is transferred to retained earnings for 2019.

### BOARD OF DIRECTORS

The Annual General Meeting in April 2019 elected George Emil Aubert (Chair) for 2 years, Christina Sundby, Tommy Thovsland, Leif Oddvin Jensen, Runar Rønningen for 1 year and Knut Bråthen for 2 years as ordinary directors, until the next annual General meeting in 2020. There were 6 ordinary board meetings and 9 extraordinary board meetings in 2019.

### Health, Environment and Safety

Every board meeting includes a report of current HSE status, events and deviations - and are treated according to standards.

## OUTLOOK

The Norwegian economy is, along with the rest of the world, in uncharted waters due to the corona pandemic. The road ahead is uncertain, hopefully the next couple of quarters will provide a sense of direction for both the pandemic's impact on general health and healthcare - and also economic and financial outlook.

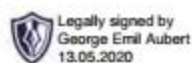
We expect that the pandemic will have substantial impact on our business in 2020, the total effects is too early to determine. We expect our total revenue and received rent to decrease across operating segments, but the effect will vary - with some segments more impacted than others. In times like these we cherish our diversified portfolio of tenants, with a basis of 25 percent of

income from public tenants - another 25 percent of our portfolio rent is generated from large and solid tenants within telecom, banking etc - giving R8 Property a sound foundation to weather the storm in these extraordinary times.

On the financial side decreasing interest rates will contribute positively to our running financial costs and overall cash flow.

The night is darkest before dawn, and although the current situation is challenging, we believe that there is light at the end of the tunnel. Through dedication, innovation and a highly skilled group of employees, the Board is aiming for R8 Property to be an even stronger company post corona pandemic.

### Porsgrunn, 13 May 2020 Board of Directors for R8 Property AS



Legally signed by  
George Emil Aubert  
13.05.2020

George Emil Aubert  
Chair of the Board



Legally signed by  
Tommy Thovsland  
13.05.2020

Tommy Thovsland  
Board member



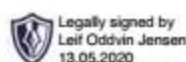
Legally signed by  
Christina Sundby  
13.05.2020

Christina Sundby  
Board member



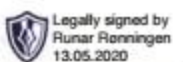
Legally signed by  
Knut Bråthen  
13.05.2020

Knut Bråthen  
Board member



Legally signed by  
Leif Oddvin Jensen  
13.05.2020

Leif Oddvin Jensen  
Board member



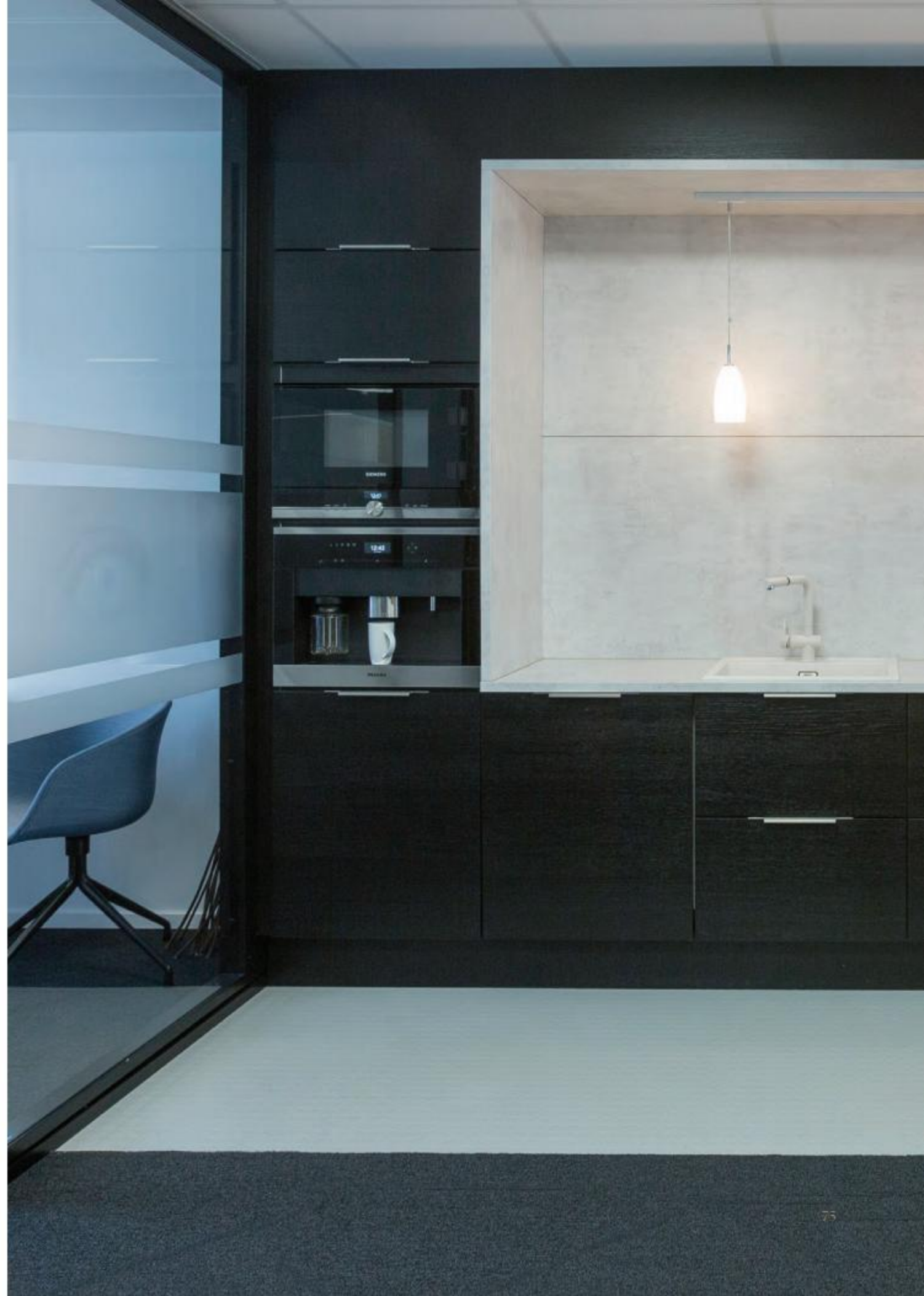
Legally signed by  
Runar Rønningen  
13.05.2020

Runar Rønningen  
Board member



Legally signed by  
Emil Eriksrød  
13.05.2020

Emil Eriksrød  
CEO



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CONSOLIDATED  
FINANCIAL STATEMENTS  
R8 PROPERTY AS

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Statement of total comprehensive income  
1 January to 31 December

All amounts in NOK thousand

	Note	2019	2018
Rental income	6	99 755	70 149
Other operating revenue		13 636	13 581
<b>Total operating income</b>		<b>113 391</b>	<b>83 730</b>
Maintenance and other operating expenses	10	34 443	17 876
Other property-related expenses	9, 10	1 088	877
Administrative expenses	10, 11	36 143	24 049
<b>Total operating costs</b>		<b>71 674</b>	<b>42 803</b>
<b>Net income from property management</b>		<b>41 717</b>	<b>40 927</b>
Changes in fair value from investment properties	8, 14	78 664	37 626
<b>Operating profit</b>		<b>120 381</b>	<b>78 553</b>
Share of profit of a joint venture		-	14 364
Interest and other finance income	12	3 105	1 304
Interest and other finance expense	12	-47 360	-30 350
<b>Net realised financials</b>		<b>-44 255</b>	<b>-14 682</b>
Unrealised changes in fair value of financial instruments	7, 8	509	6 593
<b>Net financial items</b>		<b>-43 746</b>	<b>-8 088</b>
<b>Profit before tax</b>		<b>76 635</b>	<b>70 465</b>
Tax expense	22	-17 458	-9 732
<b>Profit for year</b>		<b>59 177</b>	<b>60 733</b>
<b>Total comprehensive income for the year</b>		<b>59 177</b>	<b>60 733</b>
<b>Profit attributable to:</b>			
Equity holders of the company		48 767	58 424
Non-controlling interest		10 411	2 308
<b>Total comprehensive income attributable to:</b>			
Equity holders of the company		48 767	58 424
Non-controlling interest		10 411	2 308
Earnings per share:			
Continuing operations			
Basic=Diluted (NOK)	27	29	46

Notes 1 through to 28 form an integral part of the consolidated financial statements.



## Balance sheet Assets

All amounts in NOK thousand

	Note	31.12.2019	31.12.2018
<b>NON-CURRENT ASSETS</b>			
Deferred tax asset	22	-	859
Other intangible assets	13	7 630	7 350
<b>Total intangible assets</b>		<b>7 630</b>	<b>8 208</b>
Investment property	14	2 409 000	1 731 500
Other operating assets	13	1 238	5 733
Right-of-use assets			
<b>Total property, plant &amp; equipment</b>		<b>2 410 238</b>	<b>1 737 233</b>
Investment in associates and jointly controlled entities		496	496
Loans to related parties	7, 25	-	8 921
Other long-term receivables		3 211	3 032
<b>Total financial assets</b>		<b>3 707</b>	<b>12 449</b>
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2 421 575</b>	<b>1 757 890</b>
<b>CURRENT ASSETS</b>			
Inventory properties	17	7 805	-
Trade receivables	15	12 607	10 518
Other receivables	16	27 166	16 065
Other receivables to related parties	7, 25	30 585	-
<b>Total current receivables</b>		<b>78 163</b>	<b>26 583</b>
Cash and bank deposits	18	51 040	20 490
<b>TOTAL CURRENT ASSETS</b>		<b>129 203</b>	<b>47 073</b>
<b>TOTAL ASSETS</b>		<b>2 550 778</b>	<b>1 804 963</b>

Notes 1 through to 28 form an integral part of the consolidated financial statements.

## Balance sheet Equity and liabilities

All amounts in NOK thousand

	Note	31.12.2019	31.12.2018
<b>EQUITY</b>			
Share capital	19	4 930	3 411
Share premium	19	200 291	117 406
Other paid-in equity	19	134 420	43 909
Retained earnings	27	373 828	320 220
Non-controlling interest		64 663	47 358
<b>TOTAL EQUITY</b>		<b>778 131</b>	<b>532 305</b>
<b>LIABILITIES</b>			
Interest-bearing debt	4, 20	649 543	953 718
Deferred tax liability	22	84 591	71 647
Financial derivatives	4, 7	11 789	11 394
<b>Total non-current liabilities</b>		<b>745 923</b>	<b>1 036 759</b>
Trade payables and other payables	4, 23	74 125	65 854
Interest-bearing debt	4, 20	931 732	170 044
Debt to related parties	4, 7, 25	20 868	-
<b>Total current liabilities</b>		<b>1 026 724</b>	<b>235 898</b>
<b>TOTAL LIABILITIES</b>		<b>1 772 647</b>	<b>1 272 657</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2 550 778</b>	<b>1 804 962</b>

Notes 1 through to 28 form an integral part of the consolidated financial statements.

Porsgrunn, 13 May 2020  
Board of Directors for R8 Property AS

Legally signed by  
George Emil Aubert  
13.05.2020

George Emil Aubert  
Chair of the Board

Legally signed by  
Knut Bråthen  
13.05.2020

Knut Bråthen  
Board member

Legally signed by  
Tommy Thovsland  
13.05.2020

Tommy Thovsland  
Board member

Legally signed by  
Leif Oddvin Jensen  
13.05.2020

Leif Oddvin Jensen  
Board member

Legally signed by  
Emil Eriksrød  
13.05.2020

Emil Eriksrød  
CEO

Legally signed by  
Christina Sundby  
13.05.2020

Else Christina Maria Sundby  
Board member

Legally signed by  
Runar Rønningen  
13.05.2020

Runar Rønningen  
Board member

## Statement of changes in equity

All amounts in NOK thousand

	Share capital	Share premium	Other paid-in equity	Retained earnings	Non-controlling interest	Total equity
Equity at 01.01.2018	2 500	3 500	6 858	261 552	-	274 410
Profit for year	-	-	-	58 424	2 308	60 732
Capital increase 26.04.2018	911	113 906	-	-	-	114 818
Non-authorized increase in capital	-	-	37 812	-	-	37 812
Change in non-controlling interest	-	-	-	244	45 050	45 294
Cost of equity transactions directly in equity	-	-	-760	-	-	-760
Equity at 31.12.2018	3 411	117 406	43 910	320 220	47 358	532 305
Profit for year	-	-	-	48 767	10 411	59 177
Corporate merger (konsernfusjon) as of 29.03.2019	85	10 649	-	-	-	10 734
Capital increase as of 29.03.2019	300	37 512	-37 812	-	-	-
Capital increase as of 09.05.2019	278	34 725	-	-	-	35 002
Capital increase as of 27.11.2019	856	-	129 230	-	-	130 086
Acquisitions/capital increase subsidiaries	-	-	-	-	31 886	31 886
Decrease in non-controlling interest	-	-	-	4 841	-24 992	-20 151
Cost of equity transactions directly in equity	-	-	-908	-	-	-908
Equity at 31.12.2019	4 930	200 291	134 420	373 828	64 663	778 131

Notes 1 through to 28 form an integral part of the consolidated financial statements.

## Statement of cash flows 1 January to 31 December

All amounts in NOK thousand

	Note	2019	2018
Profit before tax		76 635	70 465
Expensed interest and fees on loans from financial institutions	12	47 360	27 437
Share of profit of a joint venture		-	-14 364
Interest and fees paid on loans from financial institutions		-42 793	-33 731
Depreciation and amortisation	13	779	1 538
Change in market value investment properties	14	-78 664	-37 626
Change in market value financial instruments	7, 21	-509	-6 593
Change in working capital		-7 090	-3 673
<b>Net cash flow from operating activities</b>		<b>-4 283</b>	<b>3 453</b>
Proceeds from sales of investment properties and companies		6 200	-
Purchase of business net of cash		-	7 146
Upgrades and construction of investment properties	14	-294 694	-135 554
Purchase of investment property	14	-89 656	-
Purchase of intangible assets and other plant and equipment	13	-836	-362
<b>Net cash flow from investment activities</b>		<b>-378 985</b>	<b>-128 770</b>
Proceeds interest-bearing debt	20	345 867	125 752
Repayment interest-bearing debt	20	-24 678	-28 649
Net payment of loans to other related parties		-16 399	-11 794
Proceeds from equity	19	130 086	59 909
Cost of equity transactions	19	-908	-975
Purchase of shares from non-controlling interests		-20 151	-
<b>Net cash flow from financing activities</b>		<b>413 818</b>	<b>144 243</b>
Change in cash and cash equivalents		30 550	18 926
Cash and cash equivalents at beginning of period		20 490	1 564
<b>Cash and cash equivalents at end of period</b>		<b>51 040</b>	<b>20 490</b>

Notes 1 through to 28 form an integral part of the consolidated financial statements.

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### NOTE 1 GENERAL INFORMATION

R8 Property AS ("the Company") is (together with its subsidiaries "R8 Property" or "the Group") dedicated to the development of modern and forward-looking office properties, hotels and shopping mall. These must not only make positive economic and social contributions to the community but must also be particularly progressive in environmental terms. The Group owns and manages 32 (18) buildings with a total area of approximately 112.9 (70.0) thousand square meters. As of 31.12.19 the real estate portfolio had a market value of around NOK 2 409 (1 731.5) million. R8 Property's strategic areas are Telemark, Vestfold and Oslo. The Group has its head office in Dokkveien 10, 3920 Porsgrunn.

The consolidated financial statements were adopted by the Company's Board on 13 May 2020

### NOTE 2 ACCOUNTING POLICIES

#### ACCOUNTING POLICIES

The most important accounting principles applied are described below. These principles are applied in the same way for all periods presented, unless otherwise indicated in the description.

#### GOING CONCERN

The financial statements have been prepared based on the going concern assumption. This is based on an evaluation of the financial position and budgets and forecasts for 2020. R8 Property group has an equity of NOK 778 million and positive result in 2019. The group has short term debt that is due in December 2020. The company has been in dialogue with the banks, and they have confirmed their intention of renewing the loan facilities depending on formal approval. Liquidity management is an important and prioritized task, especially due to high activity and costs related to project development. The board was pleased with the private placement in 2019 that generated gross proceeds of NOK 130 million, and the company will also, if necessary, take actions in 2020 to improve the liquidity situation.

Events after 31 December 2019 have a significant impact on the financial statements, and the company follows the situation closely and is prepared to take the actions necessary: see 'Outlook' in the report from board of the directors.

#### BASIC PRINCIPLES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations by the IFRS Interpretation Committee (IFRIC), as adopted by the EU, as well as additional Norwegian reporting requirements pursuant to the Norwegian Accounting Act.

The consolidated financial statements have been prepared based on the historical cost principle, with the following exceptions: investment properties as well as the Group's derivatives have been measured at fair value.

Presenting the accounts in accordance with IFRS requires the management to make certain assessments and assumptions. The application of the Group's accounting principles also requires management to exercise judgement. Estimates and subjective judgements are based on experience and other factors that are considered appropriate. Actual results may deviate from these estimates.

Estimates and underlying assumptions are continuously reassessed. Changes in accounting estimates are recognized in the period in which the changes occur if they apply only to that period. If the changes also apply to future periods, the impact is distributed over the current and future periods. Note 3 details items in the accounts that are based on a significant amount of subjective judgement.

The consolidated financial statements have been presented on the assumption of the business being a going concern.

**Application of new and revised International Financial Reporting Standards (IFRSs) in 2019**  
**Transition to IFRS 16**

IFRS 16 was issued in January 2016 and is effective for accounting periods beginning on or after 1 January 2019. IFRS 16 sets out the principles of the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The Group adopted IFRS 16 using the modified retrospective method of adoption, with the date of initial application of 1 January 2019. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 January 2019. Instead, the Group applied the standard only to contract that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also used the practical expedients of measuring the right-of-use asset to the value of the lease liability as of 1 January 2019. The Group also elected to use the recognition exemptions for lease contract that, at the commencement date, have a lease term of 12 months or less and to not contain a purchase option (short-term leases), and lease contracts

for which the underlying asset is low value (low-value assets). The Group has evaluated all its lease contracts in order to assess whether the contract fulfil the criteria to qualify as leases according to IFRS 16. Based on the assessment, the Group identified a limited number of lease contract according to the standard. These lease agreements relate to leased company cars and building fixtures. The Group has leases of certain office equipment (personal computers, printing and photocopying machines) that are considered of low value.

The value of the lease liabilities is measured at the net present value of fixed lease payment due under the contract. The lease term corresponds to the non-terminable period. Extension options are not included as the Group is not reasonably certain to exercise these options. The discount rate used to calculate the lease liability is determined, for each asset, based on the rate conditions agreed in the lease contract.

**The effect of adopting IFRS 16, as of 1 January 2019, is as follows;**

86 (all amounts in NOK thousands)	Leases of company cars
NPV of the lease liability	193

Following the introduction of IFRS as of 1 January 2019, the Group has reported a right-of-use asset of tNOK 193 and a lease liability of the corresponding amount. As a result, the effects of the implementation of IFRS 16 on the opening balance sheet as of 1 January 2019 corresponds to an increase in other operating assets of tNOK 193 and an equivalent increase in other liabilities.

Due to the adoption of IFRS 16, the Group's operation profit improved, while its interest expense increased. This is due to the change in the accounting for expenses of leases that were classified as operation leases under IAS 17. As the Group has elected to apply the recognition exemptions for short-terms leases and leases of low-value assets, the accounting for the related lease payments has not been adjusted. The cash flow statements are not affected by the introduction of IFRS 16 as of 1 January 2019, due to the use of the simplified transition method.

## CONSOLIDATION PRINCIPLES

### Subsidiaries

Subsidiaries are all entities over which the Group exercises control of financial and operating policies, normally through ownership of more than half the capital with voting rights. When deciding whether control exists, the effect of potential voting rights that can be exercised or converted on the balance sheet date is taken into consideration.

Subsidiaries are consolidated from the date on which the Group obtains control and are deconsolidated when control ceases.

For accounting purposes, acquisitions of subsidiaries that do not constitute a business as defined in IFRS 3, such as subsidiaries that only consist of a building, are treated as asset acquisitions. The cost of acquisition is then attributed to the individual identifiable assets and liabilities based on their relative fair values on the acquisition date. Expenses associated with the transaction are capitalized under the property. In such cases no provision is made for deferred tax.

Intra-group transactions, balances and unrealized gains are eliminated. Unrealized losses are eliminated but are considered as an indication that the transferred asset may be impaired.

### Transactions with non-controlling interests

Transaction with non-controlling interests in subsidiaries are treated as equity transactions. If shares are acquired from a noncontrolling interest, the difference between the payment and the proportion of the carrying amount of the subsidiary's net assets attributable to the shares is recognized in the equity of the parent company's owners. Gain and losses arising from the sale of shares to non-controlling interest are similarly recognized in equity.

If the Group loses control over a subsidiary, any residual holding is re-measured at fair value through profit or loss. Thereafter, the fair values are used as the acquisition cost for accounting purposes, and the holding is treated as an investment in an associate, in a jointly controlled entity or in a financial asset. Amounts previously included in comprehensive income that related to the company are treated as if the Group had disposed of the underlying assets and liability. These may result in amounts that previously included in comprehensive income being reclassified to the income statement.

### Joint arrangements

Under IFRS 11 Joint Arrangements, investments in joint arrangements are classified as either joint operations or joint venture. In a joint arrangement, no single party controls the arrangement on its own. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Judgement is required in assessing whether a joint arrangement is a joint operation or a joint venture.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The proportionate share of realized and unrealized gains and losses arising from intragroup transactions between fully consolidated entities and joint operations shall be eliminated. Currently R8 Property has none investments recognized as joint operations.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of arrangement.

R8 Property classifies its investments based on an analysis of the degree of control and underlying facts. This includes an assessment of voting rights, ownership structure and relative strength, purchase and sale rights controlled by R8 Property and other shareholders. Each individual investment is assessed. Upon changes in underlying facts and circumstances, a new assessment must be made as to whether this is still a joint venture. Changes in contractual rights and obligations relating to the underlying asset or debt and changes in the shareholders agreement might lead to a shift in the accounting method.

In joint ventures, the Group's share of the companies' profit/loss after tax, adjusted for amortization of excess value and any deviations from accounting policies, are presented on a separate line in the consolidated income statement. Joint ventures are recognized in the consolidated accounts using the equity method and presented as non-current assets. When assets are acquired from a joint venture, any gain or loss is only recognized in profit or loss when the asset is sold by the Group. A loss is recognized immediately if the transaction indicates that the value of the company's current or non-current assets has fallen.

A transaction that entails a change of control from an investment in a joint venture to an investment in a subsidiary is treated as a realization and require that a gain/loss at the time of derecognition of the joint venture has to be calculated and recognized in the income statement as results from associates and JVs according to equity method.

### Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property. Investment property also includes property that is being constructed or developed for future use as investment property.

Initial measurement takes into consideration the property's cost price, which includes direct transaction costs such as document duty and other public duties, legal fees and due diligence costs. Transaction costs associated with properties acquired through business combinations (as defined in IFRS 3) are expensed.

After initial recognition, investment property is measured at fair value. Investment property under construction is measured at fair value if the fair value is considered to be reliably determinable.

Investment properties under construction for which the fair value cannot be determined reliably, but for which the company expects that the fair value of the property will be reliably determinable when construction is completed, are measured at cost less impairment until the fair value becomes reliably determinable or construction is completed - whichever is earlier. Fair value is based on active market prices, adjusted, if necessary, for differences in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections. Valuations are performed as of the financial position date by professional valuers who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for the carrying amounts in the consolidated financial statements. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value.

It may sometimes be difficult to determine reliably the fair value of the investment property under construction. In order to evaluate whether the fair value of an investment property under construction can be determined reliably, management considers the following factors, among others:

- The provisions of the construction contract.
- The stage of completion.
- Whether the project/property is standard (typical for the market) or non-standard.
- The level of reliability of cash inflows after completion.
- The development risk specific to the property.
- Experience with similar constructions.
- Status of construction permits.

The fair value of investment property reflects, among other things, rental income from current leases and other assumptions market participants would make when pricing the property under current market conditions.

Subsequent expenditure is capitalized to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognized.

Gains or losses as a result of changes in the fair value of investment properties are recognized in profit or loss as they arise and are presented on a separate line after "net income from property management." Investment properties are derecognized when they have been disposed.

Where the Group disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in the income statement within net gain from fair value adjustment on investment property.

A property used by owner 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 recognized in the income statement but recognized as a change of the revaluation reserve in comprehensive income. An impairment of the value is recognized against the revaluation reserve, related to revaluation of the specific building. If impairment exceeds the revaluation reserve, the remainder is recognized against the income statement.

If an investment property becomes owner-occupied, it is reclassified as property used by owner. Its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation under IAS 16. Any resulting increase in the carrying amount of the property is recognized in income statement to the extent that it reverses a previous impairment loss, with any remaining increase recognized in other comprehensive income and increase directly to equity in revaluation surplus within equity. Any resulting decrease in the carrying amount of the property is initially charged in other comprehensive income against any previously recognized revaluation surplus, with any remaining decrease charged to income statement.

Where an investment property undergoes a change in use, evidenced by commencement of development with a view to sale, the property is transferred to property for sale. A property's deemed cost for subsequent accounting as property for sale is its fair value at the date of change in use.

#### **Property, plant and equipment**

All property, plant and equipment (PPE) except from investment property is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items and where applicable borrowing costs (see below).

Cost of an item of PPE includes its purchase price and any directly attributable costs. Cost includes the cost of replacing part of an existing PPE at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an item of PPE.

Subsequent costs are included in the asset's carrying amount or recognized 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 measured reliably. The carrying amount of those parts that are replaced is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation, based on a component approach, is calculated using the straight-line method to allocate the cost over the assets' estimated useful lives, as follows:

- Land and property under construction: not depreciated
- Buildings: 25-40 years;
- Other operating assets: 3-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at least at each financial year-end.

An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

#### **Borrowing costs**

Borrowing costs for capital used to finance buildings under construction are capitalized under the asset in question. When calculating the capitalized

borrowing costs, the average interest rate on the company's debt portfolio over the course of the year is used, unless there is separate financing for the specific project. In such cases the specific borrowing cost for the loan in question is used. When calculating the average interest rate to be used for the capitalization of borrowing costs, loans taken out for specific projects are not included.

#### **SEGMENTS**

Operating segments are reported in the same way as in internal reports to the Group's highest decision-making authority. The Group's chief operating decision maker, which is responsible for allocation resources and assessing the profitability of the operating segments, has been identified as executive board and the CEO.

#### **INTANGIBLE ASSETS**

##### **Goodwill**

Goodwill is the difference between the fair value of consideration transferred and the fair value of the Group's share of net identifiable assets in the entity on the acquisition date. Goodwill arising from the acquisition of subsidiaries is classified as an intangible asset. For the purpose of impairment testing, goodwill is allocated to the relevant cash flow generating units. Goodwill is allocated to the cash flow generating units or group of cash generating units that are expected to benefit from the acquisition from which the goodwill arose. Goodwill is tested for impairment annually. Impairment of goodwill is not reversed. Gains and losses on the sale of an operation including the carrying amount of goodwill relating to the sold operation.

Goodwill arising from the purchase of shares in associates and jointly controlled entities is included under the investment in the associate or jointly controlled entity and is tested for impairment as part of the carrying amount of the investment.

##### **Software**

Purchased software is recognized at cost (including expenditure on making programs operative) and is amortized over the expected useful life. Expenses directly associated with the development of identifiable and unique software owned by the Group and which is likely to generate net financial benefits for more than one year are capitalized as intangible assets, and are depreciated over the expected useful life, normally 3 years. Expenses relating to the maintenance of software are expensed as incurred.

### Development projects

Activities related to the application of knowledge to a plan or in relation to a concept or project prior to being taken into use/production, are classified as development activities that are capitalized as intangible assets when the Group considers it likely that the skills developed will generate net financial benefits. Expenses that are capitalized as development projects are directly attributable expenses relating to the development of the new skills.

### Impairment of non-financial assets

Intangible assets with an indefinite useful life are not depreciated and are instead tested annually for impairment. Property, plant and equipment and intangible assets that are depreciated are also tested for impairment if there is any indication to suggest that future cash flows cannot justify the carrying amount of the asset. Write-downs are recorded through the income statement as the difference between the carrying amount and the recoverable amount. The recoverable amount is the higher of the fair value less cost of disposal and the value in use. When testing for impairment, non-current assets are grouped at the lowest possible level at which it is possible to identify independent cash inflows (cash flow generating units). In conjunction with each financial report, the company assesses whether it is possible to reverse past write-downs of non-financial assets (except goodwill).

### FINANCIAL INSTRUMENTS

A financial instrument is defined as being any contract that gives rise to a financial asset at one entity and a financial liability or equity instrument at another entity. Financial instruments are recognized on the transaction date, i.e. the date on which the Group commits to buying or selling the asset.

Financial assets are classified in the following categories:

- Financial assets at amortized cost
- Financial assets at fair value through OCI with recycling of cumulative gains and losses
- Equity instruments designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition
- Derivatives at fair value designated as hedging instruments

### Financial assets at amortized cost

The Group measures financial assets at amortized cost if both of the following conditions are met:

The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and,

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired. The Group's financial assets at amortized cost includes trade receivables and other short-term deposit. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15 Revenue from contracts with customers.

Financial liabilities are classified as financial liabilities at fair value through profit or loss and financial liabilities at amortized cost. Financial liabilities at fair value through profit or loss comprise loans designated at fair value upon initial recognition (fair value option) and derivatives. Financial liabilities at amortized cost consist of liabilities that do not fall under the category at fair value through profit or loss.

### Trade receivables and other financial assets

Trade receivables and other financial assets are classified as loans and Trade receivables and other financial assets are classified as amortized cost, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. Trade receivables and other financial assets are classified as current assets, unless they are due more than twelve months after the balance sheet date. If so, they are classified as non-current assets.

### Cash and cash equivalents

Cash and cash equivalents consist of bank deposits and other short-term, highly liquid investments with an original term to maturity of no more than three months.

### Currency

The Group's presentation currency is NOK. This is also the functional currency of the parent company and all its subsidiaries.

### Financial derivatives

The Group uses derivatives to manage its interest rate risk. Financial derivatives are not accounted for as hedging instruments but are valued at fair value. Changes in fair value are recognized in the income statement. Regular payments are presented as interest and other finance expenses. Changes in the value of the derivatives are presented under "Unrealized changes in value of financial instruments".



The fair value of interest rate swaps is the estimated amount the Group would receive or pay to redeem the contracts on the balance sheet date. This amount will depend on interest rates and the contracts' remaining term to maturity. The derivatives are classified on the balance sheet as current liabilities or non-current liabilities, depending on whether they are expected to be redeemed under or over 12 months from the balance sheet date.

#### **Trade payables and other non-interest-bearing financial liabilities**

Trade payables and other non-interest-bearing liabilities are classified as financial liabilities at amortized cost, and are measured at fair value upon initial recognition, and subsequently at amortized cost using the effective interest rate method. Interest is ignored if it is insignificant.

#### **Interest-bearing liabilities**

Interest bearing liabilities are classified as financial liabilities at amortized cost. Amortized cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included as net realized financial in the statement of profit or loss. The liabilities are measured at their nominal value when the effect of discounting is immaterial. Interest-bearing liabilities are classified as current liabilities where the debt is due for repayment less than 12 months from the balance sheet date.

#### **PENSIONS**

The Group has defined contribution pension plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available. The Group's pension scheme satisfies the requirements of the Norwegian Act on Compulsory Occupational Pensions.

#### **TAX**

The tax expense consists of tax payable and deferred tax. Tax is charged to the income statement, except where it relates to items that are recognized directly in equity or in other comprehensive income. In such cases, the tax is either recognized in comprehensive income or directly in equity.

Deferred tax is calculated using the liability method for all temporary differences between the tax values and consolidated accounting values of assets and liabilities. Any deferred tax arising from the initial recognition of a liability or asset in a transaction which is not a business combination and which on the transaction date does not affect accounting or tax results is not recognized on the balance sheet.

Deferred tax is defined using tax rates and laws which are enacted or likely to be enacted on the balance sheet date, and which are expected to be used when the deferred tax asset is realized or when the deferred tax is utilized.

Deferred tax is calculated and provided or reduced in the event of adjustments to the value of investment properties at a nominal tax rate of 22 per cent from 31 December 2018. For investment properties acquired through the purchase of shares in property companies or not acquired through a business combination, in the event of an adjustment in value, deferred tax is calculated on the property's fair value.

A deferred tax asset is recognized to the extent that it is likely that future taxable profit will be available against which the temporary differences can be offset.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in jointly controlled entities, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future. Nor is a liability for deferred tax calculated upon initial recognition of assets or liabilities obtained through an acquisition of a subsidiary not classified as a business combination.

## REVENUE RECOGNITION

RB's key sources of income include:

- Rental income
- Revenue from contracts with customers:
- Services to tenants including management charges and other expenses recoverable from tenants

The accounting for each of these elements is discussed below.

### RENTAL INCOME

The Group earns revenue from acting as a lessor in operating leases which do not transfer substantially all the risks and rewards incidental to ownership of an investment property.

Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease term and is included in revenue in the statement of profit or loss due to its operating nature, except for contingent rental income which is recognized when it arises. Initial direct costs incurred in negotiating and arranging an operating lease are recognized as an expense over the lease term on the same basis as the lease income.

Lease incentives that are paid or payable to the lessee are deducted from lease payments. Accordingly, tenant lease incentives are recognized as a reduction of rental revenue on a straight-line basis over the term of the lease. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the Group is reasonably certain that the tenant will exercise that option.

The initial direct costs and tenant lease incentives are presented as current assets in the line item

'Prepayments' in the statement of financial position.

Amounts received from tenants to terminate leases or to compensate for dilapidations are recognized in the statement of profit or loss when the right to receive them arises.

### REVENUE FROM SERVICES TO TENANTS

For investment property held primarily to earn rental income, the Group enters as a lessor into lease agreements that fall within the scope of IFRS 16. These agreements include certain services offered to tenants (i.e., customers) including common area maintenance services (such as cleaning, security, landscaping and snow removal of common areas), as well as other support services (e.g., reception services, catering and other event related services).

The consideration charged to tenants for these services includes fees charged based on a percentage of the rental income and reimbursement of certain expenses incurred. These services are specified in the lease agreements and separately invoiced.

The Group has determined that these services constitute distinct non-lease components (transferred separately from the right to use the underlying asset) and are within the scope of IFRS 15. The Group allocates the consideration in the contract to the separate lease and revenue (non-lease) components on a relative stand-alone selling price basis.

In respect of the revenue component, these services represent a series of daily services that are individually satisfied over time because the tenants simultaneously receive and consume the benefits provided by the Group. The Group applies the time elapsed method to measure progress.

The consideration charged to tenants for these services is based on a percentage of the rental income. The variable consideration only relates to the non-lease component and is allocated to each distinct period of service (i.e., each day) as it meets the variable consideration allocation exception criteria.

The Group arranges for third parties to provide certain of these services to its tenants. The Group concluded that it acts as a principal in relation to these services as it controls the specified services before transferring them to the customer. Therefore, the Group records revenue on a gross basis.

Total operating income consists of rental income and other operating revenue. Gains on the sale of property are presented as part of the change in fair value. Rental income encompasses the fair value of the payments received for services that fall within the ordinary activities of the company. Rental income is presented net of VAT, rebates and discounts. Shared costs are capitalized alongside payments on account from tenants and therefore have no impact on the income statement. Shared costs are settled after the balance sheet date.

#### STATEMENT OF CASH FLOWS

The Group reports cash flows from operating activities using the indirect method. Interest received is presented within investing cash flows; interest paid is presented within operating cash flows. The acquisitions of investment properties are disclosed as cash flows from investing activities because this most appropriately reflects the Group's business activities. Dividends paid to shareholders and non-controlling interests are presented under financing activities.



## NOTE 3 CRITICAL ACCOUNTING ESTIMATES AND SUBJECTIVE JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors.

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

### Fair value of investment properties

Each quarter, all the properties are valued by independent professionally qualified valuers who hold a recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued. The valuations at 31 December 2018 and 2019 were obtained from Newsec AS. The valuations are mainly based on the discounted cash flow method, which involves discounting future cash flows over a period of 10-15 years using an estimated discount rate and then adding a residual value at the end of the period. Future cash flows are calculated on the basis of the gross cash flows from signed leases less maintenance cost, other operating and management expenses, as well as future cash flows based on an expected market rent at the end of the lease terms. The fair value of investment properties is therefore mainly affected by expected market rents, discount rate, exit yield and inflation. The market rent for each property takes into account the property's situation, standard and leases signed for comparable properties in the area. For the duration of existing lease terms, the discount rate is mainly based on an assessment of the individual tenants' financial solidity and classification. After the end of the lease term, cash flows are discounted using a discount rate that takes into account the risk relating to letting and location. Inflation is estimated using the consensus of a selection of banks and official statistics.

When carrying out their valuations, the valuers receive comprehensive details of the leases for the properties, floor space and details of any vacant premises, and up-to-date information about all ongoing projects. Any uncertainties relating to the properties/projects and leases are also clarified verbally and in writing as and when required. The Group management performs internal controls to ensure that all relevant information is included in the valuations.

The valuers perform their valuations on the basis of the information they have received, and estimate future market rents, yields, inflation and other relevant parameters. Each individual property is assessed in terms of its market position, rental income (contractual rents versus market rents) and ownership costs, with estimates being made for anticipated vacancy levels and the need for alterations and upgrades. The remaining term of the leases is also assessed for risk, along with any special clauses in the contracts. If available, each property is also compared with recently sold properties in the same segment (location, type of property, mix of tenants, etc.)

Value changes comprise realised and unrealised changes in value and are reported net for all properties. The unrealised change in value is calculated on the basis of the valuation at the end of the financial year compared with the same period in the previous year plus capitalised, value enhancing investment during the year.

For properties acquired during the year, unrealised changes in value are calculated as the difference between the valuation at the end of the financial year and the cost of the acquisition plus any value enhancing investments. For properties sold during the year, changes in value are calculated as the difference between the sales price less sales costs and value enhancing investments undertaken in the financial year.

More information about the fair value measurement is set out in note 6 and 8.

The table below shows to what extent the value of the property portfolio is affected by inflation, market rents, discount rates (interest rates) and exit yields (market yields), assuming that all other factors are equal. Estimates by Newsec AS in conjunction with valuations at 31 December 2019.

Change variable	Change in per cent	Positive change (NOK)	Negative change (NOK) <sup>1)</sup>
Inflation	+/- 1,00	194 146	-194 146
Market rent	+/- 10,00	179 958	-179 958
Discount rates	+/- 0,25	-88 984	94 598
Exit yield	+/- 0,25	-41 571	45 188

1) Estimates by Newsec AS in conjunction with valuations at 31 December 2019. Development projects are not included in the estimates.

Overview of input parameter for the discounted cash flow model for estimating fair value of the Group's investment property:	2019
Valuation hierarchy level	3
Total square meter	112 850
Actual rent per sqm (interval)	351 - 4 327
Actual rent pr sqm (average)	1 508
Length on existing lease agreements (interval)	0,1 - 21,3
Waukt 1)	6,1
Market rent pr sqm (interval)	788 - 3 516
Market rent pr sqm (average)	1 605
Expected inflation %	2,0
Actual vacancy %	14,7
Nominal discount rate % (interval)	6,2 - 10,2
Nominal discount rate % (average)	8,3

### Fair value of financial liabilities

The Group values liabilities with fixed interest rates and financial derivatives at fair value in the Group's balance sheet.

The table below shows the overall impact on the Group's financing costs of a parallel shift in market rates for NOK of +/- 1 per centage point, based on the Group's debt portfolio and interest rate derivatives on the balance sheet date. The figure quoted for the change in the fair value of debt and derivatives reflects what the market value of the portfolio would be on the balance sheet date if the yield curve were 1 per cent higher or lower, based on discounted future cash flows from the various instruments.

	Change in the Group's interest expense (annualised) (NOK)
31.12.2019	
Market rates increase by 1 percentage point	-9 286
Interest-bearing debt	-13 525
Derivatives	4 239
Market rates fall by 1 percentage point	9 286
Interest-bearing debt	13 525
Derivatives	-4 239

<sup>1)</sup> A positive figure signifies an increase in profit after tax.

	Change in the Group's interest expense (annualised) (NOK)
31.12.2018	
Market rates increase by 1 percentage point	-5 899
Interest-bearing debt	-8 712
Derivatives	2 812
Market rates fall by 1 percentage point	5 899
Interest-bearing debt	8 712
Derivatives	-2 812

<sup>1)</sup> A positive figure signifies an increase in profit after tax.

### Business Combinations

The Group acquires subsidiaries that own real estate. At the time of acquisition, the Group considers whether each acquisition represents the acquisition of a business or the acquisition of an asset. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, considerations is made of the extent to which significant processes are acquired and, in particular, the extent of services provided by the subsidiary (e.g., maintenance, cleaning, security, bookkeeping, etc.)

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognised.

In 2019 the Group acquired Østveien 665-667 AS, HIG 40-42 Prosjekt AS and Valore AS. The Group also acquired Dokkveien 12 AS, Ushikten 1 AS, Tøllboden AS and Kongensgate 20A AS in the fiscal year, through underlying subsidiaries. These transactions were considered to represent a single asset and was not treated as business combination.

## NOTE 4 FINANCIAL RISK MANAGEMENT

All amounts in NOK thousand

### Financial risk factors

The risk management function within the Group is carried out in respect of financial risks. Financial risks are risks arising from financial instruments to which the Group is exposed during or at the end of the reporting period. The Group's finance strategy shall ensure that the Group has financial flexibility and that it achieves competitive financial terms. The Group is exposed to financial risk and has defined the following relevant risk areas:

- Financing risk
- Capital management and solvency
- Cash flow and fair value interest rate risk
- Liquidity risk
- Creditcounterparty risk
- Currency risk

The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits.

Risk management is carried out by the administration under policies approved by the Board of Directors. The administration identifies and evaluates financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and investing excess liquidity.

### Financing risk

Financing risk is the risk that the Group will be unable to meet its financial obligations when they are due and that financing will not be available at a reasonable price.

The company seeks to limit financing risk through:

- requirements for committed capital to cover refinancing requirements
- average credit period requirements
- the use of various credit markets and counterparties
- spread maturity structure for the Group's financing

### Capital management and solvency

The main purpose of the Group's capital management is to maintain a good balance between debt and equity, in order to maximise the value of the shares in the Group, while also maintaining a good credit rating, and obtaining loan terms with lenders that reflect the risk profile of the Group. The Group has defined a target for the Loan-To-Value ratio of approximately 60-65 per cent over the economic cycle. Current LTV-ratio is 65,6%. There are covenants in the Group's loan agreements that specify requirements in relation to the company's financial strength.

### Cash flow and fair value interest rate risk

As the Group's interest-bearing assets do not generate significant amounts of interest, changes in market interest rates do not have any significant direct effect on the Group's income.

The Group's interest rate risk principally arises from long-term borrowings (Note 20). Interest rate risk affects the Group's cash flows and the market value of the Group's liabilities. The main purpose of the Group's interest rate strategy is to ensure that the Group achieves the desired balance between the interest expense and interest rate risk. The Group's interest rate risk is managed within the following financial policy requirements:

- minimum 40 per cent of the interest-bearing debt to be hedged at fixed interest rate
- average remaining time to maturity for interest rate hedges in the interval 2-7 years
- diversification of the maturity structure for fixed interest rates

The Group's policy is to fix the interest rate on its variable interest borrowings. To manage this, the Group enters into interest rate swaps in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. The Group's interest rate risk is managed through the requirements for fixed interest rates for at least 40 per cent of the debt portfolio, an average remaining term to maturity in the range of 2-7 years and diversification of the maturity structure for fixed interest rates. Trade and other receivables and trade and other payables are interest free and with a term of less than one year, so it is assumed that there is no interest rate risk associated with these financial assets and liabilities.

At 31 December 2019, the weighted average remaining term to maturity was 3.2 years. The average interest rate was 4.45 per cent at 31 December 2019.

### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The liquidity risk is mitigated by having available liquidity reserves, a moderate loan-to-value ratio, long-term loan agreements and by using various sources of finance and markets. The Group's liquidity position is monitored on a daily basis by the management and is reviewed quarterly by the Board of Directors. A summary table with maturity of financial assets and liabilities is used by key management personnel to manage liquidity risks.

### Credit and counterparty risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Stable, predictable and long-term access to capital is critical for R8 Property. The Group considers that the ability of creditors to behave predictably over the long term is often dependent on their creditworthiness. For this reason, R8 Property wants the Group's creditors to be of a good credit quality and has established credit rating limits for the Group's creditors. The Group structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties, and to geographical and industry segments. The credit ratings of the Group's financial counterparties are continuously monitored.

### Currency risk

The Group shall not incur any currency risk and at 31 December 2019, the Group had no currency exposure.

### Financial covenants

There are covenants in the Group's bank loan agreements relating to both financial and non-financial requirements. Financial covenant requirements are amongst others, maximum loan-to-value of the property (LTV), minimum equity ratio and minimum interest rate hedging. At 31 December 2019, the Group was not in breach of any covenants.

**MATURITY PROFILE OF ALL FINANCIAL INSTRUMENTS**

31.12.2019	Remaining term				Total
	Under 1 year	1-3 year	3-5 year	Later than 5 years	
Interest-bearing bank loans – principal	899 553	248 958	-	180 386	1 326 897
Interest-bearing bank loans – amortising	27 046	67 931	29 925	119 826	244 728
Interest-bearing bank loans – estimated interest	72 939	53 201	25 610	40 118	191 868
Subordinated loans - principal	24 874	-	-	-	24 874
Subordinated loans - estimated interest	717	-	-	-	717
Financial instruments					
- Interest rate derivatives	2 719	4 661	2 511	1 896	11 789
Trade and other payables					
- Trade payables	38 324	-	-	-	38 324
- Other financial	25 920	-	-	-	25 920
- Accruals	9 881	-	-	-	9 881
Lease liability	1 127	3 944	573	-	5 644
<b>Total</b>	<b>1 103 099</b>	<b>376 695</b>	<b>58 619</b>	<b>342 228</b>	<b>1 880 641</b>

31.12.2018	Remaining term				Total
	Under 1 year	1-3 year	3-5 year	Later than 5 years	
Interest-bearing bank loans – principal	117 885	498 151	35 550	26 180	677 566
Interest-bearing bank loans – amortising	25 763	56 468	37 149	279 747	399 127
Interest-bearing bank loans – estimated interest	39 155	49 216	25 296	89 861	203 527
Subordinated loans - principal	26 598	20 473	-	-	47 069
Subordinated loans - estimated interest	2 292	-	-	-	2 292
Financial instruments					
- Interest rate derivatives	3 866	6 305	3 827	1 033	15 031
Trade and other payables					
- Trade payables	32 971	-	-	-	32 971
- Other financial	22 647	-	-	-	22 647
- Accruals	5 313	-	-	-	5 313
<b>Total</b>	<b>276 287</b>	<b>630 612</b>	<b>101 822</b>	<b>396 821</b>	<b>1 405 543</b>

The table is based on undiscounted contractual cash flows. The maturity analysis is based on the earliest possible redemption for instruments where the counterparty has a choice as to when to redeem the instrument. Estimated interest is based on the interest rate on the individual loan/instrument on the balance sheet date.

The interest-bearing debt has a diversified maturity structure, with an average time to maturity of 3,2 years. This years principal is INOK 926,569 and regards construction financing on Arkaden, Powerhouse Telemark, Rådhusgata, Henrik Ibsens Gate 40-42 Oslo and bank loans in R8 Office portfolio. All matures in 2020. In regards to refinancing risk, see note 28.

The table below shows the nominal value of outstanding current and non-current interest-bearing debt including derivatives.

**MATURITY STRUCTURE OF THE GROUP'S EXPOSURE TO NOMINAL INTEREST RATE RISK**

31.12.2019	31.12.2020				31.12.2022				31.12.2024				31.12.2025+				Total
	Up to 1 year	1-3 year	3-5 year	Later than 5 years	Up to 1 year	1-3 year	3-5 year	Later than 5 years	Up to 1 year	1-3 year	3-5 year	Later than 5 years	Up to 1 year	1-3 year	3-5 year	Later than 5 years	
Percentage	50,6				19,7				1,9				18,8				100,0
Amount	951 473				314 889				29 925				300 212				1 596 499

31.12.2018	31.12.2019				31.12.2021				31.12.2023				31.12.2024+				Total
	Up to 1 year	1-3 year	3-5 year	Later than 5 years	Up to 1 year	1-3 year	3-5 year	Later than 5 years	Up to 1 year	1-3 year	3-5 year	Later than 5 years	Up to 1 year	1-3 year	3-5 year	Later than 5 years	
Percentage	15,1				51,2				6,5				27,2				100,0
Amount	170 044				575 092				72 699				305 927				1 123 762

**MATURITY STRUCTURE OF THE GROUP'S EXPOSURE TO NOMINAL INTEREST RATE RISK**

	2019	2018
Nominal value of interest rate derivatives on the balance sheet date of which	570 275	277 484
- Variable-to-fixed swaps	570 275	277 484
Range of fixed interest rates (%)	1,54 - 4,05	1,54 - 4,05
Variable rate basis	3M NIBOR	3M NIBOR
Average fixed rate	2,35 %	2,67 %
Fair value of derivatives on the balance sheet date (INOK)	11 789	11 394
Change in fair value of interest rate derivatives over the year	509	6 593
Total change in fair value of financial instruments	509	6 593

**NOTE 5 RISK LEASE MANAGEMENT**

All amounts in NOK thousand

The Group mainly enters into contracts with a fixed rent for the lease of property.

**THE GROUP'S FUTURE ACCUMULATED RENT FROM NON-TERMINABLE OPERATIONAL LEASE CONTRACTS AT 31.12.**

	2019		2018	
≤ 1 year	8 155	10 119	180 473	148 820
1 year < 5 years	180 473	148 820	176 447	153 967
5 years < 10 years	820 049	507 579	820 049	507 579
≥ 10 years	1 851 124	820 514	1 851 124	820 514
<b>Total</b>	<b>1 851 124</b>	<b>820 514</b>	<b>1 851 124</b>	<b>820 514</b>

**THE GROUP'S LEASE CONTRACTS AT 31.12 HAVE THE FOLLOWING MATURITY STRUCTURE MEASURED IN ANNUAL RENT<sup>§</sup>**

Remaining term	2019			2018		
	Number of contracts	Contract rent	Contract rent, %	Number of contracts	Contract rent	Contract rent, %
≤ 1 year	29	13 772	8,8	16	10 715	14,4
1 year < 5 years	93	59 189	37,7	67	48 648	59,3
5 years < 10 years	30	23 935	15,2	31	22 281	22,0
≥ 10 years	19	80 211	38,3	16	38 260	4,3
<b>Total</b>	<b>171</b>	<b>157 107</b>	<b>100,0</b>	<b>130</b>	<b>119 904</b>	<b>100,0</b>

The tables above show all the remaining non-terminable contractual rent, including forward starting contracts, for current leases without taking into account the impact of any options.

§ The rent is stated as the annualised contractual rent, and is therefore not reconcilable with the rental income for the year for accounting purposes.

**NOTE 6 SEGMENT INFORMATION**

All amounts in NOK thousand

The Group's investment properties are aggregated into segments with similar economic characteristics such as the nature of the property and the occupier marked it serves. Management considers that this is best achieved with Office, Retail, Health care, Food and Beverage and Hotels operating segments. There is no aggregation of operating segments into any reportable segments. Consequently, the Group is considered to have five reportable segments, as follow:

The Group has changed the composition of its reportable segments in 2019 and the corresponding information for 2018 have been restated.

The units do not have their own profit responsibility. Financial results are reported as economical and non-economical key figures ("key performance indicators"). These key performance indicators are reported and analysed by unit to the chief operating decision maker, who is the executive board and the CEO, which are the highest decision-making authority of the Group, for the purpose of resource allocation and assessment of segment performance. The Group reports the segment information based upon these three units.

31.12.2019	Area (sqm)	Occupancy (sqm)	No. of prop. (#)	Market value		Wauit <sup>§1</sup> (yrs)	Annual rent		Wauit <sup>§2</sup> (yrs)	Net direct yield (%)	Net yield (valuation) (%)	Market rent <sup>§3</sup>		
				(NOK)	(NOK/sqm)		(NOK)	(NOK/sqm)				(NOK)	(NOK/sqm)	
Office	59 235	51 726	87,3	17	1 111 500	18 764	3,3	70 841	1 370	3,3	5,8	6,4	85 424	1 442
Urban Estate	26 730	20 572	77,0	6	459 500	17 190	8,6	31 587	1 535	8,7	5,0	7,2	45 213	1 691
Hotels	9 097	8 197	90,1	2	310 000	34 077	12,7	18 928	2 309	12,7	5,3	6,3	21 970	2 416
<b>Total management portfolio</b>	<b>95 062</b>	<b>80 495</b>	<b>84,7</b>	<b>25</b>	<b>1 881 000</b>	<b>19 787</b>	<b>6,1</b>	<b>121 356</b>	<b>1 508</b>	<b>6,2</b>	<b>5,5</b>	<b>6,5</b>	<b>152 616</b>	<b>1 605</b>
Project Office	17 788	15 719	88,4	7	528 000	29 683	11,4							
<b>Total project portfolio</b>	<b>17 788</b>	<b>15 719</b>	<b>88,4</b>	<b>7</b>	<b>528 000</b>	<b>29 683</b>	<b>11,4</b>							
<b>Total property portfolio</b>	<b>112 850</b>	<b>96 214</b>	<b>85,3</b>	<b>32</b>	<b>2 409 000</b>	<b>21 347</b>	<b>7,3</b>							

The calculation of net yield is based on the valuers' assumption of ownership costs, which at 31 December 2019 corresponds to 10,2 per cent of market rent. The Group has no single external customers representing over 10% of the Group's revenue. Furthermore, the Group has around 95% of its estimated market value of properties and 100% of its rental income geographically from the county of Vestfold Telemark, while the rest is located in the county of Oslo.

R8 Property has three on-going project, the new building Powerhouse Telemark and Polymer Exploration Center, both in Porsgrunn, and Rådhusgata 2 AS located in Skien. All properties will be included in operating unit Office.

Parking areas (sqm) are not included in this overview.

Corporate legal segments in the table above follow the legal corporate structure of the group. Several of the properties are combined buildings and the actual rental conditions measured in square meters and rental income are presented in the table below.

See Note 9 for more information.

31.12.2019	Occupancy (sqm)	Wauit <sup>§1</sup> (yrs)	Annual rent (NOK)	
Office	53 098	4,4	78 459	1 478
Retail	11 196	5,3	13 788	1 232
Hotels	6 178	14,2	11 614	1 880
Food and Beverage	4 472	12,2	10 714	2 396
Healthcare	5 551	5,6	6 781	1 222
<b>Total management portfolio</b>	<b>80 495</b>	<b>6,2</b>	<b>121 356</b>	<b>1 508</b>

31.12.2018	Area (sqm)	Occupancy (sqm)	No. of prop. (#)	Market value		Wauit <sup>§1</sup> (yrs)	Annual rent		Wauit <sup>§2</sup> (yrs)	Net direct yield (%)	Net yield (valuation) (%)	Market rent <sup>§3</sup>		
				(NOK)	(NOK/sqm)		(NOK)	(NOK/sqm)				(NOK)	(NOK/sqm)	
Office	45 339	40 451	89,2	11	963 000	21 240	3,7	60 561	1 497	3,7	5,8	6,2	72 429	1 507
Urban Estate	24 683	19 266	78,1	3	357 500	14 484	8,0	26 345	1 367	8,0	5,0	7,3	39 137	1 586
<b>Total management portfolio</b>	<b>70 022</b>	<b>59 717</b>	<b>85,3</b>	<b>14</b>	<b>1 320 500</b>	<b>18 858</b>	<b>4,9</b>	<b>86 906</b>	<b>1 455</b>	<b>5,0</b>	<b>5,8</b>	<b>6,5</b>	<b>111 566</b>	<b>1 593</b>
Office - Project	14 416	12 182	84,5	3	226 400	15 705	11,1							
Hotels - Project	6 282	6 282	100,0	1	184 600	29 386	15,0							
<b>Total project portfolio</b>	<b>20 698</b>	<b>18 464</b>	<b>80,2</b>	<b>4</b>	<b>411 000</b>	<b>19 857</b>	<b>12,8</b>							
<b>Total property portfolio</b>	<b>90 720</b>	<b>78 181</b>	<b>86,2</b>	<b>18</b>	<b>1 731 500</b>	<b>19 086</b>	<b>6,8</b>							

The calculation of net yield is based on the valuers' assumption of ownership costs, which at 31 December 2018 corresponds to 10,8 per cent of market rent

R8 Property had in 2018 four on-going projects, one new building (Powerhouse Telemark), two projects (Kammerherreløkke) and one renovation project (Eeks Gård).

See Note 9 for more information.

31.12.2018	Occupancy (sqm)	Wauit <sup>§1</sup> (yrs)	Annual rent (NOK)	
Office	41 462	3,5	62 603	1 515
Retail	9 251	6,1	11 200	1 211
Food and Beverage	3 833	13,2	8 144	2 125
Healthcare	5 171	8,0	4 759	920
<b>Total management portfolio</b>	<b>59 717</b>	<b>5,0</b>	<b>86 906</b>	<b>1 455</b>

§1 Wauit weighted on property market value

§2 Wauit weighted on annual rent

§3 includes market rent from available assets

## NOTE 7 CATEGORIES OF FINANCIAL INSTRUMENTS

All amounts in NOK thousand

	Financial assets at amortised cost	Financial assets at fair value through profit or loss	Total
<b>31.12.2019</b>			
<b>Assets</b>			
Financial investments			
- Loans to associates	30 585	-	30 585
Trade receivables	12 607	-	12 607
Other current receivables	27 166	-	27 166
Cash and cash equivalents	51 040	-	51 040
<b>Total financial assets</b>	<b>121 398</b>	<b>-</b>	<b>121 398</b>

	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
<b>31.12.2019</b>			
<b>Liabilities</b>			
Interest-bearing non-current liabilities	-	640 543	640 543
- Debt to related parties	-	20 868	20 868
Interest-bearing current liabilities	-	931 732	931 732
Financial derivatives	11 789	-	11 789
Trade payables	-	38 324	38 324
Other current liabilities	-	35 800	35 800
<b>Total financial liabilities</b>	<b>11 789</b>	<b>1 676 266</b>	<b>1 688 056</b>

	Financial assets at amortised cost	Financial assets at fair value through profit or loss	Total
<b>31.12.2018</b>			
<b>Assets</b>			
Financial investments			
- Loans to associates	8 921	-	8 921
Trade receivables	10 518	-	10 518
Other current receivables	16 065	-	16 065
Cash and cash equivalents	20 490	-	20 490
<b>Total financial assets</b>	<b>55 994</b>	<b>-</b>	<b>55 994</b>

	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
<b>31.12.2018</b>			
<b>Liabilities</b>			
Interest-bearing non-current liabilities	-	953 718	953 718
Interest-bearing current liabilities	-	170 044	170 044
Financial derivatives	11 394	-	11 394
Trade payables	-	33 244	33 244
Other current liabilities	-	32 610	32 610
<b>Total financial liabilities</b>	<b>11 394</b>	<b>1 189 616</b>	<b>1 201 010</b>

## NOTE 8 INFORMATION ABOUT FAIR VALUE

All amounts in NOK thousand

Investment properties are valued at fair value, based on independent external valuations.

Bank loans with variable interest rates are valued at amortised cost.

Financial derivatives are measured at fair value using valuation methods where the significant parameters are obtained from quoted market data.

The Group uses the following hierarchy to classify assets and liabilities, based on the valuation methods used to measure and disclose their fair value.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

### ASSETS MEASURED AT FAIR VALUE

	Note	31.12.2019	Level 1	Level 2	Level 3
Assets at fair value through profit or loss					
- Investment properties	14	2 409 000	-	-	2 409 000
<b>Total</b>		<b>2 409 000</b>	<b>-</b>	<b>-</b>	<b>2 409 000</b>

### LIABILITIES MEASURED AT FAIR VALUE

	Note	31.12.2019	Level 1	Level 2	Level 3
Liabilities at fair value through profit or loss					
- Derivatives		11 789	-	11 789	-
<b>Total</b>		<b>11 789</b>	<b>-</b>	<b>11 789</b>	<b>-</b>

### ASSETS MEASURED AT FAIR VALUE

	Note	31.12.2018	Level 1	Level 2	Level 3
Assets at fair value through profit or loss					
- Investment properties	14	1 731 500	-	-	1 731 500
<b>Total</b>		<b>1 731 500</b>	<b>-</b>	<b>-</b>	<b>1 731 500</b>

### LIABILITIES MEASURED AT FAIR VALUE

	Note	31.12.2018	Level 1	Level 2	Level 3
Liabilities at fair value through profit or loss					
- Derivatives		11 394	-	11 394	-
<b>Total</b>		<b>11 394</b>	<b>-</b>	<b>11 394</b>	<b>-</b>

The fair value is the same as the carrying amount for loans to associates, as the interest rate is adjusted continuously and no changes in credit margins have been identified. Trade receivables have a short anticipated term, so the fair value is the same as the carrying amount.

The difference between the fair value and the amortised cost of interest-bearing liabilities with variable interest rates is described in Note 20. Other financial liabilities are short term and the difference between the fair value and the amortised cost is marginal.

## NOTE 9 DEVELOPMENT PROJECTS

All amounts in NOK thousand

R8 Property has in 2019 four ongoing projects, one in Skien, two in Porsgrunn and one in Oslo. The project portfolio consists of three office buildings (Powerhouse Telemark, Eeks Gård, Henrik Ibsens Gate 40-42) and one research center (Polymer Exploration Center). This project is 50% owned by R8 Property. All are modern buildings with high focus on low energy consumption and sustainability.

The project Powerhouse Telemark in Porsgrunn begun with a feasibility study in 2015 for a 6,322 sqm new office building. Scheduled completion of the building is third quarter 2020. Upon completion this will be one of the most energy-efficient and environmental friendly buildings in the world. The building will produce more energy than it consumes. There has been intensive work in 2016 and 2017, with possible tenants to occupy the building. Due to the great interest it was decided that the building would be expanded. The size is now 8,358 sqm. The lead tenant Norner requested the opportunity to move all the activity into the Polymer Exploration Center, and the companies came to an agreement of new terms. This led to some vacant space in the building which then was available for rent. It is expected that the average price per sqm will increase with new tenants. This project will be one of the most important for R8 Property over the coming years.

Eeks Gård is a renovation project in Skien and was initiated when the company won a public procurement with NAV Skien as a tenant. The project is located in the city town and will greatly impact city development in Skien and has a positive impact on the Market square. The size of the building is 3,220 sqm, and the occupancy is 91 per cent. Scheduled completion of the project is first quarter 2020. This is an important project when it comes to introducing more workplaces in the city center. The first floor toward the Market square is reserved for restaurant or retail activities.

Polymer Exploration Center is a research center where Norner will be the tenant. This is a combination building consisting of office, laboratory areas, machine hall and gas storage. The size of the building is 4,658 sqm, and the occupancy is 100 per cent. The project is 50 per cent owned of R8 Property. The project is a natural expansion of Porsgrunn Næringspark and will improve the overall infrastructure on the property. Norner will conduct research on plastic and polymers in general on behalf of customers world wide. The center has also been granted the status of Norsk Katapult, which is a government act to promote businesses with potential for international expansion. Scheduled completion of the project is fourth quarter of 2021.

Henrik Ibsens Gate 40-42 is a renovation project in Oslo and is centrally located near Sjøli plass. This is a office building with a planned restaurant in the first floor and Co-working company Evolve in the rest of the building. The size of the building is 1,782 sqm and is four stories high if excluding basement. The completion of the building is planned to be in March 2020. The building will be presented as totally refurbished and have a high standard throughout.

## NOTE 10 OPERATING COSTS

All amounts in NOK thousand

	2019	2018
<b>Operating costs</b>		
Administrative management costs	7 992	8 596
Operating and maintenance costs	26 451	9 280
<b>Total maintenance and other operating costs</b>	<b>34 443</b>	<b>17 876</b>
<b>Other property costs</b>		
Rental, market, and other income-related expenses	1 088	877
Owner's share of service charge expenses	-	-
<b>Total other property costs</b>	<b>1 088</b>	<b>877</b>
<b>Administrative costs</b>		
Payroll and personnel expenses	29 492	19 130
Depreciation	779	1 538
Other operating expenses	5 872	3 381
<b>Total administrative costs</b>	<b>36 143</b>	<b>24 049</b>

## NOTE 11 PERSONNEL COSTS AND OTHER REMUNERATION OF SENIOR EXECUTIVES

All amounts in NOK thousand

	2019	2018
<b>Wages and salaries</b>	<b>25 188</b>	<b>15 800</b>
Social security costs	2 734	2 309
Pension costs defined contribution plan	1 178	993
<b>Total</b>	<b>29 100</b>	<b>19 102</b>
Number of full-time equivalents	22,0	18,0
Number of employees at 31.12	24,0	18,0

The increase in personnel costs is mainly due to a bonus scheme granted from R8 Urban Estate AS. The calculated bonus of the fiscal year 2019 in R8 Urban Estate AS amounts to INOK 5 551, whereby INOK 2 410 of the bonus is granted Tommy Thovsland.

The Group's pension scheme satisfies the requirements of the Norwegian Act on Compulsory Occupational Pensions. No loans/sureties have been granted to the CEO, Chair of the Board or other related parties.

The total remuneration of the CEO consists of a fixed package of salary and benefits supplemented by pension and insurance arrangements.

### REMUNERATION TO SENIOR EXECUTIVES IN 2019

	Salary	Bonus	Benefits in kind	Pension costs	Total remuneration
Emil Erikstad, CEO	1 626 950	0	67 117	113 886	1 807 953
Eirik Engaas, CFO (from 4th March 2019)	921 493	0	12 253	64 505	998 251

### BOARD FEES

	2019	2018
George Emil Aubert, Chair	200	50
Tommy Thovsland, board member	75	50
Elsie Christina Marie Sunthby, board member	75	-
Knut Brøthen, board member	75	50
Leif Oddvin Jensen, board member	75	-
Runar Rønningen, board member	75	-
Emil Erikstad, board member (resigned board member during the year)	100	200
Olvind Gundersen, board member (resigned board member during the year)	25	50
Eirik Gudbrandsen, board member (resigned board member last year)	-	50
<b>Total</b>	<b>700</b>	<b>450</b>

## NOTE 12 FINANCIAL ITEMS

All amounts in NOK thousand

	2019	2018
<b>Interest income</b>	<b>1 631</b>	<b>859</b>
Other finance income	-	3
Interest income from group companies	1 474	441
<b>Total interest and other finance income</b>	<b>3 105</b>	<b>1 304</b>
<b>Interest expenses</b>	<b>68 830</b>	<b>33 678</b>
- of which capitalised borrowing costs	-22 269	-3 603
Interest expenses group companies	799	222
Other finance expenses	0	53
<b>Total interest and other finance expense</b>	<b>47 360</b>	<b>30 350</b>

## NOTE 13 INTANGIBLE ASSETS AND OTHER PROPERTY PLANT AND EQUIPMENT

All amounts in NOK thousand

	2019			2018		
	Goodwill	Software	Other operating assets	Goodwill	Software	Other operating assets
At 1 January						
Acquisition cost at 01.01	7 011	603	9 371	-	241	3 950
Acquisitions		459	377	7 011	362	5 661
Disposals						-240
Acquisitions cost as 31.12	7 011	1 062	9 748	7 011	603	9 371
Accumulated depreciation and write-downs as of 01.01		-265	-3 638		-80	-2 285
Depreciations and write-downs		-179	-872		-185	-1 354
Transfer to investment property			-4 000			
Accumulated depreciation and write-downs at 31.12		-444	-8 510		-265	-3 638
Carrying amount at 01.01					161	1 665
Carrying amount at 31.12	7 011	619	1 238	7 011	338	5 733
Economic life		3 year	3-10 year		3 year	3-10 year
Depreciation plan		Linear	Linear		Linear	Linear

The goodwill relates to the acquisition of shares in Mulghelenes By AS in 2017 and R8 Management AS in 2018. The Group performs annual impairment test of the intangible and other assets at year-end. No impairment indicators were identified for these assets in December 2019. There were no impairment charges in 2018 or 2019.

## NOTE 14 INVESTMENT PROPERTIES

All amounts in NOK thousand

	2019	2018
<b>VALUE OF INVESTMENT PROPERTIES</b>		
Opening balance at 01.01.	1 731 500	978 550
Other movements		
Purchase of investment properties	301 989	578 500
Projects and upgrades in the property portfolio	280 778	133 221
Capitalised borrowing costs	22 289	3 603
Sale of investment property	-6 200	-
Change in value from investment properties	78 664	37 626
Total value of investment property at 31.12.	2 409 000	1 731 500
Total book value of investment property at 31.12.	2 409 000	1 731 500

Investment properties are valued at fair value based on independent external valuations. The valuation method is included at level 3 in the valuation hierarchy, see Note 8.

For information about valuations and fair value calculations for investment properties, see Note 3 "Critical accounting estimates and subjective judgements".

All property is classified as investment property because the owner-occupied portion is insignificant.

## NOTE 15 TRADE RECEIVABLES

All amounts in NOK thousand

	2019	2018
Trade receivables	14 998	11 018
Provisions for bad debts	-2 391	-500
Net trade receivables	12 607	10 518

At 31 December 2019, INOK 3 955 in trade receivables were overdue. Provisions for a loss of INOK 2 391. The age analysis of these trade receivables is as follows:

	31 December 2019							
	Rent and other trade receivables and contract assets							
	Days past due							
	Contract assets	Current	< 30 days	30-60 days	61-90 days	91-120 days	>120 days	Total
Expected credit loss rate	0,1 %	0,0 %	4,9 %	18,9 %	88,1 %	21,8 %	69,9 %	15,9 %
Carrying amount	6 656	3 044	972	254	109	1 204	2 758	14 997
Expected credit loss	7	0	48	48	96	262	1 929	2 390
Net Amount	6 649	3 044	924	206	13	942	829	12 607

	31 December 2018							
	Rent and other trade receivables and contract assets							
	Days past due							
	Contract assets	Current	< 30 days	30-60 days	61-90 days	91-120 days	>120 days	Total
Expected credit loss rate	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	80,1 %	4,5 %
Carrying amount	7 403	966	1 342	297	108	278	624	11 018
Expected credit loss	0	0	0	0	0	0	500	500
Net Amount	7 403	966	1 342	297	108	278	124	10 518

## NOTE 16 OTHER RECEIVABLES

All amounts in NOK thousand

	2019	2018
VAT owed	23 973	14 271
Accrued interest	-	-
Accrued not invoiced	174	9
Advance payments and accruals	1 374	1 101
Other current receivables	1 645	683
Total other current receivables	27 166	16 065

## NOTE 17 INVENTORY PROPERTIES

During the year the Group has acquired a development site in Skien, Telemark. The acquired land is expected to be zoned for residential development. The commencement of the project and its characteristics is depended upon the outcome of the building application to local authorities.

## NOTE 18 BANK DEPOSITS

All amounts in NOK thousand

	2019	2018
Bank deposits	50 159	19 571
Tied bank deposits	881	919
Total bank deposits	51 040	20 490

Tied bank deposits relate to the withholding tax account.

## NOTE 19 SHARE CAPITAL AND SHAREHOLDER INFORMATION

R8 Property's share capital is NOK 4,930,160 divided into 1,072,064 shares, with each share having a par value of NOK 2.5. R8 Property has one class of shares. All shares provide equal rights, including the right to any dividends. Each of the shares carries one vote. There are no share options or other rights to subscribe for or acquire shares issued by R8 Property. Neither R8 Property nor any of its subsidiaries directly or indirectly owns shares in the Company.

As of 31 December 2019 R8 Property had 47 shareholders. Norwegian investors held 100 per cent of the share capital.

The table below sets out the change in share capital, the average number of shares the last year, the largest shareholders at year end, and shares owed by directors as of 31 December 2019.

	Number of shares	Share capital (NOK)	Share premium (NOK)	Other paid-in equity (NOK)	Face value (NOK)
At 1 January	1 364 500	3 411	117 406	43 910	2,50
Corporate merger (konserntfusjon) as of 29.03.2019 1)	34 076	85	10 649	-37 812	2,50
Capital increase as of 29.03.2019 2)	120 038	300	37 512	-	2,50
Capital increase as of 09.05.2019 3)	111 119	278	34 725	-	2,50
Capital increase as of 27.11.2019 4)	342 331	856	-	129 230	2,50
Cost of equity transactions directly in equity	-	-	-	-908	2,50
At 31 December 2019	1 972 064	4 930	200 291	134 420	2,50

Paid-in capital amounts to INOK 382,458 and consists of INOK 4,930 in share capital, INOK 196,792 in share premium and INOK 180,768 in other paid-in capital.

1) The Subsidiary Østveien 665-667 AS has implemented a merger with Hagakillen AS. The Merger is carried out as a corporate merger (konserntfusjon) in which shareholders in the transfer company receive shares in R8 Property AS. The remuneration of shareholders consists of 34,076 shares in R8 Property AS. The transaction has been accounted for in the 2019 financial statement.

2) Equity was increased by a private placement converting a debt of INOK 37,812 by issuing 120,038 shares. The transaction has been registered in Brønnøysundregistrene as of 29.03.2019.

3) Equity was increased by a private placement 09.05.2019 when converting a debt of INOK 35,002 by issuing 111,119 shares.

4) Equity was increased by a private placement 27.11.2019. The capital raise was fully paid in by cash both from existing and new investors.

For other changes in shareholders' equity, see the consolidated statements of changes in equity.

The shareholders as registered as of 31 December 2019 were as follows:

	Number of shares per 31.12.2019	Shareholding %	Country
R8 Group AS, represented by Emil Eriksred - CEO	1 093 280	55,44	Norway
Bredrene Jensen AS, represented by Leif Oddvin Jensen - board member	228 711	11,60	Norway
IKAB AS, represented by Knut Bråthen - board member	179 198	9,09	Norway
Carucel Invest AS, represented by Else Christine Maria Sundby - board member	47 619	2,41	Norway
RP Holding AS	36 350	1,84	Norway
Aubert Invest AS, represented by George Emil Aubert - Chair	36 000	1,83	Norway
Holta & Co. AS, represented by George Emil Aubert - Chair	28 000	1,42	Norway
Kebbe Holding AS	25 000	1,27	Norway
Haimberg Holding AS	22 500	1,14	Norway
Østerlid AS	21 940	1,11	Norway
Gambetta AS	20 000	1,01	Norway
Thovsland Holding AS, represented by Tommy Thovsland - board member	20 000	1,01	Norway
Carl Erik Krefling	15 416	0,78	Norway
Jan Henrik Krefling	15 416	0,78	Norway
Berseth-Hansen AS	14 580	0,74	Norway
Spartveit Invest AS	14 070	0,71	Norway
Reinås Holding AS	13 160	0,67	Norway
ET-Invest AS	12 600	0,64	Norway
Caba Holding AS	10 000	0,51	Norway
Stensrad Invest AS	10 000	0,51	Norway
Sundvall Invest AS	10 000	0,51	Norway
Lucky-Holding AS	10 000	0,51	Norway
Sarepta Holding AS, represented by Runar Rønningen - board member	10 000	0,51	Norway
Freezing Point Invest AS	10 000	0,51	Norway
MPH Invest AS	6 667	0,34	Norway
Castra Invest AS	5 900	0,30	Norway
Handlekraft Holding AS	5 700	0,29	Norway
Frå AS	5 300	0,27	Norway
Eråk Holding AS	5 000	0,25	Norway
Skarven Industrier AS	5 000	0,25	Norway
Kornveien 5 AS	5 000	0,25	Norway
Magne Georg Sigurdson	4 000	0,20	Norway
Marit Sigurdson	4 000	0,20	Norway
Paragon Holding AS	3 200	0,16	Norway
Fjeld Holding AS	2 800	0,14	Norway
Sonja og Emil Aubert Legat, represented by George Emil Aubert - Chair	2 700	0,14	Norway
Bauta Invest AS	2 000	0,10	Norway
Jhk Invest AS	1 622	0,08	Norway
Carucel Holding AS	1 622	0,08	Norway
Giraffe AS, represented by Else Christine Maria Sundby - board member	1 500	0,08	Norway
Masiv Holding AS	1 500	0,08	Norway
Leif Morten Stølen	1 200	0,06	Norway
Jor Holding AS	1 000	0,05	Norway
Roger Finnstrøm	950	0,05	Norway
Roberto Holding AS	800	0,04	Norway
Gloft Eiendom AS	500	0,03	Norway
Christen Knudsen	263	0,01	Norway
<b>Total</b>	<b>1 972 064</b>	<b>100</b>	

## NOTE 20 INTEREST-BEARING LIABILITIES AND ACCRUED INTEREST

All amounts in NOK thousand

### NON-CURRENT INTEREST-BEARING LIABILITIES

	2019			2018		
	Nominal value	Market value	Carrying amount	Nominal value	Market value	Carrying amount
Bank loans	649 543	649 543	649 543	953 718	953 718	953 718
Total non-current interest-bearing liabilities	649 543	649 543	649 543	953 718	953 718	953 718

### CURRENT INTEREST-BEARING LIABILITIES

	2019			2018		
	Nominal value	Market value	Carrying amount	Nominal value	Market value	Carrying amount
Bank loans	931 732	931 732	931 732	170 044	170 044	170 044
Total current interest-bearing liabilities	931 732	931 732	931 732	170 044	170 044	170 044

The average risk premium on the Group's loans at 31 December 2019 was 2.62 per cent.

The pledged assets used as collateral include all items presented under "Investment property" in the statement of financial position.

### MORTGAGES

The Group's financing is based on the parent company borrowing from external parties using negative pledge clauses. Subsidiaries are mainly financed using intra-group loans. Torggata 8 Skien AS, Nordre Fokserød 14 AS, Porsgrunn Næringspark AS, Rådhusgata 2 Skien AS, Mulghetenes By AS, Henrik Ibsensgate 6 AS, Kammerherreløkke AS, Henrik Ibsens Gate 40-42 Oslo AS, HG 40-42 Prosjekt AS and R8 Management AS are financed in own balance sheets.

## NOTE 21 FINANCIAL INSTRUMENTS - RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES

All amounts in NOK thousand

31.12.2019	01.01.2019	Cash flows	Corporate acquisitions	Fair Values changes	New leases	Redclassification debt	31.12.2019
Non-current liabilities	953 718	304 791	93 949	-	5 644	-708 559	649 543
Financial derivatives	11 394	-	-114	509	-	-	11 789
Current liabilities	170 044	-	73 997	-	-	708 559	952 600
Total liabilities from financing activities	1 135 156	304 791	167 832	509	5 644	-	1 613 932

## NOTE 22 TAX

All amounts in NOK thousand

	2019	2018
<b>INCOME TAX EXPENSE</b>		
Tax payable	-	-
Change in deferred tax on profit and loss	17 458	9 732
Change in deferred tax on comprehensive income	-	-
Income tax expense	17 458	9 732

### TEMPORARY DIFFERENCES

	2019	2018
Fixed assets	671 104	447 484
Profit and loss account	2 079	2 581
Other differences	-3 924	-2 296
Interest rate swap	-11 789	-11 394
Net temporary differences	657 469	436 375
Tax losses carried forward	-272 964	-114 608
Basis for deferred tax	384 504	321 768

Deferred tax	84 591	70 789
Deferred tax in the balance sheet	84 591	70 789

### INCOME TAX PAYABLE IS CALCULATED AS FOLLOWS

	2019	2018
Profit before tax	76 635	70 465
Cost of equity transactions directly in equity	-908	-975
Other permanent differences	4 841	-13 968
Changes in temporary differences	65 914	-88 286
Changes in loss carry-forwards	-146 482	32 763
Profit for tax purposes	0	0
Tax payable on the balance sheet	-	-
Tax payable on the balance sheet	-	-

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2019	%	2018	%
Profit for accounting purposes multiplied by nominal tax rate	16 860	22,0	16 207	23,0
Tax on permanent differences	865	1,1	-3 213	-4,6
Effect of change in tax rate from 23 to 22 per cent	-	-	-3 263	-4,6
Tax effect on day one related to acquisition with loss carry forward	-267	-0,3	-	-
Tax expense for accounting purposes	17 458	22,8	9 732	13,8

### MOVEMENTS IN DEFERRED TAX

	2019	2018
Opening balance at 01.01.	70 789	51 330
Tax expense recognized through income statement	17 458	9 732
Acquisition of subsidiaries	-3 656	9 727
Net deferred tax at 31.12.	84 591	70 789

### DEFERRED INCOME TAX

The Group has offset deferred tax assets and deferred tax liabilities on the balance sheet as the Group has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority. The following net value was recognised:

	2019	2018
Deferred tax liability	84 591	71 647
Deferred tax assets	-	-859
Net deferred tax	84 591	70 788

The Group has offset deferred tax assets and deferred tax liabilities on the balance sheet where the Group has a legally enforceable right to set off current tax assets against current tax liabilities.

The Group has applied the main rule for recognition of deferred tax in connection with the purchase of shares in property companies that are not acquired through a business combination. This means that deferred tax is recognised as the difference between the tax value and consolidated accounting value of investment properties. Deferred tax linked to the retrospective accumulated change in the value of investment properties at 31 December 2019 is INOK 79 395.

### THE ANALYSIS OF DEFERRED TAX ASSETS AND LIABILITIES IS AS FOLLOWS

	2019	2018
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	-	-859
Deferred tax assets to be recovered within 12 months	-	-
Deferred tax liabilities		
Deferred tax liability reversion after more than 12 months	83 226	72 297
Deferred tax liability reversion within 12 months	1 365	119
	84 591	72 416
Deferred tax liabilities (net)	84 591	71 557

## NOTE 23 TRADE PAYABLES AND OTHER PAYABLES

All amounts in NOK thousand

	2019	2018
Trade payables	38 324	32 971
Trade payables group	-	274
Holiday pay owed	1 704	1 603
Unpaid government taxes and duties	2 943	3 047
Interest accrued	9 881	5 313
Other liabilities	21 272	22 647
Total trade payables and other liabilities	74 125	65 854



## NOTE 24 SUBSIDIARIES

All amounts in NOK thousand

The Group comprise of the following legal entities at 31 December 2019.

### SUBSIDIARY OF R8 PROPERTY AS

	Business office	Equity interest %	Result 31.12.2019	Equity 31.12.2019
R8 Management AS	Porsgrunn	100	149	1 503
Rådhusgata 2 Skien AS	Porsgrunn	100	-1 089	-39
R8 Office AS	Porsgrunn	100	3 877	143 020
R8 Urban Estate AS	Porsgrunn	100	-7 496	102 924
R8 Hotels AS	Porsgrunn	100	-188	34 598
Valore AS	Porsgrunn	100	1 247	36 911
R8 Home AS	Porsgrunn	100	-925	2 069
R8 Project AS	Porsgrunn	100	-4	17
HIG 40-42 Prosjekt AS	Porsgrunn	100	312	26 123
Østveien 665-667 AS	Porsgrunn	100	-1 986	11 494

### SHARES IN SUBSIDIARIES OWNED THROUGH SUBSIDIARIES:

(all of which has business office in Porsgrunn and 100% voting rights except Dokkveien Utvikling AS and Kammerherredøkk AS, see below)

R8 Office AS	R8 Urban Estate AS	Valore AS	HIG 40-42 Prosjekt AS	R8 Projects AS
Granfisker 5 AS	Tollboden AS	Bedriftsveien 52/58 AS	Henrik Ibsens gate 40-42 Oslo AS	Dokkveien Utvikling AS *)
Torggata 8 Skien AS	Mulighetenes By AS	Radmyråa 20 AS	Storgata 171-175 AS	- Dokkveien 20 AS
Versvikveien 6B AS	- Laugstøl Eiendom AS	Storgata 171-175 AS	Vipeveien 51 AS	
Storgata 106 AS	- Henrik Ibsensgate 6 AS			
Hasselberggaten 4 AS				
Porsgrunn Næringspark AS				
Nordre Fokserød 14 AS	R8 Hotels AS	R8 Home AS		
Vinkelbygget AS	Kammerherredøkk AS **)	Utakken 1 AS		
HE-Kjellerveien AS				
Kongensgate 20A AS				

\*) R8 Projects AS owns 50% of the shares in Dokkveien Utvikling AS. Voting rights equivalent ownership. The remaining shares is owned by Dione AS.

\*\*\*) R8 Hotels AS owns 50% of the shares in Kammerherredøkk AS. Voting rights equivalent ownership. The remaining shares is owned by Bane Nor Eiendom AS.

The Group is considered having control of companies in which the Group holds 50% of the shares, namely Dokkveien Utvikling AS and Kammerherredøkk AS. These companies are being fully consolidated as a consequence of the assessment of control.

## NOTE 25 RELATED PARTIES

All amounts in NOK thousand

The ultimate parent of the Group is R8 Group AS. The Group's ultimate controlling party is Mr. Emil Eiksrød.

The Group acquired 100% of the shares in Valore AS from R8 Group AS 10.04.2019 at a cost of INOK 46,900. The transaction have been based on market values.

The Group's transactions and balances with other group companies in 2019 are mainly related to rental income, property management, loans, accounting, interest payments on loans and dividend. The aggregate figures are shown in the table below.

	2019	2018
<b>Income statement</b>		
Rental income	530	319
Other operating revenue	318	1 199
Operating costs	9 162	5 207
<b>Balance sheet</b>		
Receivables	-	-
Loans	30 585	8 921
Debt	20 868	-
Payables	-	274

The Group also acquired services from a related party in 2019 of INOK 1 398 which is considered as additions on investment property and adjusted for in fair value of investment property.

## NOTE 26 AUDITOR'S FEE

All amounts in NOK thousand

	2019	2018
Statutory audit	507	407
Tax advice (incl. technical assistance with tax return)	29	-
Other services not related to auditing (transactions, IFRS conversion)	87	-
Other assurance services	746	223
<b>Total auditor's fee (excl. VAT)</b>	<b>1 469</b>	<b>630</b>

## NOTE 27 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares outstanding during the year. R8 Property has not issued options or other financial instruments which have a dilutive effect on outstanding shares.

	2019	2018
Total comprehensive income for the year attributable to equity holders of the Company (NOK thousand)	48 767	58 424
Average number of outstanding shares (Note 19)	1 687 536	1 273 375
<b>Basic earnings per share (NOK)</b>	<b>28,90</b>	<b>45,88</b>

## NOTE 28 EVENTS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

On 3rd January 2020 R8 Property AS completed part one of the purchase of Evolve Business Space – acquiring 50 percent of the company, in accordance with the share purchase agreement signed in 2019. Evolve Business Space's parent company is R8 Evolve AS, with operations in four fully owned subsidiaries Evolve Akersgate AS, Evolve Bjervika AS, Evolve Sandaker AS and Evolve IT Fornebu AS.

The corona pandemic outbreak in Q1 2020 is expected to have an impact on R8 Property AS, our tenants, financials and property values. The uncertainty connected to pandemic development makes forward looking estimates and prognosis challenging.

R8 Property's tenant portfolio is diversified in number of tenants as well as in business sectors and segments. Public tenants make up 25% of the group's rental income, another 25% of our revenue comes from large private tenants within banking, telecom, insurance etc. Our tenant portfolio is divided into five different segments: Office, Hotels, Food & Beverage, Healthcare and Retail – with Office as the majority at approx. 65 percent of the revenue. Retail, Food & Beverage and Hotels are the segments experiencing the greatest effect from the pandemic, our expectations are that Food & Beverage will partly rebound in line with declining social limitations while we expect Hotels and Retail segments to be difficult for an extended period of time.

Property values within our Office segment are considered strong, especially due to public and large private tenants. Hotels is – by far – the segment we expect to be affected the most, with future uncertainty in travel and conventions. Our property portfolio is valued quarterly by an external expert (Nisec), and updated accumulated valuations at the end of Q1 2020 is approximately negative 2 percent compared to 31.12.2019. This is a testament to the overall strength of our property portfolio, and while we cannot exclude further devaluations going forward with some segments and properties they will most likely be marginal towards the total property portfolio.

The sharp decline in interest rates (NIBOR) will positively influence our financial costs on the groups non-fixed rates loans. At the same time our fixed rate loans (i.e. interest rate swaps) will be negatively affected, especially in Q1 (and to some extent Q2) 2020.

We expect an increase in risk factors such as credit risk, interest rate risk and refinancing risk - with all our external financing coming from banks we believe the risk to be manageable. Covenants in bank agreements have good margins and can handle the likely negative changes in property value.

Due to the potential Covid-19 effects on the company the management has subsequent to year end 2019 obtained communication in writing from all financial institutions about their intention (but where the final outcome is subject to formal decision processes) to extend the maturity of a significant part of the short term financial debt. Further, as described above, there is a risk of losses related to interest swaps and a decrease in value of investment properties which all in aggregate indicates an increased uncertainty. It is, however, too early to quantify the effects for the company. Please see note 2 for further information

# FINANCIAL STATEMENTS

## R8 PROPERTY AS

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### Statement of income 1 January to 31 December

All amounts in NOK thousand

	Note	2019	2018
Revenue		9 805	7 884
<b>Total operating income</b>		<b>9 805</b>	<b>7 884</b>
Cost of goods sold		5	-
Payroll expenses	2	8 676	6 447
Depreciation expenses		69	-
Other operating expenses	2	10 047	5 189
<b>Total operating costs</b>		<b>18 797</b>	<b>11 636</b>
<b>Operating profit</b>		<b>-8 993</b>	<b>-3 752</b>
Income from subsidiaries		-	591
Other financial income	9	2 631	1 127
Other financial expenses	9	5 348	280
<b>Net financial items</b>		<b>-2 717</b>	<b>1 439</b>
<b>Profit before tax</b>		<b>-11 710</b>	<b>-2 313</b>
Income tax expense/ -income	3	-1 856	-483
<b>Profit for year</b>		<b>-9 854</b>	<b>-1 830</b>
Allocated as follows			
Dividend		-	-
Transferred to other equity	8	-9 854	-1 830
<b>Total allocated</b>		<b>-9 854</b>	<b>-1 830</b>

## Balance sheet Assets

All amounts in NOK thousand

	Note	2019	2018
<b>NON-CURRENT ASSETS</b>			
Deferred tax asset		-	699
Intangible assets	4	474	62
Total intangible assets		474	761
Investments in subsidiaries	10	382 131	190 266
Loans to group companies		-	42 459
Investments in associated companies			
Other long-term receivables			
Total financial assets		382 131	232 724
<b>TOTAL NON-CURRENT ASSETS</b>		<b>382 604</b>	<b>233 485</b>
<b>CURRENT ASSETS</b>			
Trade receivables		2 543	507
Other receivables		374	709
Loans to group companies	5	31 888	
Total current receivables		34 805	1 216
Cash and bank deposits	7	23 917	4 658
<b>TOTAL CURRENT ASSETS</b>		<b>58 722</b>	<b>5 874</b>
<b>TOTAL ASSETS</b>		<b>441 326</b>	<b>239 359</b>

## Balance sheet Equity and liabilities

All amounts in NOK thousand

	Note	2019	2018
<b>EQUITY</b>			
Paid-in equity	8	4 930	3 411
Share premium	8	196 792	113 906
Other paid-in equity	8	180 736	90 226
Total paid-in equity		382 458	207 544
Retained earnings	8	-4 683	5 171
Total retained earnings		-4 683	5 171
<b>TOTAL EQUITY</b>		<b>377 775</b>	<b>212 715</b>
<b>LIABILITIES</b>			
Deferred tax liability		628	-
Liabilities to group companies		-	9 116
Total non-current liabilities		628	9 116
Trade creditors		2 070	376
Liabilities to group companies	5	58 786	-
Public duties payable		668	531
Other short-term liabilities		1 400	16 622
Total current liabilities		62 924	17 528
<b>TOTAL LIABILITIES</b>		<b>63 552</b>	<b>26 644</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>441 326</b>	<b>239 359</b>

Notes 1 through 11 form an integral part of the financial statements.

Porsgrunn, 13 May 2019  
Board of Directors for R8 Property AS

Legally signed by  
George Emil Aubert  
13.05.2020

George Emil Aubert  
Chair of the Board

Legally signed by  
Knut Bråthen  
13.05.2020

Knut Bråthen  
Board member

Legally signed by  
Tommy Thovsland  
13.05.2020

Tommy Thovsland  
Board member

Legally signed by  
Leif Oddvin Jensen  
13.05.2020

Leif Oddvin Jensen  
Board member

Legally signed by  
Emil Eriksrød  
13.05.2020

Emil Eriksrød  
CEO

Legally signed by  
Christina Sundby  
13.05.2020

Else Christina Maria Sundby  
Board member

Legally signed by  
Runar Rønningen  
13.05.2020

Runar Rønningen  
Board member

## Statement of cash flows 1 January to 31 December

All amounts in NOK thousand

	Note	2019	2018
Profit before tax		-11 710	-2 313
Interest and fees paid on loans from financial institutions			63
Write-down shares in subsidiaries	9	4 500	
Group contribution			-591
Depreciation and amortisation	4	69	-
Change in trade creditors and trade debtors		231	1 280
Change in other provisions		804	805
<b>Net cash flow from operating activities</b>		<b>-6 106</b>	<b>-756</b>
Purchase of business net of cash	10	-45 244	-
Purchase of intangible assets and other plant and equipment	4	-457	-
Net payment of loans to associates and jointly controlled entities			24 100
<b>Net cash flow from investment activities</b>		<b>-45 701</b>	<b>24 100</b>
Net change in liabilities from group companies	5	-58 112	-77 588
Proceeds from equity	8	130 086	59 877
Cost of equity transactions	8	-908	-975
<b>Net cash flow from financing activities</b>		<b>71 066</b>	<b>-18 686</b>
Change in cash and cash equivalents		19 259	4 658
Cash and cash equivalents at beginning of period		4 658	-
<b>Cash and cash equivalents at end of period</b>		<b>23 917</b>	<b>4 658</b>



## SUMMARY OF NOTES

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### NOTE 1 ACCOUNTING POLICIES

The annual accounts have been prepared in compliance with the Accounting Act and accounting principles generally accepted in Norway.

#### Use of estimates

The preparation of financial statements in compliance with the Accounting Act requires the use of estimates. The application of the company's accounting principles also require management to apply assessments. Areas which to a great extent contain such assessments, a high degree of complexity, or areas in which assumptions and estimates are significant for the financial statements, are described in the notes.

#### Investment in subsidiaries, associates and joint ventures

Subsidiaries are all entities over which the Group exercises control of financial and operating policies, normally through ownership of more than half the capital with voting rights. Associates are companies over which the Group has significant influence but not control. Significant influence normally exists where the Group's investment represents between 20 and 50 per cent of the capital with voting rights.

The cost method is applied to investments in subsidiaries and associates in the company accounts. The cost price is increased when funds are added through capital increases or when group contributions are made to subsidiaries. Dividends received are initially taken to income. Dividends exceeding the portion of retained equity after the purchase are reflected as a reduction in purchase cost. Dividend/group contribution from subsidiaries are reflected in the same year as the subsidiary makes a provision for the amount. Dividend from other companies are reflected as financial income when it has been approved.

#### Classification of balance sheet items

Assets intended for long term ownership or use have been classified as fixed assets. Assets relating to the trading cycle have been classified as current assets. Other receivables are classified as current assets if they are to be repaid within one year after the transaction date. Similar criteria apply to liabilities. First year's instalment on long term liabilities and long term receivables are, however, not classified as short term liabilities and current assets.

#### Taxes

The tax charge in the income statement includes both payable taxes for the period and changes in deferred tax. Deferred tax is calculated at relevant tax rates on the basis of the temporary differences which exist between accounting and tax values, and any carry forward losses for tax purposes at the year-end. Tax enhancing or tax reducing temporary differences, which are reversed or may be reversed in the same period, have been eliminated. The disclosure of deferred tax benefits on net tax reducing differences which have not been eliminated, and carry forward losses, is based on estimated future earnings. Deferred tax and tax benefits which may be shown in the balance sheet are presented net.

Tax reduction on group contributions given and tax on group contribution received, booked as a reduction of cost price or taken directly to equity, are booked directly against tax in the balance sheet (offset against payable taxes if the group contribution has affected payable taxes, and offset against deferred taxes if the group contribution has affected deferred taxes). Deferred tax is reflected at nominal value.

#### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances on bank accounts and net deposits in the group account scheme. The difference in net deposits in the company's account in the group account scheme and net deposits in the group account scheme for the Group overall will be presented as intercompany balances.

#### Cash flow statement

The cash flow statement has been prepared according to the indirect method. Cash and cash equivalents include cash, bank deposits, and other short term investments which immediately and with minimal exchange risk can be converted into known cash amounts, with due date less than three months from purchase date.

## NOTE 2 PERSONNEL COSTS AND OTHER REMUNERATION

All amounts in NOK thousand

	2019	2018
Wages and salaries	6 801	5 328
Social security costs	1 022	788
Pension costs defined contribution plan	417	252
Other remuneration	438	79
<b>Total</b>	<b>8 678</b>	<b>6 447</b>
Number of full-time equivalents	5,0	3,0
Number of employees at 31.12	7,0	3,0

The Group's pension scheme satisfies the requirements of the Norwegian Act on Compulsory Occupational Pensions. No loans/sureties have been granted to the CEO, Chair of the Board or other related parties.

The total remuneration of the CEO consists of a fixed package of salary and benefits supplemented by pension and insurance arrangements.

### SENIOR EXECUTIVE AS AT 31.12.2019

	Salary	Bonus	Benefits in kind	Pension costs	Total remuneration
Emil Eriksrød, CEO	1 626 950	-	67 117	113 886	1 807 953
Eirik Engaas, CFO (from 4th March 2019)	921 493	-	12 253	64 505	998 251

### BOARD FEES

	2018	2017
George Emil Aubert, Chair	200	50
Tommy Thovsland, board member	75	50
Else Christina Maria Sundby, board member	75	-
Knut Bråthen, board member	75	50
Leif Oddvin Jensen, board member	75	-
Runar Rønningen, board member	75	-
Emil Eriksrød, board member (resigned board member during the year)	100	200
Øivind Gundersen, board member (resigned board member during the year)	25	50
Erik Gudbrandsen, board member (resigned board member last year)	-	50
<b>Total</b>	<b>700</b>	<b>450</b>

### AUDITOR'S FEE

	2019	2018
Statutory audit	180	183
Other assurance services	644	153
<b>Total auditor's fee (excl. VAT)</b>	<b>824</b>	<b>336</b>

## NOTE 3 TAX

All amounts in NOK thousand

### INCOME TAX EXPENSE

	2019	2018
Tax payable	-	-
Change in deferred tax on profit and loss	-1 856	-483
Change in deferred tax on comprehensive income	-	-
<b>Income tax expense</b>	<b>-1 856</b>	<b>-483</b>

### TEMPORARY DIFFERENCES

	2019	2018
Fixed assets	107	19
Profit and loss account	-	-
Other differences	13 836	13 836
Interest rate swap	-	-
<b>Net temporary differences</b>	<b>13 943</b>	<b>13 855</b>
Tax losses carried forward	-11 091	-3 196
<b>Basis for deferred tax</b>	<b>2 852</b>	<b>-3 177</b>
Deferred tax	628	-699
<b>Deferred tax in the balance sheet</b>	<b>628</b>	<b>-699</b>

### INCOME TAX PAYABLE IS CALCULATED AS FOLLOWS

	2019	2018
Profit before tax	-11 710	-2 313
Cost of equity transactions directly in equity	-908	-975
Other permanent differences	4 812	116
Changes in temporary differences	-88	-
Changes in loss carry-forwards	-	-19
<b>Profit for tax purposes</b>	<b>-7 895</b>	<b>-3 190</b>

Tax payable on the balance sheet	-	-
<b>Tax payable on the balance sheet</b>	<b>-</b>	<b>-</b>

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2019	%	2018	%
Profit for accounting purposes multiplied by nominal tax rate	-2 576	22	-532	23
Tax on permanent differences	859	-7	27	-1
Effect of change in tax rate from 23 per cent to 22 per cent	-	-	22	-1
<b>Tax expense for accounting purposes</b>	<b>-1 717</b>	<b>15</b>	<b>-483</b>	<b>21</b>

From the income year 2019 the tax rate on normal income is reduced from 23 per cent to 22 per cent.

Prior year's comparable numbers is changed in order to include a receivable from an accomplished corporate merger with the company Østveien 665-667 AS. The reconciliation of tax expense above has deviate with an amount of INOK 138. The deviation is 1% change (from 23% to 22% tax rate) of the receivable from the corporate merger.

## NOTE 4 INTANGIBLE ASSETS

All amounts in NOK thousand

	2019	2018
At 1 January	62	62
Cost	62	62
Accumulated depreciation	-	-
<b>Net book amount</b>	<b>62</b>	<b>62</b>
Year ended 31 December		
Opening net book amount	62	62
Additions	480	-
Disposals	-	-
Transfer from investment property	-	-
Depreciation charge	-69	-
<b>Closing net book amount</b>	<b>474</b>	<b>62</b>
Economic life		5 year
Depreciation plan		Linear

## NOTE 5 BALANCE WITH GROUP COMPANIES

All amounts in NOK thousand

### LOANS TO GROUP COMPANIES

	2019	2018
R8 Urban Estate AS	2 526	33 254
R8 Office AS	-	7 747
R8 Hotels AS	2 962	30
R8 Management AS	-	1 428
R8 Home AS	5 423	-
R8 Project AS	6 880	-
R8 Consulting Group AS	116	-
Østveien 665-667 AS	13 981	-
<b>Total</b>	<b>31 888</b>	<b>42 459</b>

Loans to associates outlined above is due in the next 12 months. The company has no receivables due after 12 months from the reporting date

### LIABILITIES TO GROUP COMPANIES

	2019	2018
Rådhusgata 2 Skien AS	15 385	9 116
Valore AS	139	-
R8 Office AS	3 410	-
R8 Management AS	2 535	-
R8 Group AS	16 455	-
Østveien 665-667 AS	13 981	-
Porsgrunn Næringspark AS	6 880	-
<b>Total</b>	<b>58 786</b>	<b>9 116</b>

R8 Property has given group contribution to Østveien 665-667 AS in 2019 for the amount of INOK 13 981

Debt to associates outlined above is due in the next 12 months and considered as current liabilities. Furthermore, the company has no outstanding debt due after 1 years.

## NOTE 6 TRANSACTIONS WITH RELATED PARTIES

The company has during the year acquired Valore AS from R8 Group for mNOK 46,9. The transaction happened during the end of the second quarter. The company has not had any other material related party transaction during the year.

## NOTE 7 BANK DEPOSITS

All amounts in NOK thousand

	2019	2018
Bank deposits	23 633	4 279
Tied bank deposits	284	379
<b>Total bank deposits</b>	<b>23 917</b>	<b>4 658</b>

## NOTE 8 SHARE CAPITAL AND SHAREHOLDER INFORMATION

R8 Property's share capital is NOK 4,930,160 divided into 1,972,064 shares, with each share having a par value of NOK 2.5. R8 Property has one class of shares. All shares provide equal rights, including the right to any dividends. Each of the shares carries one vote. There are no share options or other rights to subscribe for or acquire shares issued by R8 Property. Neither R8 Property nor any of its subsidiaries directly or indirectly owns shares in the Company.

As of 31 December 2019 R8 Property had 47 shareholders. Norwegian investors held 100 per cent of the share capital.

The table below sets out the change in share capital, the average number of shares the last year, the largest shareholders at year end, and shares owed by directors as of 31 December 2019.

	Number of shares	Share capital (tNOK)	Share premium (tNOK)	Other paid-in equity (tNOK)	Retained earnings	Total
At 1 January	1 364 500	3 411	113 906	90 226	5 171	212 715
Corporate merger (konsernfusjon) as of 29.03.2019 1)	34 076	85	10 649	-	-	10 734
Capital increase as of 29.03.2019 2)	120 038	300	37 512	(37 812)	-	-
Capital increase as of 09.05.2019 3)	111 119	278	34 725	-	-	35 002
Capital increase as of 27.11.2019 4)	342 331	856	-	129 230	-	130 086
Cost of equity transactions directly in equity	-	-	-	(908)	-	(908)
Profit for the year	-	-	-	-	(9 854)	(9 854)
<b>At 31 December 2019</b>	<b>1 972 064</b>	<b>4 930</b>	<b>196 792</b>	<b>180 736</b>	<b>(4 683)</b>	<b>377 775</b>

Paid-in capital amounts to tNOK 382,458 and consists of tNOK 4,930 in share capital, tNOK 196,792 in share premium and tNOK 180,768 in other paid-in capital.

1) The Subsidiary Østveien 665-667 AS has implemented a merger with Hagakilen AS. The Merger is carried out as a corporate merger (konsernfusjon) in which shareholders in the transfer company receive shares in R8 Property AS. The remuneration of shareholders consists of 34,076 shares in R8 Property AS. The transaction has been accounted for in the 2019 financial statement.

2) Equity was increased by a private placement converting a debt of tNOK 37,812 by issuing 120,038 shares. The transaction has been registered in Brønnøysundsregistrene as of 29.03.2019.

3) Equity was increased by a private placement 09.05.2019 when converting a debt of tNOK 35,002 by issuing 111,119 shares.

4) Equity was increased by a private placement 27.11.2019. The capital raise was fully paid in by cash both from existing and new investors.

The shareholders as registered as of 31 December 2019 were as follows:

	Number of shares per 31.12.2019	Shareholding %	Country
R8 Group AS, represented by Emil Eriksrød - CEO	1 093 280	55,4	Norway
Brødrene Jensen A/S, represented by Leif Oddvin Jensen - board member	228 711	11,6	Norway
IKAB AS, represented by Knut Bråthen - board member	179 198	9,1	Norway
Carucel Invest AS, represented by Else Christine Maria Sundby - board member	47 619	2,4	Norway
RP Holding AS	36 350	1,8	Norway
Aubert Invest AS, represented by George Emil Aubert - Chair	36 000	1,8	Norway
Holta & Co. AS, represented by George Emil Aubert - Chair	28 000	1,4	Norway
Kabbe Holding AS	25 000	1,3	Norway
Heimberg Holding AS	22 500	1,1	Norway
Østerlid AS	21 940	1,1	Norway
Gambetta AS	20 000	1,0	Norway
Thovsland Holding AS, represented by Tommy Thovsland - board member	20 000	1,0	Norway
Carl Erik Krefling	15 416	0,8	Norway
Jan Henrik Krefling	15 416	0,8	Norway
Berseth-Hansen AS	14 580	0,7	Norway
Spartveit Invest AS	14 070	0,7	Norway
Reinås Holding AS	13 160	0,7	Norway
ET-Invest AS	12 600	0,6	Norway
Caba Holding AS	10 000	0,5	Norway
Stensrød Invest AS	10 000	0,5	Norway
Sundvall Invest AS	10 000	0,5	Norway
Lucky-Holding AS	10 000	0,5	Norway
Sarepta Holding AS, represented by Runar Rønningen - board member	10 000	0,5	Norway
Freezing Point Invest AS	10 000	0,5	Norway
MPH Invest AS	6 667	0,3	Norway
Castra Invest AS	5 900	0,3	Norway
Handlekraft Holding AS	5 700	0,3	Norway
Frø AS	5 300	0,3	Norway
Eråk Holding AS	5 000	0,3	Norway
Skarven Industrier AS	5 000	0,3	Norway
Kornveien 5 AS	5 000	0,3	Norway
Magne Georg Sigurdson	4 000	0,2	Norway
Marit Sigurdson	4 000	0,2	Norway
Paragon Holding AS	3 200	0,2	Norway
Fjeld Holding AS	2 800	0,1	Norway
Sonja og Emil Aubert Legat, represented by George Emil Aubert - Chair	2 700	0,1	Norway
Bauta Invest AS	2 000	0,1	Norway
Jrk Invest AS	1 622	0,1	Norway
Carucel Holding II AS	1 622	0,1	Norway
Giraffa AS, represented by Else Christine Maria Sundby - board member	1 500	0,1	Norway
Masiv Holding AS	1 500	0,1	Norway
Leif Morten Stølen	1 200	0,1	Norway
Jor Holding AS	1 000	0,1	Norway
Roger Finnstrøm	950	0,0	Norway
Roberto Holding AS	800	0,0	Norway
Gloft Eiendom AS	500	0,0	Norway
Christen Knudsen	263	0,0	Norway
<b>Total</b>	<b>1 972 064</b>	<b>100,0</b>	

## NOTE 9 SPECIFICATION OF FINANCIAL INCOME AND EXPENSES

All amounts in NOK thousand

FINANCIAL INCOME	2019	2018
Interest income from group companies	2 574	1 090
Other rental income	58	37
<b>Total financial income</b>	<b>2 631</b>	<b>1 127</b>
FINANCIAL EXPENSES	2018	2018
Interest expenses to group companies	569	171
Other rental expenses	280	109
Write-downs of investment in subsidiaries	4 500	-
<b>Total financial expenses</b>	<b>5 348</b>	<b>280</b>

## NOTE 10 SUBSIDIARIES

All amounts in NOK thousand

The Group comprise of the following legal entities at 31 December 2019

### SUBSIDIARY OF R8 PROPERTY AS

	Business office	Equity interest %	Result 31.12.2019	Equity 31.12.2019
R8 Management AS	Porsgrunn	100	149	1 593
Rådhusgata 2 Skien AS	Porsgrunn	100	-1 089	-39
R8 Office AS	Porsgrunn	100	3 677	143 020
R8 Urban Estate AS	Porsgrunn	100	-7 496	102 924
R8 Hotels AS	Porsgrunn	100	-188	34 598
Valore AS	Porsgrunn	100	1 247	36 911
R8 Home AS	Porsgrunn	100	-925	2 089
R8 Project AS	Porsgrunn	100	-4	17
HIG 40-42 Prosjekt AS	Porsgrunn	100	505	25 585
Østveien 665-667 AS	Porsgrunn	100	-426	13 054

### SHARES IN SUBSIDIARIES OWNED THROUGH SUBSIDIARIES:

(all of which has business office in Porsgrunn and 100% voting rights except Dokkeveien Utvikling AS and Kammerherlekka AS, see below)

R8 Office AS	R8 Urban Estate AS	Valore AS	HIG 40-42 Prosjekt AS	R8 Projects AS
Grønåskroen 5 AS	Tollboden AS	Bedriftsveien 52/58 AS	Henrik Ibsens gate 40-42 Oslo AS	Dokkeveien Utvikling AS *)
Torggata 8 Skien AS	Mulighetenes By AS	Rødmyrflå 20 AS		- - Dokkeveien 20 AS
Versvikveien 6B AS	- - Laugstøl Eiendom AS	Storgata 171-175 AS		
Storgata 106 AS	- - Henrik Ibsensgate 6 AS	Vipeveien 51 AS		
Hesselberggaten 4 AS				
Porsgrunn Næringspark AS				
Nordre Fokserød 14 AS	R8 Hotels AS	R8 Home AS		
Vinkelbygget AS	Kammerherlekka AS **)	Utsikten 1 AS		
HE-Kjelleveien AS				
Kongensgate 20A AS				

\*) R8 Projects AS owns 50% of the shares in Dokkeveien Utvikling AS. Voting rights equivalent ownership. The remaining shares is owned by Dione AS

\*\*\*) R8 Hotels AS owns 50% of the shares in Kammerherlekka AS. Voting rights equivalent ownership. The remaining shares is owned by Bane Nor Eiendom AS

The Group is considered having control of companies in which the Group holds 50% of the shares, namely Dokkeveien Utvikling AS and Kammerherlekka AS. These companies are being fully consolidated as a consequence of the assessment of control

## NOTE 11 EVENTS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

On 3rd January 2020 R8 Property AS completed part one of the purchase of Evolve Business Space – acquiring 50 percent of the company, in accordance with the share purchase agreement signed in 2019. Evolve Business Space's parent company is R8 Evolve AS, with operations in four fully owned subsidiaries Evolve Akersgata AS, Evolve Bjervika AS, Evolve Sandaker AS and Evolve IT Fornebu AS.

The corona pandemic outbreak in Q1 2020 is expected to have an impact on R8 Property AS, our tenants, financials and property values. The uncertainty connected to pandemic development makes forward looking estimates and prognosis challenging.

R8 Property's tenant portfolio is diversified in number of tenants as well as in business sectors and segments. Public tenants make up 25% of the group's rental income, another 25% of our revenue comes from large private tenants within banking, telecom, insurance etc. Our tenant portfolio is divided into five different segments: Office, Hotels, Food & Beverage, Healthcare and Retail – with Office as the majority at approx. 65 percent of the revenue. Retail, Food & Beverage and Hotels are the segments experiencing the greatest effect from the pandemic, our expectations are that Food & Beverage will partly rebound in line with declining social limitations while we expect Hotels and Retail segments to be difficult for an extended period of time.

Property values within our Office segment are considered strong, especially due to public and large private tenants. Hotels is – by far – the segment we expect to be affected the most, with future uncertainty in travel and conventions. Our property portfolio is valued quarterly by an external expert (Newsec), and updated accumulated valuations at the end of Q1 2020 is approximately negative 2 percent compared to 31.12.2019. This is a testament to the overall strength of our property portfolio, and while we cannot exclude further devaluations going forward with some segments and properties they will most likely be marginal towards the total property portfolio.

The sharp decline in interest rates (NIBOR) will positively influence our financial costs on the groups non-fixed rates loans. At the same time our fixed rate loans (i.e. interest rate swaps) will be negatively affected, especially in Q1 (and to some extent Q2) 2020.

We expect an increase in risk factors such as credit risk, interest rate risk and refinancing risk - with all our external financing coming from banks we believe the risk to be manageable. Covenants in bank agreements have good margins and can handle the likely negative changes in property value.





## INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of R8 Property AS

### Report on the audit of the financial statements

#### Opinion

We have audited the financial statements of R8 Property AS comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the balance sheet as at 31 December 2019, the income statement and the statements of cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies. The consolidated financial statements comprise the balance sheet as at 31 December 2019, the statements of comprehensive income, cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- ▶ the financial statements are prepared in accordance with the law and regulations
- ▶ the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2019, 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
- ▶ the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU

#### Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Emphasis of matter – Covid-19

We draw attention to Note 28 in the consolidated financial statements, which describes the risk, uncertainty and the expected effects of Covid-19. Our opinion is not modified in respect of this matter.

#### Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If,

based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of management for the financial statements

Management is 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 financial statements of the parent company and International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also

- ▶ identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- ▶ obtain an understanding of internal control relevant to the audit 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 Company's internal control;
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- ▶ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- ▶ evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- ▶ obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## Report on other legal and regulatory requirements

### Opinion on the Board of Directors' report and on the statements on corporate governance and corporate social responsibility

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on corporate governance and corporate social responsibility concerning the financial statements and the going concern assumption, and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

### 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 ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Porsgrunn, 14 May 2020

ERNST & YOUNG AS



Bård Erik Pedersen

State Authorised Public Accountant (Norway)

## EPRA REPORTING

The following performance indicators have been prepared in accordance with best practices as defined by EPRA (European Public Real Estate Association) in its Best Practices Recommendations guide.

EPRA Reporting - summary	Unit	2019 /	
		31.12.2019	31.12.2018
EPRA Earnings per share (EPS)	NOK	4,0	8,3
EPRA NAV per share	NOK	406,7	377,4
EPRA NNNAV per share	NOK	377,9	346,7

The details for the calculation of the key figures are shown in the following tables

### EPRA EARNINGS

EPRA Earnings is a measure of the underlying development in the property portfolio and is calculated as net income after tax excluding value changes on investment properties, unrealised changes in the market value of financial derivatives and gains/losses on the sale of properties and their associated tax effect:

All amounts in NOK thousand

	2019	2018
Profit for period/year	59 177	60 733
Add:		
Changes in value of investment properties	-78 664	-37 626
Tax on changes in value of investment properties <sup>1)</sup>	17 306	8 654
Changes in value of financial instruments	-509	-6 593
Tax on changes in value of financial instruments <sup>1)</sup>	112	1 516
Share of profit jointly controlled entities - fair value adjustments	-	-17 533
Reversal of deferred tax EPRA adjustments jointly controlled entities <sup>1)</sup>	-	3 169
Net income non-controlling interest of subsidiaries	13 347	2 868
Reversal of tax non-controlling interests of subsidiaries <sup>1)</sup>	-2 936	-660
Change in tax rate <sup>1)</sup>	-	-3 263
<b>EPRA Earnings</b>	<b>7 832</b>	<b>11 266</b>

<sup>1)</sup> 22 per cent from 2020 and 22 per cent for 2019.

### EPRA NAV AND EPRA NNNAV - NET ASSET VALUE

The objective with EPRA NAV is to demonstrate the fair value of net assets given a long-term investment horizon. EPRA NAV is calculated as net asset value adjusted to include market value of all properties in the portfolio and interest-bearing debt, and to exclude certain items not expected to crystallise in a long-term investment property business model such as e.g. financial derivatives and deferred tax on the market value of investment properties.

The objective with EPRA NNNAV is to report the fair value of net assets in the Group on the basis that these are immediately realised. EPRA NNNAV is EPRA NAV adjusted to reflect the fair value of debt and derivatives and in order to include deferred tax on value changes

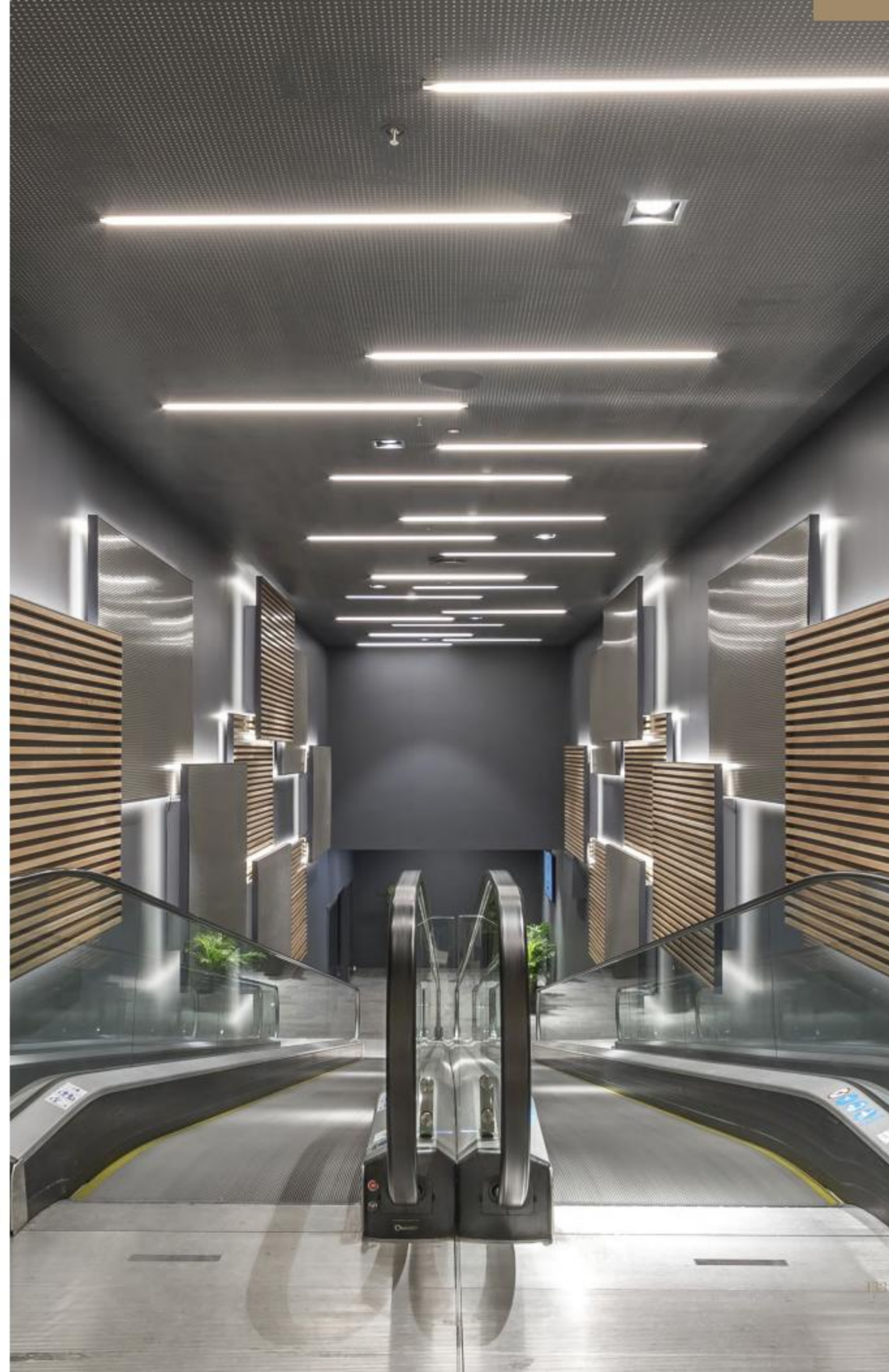
All amounts in NOK thousand

	2019	2018
NAV - book value of equity	778 131	494 493
Less: Non-controlling interest	-64 663	-47 358
Deferred property tax	79 395	58 974
Fair value of financial derivative instruments	9 196	8 888
<b>EPRA NAV</b>	<b>802 060</b>	<b>514 997</b>
Market value on property portfolio	2 409 000	1 731 500
Tax value on property portfolio	1 455 350	1 069 560
<b>Basis for calculation of tax on gain on sale</b>	<b>953 650</b>	<b>661 940</b>
Less: Market value of tax on gain on sale (5 per cent tax rate)	47 683	33 097
Net market value on financial derivatives	11 789	11 394
Tax expense on realised financial derivatives <sup>1)</sup>	-2 594	-2 507
Less: Net result from realisation of financial derivatives	9 196	8 887
Book value of interest bearing debt	1 581 274	1 123 762
Nominal value of interest bearing debt	1 581 274	1 123 762
<b>Basis for calculation of tax on realisation of interest bearing deb</b>	<b>-</b>	<b>-</b>
Less: Market value of tax on realisation	-	-
<b>EPRA NNNAV</b>	<b>745 182</b>	<b>473 013</b>

<sup>1)</sup> 22 per cent from 2020 and 22 per cent for 2019.

## DEFINITIONS

Annual rent	The contractual annual rent from the properties of the Group including forward starting contracts and excluding any market contribution.
Cash earnings	Result from property management less net realised financial and payable tax.
Contractual rent	Annual cash rental income being received as of relevant date.
EPRA Earnings	Net income after tax excluding value changes on investment properties, unrealised changes in the market value of financial derivatives and gains/losses on the sale of properties and their associated tax effects. EPRA earnings are intended to give an indication of the underlying development in the property portfolio.
EPRA NAV	Net asset value adjusted to include market value of all properties in the portfolio and interest-bearing debt, and to exclude certain items not expected to crystallise in a long-term investment property business model such as e.g. financial derivatives and deferred tax on the market value of investment properties. The objective with EPRA NAV is to demonstrate the fair value of net assets given a long-term investment horizon.
EPRA NNNAV	EPRA NNNAV is EPRA NAV adjusted to reflect the fair value of debt and derivatives and in order to include deferred tax on value changes. The objective with EPRA NNNAV is to report the fair value of net assets in the Group on the basis that these are immediately realised.
Loan-to-value ("LTV")	Net nominal value of interest-bearing liabilities divided by the market value of the property portfolio.
Management properties	Properties that are actively managed by the company.
Market rent	The annualised market rent of the management properties, fully let as of the relevant date, expressed as the average of market rents estimated by the independent professionally qualified valuers.
Market value of property portfolio	The market value of all the properties owned by the parent company and subsidiaries, regardless of their classification for accounting purposes.
Net yield	Net rent divided by the market value of the management properties of the Group.
Project properties	Properties where it has been decided to start construction of a new building and/or renovation.
Interest Coverage Ratio ("ICR")	Net income from property management excluding depreciation and amortisation for the Group, divided by net interest on interest-bearing nominal debt and fees and commitment fees related to investment activities.
Total area	Total area including the area of management properties, project properties and land / development properties.
WAULT	Weighted Average Unexpired Lease Term measured as the remaining contractual rent amounts of the current lease contracts of the management properties of the Group.



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