

# Q1

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REPORT 2018

## **Highlights of the Q1 2018 report**

- Total revenue in the first quarter of 2018 was MNOK 69.7, compared to MNOK 61.4 in the first quarter of 2017. The increase is due to the acquisition of new properties during 2017, the majority in Finland.
- Operating profit (EBIT) in the quarter was MNOK 61.7 and pre-tax profit was MNOK 27.8, compared to MNOK 53.9 and MNOK 24.3 in the first quarter of 2017.
- At the end of the quarter PPG executed the quarterly dividend to holders of preference shares in total NOK 1.875 per preference share.
- At the end of the quarter PPG had total assets of MNOK 5,121, where Investment Properties were valued at MNOK 4,952, and with a cash balance of MNOK 153. Total debt was MNOK 3,166 with total equity of MNOK 1,955. Investment Properties increased in the quarter due to the acquisition of nine new properties in Finland.

## **Background and strategy**

Pioneer Property Group ASA (PPG) is a real estate company focusing on providing high-quality properties for government-backed care-services. The company's current portfolio consists of 162 properties centrally located in the large cities in Norway, Sweden and Finland. The total portfolio houses a total of over fourteen thousand children. The properties are leased out on long-term triple-net contracts to leading kindergarten operators, including Norlandia Care Group, Espira and Touhula.

The company's property portfolio is a result of the acquisition from several independent preschool operators, again driven by these companies' wish to free-up resources and capital to be able to provide the highest quality possible in their primary focus area – preschool operations. Pioneer Property's kindergartens have during the later years played an important role in the improvement of the Norwegian preschool market, through improved capacity, quality and cost-efficiency.

Going forward the company's strategy is to expand its reach into care-services property with similar characteristics as the Norwegian kindergarten market – i.e. long term contracts with solid operators, again backed by government financing, or lease properties directly to municipalities looking for a solid private real estate partner. PPG's kindergartens are well located in central areas, including Stavanger, Bergen, Kristiansand, Gothenburg, Helsinki, and the greater Oslo area.

## **Key material events during the quarter**

During the quarter, existing operations experienced a stable operating quarter. The company closed the acquisition of nine new properties, held in owner companies, in Finland for a total acquisition price of MEUR 25.7, which will increase annual revenues by MEUR 1.6 on a full-year basis.

## **Subsequent events since the end of the quarter**

No material events have occurred since the end of the quarter.

## **Overview of the financial accounts for the first quarter of 2018**

Total revenue in the first quarter of 2018 was MNOK 69.7, compared to MNOK 61.4 in the first quarter of 2017. The increase is due to the acquisition of new properties during 2017, the majority in Finland. The newly acquired properties add annual revenues of approx. MEUR 1.6 and are included in PPGs financial accounts from the end of March, with full revenue effect from the upcoming second quarter.

Operating profit (EBIT) in the quarter was MNOK 61.7 and pre-tax profit was MNOK 27.8, compared to MNOK 53.9 and MNOK 24.3 in the first quarter of 2017. Operating costs in the quarter were higher than normal due to the periodization of certain accounting and auditing costs.

At the end of the quarter PPG executed the quarterly dividend to holders of preference shares in total NOK 1.875 per preference share.

At the end of the quarter PPG had total assets of MNOK 5,121, where Investment Properties were valued at MNOK 4,952, and with a cash balance of MNOK 153. Total debt was MNOK 3,166 with total equity of MNOK 1,955. Investment Properties increased in the quarter due to the acquisition of nine new properties in Finland for a total of MEUR 25.7. The Company has completed its quarterly review of the Investment Properties value and has concluded that no material events occurred in the first quarter which should have impacted the valuation levels, and as such has not made adjustments to valuations since the last update from 31 December 2017.

**Accounting policies:**

The financial statements have been drawn up in accordance with International Standards for Financial Reporting (IFRS). The consolidated accounts for the quarter were compiled in accordance with IAS 34 - Interim Financial Reporting. This financial report is an update since the last published report, which is the annual report of 2017, and is therefore intended to be read in conjunction with the annual report of 2017.

**Responsibility Statement of the Board of Directors**

We confirm, to the best of our knowledge, that the set of financial statements for the period ending 31 March 2018 have been prepared in accordance with IFRS and gives a true and fair view of the Group's assets, liabilities, financial position and profit or loss as a whole.

We also confirm, to the best of our knowledge, that the interim management report includes a fair review of important events that have occurred during the financial period and their impact on the set of financial statements, a description of the principal risks and uncertainties, and major related parties' transactions.

29 May 2018

Roger Adolfsen  
Chairman

Sandra Henriette Riise Board Member	Geir Hjort Board Member
Even Carlsen Board Member	Nina Hjørdis Torp Høisæter Board Member

## Consolidated Income Statement - Pioneer Property Group ASA

NOK thousand	Note	Q1 18	YTD 2017	Q1 17	Q2 17	Q3 17	Q4 17
Income from rent	2 18	69,723	255,531	60,333	61,593	66,043	67,563
Other income	2	14	175	1,097	14	14	-951
<b>Total Income</b>		<b>69,737</b>	<b>255,706</b>	<b>61,431</b>	<b>61,607</b>	<b>66,057</b>	<b>66,612</b>
Expenses related to property	8						
Payroll expenses	15	-	428	90	113	113	113
Other operating expenses	8	8,067	29,129	7,446	6,601	7,655	7,427
<b>Total Expenses</b>		<b>8,067</b>	<b>29,557</b>	<b>7,537</b>	<b>6,714</b>	<b>7,768</b>	<b>7,539</b>
Fair value adjustment, properties	12	-	198,325	-	-	-	198,325
<b>Operating profit (EBIT)</b>		<b>61,670</b>	<b>424,474</b>	<b>53,894</b>	<b>54,893</b>	<b>58,289</b>	<b>257,397</b>
Finance income	13	21	1,767	1,424	741	550	-948
Finance expenses	13	29,473	114,144	29,354	29,320	29,089	26,381
Other financial expenses	13			-	-	-	-
Currency	13	4,372	-12,619	1,615	11,662	-3,187	-22,709
<b>Net Finance</b>		<b>-33,824</b>	<b>-99,758</b>	<b>-29,545</b>	<b>-40,242</b>	<b>-25,351</b>	<b>-4,620</b>
<b>Profit/(loss) before tax</b>		<b>27,846</b>	<b>324,716</b>	<b>24,348</b>	<b>14,652</b>	<b>32,938</b>	<b>252,778</b>
Income taxes	10	6,404	85,646	5,844	3,516	7,905	68,381
<b>Profit/(loss) for the period</b>		<b>21,441</b>	<b>239,069</b>	<b>18,505</b>	<b>11,135</b>	<b>25,033</b>	<b>184,396</b>
Other comprehensive income							
Exchange differences, from foreign operations		-2,008	533				
<b>Total comprehensive income</b>		<b>19,433</b>	<b>239,602</b>	<b>18,505</b>	<b>11,135</b>	<b>25,033</b>	<b>184,396</b>

## Consolidated Statement of Comprehensive Income - Pioneer Property Group ASA

NOK thousand	Note	Q1 18	YTD 2017	Q1 17	Q2 17	Q3 17	Q4 17
<b>Profit/(loss) for the period</b>		<b>19,433</b>	<b>239,069</b>	<b>18,505</b>	<b>11,135</b>	<b>25,033</b>	<b>184,396</b>
Total other income, net of tax		-	-	-	-	-	-
<b>Comprehensive income for the period</b>		<b>19,433</b>	<b>239,602</b>	<b>18,505</b>	<b>11,135</b>	<b>25,033</b>	<b>184,396</b>
<b>Profit or loss for the period attributable to</b>							
All shareholders of PPG ASA		19,433	190,852	18,505	11,135	25,033	135,646
<b>Comprehensive income for the period attributable to</b>							
Ordinary shareholders of PPG ASA		7,246	142,102	6,317	-1,052	12,845	123,459
<b>Earnings per share (NOK)</b>							
Basic earnings per preference share	6	1.88	1.88	1.88	1.88	1.88	1.88
Basic earnings per ordinary share	6	0.738	14.479	0.644	-0.107	1.309	12.579
Dividend per preference share	6	1.88	1.88	1.88	1.88	1.88	1.88
Dividend per ordinary share	6				5.00		

**Consolidated Statement of Financial Position - Pioneer Property Group ASA**

<b>NOK thousands</b>	<b>Note</b>	<b>31-03-18</b>	<b>31-12-17</b>
<b>Assets</b>			
Investment property	12	4,952,356	4,722,894
Other investment			8,885
Fixed assets		8,707	
Other non-current assets		1,000	1,000
<b>Total non-current assets</b>		<b>4,962,063</b>	<b>4,732,780</b>
Trade and other receivables	16	5,510	1,938
Cash and cash equivalents	7	153,374	138,815
<b>Total current assets</b>		<b>158,884</b>	<b>140,752</b>
<b>Total assets</b>		<b>5,120,946</b>	<b>4,873,532</b>
<b>Equity and liabilities</b>			
Share capital	17	16,314	16,314
Share premium	17	1,487,326	1,487,326
Retained earnings		451,151	419,483
Non-Controlling interest			2,484
<b>Total equity</b>		<b>1,954,791</b>	<b>1,925,607</b>
Borrowings	9	2,625,666	2,637,759
Deferred tax	10	160,464	170,215
Other non-current liabilities		1,166	1,216
<b>Total non-current liabilities</b>		<b>2,787,296</b>	<b>2,809,190</b>
Borrowings	9	327,831	69,490
Current tax payable	10	22,222	20,731
Other current liabilities		28,807	48,515
<b>Total current liabilities</b>		<b>378,860</b>	<b>138,735</b>
<b>Total liabilities</b>		<b>3,166,155</b>	<b>2,947,925</b>
<b>Total equity and liabilities</b>		<b>5,120,946</b>	<b>4,873,532</b>

**Consolidated Statement of Changes in Equity - Pioneer Property Group ASA**

<b>NOK thousands</b>	<b>Attributable to owners of the parent</b>			
	<b>Share capital</b>	<b>Share premium</b>	<b>Retained earnings</b>	<b>Total Equity</b>
<b>Balance at 1 January 2017</b>	16,314	1,548,586	230,224	<b>1,795,124</b>
Profit/(loss) for the period			250,506	<b>250,506</b>
Exchange differences from foreign operations			533	<b>533</b>
Other changes			(795)	<b>(795)</b>
Proposed dividends			0	<b>0</b>
Other comprehensive income for the period			0	<b>0</b>
Total comprehensive income for the period	0	0	250,243	<b>250,243</b>
Reduction of share capital				0
Dividend		(61,260)	(48,750)	<b>(110,010)</b>
Transactions with owners		(61,260)	(48,750)	<b>(110,010)</b>
<b>Balance at 31 December 2017</b>	<b>16,314</b>	<b>1,487,326</b>	<b>431,717</b>	<b>1,935,357</b>
Other changes			0	<b>0</b>
Profit/(loss) for the period			21,441	<b>21,441</b>
Exchange differences from foreign operations			(2,008)	<b>(2,008)</b>
Other changes				<b>0</b>
Total comprehensive income for the period		0	19,433	<b>19,433</b>
 <b>Balance at 31 March 2018</b>	<b>16,314</b>	<b>1,487,326</b>	<b>451,151</b>	<b>1,954,791</b>

**Consolidated Statement of Cash Flows - Pioneer Property Group ASA**

<b>NOK thousands</b>	<b>Note</b>	<b>Q1 18</b>	<b>2017</b>
Cash flows from operating activities:			
Profit before income tax		27,846	324,716
<i>Adjustments for:</i>			
Fair value adjustments on investment property		-	-198,325
Finance expense net		29,452	114,144
Taxes paid		-3,297	-7,891
Profit/loss on sale of fixed assets			
Changes in working capital:			
Trade receivables	16	-24	-163
Trade payables		-7,520	13,633
Other accruals		-4,183	702
<b>Cash generated from operations</b>		<b>42,274</b>	<b>246,816</b>
Interest received			
Interest paid		-29,452	-114,144
Income tax paid		-	-
<b>Net cash generated from operating activities</b>		<b>12,822</b>	<b>132,672</b>
Cash flows from investing activities:			
Proceeds from sale of properties			
Purchase of property	12	-232,273	-431,788
Purchase of net other asset			-8,885
Other long term receivables			
Proceeds from sale of shares and bonds			
<b>Net cash used in investing activities</b>		<b>-232,273</b>	<b>-440,673</b>
Cash flows from financing activities:			
Proceeds from debt to financial institutions	9	273,071	262,252
Repayments of debt to financial institutions	9	-26,873	-67,347
Dividends paid to owners of the parent	6	-12,188	-97,822
<b>Net cash from financing activities</b>		<b>234,010</b>	<b>97,083</b>
<b>Net change in cash and cash equivalents</b>		<b>14,559</b>	<b>-210,919</b>
Cash and cash equivalents at beginning of period	7	138,815	349,733
Exchange gains/(losses) on cash and cash equivalents			
<b>Cash and cash equivalents at period end</b>	<b>7</b>	<b>153,374</b>	<b>138,815</b>

## Notes to the Financial Statements - Pioneer Property Group ASA

### Note 1: Accounting Principles

#### 1.1 General information

Pioneer Property Group ASA (the 'Company') and its subsidiaries (together, the 'Group') invests in kindergarten, preschool properties and retirement homes and rent the properties out on long term leases. The Group holds investment properties in Norway, Sweden and Finland.

Pioneer Property Group ASA is a public limited company incorporated and domiciled in Norway. The address of the Company's registered office is Rådhusgata 23, 0158 Oslo.

The Company was incorporated 5 January 2015. The Group was formed 12 May 2015 after the acquisitions of Pioneer Public Properties I AS, Pioneer Public Properties II AS, Pioneer Public Properties III AS and Pioneer Public Properties IV AS. In 2016 an additional subsidiary, Pioneer Public Properties V AS, was established. In 2017 Pioneer Public Properties IV AS was merged with Pioneer Public Properties I AS. See note 11 for changes in group structure for the reporting period.

The consolidated interim financial statements covers the period from 1 January 2018 to 31 March 2018.

#### 1.2 Accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated quarterly reports quarter are prepared in accordance with IAS 34 Interim Financial Reporting.

The first quarter report represents an update on new circumstances arising after the annual report of 2017 and is therefore intended to be read in connection with this report.

The first quarter report has not been audited.

### Note 2: Financial Risk

#### 2.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the

unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by management under guidance by the Board of Directors. Management identifies, evaluates and acts upon financial risks.

##### a) Market risk

Market risk is the risk that future cash flows in the form of interest payments change as a result of changes in market interest rates. Management and the Board of Directors agree on an acceptable level of interest rate exposures, which are monitored continuously by management. The level of interest rate exposure is determined based on an assessment of existing cash flows, general assessment of financial condition and available liquidity.

##### (i) Fair value interest rate risk

The Group holds interest bearing assets in terms of cash deposits. Fluctuations in interest would yield a higher or lower interest income. At the current level of cash deposits a change in interest rate of +/- 1 % would not be material for the financial statements.

The Group's interest rate risk arises from long-term borrowings. The Group holds several types of borrowings. Borrowings at fixed rates expose the Group to fair value interest rate risk.

##### (ii) Cash flow interest rate risk

Exposure to cash flow interest rate risk is assessed continuously. The need for a fixed rate is under constant review in relation to the Group to withstand adverse fluctuations in profit due to higher interest rates. Management's assessment is that the Group's current financial position does not indicate a further need for fixed interest rates.

If the interest rate had been +/- 1 % in Q1 2018 the result after tax would be +/- MNOK 7 million, all other conditions unchanged and assuming a floating interest rate on 100% of the Company's borrowings.

##### b) Credit risk

Credit risk is the risk of loss when a party is unable to redeem their obligations to the Group, and credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, and credit exposures customers, including outstanding receivables and committed transactions. Management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on ratings. The utilization of credit limits is monitored regularly.

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

Exposure to credit risk at the end of the period:	31-03-18	31-12-17
Accounts receivable	769	745
Other Short term receivable	4,741	1,192
Cash balance	153,374	138,815
<b>Total exposure</b>	<b>158,884</b>	<b>140,752</b>

The credit risk related to outstanding to related parties and banks is considered to be low.

#### c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its obligations at maturity without incurring a significant increase in finance cost or not being able to meet its obligations at all. The risk also includes that the Group must forfeit investment opportunities. Cash flow forecasting is performed at Group level. Group management monitors the Group's liquidity requirements to ensure that it has sufficient cash to meet operational needs while maintaining sufficient headroom to avoid breaches in covenants on relevant borrowing facilities as well as capability to pay out quarterly dividends to holders of preference shares. The monitoring takes into account the Group's debt financing plans and covenant compliance.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows:

Maturity of financial liabilities at the end of the period:	31-03-18				
	<3mths	3m-1y	1y-2y	2y-5y	>5y
Borrowings (bank)	16,111	311,720	77,560	979,363	577,649
Interest on borrowings (bank)	15,412	45,387	46,916	128,832	129,493
Bond loans	-	-	-	1,000,000	-
Interest on bond loans	15,600	46,800	62,400	85,800	-
Other liabilities	28,807	1,166			

#### d) Currency risk

Currency risk is a financial risk that exists when a financial transaction is denominated in a currency other than that of the base currency of the company. Currency risk also exists when the foreign subsidiary of a firm maintains financial statements in a currency other than the reporting currency of the consolidated entity. The risk is that there may be an adverse movement in the exchange rate of the denomination currency in relation to the base currency before the date when the transaction is completed.

As the Group has subsidiaries in Sweden and Finland where the currencies are SEK and EUR, respectively, the company is exposed to currency risk as the Group's consolidated financial statements are reported in NOK.

#### 2.2 Capital management

The group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders holding ordinary shares, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

Gearing ratio at the end of the period	31-03-18	31-12-17
Total borrowings	2,953,497	2,707,249
Less: Cash and cash equivalents	153,374	138,815
Net debt	2,800,123	2,568,434
Total equity	1,954,791	1,925,607
<b>Total capital</b>	<b>4,754,913</b>	<b>4,494,041</b>
Gearing ratio	59%	57%

#### Note 3: Segment Summary

The Group's business is to own and manage investment properties in Norway, Sweden and Finland and rent them out to operators of pre-schools. There is no material difference in risk and margins in the different investment properties. The Group is therefore considered to operate in one business area and in three geographical areas

The Group have seven customers: Norlandia Barnehagene, Kidsa Barnehager, Espira Barnehagene, Suomen Tenava Päiväkodit, Norlandia Förskolor, Touhula and Casparssons Vårdhem. A geographical split of revenues for the quarter is as follows:

NOK thousand	Norway	Sweden	Finland	Group
Income from rent	57,445	777	11,501	69,723
Other income	14	-	-	14
<b>Total Income</b>	<b>57,460</b>	<b>777</b>	<b>11,501</b>	<b>69,737</b>

#### Note 4: Critical accounting estimates and judgement

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of items in the statement of financial position within the next financial year are addressed below.

##### a) Fair value of Investment Properties.

The fair value of investment Properties is assessed quarterly by management. The Investment Properties are also on a regular basis subject to on-site inspections and technical evaluations. At the end of year 2017 a valuation report was commissioned from Newsec and the fair value was adjusted in the fourth quarter based on the new aggregate market value of the investment properties from this report. In the first quarter the Company has internally assed the valuation of Investment Properties and has not seen any material market developments which would justify any change to the input factors of the valuation, therefore leaving Investment Properties unchanged from Q4 2017.

#### Note 5: Contingencies and commitments

The group has no contingent liabilities or commitments as of 31 March 2018.

#### Note 6: Earnings per share

##### a) Basic

The Group's preference shares are entitled to a fixed dividend of NOK 7.50 per annum, if the General Assembly approves payment of dividends. To calculate the earnings per share the entitled dividend to the preference shares is deducted from comprehensive income for the period. The earnings per ordinary share is the remaining comprehensive income deducted the preference share dividend divided by the

weighted average number of shares in issue during the period.

Calculation of earnings per share for the period	31-03-18	31-03-17
Net profit	19,433,409	18,504,783
Less pref share dividends	-12,187,500	-12,187,500
Profit attributable to ord shares	7,245,909	6,317,283
Weighted avg ord shares	9,814,470	9,814,470
EPS to ord shares	0.74	0.64

##### b) Diluted

As per 31 March 2018 no rights are issued which cause diluted earnings per share to be different to basic earnings per share.

Refer to note 17 for information related to the classes of shares.

#### Note 7: Cash and cash equivalents

Cash and cash equivalents	31-03-18	31-12-17
Bank deposits	153,374	138,815
<b>Total</b>	<b>153,374</b>	<b>138,815</b>

There are no restricted funds at the end of the period.

#### Note 8: Expenses

Specification of other operating expenses	31-03-18	31-03-17
Management fee	4,061	3,487
Other operating expenses	4,006	3,959
<b>Total other operating expenses</b>	<b>8,067</b>	<b>7,446</b>

#### Note 9: Borrowings

Interest-bearing liabilities and available cash and cash equivalents constitute the capital of the Group. The Group's main source of financing are bank loans, bond loans in the Norwegian bond market and shareholder loans. Summary of external bank- and bond loans by tranche as of 31 March 2018:

NOK thousand	31-03-18	31-12-17
<b>Non-current</b>		
Commercial bank loans	626,669	876,657
Husbanks loans (state bank)	1,007,902	770,693
Bonds in Pioneer Public Properties AS	991,094	990,409
<b>Total</b>	<b>2,625,665</b>	<b>2,637,759</b>
 <b>Current</b>	 43,190	 43,100
Commercial bank loans	274,635	36,479
Husbanks loans (state bank)	53,196	33,011
Bonds in Pioneer Public Properties AS	-	-
<b>Total</b>	<b>327,831</b>	<b>69,490</b>
 <b>NOK thousand</b>	 43,190	 43,100
<b>Total non-current and current</b>		
Commercial bank loans	901,304	913,136
Husbanks loans (state bank)	1,061,098	803,704
Bonds in Pioneer Public Properties AS	991,094	990,409
<b>Total</b>	<b>2,953,496</b>	<b>2,707,249</b>

##### a) Bank borrowings

The Group's major bank loans are with Husbanken, DnB, Swedbank, Pareto Bank and Danske Bank. The bank borrowings mature until 2035. Of the total bank borrowings per 31 March 2018 MNOK 1,653 is on a fixed rate and the remaining debt is on floating rates.

b) Bond loans

The Group has one issued bond:

Pioneer Public Property (ticker PPU01) at Oslo Børs amounting to NOK 1,000 million with maturity in May 2021. The bond is a senior secured callable bullet bond with voluntary redemption at specified premiums up until maturity. Summary of bond loans:

Bonds	Book value	Marked value	Coupon	Term
	31-03-18	31-03-18		
PPP	1,000,000	1,000,000	IOR + 5,25 %	2016/2021
Transaction costs	-13,701			
Amortization	4,795			
<b>Total bond</b>	<b>991,094</b>	<b>1,000,000</b>		
Whereof current	-	-		

The PPU01 bond agreement has certain limitations on the borrower, including: (i) maintain an equity of minimum 25% on a consolidated basis for the PPP-group. (ii) Maintain cash and cash equivalents of min MNOK 75, and (iii) maintain a minimum ratio between unsecured debt to total financial indebtedness of 30%.

The recognized value of assets pledged as security for bank borrowings as per 31 March 2018:

	31-03-18	31-12-17
Investment property	4,952,356	4,722,894
<b>Total pledged assets</b>	<b>4,952,356</b>	<b>4,722,894</b>

**Note 10: Income Tax**

Income tax expense is recognized based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year to date 31 March 2018 income tax expense is 23%.

**Note 11: Changes in Group structure, acquisitions**

The following subsidiaries were purchased in the first quarter of 2018

Company	Location	Percent
Päiväkotikiinteistö Palometsä Salo Oy	Finland	100%
Päiväkotikiinteistö Haravakatu Joensuu Oy	Finland	100%
Päiväkotikiinteistö Taasjärvi Sipo Oy	Finland	100%
Päiväkotikiinteistö Kurkiaura Järvenpää Oy	Finland	100%
Päiväkotikiinteistö Sodankylän Kirkko Oy	Finland	100%
Shares 63654-71590 in As Oy Lipporanta Virta	Finland	100%
Palvelutalo Cor Mikkeli Oy	Finland	100%

**Note 12: Investment Property**

**Valuation**

The Group rents out the investment properties on long term triple net contracts, with an exception on the properties leased to Espira, one of the Group's four main customers. On average, there are 15 years remaining on the lease agreements. All agreements are fully CPI-adjusted annually. The Group does not have any material future maintenance capital expenditure on properties as all maintenance is carried by the tenant as agreed upon in the lease agreements. The properties are primarily located in the greater Oslo area, Bergen, the greater Stavanger area, Bodø, Tromsø, and certain locations in Sweden and Finland. See the Company's web site for a full list and map of all the properties. The investment properties are valued in accordance with the fair value method and all have been valued in accordance with valuation Level 3. The yield level of the properties has been determined on the basis of their unique risk and transactions made at the respective location according to the location price method. At the end of 2017, PPG commissioned an external cash-flow valuation for all the individual properties from Newsec. Newsec has in this report valued each property on an individual basis using a combination of discounted cash-flow analysis and property yield level. The prime-yield used as a benchmark for individual yield assumptions in Newsec's analysis was 5.00%, and a number of individual factors for each property were applied to assess

the individual yield for the respective property/location. During the first quarter the Company has performed its internal review of the valuation levels and has not experienced or seen any developments that should have a material impact on the total valuation levels of the properties, thus leaving valuation levels unchanged during the quarter.

#### Sensitivity analysis

A property analysis is an estimate of the value that an investor is willing to pay for the property at a given time. The valuation is made on the basis of generally accepted models and certain assumptions on different parameters. The market value of the properties can only reliably be established in a transaction between two independent parties. An uncertainty interval is stated in the property values and is between  $+/- 5$  per cent in a normal market. A changed property value of  $+/- 5$  per cent affects the Group's property value by  $+/-$  NOK 247 million. If yield is changed by 1 per cent the book value of the properties change with MNOK -990, and with -0,5 MNOK 495. If the rent changed by  $+/- 5$  per cent value of the properties change with MNOK 247.

#### Note 13: Net financial items

NOK thousands	31-03-18	31-03-17
Interest income	21	1,424
Currency	4,372	1,615
Interest expense	29,473	29,354
Net financial items	33,824	29,545

#### Note 14: Related-party transactions

The Group had the following material transactions with related parties in the period:

Transactions with related parties	31-03-18	2017
Rent revenue from Norlandia Care Group AS including subsidiaries	18,475	70,550
Rent revenue from Kidsa Drift including subsidiaries	10,347	40,881
Management fee to Pioneer Capital Partners AS including subsidiaries	4,061	14,974
Purchase of shares from related parties (refer to note 11)	-	-

Other transactions made between the related parties are made on terms equivalent to those that prevail in the market at arms length

#### Note 15: Payroll

The company does not have any employees. Refer to Note 8 for information regarding management fee to Pioneer Management AS, a fully owned subsidiary of Pioneer Capital Partners AS. The Board of Directors receives an annual

compensation based on the total number of board-meetings attended during the year.

#### Note 16: Trade receivables

	31-03-18	31-12-17
Trade Receivables	769	745
Other Receivables	4,741	1,192
Total Receivables	5,510	1,937

None of the receivables are due.

#### Note 17: Share capital and shareholder information

million	Ordinary shares	Preference shares
At 31 March 2018	9.81	6.50

The Company has two classes of shares - ordinary shares and preference shares. The face value per share for both ordinary and preference shares classes is NOK 1.

#### About the shares

The differences between the share classes are differing voting rights and differing rights to the Company's profit. Besides voting rights, the difference between the Company's share classes is that the preference shares entail a preferential right to the Company's profit through a preferential right over ordinary shares to dividends. The regulations on voting rights and dividends are decided upon by the Shareholders' Meeting and can be found in the Articles of Association.

#### The ordinary share

The Company's ordinary share confers one vote unlike the preference shares that confer one-tenth of a vote.

#### The preference share

The Company's preference shares confer a preferential right over ordinary shares to an annual dividend of NOK 7.50 per preference share. Dividend payments are made quarterly with NOK 1.875 per preference share, if approved by the General Assembly. The preference share does not otherwise confer a right to dividend. If the general meeting decided not to pay dividends or to pay dividends that fall below NOK 1.875 per preference share during a quarter, the difference between paid dividends

<b>Top 10 shareholder 31.03.18</b>	<b>Ord shares</b>	<b>Pref shars</b>
Hospitality Invest AS	32.62%	0.00%
HI Capital AS	2.34%	0.00%
Eidissen Consult AS	18.07%	11.98%
Grafo AS	18.07%	5.02%
Klevenstern AS	14.45%	1.63%
Mecca Invest AS	14.45%	1.78%
Avanza Bank AB	0.00%	9.43%
Skandinaviska Enskilda bank AB	0.00%	7.68%
J.P. Morgan bank Luxembourg SA	0.00%	3.39%
J.P. Morgan bank Luxembourg SA	0.00%	3.32%
Other minority shareholders	0.00%	55.77%
<b>Total</b>	<b>100%</b>	<b>100%</b>

### **Note 18: Operational leases**

Properties are leased out on long term triple-net or double-net contracts to solid pre-school operators (Espira, Norlandia

Preschools and Kilda Drift, Norlandia förskolor) of which all have lease guarantees from Norlandia Care Group.

Future payments under non-cancellable operating leases are as follows in nominal amounts excluding CPI adjustments

	<b>31-03-18</b>	<b>31-12-17</b>
Within 1 year	299,261	273,307
Between 1 and 5 years	1,258,106	1,148,992
After 5 years	3,223,013	3,304,107

### **Note 19: Subsequent events**

No material subsequent events have occurred since the end of the quarter.

## **PIONEER PUBLIC PROPERTIES AS**

### **Background**

The Pioneer Public Properties AS (PPP) group of companies was established towards the end of 2015 and comprise all the operational companies in Pioneer Property Group ASA. The reason for establishing this subset group of companies was in preparation for the issuance of the PPP unsecured bond of MNOK 1,000, which was issued in the third quarter of 2016. The financial statements of Pioneer Public Properties AS are therefore very closely related to the financial statements of Pioneer Property Group ASA, with the key difference being the exclusion of the mother company of the PPG group. All operational discussions will be identical for the two groups, and discussions of financial accounts will be similar, with a few exceptions. The comments below are to be read in conjunction with the report for the PPG Group, as also presented in this document.

### **Discussion of the financial accounts for the first quarter of 2018**

Total revenues in the quarter were MNOK 69.7, compared to MNOK 61.4 in the first quarter of 2017. The increase is due to the acquisition of new properties during 2017, the majority in Finland.

Operating profit (EBIT) in the quarter was MNOK 62.1 and pre-tax profit was MNOK 26.3, compared to MNOK 54.9 and MNOK 24.5 in the first quarter of 2017, respectively.

At the end of the quarter PPP had total assets of MNOK 5,102, where Investment Properties were valued at MNOK 4,952, and with a cash balance of MNOK 135. Total debt was MNOK 3,260 with total equity of MNOK 1,842.

The financial statements have been drawn up in accordance with International Standards for Financial Reporting (IFRS).

### **Responsibility Statement of the Board of Directors**

We confirm, to the best of our knowledge, that the set of financial statements for the period ending 31 March 2018 have been prepared in accordance with IFRS, and gives a true and fair view of the Group's assets, liabilities, financial position and profit or loss as a whole.

We also confirm, to the best of our knowledge, that the interim report includes a fair review of important events that have occurred during the financial period and their impact on the set of financial statements, a description of the principal risks and uncertainties, and major related parties' transactions.

29 May 2018

Runar Rønningen  
Chairman

Roger Adolfsen  
Board Member

## Consolidated Income Statement – Pioneer Public Properties AS

NOK thousand	Q1 2018	Q1 2017	Q2 2017	Q3 2017	Q4 2017	YTD 2017
Income from rent	69,723	60,333	61,593	66,043	67,562	255,531
Other income	14	1,097	14	14	-950	176
<b>Total Income</b>	<b>69,737</b>	<b>61,431</b>	<b>61,607</b>	<b>66,057</b>	<b>66,612</b>	<b>255,707</b>
Payroll expenses						
Expenses related to property						
Other operating expenses	7,580	6,553	5,802	7,597	6,965	26,917
<b>Total Expenses</b>	<b>7,580</b>	<b>6,553</b>	<b>5,802</b>	<b>7,597</b>	<b>6,965</b>	<b>26,917</b>
Fair value adjustment on investment properties	-	-	-		198,325	198,325
<b>Operating profit (EBIT)</b>	<b>62,158</b>	<b>54,877</b>	<b>55,805</b>	<b>58,460</b>	<b>257,972</b>	<b>427,115</b>
Finance income	21	1,109	538	443	-1,294	796
Finance expenses	16,140	29,862	29,837	29,983	27,473	117,154
Currency	4,580	1,615	11,759	-3,052	-22,941	-12,619
Other financial expenses	15,186		-97	-135	232	-
<b>Net Finance</b>	<b>-35,885</b>	<b>-30,367</b>	<b>-40,961</b>	<b>-26,353</b>	<b>-6,058</b>	<b>-103,739</b>
<b>Profit/(loss) before tax</b>	<b>26,272</b>	<b>24,510</b>	<b>14,844</b>	<b>32,108</b>	<b>251,915</b>	<b>323,376</b>
Income taxes	6,043	5,882	3,563	7,706	66,498	83,649
<b>Profit/(loss) for the period</b>	<b>20,229</b>	<b>18,628</b>	<b>11,281</b>	<b>24,402</b>	<b>185,416</b>	<b>239,727</b>

**Consolidated Statement of Financial Position – Pioneer Public Properties AS**

<b>NOK thousands</b>	<b>31-03-18</b>	<b>31-12-17</b>
<b>Assets</b>		
Investment property	4,952,356	4,722,894
Other investment	8,707	8,885
Loans to other companies	1,000	1,000
<b>Total non-current assets</b>	<b>4,962,063</b>	<b>4,732,780</b>
Trade and other receivables	5,510	1,600
Cash and cash equivalents	135,021	104,459
<b>Total current assets</b>	<b>140,531</b>	<b>106,059</b>
<b>Total assets</b>	<b>5,102,594</b>	<b>4,838,839</b>
<b>Equity and liabilities</b>		
Share capital	120,000	120,000
Share premium	1,264,959	1,264,959
Retained earnings	457,459	427,003
Non-controlling interest		2,484
<b>Total equity</b>	<b>1,842,418</b>	<b>1,814,445</b>
Borrowings	2,625,666	2,637,760
Deferred tax	160,464	170,215
Other non-current liabilities	92,984	90,973
<b>Total non-current liabilities</b>	<b>2,879,114</b>	<b>2,898,947</b>
Borrowings	327,831	69,490
Current tax payable	24,846	20,420
Other current liabilities	28,385	35,537
<b>Total current liabilities</b>	<b>381,062</b>	<b>125,447</b>
<b>Total liabilities</b>	<b>3,260,176</b>	<b>3,024,394</b>
<b>Total equity and liabilities</b>	<b>5,102,594</b>	<b>4,838,839</b>

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