# Norwich Property Trust

NORWICH UNION
an AVIVA company

*We just make it easier.*

Manager's Interim Short Report
For the six months ended 30 November 2007

## Trust Objective

The investment objective of the Trust is to obtain optimum returns compatible with security via income and capital appreciation primarily through investment in certain kinds of real property, property related securities, government and other public securities and units in collective investment schemes.

## Investment Approach

In order to achieve its objective the Trust will primarily invest in:–

- approved immovables which will, initially, be properties within the United Kingdom but the Manager may, in due course, consider it appropriate to invest in real property in other countries permitted by the Regulations. The Trust may invest up to 100% of its property in approved immovables but will typically invest no more than 90% of its property in this way;
- transferable securities, with an emphasis on property-related securities. The Trust may hold up to 100% of its property in transferable securities but will typically hold not more than 30% in property company shares;
- government and other public securities to the extent permitted by the Regulations; and
- units in regulated and unregulated collective investment schemes, each to the extent permitted by the Regulations.

The Trust also has maximum flexibility to invest in such other investments which the Manager deems appropriate, including money-market instruments, derivatives and forward transactions, deposits and gold, but subject always to the Regulations. Full details can be found in the prospectus.

It is the Trust's normal investment approach to hold around 10% of its assets in cash or liquid securities (e.g. listed real estate equities), however at times of significant cash inflows or outflows this figure can vary. For this reason the Trust currently has around 95% of its assets in direct real estate, rather than the broad long-run target of 90%.

## Risk Profile

Property valuations are a matter of opinion and all the properties are valued monthly by an independent valuer. Market conditions may mean certain property valuations are not easily realisable. The Trust has little exposure to credit or cash flow risk. There are no material overseas investments so there is little exposure to foreign exchange risk. The main risks it faces are interest rate risk and the risk that the value of investment holdings will fluctuate as a result of changes in market prices.

## Trust Facts

### Ex-dividend and income distribution dates

| Ex-dividend dates | | Distribution dates | |
|---|---|---|---|
| 31 May | 30 November | 31 July | 31 January |

### Total expense ratios

| | TER* | PER** |
|---|---|---|
| As at 30 November 2007 | 1.27% | 0.23% |
| As at 31 May 2007 | 1.28% | 0.12% |

* The Total Expense Ratio (TER) reflects the total of all costs associated with operating the Trust, including the Manager's annual management charge but excluding any costs included within the PER.
** The Property Expense Ratio (PER) reflects any additional costs associated with the day to day maintenance of the assets.

### Summary of Income Distributions

| Unit type | Six months ended 30 November 2007 (pence per unit) | Six months ended 30 November 2006 (pence per unit) |
|---|---|---|
| Income Units | 2.2183 | 2.2042 |
| Accumulation Units | 2.4790 | 2.4045 |

### Summary of Trust Capital Performance

| | Net Asset Value per unit as at 30 November 2007* | Net Asset Value per unit as at 31 May 2007* | Net Asset Value Percentage Change |
|---|---|---|---|
| Inc | 154.81p | 178.63p | (13.33%) |
| Acc | 173.01p | 197.24p | (12.28%) |

Inc Income units
Acc Accumulation units
* valued at bid market values

## Performance Record

| Percentage growth | 6 months |
|---|---|
| Norwich Property Trust [1] Income equivalent | (16.3%) |
| Gross return on Direct Properties only | (8.9%) |
| IPD Monthly Monitor Report [2] | (4.9%) |
| Return on share portfolio only | (31.9%) |
| FTSE All-Share Real Estate sector [3] | (28.9%) |

[1] Source: Lipper Hindsight, bid to bid, net income reinvested.
[2] Source: Investment Property databank (IPD).
[3] Source: FTSE International.

The value of an investment in the Norwich Property Trust and any income from it can go down as well as up. You may not get back the original amount invested. Past performance is not a guide to future performance.

# Comparative Tables

## Net Asset Values – Income Units

| Date | Net asset value of Trust (£'000) | Net asset value pence per unit | Number of units in issue |
|---|---|---|---|
| 31 May 2005 | 1,094,949* | 144.17 | 759,466,405 |
| 31 May 2006 | 1,670,605* | 163.31 | 1,022,951,346 |
| 31 May 2007 | 2,317,423** | 178.63 | 1,297,348,183 |
| 30 November 2007 | 1,761,144** | 154.81 | 1,137,633,610 |

* valued at mid market values
** valued at bid market values in accordance with the Statement of Recommended Practice issued in December 2005

## Net Asset Values – Accumulation Units

| Date | Net asset value of Trust (£'000) | Net asset value pence per unit | Number of units in issue |
|---|---|---|---|
| 31 May 2005 | 408,524* | 151.11 | 270,341,748 |
| 31 May 2006 | 1,059,015* | 175.94 | 601,921,193 |
| 31 May 2007 | 1,921,330** | 197.24 | 974,089,764 |
| 30 November 2007 | 1,454,473** | 173.01 | 840,698,443 |

* valued at mid market values
** valued at bid market values in accordance with the Statement of Recommended Practice issued in December 2005

## Unit Price Record – Income Units

| Calendar Year | Highest offer price (p) | Lowest bid price (p) |
|---|---|---|
| 2003 | 130.69 | 113.52 |
| 2004 | 150.01 | 123.81 |
| 2005 | 167.49 | 141.41 |
| 2006 | 194.24 | 158.32 |
| 2007* | 197.07 | 154.19 |

* up to 30 November 2007

## Unit Price Record – Accumulation Units

| Calendar Year | Highest offer price (p) | Lowest bid price (p) |
|---|---|---|
| 2003* | 132.92 | 122.24 |
| 2004 | 157.22 | 125.92 |
| 2005 | 180.37 | 148.23 |
| 2006 | 214.46 | 170.51 |
| 2007** | 218.01 | 172.31 |

* from 1 November 2003 (the date accumulation units were first offered)
** up to 30 November 2007

## Calendar Year Performance

| Total Return | Per income unit (1) | Per accumulation unit (1) |
|---|---|---|
| 2003 | 11.2% | 3.6%** |
| 2004 | 18.4% | 18.3% |
| 2005 | 14.8% | 14.7% |
| 2006 | 18.9% | 18.9% |
| 2007* | (15.1%) | (15.1%) |

* to 30 November 2007
** from 1 November 2003 (the date accumulation units were first offered)
(1) Source: Lipper Hindsight, bid to bid, net income reinvested.

## Income Record – Income Units

| Calendar Year | Net income per unit (p) | Per £1,000 invested on 1 January 2003 (£) |
|---|---|---|
| 2003 | 4.1698 | 34.39 |
| 2004 | 4.0263 | 33.21 |
| 2005 | 4.2098 | 34.72 |
| 2006 | 4.3702 | 36.04 |
| 2007 | 4.4460 | 36.67 |
| 2008* | 2.2183 | 18.30 |

* up to 31 January 2008 (the final distribution payment date)

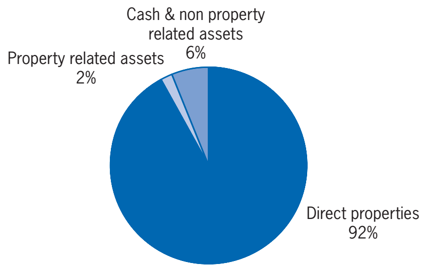
## Income Record – Accumulation Units

| Calendar Year | Net income per unit (p) | Per £1,000 invested on 1 November 2003 (£) |
|---|---|---|
| 2003* | – | – |
| 2004 | 4.0592 | 31.47 |
| 2005 | 4.3782 | 33.94 |
| 2006 | 4.6739 | 36.23 |
| 2007 | 4.8799 | 37.83 |
| 2008** | 2.4790 | 19.22 |

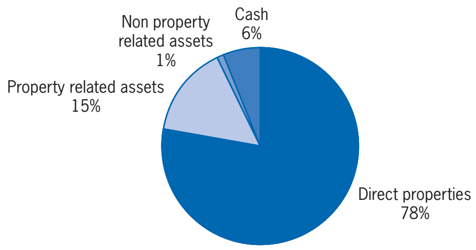
* from 1 November 2003 (the date accumulation units were first offered)
** up to 31 January 2008 (the final distribution payment date)

# Portfolio Information

## Spread of investments by asset class as at 30 November 2007




## Spread of investments by asset class as at 31 May 2007




# Top ten holdings

| Holding | % of Trust as at 30.11.07 | Holding | % of Trust as at 31.05.07 |
|---|---|---|---|
| 10 Queen Street Place, London, EC4 | 4.57 | 10 Queen Street Place, London, EC4 | 4.28 |
| 3 Hardman Square, Spinningfields, Manchester | 3.39 | British Land | 3.13 |
| Omni Centre, Edinburgh | 3.20 | 3 Hardman Square, Spinningfields, Manchester | 2.85 |
| Princes House, Jermyn Street, London, W1 | 2.71 | Omni Centre, Edinburgh | 2.53 |
| Colmore Gate, Birmingham | 2.35 | Land Securities | 2.25 |
| Broadway Plaza, Birmingham | 2.25 | Princes House, Jermyn Street, London, W1 | 2.20 |
| Guildhall Shopping Centre, Exeter | 2.24 | 16 Old Bailey, London, EC4 | 2.01 |
| 16 Old Bailey, London, EC4 | 2.21 | Colmore Gate, Birmingham | 1.91 |
| 39 Victoria Street, London, SW1 | 2.01 | Broadway Plaza, Birmingham | 1.80 |
| Lombardy Retail Park, Hayes | 1.94 | Guildhall Shopping Centre, Exeter | 1.79 |

# Fund Manager's Report

## Total performance

During the 6-month period under review, the Trust produced a total return (after the deduction of charges and non-recoverable expenses) of –16.32%[1]. The returns from the three components of the Trust (before charges and non-recoverable expenses) were as follows:

Direct property: –8.9% (Investment Property Databank (IPD) Balanced Monthly Index Funds –4.9%[2].

Property-related assets: –31.86% (FTSE-A Property Index –28.85%)[3].

Cash/money held on deposit: 2.85%.

In early July a decision was taken to switch the Trust to a "minimum bid (cancellation) price basis". Until the end of June the Trust was experiencing positive net cashflows, so for anyone redeeming units the Manager was effectively able to "sell" their holding to new investors thus being able to offer terms to exiting investors that did not reflect the costs involved with transacting in the property market. In the early days of July, however, the Trust was among several property funds which announced that they were experiencing negative cashflows and thus would be moving to a lower pricing basis which reflects the full costs of buying and selling property (including Stamp Duty, valuation and legal costs).

This approach to valuing property funds reflects standard industry practice for all unit trust funds, though the impact on property funds is greater than it would be for equity and bond funds because of the higher buying costs associated with property. We believe that it is fair and equitable to both new and exiting investors. The action taken is in line with the pricing policy.

## Fund Manager

In early July, Gerardine Davies, Fund Manager of the Norwich Property Trust, resigned to move to Aegon Asset Management, the in-house fund manager of Aegon Scottish Equitable.

Morley employs a team-based approach with a property team of over 130, including more than 90 investment professionals, demonstrating both strength and depth. This means that Morley was able to recruit internally to replace Gerardine. Philip Nell, who is now the Fund Manager, joined the company in 1999 since when he has assumed a number of roles within our property team including, most recently, running three specialist property funds including the UK's largest shopping centre fund. Philip holds a degree in Estate Management and is a Member of the Royal Institution of Chartered Surveyors. He is supported by a team of five property investment professionals.

## Trust Profile and Portfolio Review

The total assets of the Trust as at 30 November 2007 were £3,215.6m including accumulated income (£4,238.8m as at 31 May 2007). The asset split was 92.2% in direct property (135 properties), 2.0% property-related assets (17 stocks) and 5.8% in cash and non property related assets.

As at the end of November, the asset split within the direct property portfolio as compared with the IPD Balanced Monthly Index Funds benchmark (shown in brackets) was offices 41.3% (36.3%), retail 38.6% (40.0%), industrial 13.3% (20.1%) and other 6.8% (3.6%)[2].

While lower cashflows over the period have removed the pressure on acquisitions for the time being, two office properties with a combined value of just over £90m were acquired, one in Edinburgh and one in Manchester.

There were five sales of properties over the period; of office properties in Clerkenwell, Edinburgh and Bristol, a hotel in Edinburgh, and a small parade of high street retail in Lewes. All were sold at or above their most recent valuation. In addition the Trust disposed of a small piece of development land in Aberdeen.

The amount of unlet (void) accommodation as at 30 November stood at 6.9%, well below the IPD benchmark void rate of 10.1%[2].

In addition to the activity within the direct property portfolio, the Fund Manager took the decision to sell down a significant proportion of the property-related assets during the period. As at 30 November 2007, the asset split within the property-related assets portfolio was 29.6% in mid size companies and 70.4% in smaller companies.

## Economic Background for UK Real Estate

The Norwich Property Trust, in common with other UK property funds, has shown sharply lower returns of late after an extended period of exceptionally strong performance. Again in common with the rest of the market we had been expecting slowing returns for some time; something which we have commented on in previous reports. What has perhaps been less widely predicted has been the scale of recent falls in valuations of direct property in the UK; so while the slowing in returns came as no great surprise, the negative valuations, combined with an increasing amount of press coverage, have led to a significant reversal of investor sentiment, resulting in negative cashflows in turn forcing many property funds, including Norwich Property Trust, onto a cancellation price basis (the pricing basis of the Trust when cash outflows exceed cash inflows).

## So why are values in the UK falling?

In the first half of the year we saw a significant rise in bond yields and borrowing costs. This was a global phenomenon, though particularly marked in the UK and the Eurozone; UK bond yields and swap rates (in effect the cost of fixed-rate borrowing) rose by c. 1% in the first half of the year. The move up in interest rates was then compounded by the impact of the credit crunch – effectively the fall-out in global credit markets from the US sub-prime mortgage crisis – which further increased the cost of borrowing and made debt substantially harder to come by. These changes in the interest rate background have impacted dramatically on the influential debt-driven sector of the market which a year ago was in a position to borrow relatively cheaply and invest in property with the expectation of making an attractive short-term return on their investment.

As measured by the IPD (Investment Property Databank; the leading supplier of statistics on UK commercial property performance) UK Monthly Index, property gave a total return of –5.3% over the six-month period to the end of November. This compares with a return of +8.2% over the same period last year.

The direct property within the Trust fell by 8.9% (total return including income) over the period. An unusual aspect of the current valuation cycle is that there has been a low turnover of stock in the market (with few market participants), and so valuers are having to value based on perceived market sentiment, rather than empirical transactional evidence. In such a market, it is possible for valuers' opinions to become very subjective, which can lead to a variation in views across the leading valuation firms. However we are beginning to see an increase in transactional evidence as we approach the end of the year, and it is likely that this will push values down further as it becomes apparent that sellers are prepared to see below valuation prices in the expectation of further valuation falls in the near term.

This negative return has been exacerbated by sharp falls in the values of REITs/property shares held by the Trust. In last November's Report we commented on the strong return recorded by property shares in anticipation of the imminent launch in the UK of Real Estate Investment Trusts (REITs) in January 2007. Unfortunately as 2007 progressed REITs switched to anticipating declining property values and have fallen in ten out of eleven months this year.

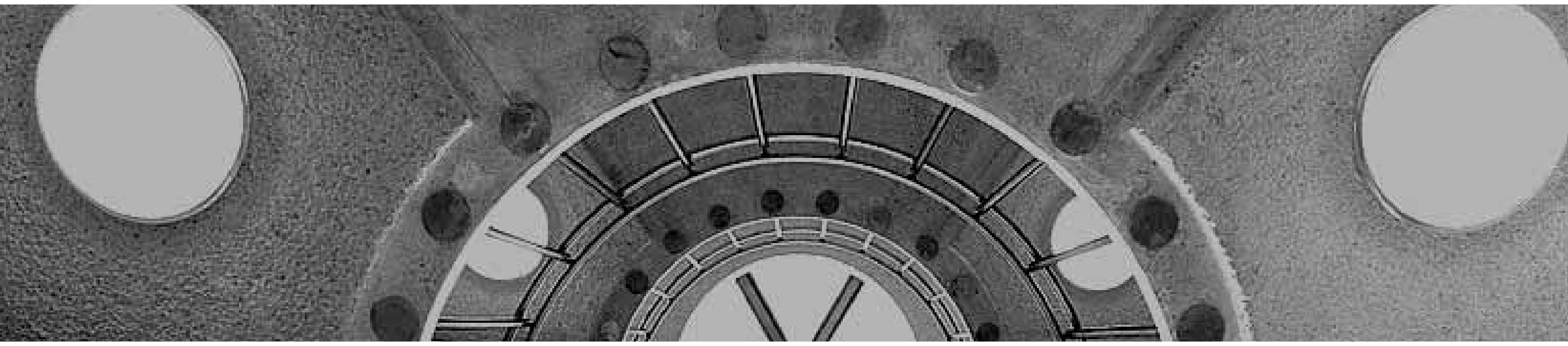
## Prospects for UK Real Estate

Prices in the UK commercial property market have now fallen by around 15% from their peak in June. Such has been the speed and magnitude of the fall that we are now seeing attractive investment opportunities emerging in the UK real estate market, while underlying occupational markets remain in a healthy state with another year of rental growth expected for 2008. We are comfortable that we are back into the position where the medium to longer term prospective returns from UK commercial property sit between equities and bonds.

Going forward we believe that the pricing of UK commercial property is starting to look attractive relative to some other asset classes, albeit there remain some shorter term sentiment driven downside risks.

*Any opinions expressed are those of the fund manager. They should not be viewed as a guarantee of return from an investment in the trust. The content of the commentary should not be viewed as a recommendation to invest.*

Notes:
[1] Source: Lipper Hindsight (unit price, bid to bid, net income reinvested at dividend pay date)
[2] Source: Investment Property Databank
[3] Source: FTSE International



## Company Information

### Manager

Norwich Union Collective Investments Limited
2 Rougier Street
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Norwich Union Collective Investments Limited is a wholly owned subsidiary of Aviva plc, a member of the Investment Management Association and is authorised and regulated by the Financial Services Authority.

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M Hodges
C Riley

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### Paper Information

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### Risk Information

Investors may not be able to switch or cash in their investment when they want because property in the Trust may not always be readily saleable. If this is the case we may defer a request to switch or cash in units.

## Other Information

More information about the activities and performance of the Trust for this and previous periods can be obtained from the Manager.

The future returns and opinions expressed should not be relied upon as indicating any guarantee of return for investment in our funds.

The information contained within this document should not be construed as a recommendation to purchase or sell stocks.

## Report and financial statements

Copies of the annual and half yearly long form report and financial statements are available free of charge by calling us on 0800 587 4563, or by writing to us at Norwich Union Collective Investments Limited, PO Box 530, York, YO90 1WA.

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