

NATIONAL RETAIL PROPERTIES, INC.

Form 424B5

October 15, 2015

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Filed Pursuant to Rule 424(b)(5)
Registration No. 333-202237

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee(1)
4.00% Notes due 2025			\$400,000,000	\$40,280

- (1) This filing fee is calculated in accordance with Rule 457(r) under the Securities Act of 1933, as amended (the Securities Act), and relates to the Registration Statement on Form S-3 (No. 333-202237) filed on February 23, 2015 (the Registration Statement). In accordance with Rules 456(b) and 457(r) under the Securities Act, the registrant deferred payment of the registration fee for the Registration Statement.

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PROSPECTUS SUPPLEMENT

(To Prospectus dated February 23, 2015)

\$400,000,000

4.00% Notes due 2025

We are offering \$400,000,000 aggregate principal amount of 4.00 percent (4.00%) notes due 2025. The notes will have the following terms:

Interest on the notes will be payable semi-annually on May 15 and November 15 commencing May 15, 2016.

The notes mature on November 15, 2025. The notes are redeemable in whole or in part at any time or from time to time at the applicable redemption price described in the section of this prospectus supplement entitled Description of Notes Optional Redemption.

There is no sinking fund.

The notes will be our senior unsecured obligations and will rank equally with all of our other senior unsecured indebtedness from time to time outstanding. However, the notes will be subordinated to our mortgage debt and other secured indebtedness (to the extent of the value of the assets securing such debt) and will be effectively subordinated to the indebtedness and other liabilities of our subsidiaries (to the extent of the value of the assets of those subsidiaries).

The notes are a new series of securities with no established trading market. The notes will not be listed on any securities exchange or automated quotation system.

Investing in the notes involves risks. See Risk Factors beginning on page S-3 of this prospectus supplement and beginning on page 6 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, which is incorporated herein by reference.

	Per Note	Total
Public Offering Price(1)	99.759%	\$ 399,036,000
Underwriting Discount	0.650%	\$ 2,600,000
Proceeds to National Retail Properties, Inc. (before expenses)(1)	99.109%	\$ 396,436,000

(1) Plus accrued interest, if any, from October 21, 2015 if settlement occurs after that date.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

We expect that delivery of the notes will be made to investors through the book-entry delivery system of The Depository Trust Company for the accounts of its participants, including Clearstream Banking, société anonyme, and Euroclear Bank, S.A./N.V., as operator for the Euroclear System, against payment in New York, New York on or about October 21, 2015.

Joint Book-Running Managers

Citigroup

Wells Fargo Securities

RBC Capital Markets

US Bancorp

SunTrust Robinson Humphrey

Senior Co-Managers

BB&T Capital Markets

BofA Merrill Lynch

Morgan Stanley

PNC Capital Markets LLC

Co-Managers

Capital One Securities

Raymond James

The date of this prospectus supplement is October 14, 2015

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ABOUT THIS PROSPECTUS SUPPLEMENT

You should rely only on the information contained in or incorporated by reference into this prospectus supplement, the accompanying prospectus and any free writing prospectus we may authorize to be delivered to you. We have not, and the underwriters have not, authorized anyone to provide you with different or additional information. If anyone provides you with different or inconsistent information, you should not rely on it. We and the underwriters are offering to sell, and seeking offers to buy, the securities only in jurisdictions where offers and sales are permitted. You should not assume that the information appearing in this prospectus supplement, the accompanying prospectus, any free writing prospectus or the documents incorporated by reference is accurate as of any date other than their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering and adds to, updates and changes information contained in the accompanying prospectus and the documents incorporated by reference into the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information, some of which may not apply to this offering. To the extent the information contained in this prospectus supplement differs or varies from the information contained in the accompanying prospectus or any document incorporated by reference filed with the Securities and Exchange Commission (the "SEC") prior to the date of this prospectus supplement, the information in this prospectus supplement shall control. In addition, to the extent that any information in a document incorporated by reference that is filed with the SEC after the date of this prospectus supplement differs or varies from the information contained in this prospectus supplement or the accompanying prospectus, the information in such later filed document shall control.

In this prospectus supplement, the words "we," "our," "ours" and "us" refer to National Retail Properties, Inc. and its subsidiaries and joint ventures, unless the context indicates otherwise.

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FORWARD-LOOKING STATEMENTS

Statements contained in this prospectus supplement and the accompanying prospectus, including the documents that are incorporated by reference, that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Also, when we use any of the words anticipate, assume, believe, estimate, expect, intend or similar expressions, we are making forward-looking statements. These forward-looking statements are not guaranteed and are based on our present intentions and on our present expectations and assumptions. These statements, intentions, expectations and assumptions involve risks and uncertainties, some of which are beyond our control, that could cause actual results or events to differ materially from those we anticipate or project, such as:

the ability of our tenants to make payments under their respective leases, including our reliance on certain major tenants and our ability to re-lease properties that are currently vacant or that become vacant;

our ability to locate suitable tenants for our properties;

changes in real estate market conditions and general economic conditions that could adversely impact our occupancy or rental rates;

the inherent risks associated with owning real estate (including local real estate market conditions, governing laws and regulations and illiquidity of real estate investments);

our ability to sell properties at an attractive price;

the ability of borrowers to make payments of principal and interest under structured finance investments we make to such borrowers;

our ability to gain access to the underlying collateral for any structured finance investments to borrowers;

our ability to repay debt financing obligations;

our ability to refinance amounts outstanding under our credit facilities at maturity on terms favorable to us;

the loss of any member of our management team;

our ability to be in compliance with certain debt covenants;

our ability to integrate acquired properties and operations into our existing operations;

continued availability of debt or equity capital, as needed, to meet our liquidity needs;

the availability of other debt and equity financing alternatives;

volatility and general market conditions affecting our sources and costs of capital;

changes in federal or state tax rules or regulations that could have adverse tax consequences;

changes in laws, the impact of future laws and regulations, and litigation risks;

our ability to qualify as a real estate investment trust for federal income tax purposes; and

the other risks identified in our most recent Annual Report on Form 10-K and, from time to time, in other reports that we file with the SEC.

You should not place undue reliance on these forward-looking statements, as events described or implied in such statements may not occur. Except as required by law, we undertake no obligation to update or revise any forward-looking statements as a result of new information, future events or otherwise.

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SUMMARY

The following summary is qualified in its entirety by the more detailed information and consolidated financial statements (including the notes thereto) contained in or incorporated by reference into this prospectus supplement and the accompanying prospectus. Because this is a summary, it may not contain all of the information that is important to you. You should read this entire prospectus supplement and the accompanying prospectus, including the information incorporated by reference herein and therein, before making an investment decision.

The Company

We acquire, own, invest in and develop properties that are leased primarily to retail tenants under long-term net leases and held primarily for investment. As of June 30, 2015, we owned 2,138 properties with an aggregate gross leasable area of approximately 23.7 million square feet, located in 47 states. Approximately 99% of our properties were leased as of June 30, 2015.

We are a fully integrated real estate investment trust (REIT) for U.S. federal tax purposes, formed in 1984.

Our executive offices are located at 450 South Orange Avenue, Suite 900, Orlando, Florida 32801, and our telephone number is (407) 265-7348.

Recent Developments

Common stock issuances

During the six months ended June 30, 2015, we sold 2,207,144 shares of common stock, par value \$0.01 per share, through our at-the-market offering program and our dividend reinvestment and stock purchase plan, generating approximately \$87.4 million in net proceeds.

The Offering

The following is a brief summary of certain terms of this offering. For a more complete description of the terms of the notes, see Description of Notes in this prospectus supplement and Description of Debt Securities in the accompanying prospectus.

Issuer	National Retail Properties, Inc.
Notes Offered	\$400,000,000 aggregate principal amount.
Maturity	The notes will mature on November 15, 2025, unless previously redeemed in accordance with their terms prior to such date.
Interest Rate and Payment Dates	The notes will bear interest at a rate of 4.00% per year. Interest will be payable semi-annually on May 15 and November 15, commencing May

15, 2016.

Ranking of Notes

The notes will be our senior unsecured obligations and will rank equally with all of our other senior unsecured indebtedness from time to time outstanding. However, the notes will be subordinated to our mortgage

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debt and other secured indebtedness (to the extent of the value of the assets securing such debt). The notes will also be effectively subordinated to the indebtedness and other liabilities of our subsidiaries (to the extent of the value of the assets of those subsidiaries).

Indebtedness

As of June 30, 2015, we had approximately \$1.9 billion of outstanding indebtedness, of which \$25.1 million was secured indebtedness.

Optional Redemption

We may redeem the notes prior to August 15, 2025 (the **Par Call Date**) (which is the date that is three months prior to their maturity date), at any time in whole or from time to time in part, at the redemption price set forth in the section of this prospectus supplement entitled **Description of Notes Optional Redemption**; provided, however, that if we redeem the notes on or after the **Par Call Date**, the redemption price will equal 100% of the principal amount of the notes to be redeemed, plus accrued interest and unpaid interest thereon to, but not including, the redemption date.

Covenants

We will issue the notes under an indenture with U.S. Bank National Association, as successor trustee. The indenture will, among other things, restrict our ability, and the ability of our subsidiaries, to:

incur debt without meeting certain financial tests; and

secure debt with our assets and the assets of our subsidiaries.

For more details, see **Description of Notes Certain Covenants** in this prospectus supplement.

Use of Proceeds

We intend to use the net proceeds from this offering to repay outstanding indebtedness under our credit facility, to fund future property acquisitions and for general corporate purposes. See **Use of Proceeds** in this prospectus supplement.

Sinking Fund

The notes will not have the benefit of a sinking fund.

Risk Factors

You should carefully read the **Risk Factors** beginning on page S-3 of this prospectus supplement, as well as the risk factors beginning on page 6 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, which is incorporated by reference herein, for certain

considerations relevant to an investment in the notes.

Material Federal Income Tax Considerations Prospective investors are urged to consult their tax advisors with respect to the federal, state, local and foreign tax consequences of purchasing, owning and disposing of the notes. See **Additional Material Federal Income Tax Considerations** in this prospectus supplement and **Material Federal Income Tax Considerations** in the accompanying prospectus.

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RISK FACTORS

In addition to the other information contained in or incorporated by reference into this prospectus supplement and the accompanying prospectus, including the Risk Factors beginning on page 6 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, you should carefully review the following risk factors in determining whether to purchase the notes.

An adverse credit rating of the notes may cause their trading price to fall.

A rating assigned to the notes reflects the applicable rating agency's assessment of the likelihood that the holders of the notes will receive the payments of interest and principal required to be made. A rating reflects only the view of a rating agency and is not a recommendation to buy, sell or hold the notes. Any rating can be revised upward or downward or withdrawn at any time by a rating agency if it decides the circumstances warrant that change. A rating agency rating the notes may assign a rating that is lower than the ratings assigned to our other debt. If rating agencies assign a lower-than-expected rating or reduce, or indicate that they may reduce, their ratings in the future, the trading price of the notes could significantly decline.

We may incur additional debt and may not be able to repay our obligations under the notes.

It is our current policy to maintain a ratio of total indebtedness to total assets (before accumulated depreciation) of not more than 60%. However, this policy is subject to reevaluation and modification by our board of directors without the approval of our security holders. If the board of directors modifies this policy to permit a higher degree of leverage and we incur additional indebtedness, debt service requirements would increase accordingly. Such an increase could adversely affect our financial condition and results of operations, as well as our ability to pay principal and interest on the notes. In addition, increased leverage could increase the risk that we may default on our other debt obligations.

We are subject to the risks associated with debt financing. These risks include our possible inability to generate cash through our operating activities sufficient to meet our required payments of principal and interest and that rising interest rates may cause the rate on our variable rate indebtedness to rise. In addition, we may not be able to repay or refinance existing indebtedness, which generally will not have been fully amortized at maturity, on favorable terms. In the event that we are unable to refinance our indebtedness on favorable terms, we may be forced to resort to alternatives that may adversely affect our ability to generate cash to pay our debt service obligations, including payments on the notes, such as disposing of properties on disadvantageous terms (which may also result in losses) and accepting financing on unfavorable terms.

The effective subordination of the notes may limit our ability to satisfy our obligations under the notes.

The notes will be our senior unsecured obligations and will rank equally with all of our other senior unsecured indebtedness outstanding from time to time. However, the notes will be subordinated to our mortgage debt and other secured indebtedness (to the extent of the value of the collateral securing such indebtedness). As of June 30, 2015, we had outstanding \$25.1 million of secured indebtedness. The provisions of the indenture governing the notes do not prohibit us from incurring additional secured indebtedness in the future, provided that certain conditions are satisfied. Consequently, in the event of a bankruptcy, liquidation, dissolution, reorganization or similar proceeding with respect to us, the holders of any secured indebtedness will be entitled to proceed directly against the collateral that secures such secured indebtedness. Therefore, such collateral will not be available for satisfaction of any amounts owed under our unsecured indebtedness, including the notes, until such secured indebtedness is satisfied in full. The notes will also be effectively subordinated to the indebtedness and other liabilities of our subsidiaries (to the extent of the value of the assets of those subsidiaries), including any equity interests in such subsidiaries that are held by persons other

than us or our subsidiaries. See Description of Notes Ranking in this prospectus supplement.

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There is currently no trading market for the notes, and an active liquid trading market for the notes may not develop or, if it develops, be maintained.

The notes are a new issue of securities with no established trading market. The notes will not be listed on any securities exchange or on any automated dealer quotation system. Although the underwriters have advised us that they intend to make a market in the notes, they are not obligated to do so and may discontinue any market-making at any time without notice. Accordingly, an active public trading market may not develop for the notes and, even if one develops, may not be maintained. If an active public trading market for the notes does not develop or is not maintained, the market price and liquidity of the notes is likely to be adversely affected, and holders may not be able to sell their notes at desired times and prices or at all. If any of the notes are traded after their purchase, they may trade at a discount, which could be substantial, from their purchase price.

The liquidity of the trading market, if any, and future trading prices of the notes will depend on many factors, including, among other things, the market price of our common stock; prevailing interest rates; our financial condition, results of operations, business, prospects and credit quality relative to our competitors; the market for similar securities and the overall securities market, and may be adversely affected by unfavorable changes in any of these factors, some of which are beyond our control. In addition, market volatility or events or developments in the credit markets could materially and adversely affect the market value of the notes, regardless of our financial condition, results of operations, business, prospects or credit quality.

An increase in interest rates could result in a decrease in the market value of the notes.

In general, as market interest rates rise, notes bearing interest at a fixed rate generally decline in value. Consequently, if you purchase these notes and market interest rates increase, the market value of your notes may decline. We cannot predict the future level of market interest rates.

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USE OF PROCEEDS

We estimate that the net proceeds from this offering will be approximately \$395.5 million, after deducting the underwriting discount and other estimated expenses of this offering payable by us. We intend to use the net proceeds from this offering to repay outstanding indebtedness under our credit facility. In addition, we intend to use the remainder of the net proceeds from this offering, if any, to fund future property acquisitions and for general corporate purposes. Pending application of the net proceeds, we intend to invest the net proceeds in short-term income-producing investments.

Borrowings under our credit facility were \$282.4 million as of September 30, 2015, and currently accrue interest at a rate of 1.119%. The credit facility matures on January 31, 2019, unless we exercise our option to extend the termination date by one year. Affiliates of Citigroup Global Markets Inc., Wells Fargo Securities, LLC, RBC Capital Markets, LLC, U.S. Bancorp Investments, Inc., SunTrust Robinson Humphrey, Inc. and certain other underwriters are lenders and/or agents under our credit facility and will receive their proportionate share of the amount repaid under the credit facility with the net proceeds from this offering.

Table of Contents**RATIO OF EARNINGS TO FIXED CHARGES AND COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS**

The following table sets forth our historical ratio of earnings to fixed charges and our ratio of earnings to combined fixed charges and preferred stock dividends for the periods indicated:

	Six Months Ended June 30, 2015	For the Years Ended December 31,				
	2015	2014	2013	2012	2011	2010
Ratio of earnings to fixed charges	3.24x	3.18x	2.77x	2.45x	2.11x	1.97x
Ratio of earnings to combined fixed charges and preferred stock dividends	2.31x	2.26x	2.10x	2.04x	1.95x	1.81x

For the purpose of computing these ratios, earnings have been calculated by taking pre-tax income from continuing operations before adjustment for income from equity investees and adding fixed charges, distributed income of equity investees and subtracting capitalized interest. Fixed charges consist of the sum of interest costs, whether expensed or capitalized, and amortized premiums, discounts and capitalized expenses related to indebtedness. Preferred stock dividends are the amount of pre-tax earnings that are required to pay the dividends on outstanding preferred securities.

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DESCRIPTION OF NOTES

The following description of the particular terms of the notes offered hereby supplements, and to the extent inconsistent therewith replaces, the description of the general terms and provisions of the debt securities set forth in the accompanying prospectus under "Description of Debt Securities," to which reference is hereby made.

General

The notes constitute a separate series of debt securities (which are more fully described in the accompanying prospectus) to be issued under an Indenture, dated as of March 25, 1998 (the "Original Indenture"), as supplemented by a Fourteenth Supplemental Indenture (the "Supplemental Indenture" and together with the Original Indenture, the "Indenture"), between us and U.S. Bank National Association, as successor trustee (the "Trustee"). The Original Indenture has been filed with the SEC as an exhibit to the Registration Statement of which this prospectus supplement is a part and is available for inspection at our offices or at the SEC's Internet site at <http://www.sec.gov>. The Indenture is subject to, and governed by, the Trust Indenture Act of 1939, as amended. The statements made hereunder relating to the Indenture and the notes to be issued thereunder are summaries of certain provisions thereof, do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all provisions of the Indenture and the notes. You should carefully read the Indenture and the notes as they, and not this prospectus supplement and accompanying prospectus, govern your rights as a noteholder.

All capitalized terms used but not defined herein shall have the respective meanings set forth in the Indenture.

The notes initially will be limited to an aggregate principal amount of \$400.0 million. We may re-open this series of notes in the future to issue additional notes having the same terms and conditions, except for any difference in the issue date, issue price and, if applicable, the initial interest payment date, and with the same CUSIP number as the notes offered hereby so long as such additional notes are fungible for U.S. federal income tax purposes with the notes offered hereby. The notes offered by this prospectus supplement and any additional notes would rank equally and ratably in right of payment and would be treated as a single series of debt securities for all purposes under the Indenture.

The notes will be issued only in fully registered form in denominations of \$2,000 and integral multiples of \$1,000 in excess thereof.

Ranking

The notes will be our direct, senior unsecured obligations and will rank equally with all of our other unsecured and unsubordinated indebtedness from time to time outstanding. However, the notes will be subordinated to our mortgage debt and other secured indebtedness (to the extent of the value of the assets securing such debt) and will be effectively subordinated to the indebtedness and other liabilities of our subsidiaries (to the extent of the value of the assets of those subsidiaries). Accordingly, such indebtedness must be satisfied in full before holders of the notes will be able to realize any value from encumbered or indirectly-held properties.

As of June 30, 2015, on a pro forma basis after giving effect to this offering and the application of the proceeds therefrom, we would have had approximately \$2.1 billion of outstanding indebtedness, of which approximately \$25.1 million would have been secured by 9 of our properties with a book value of \$46.0 million. We may incur additional indebtedness, including secured indebtedness, subject to the provisions described below under "Certain Covenants Limitations on Incurrence of Indebtedness."

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Principal and Interest

The notes will bear interest at 4.00 percent (4.00%) per annum and will mature on November 15, 2025. The notes will bear interest from, and including, October 21, 2015 or from, and including, the immediately preceding Interest Payment Date (as defined below) to which interest has been paid, payable semi-annually in arrears on May 15 and November 15 of each year, commencing May 15, 2016 (each, an Interest Payment Date), to the persons in whose name the applicable notes are registered in the Security Register on the preceding May 1 or November 1 (whether or not a Business Day, as defined below), as the case may be (each, a Regular Record Date). Interest on the notes will be computed on the basis of a 360-day year of twelve 30-day months.

If any Interest Payment Date or Stated Maturity falls on a day that is not a Business Day, the required payment shall be made on the next Business Day as if it were made on the date such payment was due and no interest shall accrue on the amount so payable for the period from and after such Interest Payment Date or Stated Maturity, as the case may be. Business Day means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banks in the City of New York are authorized or required by law, regulation or executive order to close.

The principal of and interest on the notes will be payable at the corporate trust office of the agent of the Trustee (the Paying Agent), currently located at 60 Livingston Avenue, St. Paul, MN 55107, *provided* that, at our option, payment of interest may be made by check mailed to the address of the Person entitled thereto as it appears in the Security Register or by wire transfer of funds to such Person at an account maintained within the United States.

Optional Redemption

We may redeem the notes prior to the Par Call Date, at any time in whole or from time to time in part, at a redemption price equal to the greater of (i) 100% of the principal amount of the notes being redeemed plus accrued and unpaid interest thereon to, but not including, the redemption date; and (ii) the Make-Whole Amount, if any, with respect to such notes; provided, however, that if we redeem the notes on or after the Par Call Date, the redemption price will equal 100% of the principal amount of the notes to be redeemed plus accrued and unpaid interest thereon to, but not including, the redemption date (the Redemption Price).

If notice has been given as provided in the Indenture and funds for the redemption of any notes called for redemption shall have been made available on the redemption date referred to in such notice, such notes will cease to bear interest on the date fixed for such redemption specified in such notice and the only right of the Holders of the notes will be to receive payment of the Redemption Price.

Notice of any optional redemption of any notes will be given to Holders at their addresses, as shown in the Security Register, not less than 15 days nor more than 60 days prior to the date fixed for redemption. The notice of redemption will specify, among other items, the Redemption Price and the principal amount of the notes held by such Holder to be redeemed.

If we redeem less than all the notes, we will notify the Trustee at least 45 days prior to the giving of the redemption notice (or such shorter period as is satisfactory to the Trustee) of the aggregate principal amount of notes to be redeemed and their redemption date. The Trustee shall select, in such manner as it shall deem fair and appropriate, notes to be redeemed in whole or in part. Notes may be redeemed in part in the minimum authorized denomination for notes or in any integral multiple thereof.

Make-Whole Amount means, in connection with any optional redemption or accelerated payment of any note, the aggregate present value as of the redemption date of the remaining scheduled payments of principal and interest

(exclusive of interest accrued to the date of redemption or accelerated payment) on the notes to be redeemed, assuming that such notes matured on the Par Call Date, determined by discounting, on a semi-annual

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basis, such principal and interest at the Reinvestment Rate (determined on the third Business Day preceding the date such notice of redemption is given or declaration of acceleration is made).

Reinvestment Rate means 0.35 percent (0.35%) plus the arithmetic mean of the yields under the respective headings This Week and Last Week published in the Statistical Release under the caption Treasury Constant Maturities for the maturity (rounded to the nearest month) corresponding to the remaining life to maturity (assuming for this purpose that such notes matured on the Par Call Date), as of the payment date of the principal being redeemed or paid.

If no maturity exactly corresponds to such maturity, yields for the two published maturities most closely corresponding to such maturity shall be calculated pursuant to the immediately preceding sentence, and the Reinvestment Rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding in each of such relevant periods to the nearest month. For such purposes of calculating the Reinvestment Rate, the most recent Statistical Release published prior to the date of determination of the Make-Whole Amount shall be used.

Statistical Release means the statistical release designated H.15(519) or any successor publication which is published weekly by the Federal Reserve System and which establishes yields on actively traded United States government securities adjusted to constant maturities or, if such statistical release is not published at the time of any determination of the Make-Whole Amount, then such other reasonably comparable index as we shall designate.

Certain Covenants

Limitations on Incurrence of Indebtedness. We will not, and will not permit any Subsidiary (as defined below) to, incur any Indebtedness (as defined below) if, immediately after giving effect to the incurrence of such additional Indebtedness and the application of the proceeds thereof, the aggregate principal amount of all of our outstanding Indebtedness and our Subsidiaries' outstanding Indebtedness (determined on a consolidated basis in accordance with GAAP) is greater than 60% of the sum of (without duplication) (i) our Total Assets (as defined below) and those of our Subsidiaries, as of the end of the calendar quarter covered in our Annual Report on Form 10-K or Quarterly Report on Form 10-Q, as the case may be, most recently filed with the SEC (or, if such filing is not permitted under the Exchange Act, with the Trustee) prior to the incurrence of such additional Indebtedness and (ii) the purchase price of any real estate assets or mortgages receivable acquired, and the amount of any securities offering proceeds received (to the extent that such proceeds were not used to acquire real estate assets or mortgages receivable or used to reduce Indebtedness), by us or any Subsidiary since the end of such calendar quarter, including those proceeds obtained in connection with the incurrence of such additional Indebtedness.

In addition to the foregoing limitation on the incurrence of Indebtedness, we will not, and will not permit any Subsidiary to, incur any Indebtedness secured by any Encumbrance (as defined below) upon any of our properties or the properties of any Subsidiary if, immediately after giving effect to the incurrence of such additional Indebtedness and the application of the proceeds thereof, the aggregate principal amount of all of our outstanding Indebtedness and our Subsidiaries' outstanding Indebtedness (determined on a consolidated basis in accordance with GAAP) which is secured by any Encumbrance on our properties or any Subsidiary is greater than 40% of the sum of (without duplication) (i) our Total Assets, and those of our Subsidiaries, as of the end of the calendar quarter covered in our Annual Report on Form 10-K or Quarterly Report on Form 10-Q, as the case may be, most recently filed with the SEC (or, if such filing is not permitted under the Exchange Act, with the Trustee) prior to the incurrence of such additional Indebtedness and (ii) the purchase price of any real estate assets or mortgages receivable acquired, and the amount of any securities offering proceeds received (to the extent that such proceeds were not used to acquire real estate assets or mortgages receivable or used to reduce Indebtedness), by us or any Subsidiary since the end of such calendar quarter, including those proceeds obtained in connection with the incurrence of such additional Indebtedness.

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We and our Subsidiaries will not at any time own Total Unencumbered Assets (as defined below) equal to less than 150% of the aggregate outstanding principal amount of Unsecured Indebtedness (as defined below) on a consolidated basis.

In addition to the foregoing limitations on the incurrence of Indebtedness, we will not, and will not permit any Subsidiary to, incur any Indebtedness if the ratio of Consolidated Income Available for Debt Service (as defined below) to the Annual Debt Service Charge (as defined below) for the four consecutive fiscal quarters most recently ended prior to the date on which such additional Indebtedness is to be incurred shall have been less than 1.5:1 on a pro forma basis after giving effect thereto and to the application of the proceeds therefrom, and calculated on the assumption that (i) such Indebtedness and any other Indebtedness incurred by us and our Subsidiaries since the first day of such four-quarter period and the application of the proceeds therefrom, including to refinance other Indebtedness, had occurred at the beginning of such period; (ii) the repayment or retirement of any other Indebtedness by us and our Subsidiaries since the first day of such four-quarter period had been repaid or retired at the beginning of such period (except that, in making such computation, the amount of Indebtedness under any revolving credit facility shall be computed based upon the average daily balance of such Indebtedness during such period); (iii) in the case of Acquired Indebtedness (as defined below) or Indebtedness incurred in connection with any acquisition since the first day of such four-quarter period, the related acquisition had occurred as of the first day of such period with the appropriate adjustments with respect to such acquisition being included in such pro forma calculation; and (iv) in the case of any acquisition or disposition by us or our Subsidiaries of any asset or group of assets since the first day of such four-quarter period, whether by merger, stock purchase or sale, or asset purchase or sale, such acquisition or disposition or any related repayment of Indebtedness had occurred as of the first day of such period with the appropriate adjustments with respect to such acquisition or disposition being included in such pro forma calculation.

Provision of Financial Information. Whether or not we are subject to Section 13 or 15(d) of the Exchange Act, we will, within 15 days after each of the respective dates by which we would have been required to file annual reports, quarterly reports and other documents with the SEC if we were so subject, (1) transmit by mail to all Holders, as their names and addresses appear in the Security Register, without cost to such Holders, copies of the annual reports, quarterly reports and other documents which we would have been required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act, if we were subject to such Sections, and (2) file with the Trustee copies of the annual reports, quarterly reports and other documents which we would have been required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act, if we were subject to such Sections, and (3) promptly upon written request and payment of the reasonable cost of duplication and delivery, supply copies of such documents to any prospective Holder.

Waiver of Certain Covenants. We may omit to comply with any term, provision or condition of the foregoing covenants, and with any other term, provision or condition with respect to the notes, as the case may be (except any such term, provision or condition which could not be amended without the consent of all Holders of notes), if before or after the time for such compliance the Holders of at least a majority in principal amount of all of the outstanding notes, as the case may be, by act of such Holders, either waive such compliance in such instance or generally waive compliance with such covenant or condition. Except to the extent so expressly waived, and until such waiver shall become effective, our obligations and the duties of the Trustee in respect of any such term, provision or condition shall remain in full force and effect.

As used herein, and in the Indenture:

Acquired Indebtedness means Indebtedness of a Person (i) existing at the time such Person becomes a Subsidiary or (ii) assumed in connection with the acquisition of assets from such Person, in each case, other than Indebtedness incurred in connection with, or in contemplation of, such Person becoming a Subsidiary or such acquisition. Acquired

Indebtedness shall be deemed to be incurred on the date of the related acquisition of assets from any Person or the date the acquired Person becomes a Subsidiary.

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Annual Debt Service Charge for any period means the aggregate interest expense for such period in respect of, and the amortization during such period of any original issue discount of, Indebtedness of us and our Subsidiaries and the amount of dividends which are payable during such period in respect of any Disqualified Stock.

Capital Stock means, with respect to any Person, any capital stock (including preferred stock), shares, interests, participations or other ownership interests (however designated) of such Person and any rights (other than debt securities convertible into or exchangeable for corporate stock), warrants or options to purchase any thereof.

Consolidated Income Available for Debt Service for any period means Earnings from Operations (as defined below) of ours and our Subsidiaries plus amounts which have been deducted, and minus amounts which have been added, for the following (without duplication): (i) interest on Indebtedness of us and our Subsidiaries, (ii) provision for taxes of us and our Subsidiaries based on income, (iii) amortization of debt discount, (iv) provisions for gains and losses on properties and property depreciation and amortization, (v) the effect of any noncash charge resulting from a change in accounting principles in determining Earnings from Operations for such period and (vi) amortization of deferred charges.

Disqualified Stock means, with respect to any Person, any Capital Stock of such Person which by the terms of such Capital Stock (or by the terms of any security into which it is convertible or for which it is exchangeable or exercisable), upon the happening of any event or otherwise (i) matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise (other than Capital Stock which is redeemable solely in exchange for common stock), (ii) is convertible into or exchangeable or exercisable for Indebtedness or Disqualified Stock or (iii) is redeemable at the option of the holder thereof, in whole or in part (other than Capital Stock which is redeemable solely in exchange for Capital Stock which is not Disqualified Stock or the redemption price of which may, at the option of such Person, be paid in Capital Stock which is not Disqualified Stock), in each case on or prior to the Stated Maturity of the notes.

Earnings from Operations for any period means net earnings excluding gains and losses on sales of investments, extraordinary items and property valuation losses, net as reflected in the financial statements of us and our Subsidiaries for such period determined on a consolidated basis in accordance with GAAP.

Encumbrance means any mortgage, lien, charge, pledge or security interest of any kind.

GAAP means generally accepted accounting principles as used in the United States applied on a consistent basis as in effect from time to time; provided that solely for purposes of any calculation required by the financial covenants contained in the Indenture, *GAAP* shall mean generally accepted accounting principles as used in the United States on the date of the Indenture, applied on a consistent basis.

Indebtedness of us or our Subsidiaries means any indebtedness of us or our Subsidiaries, whether or not contingent, in respect of (i) borrowed money or evidenced by bonds, notes, debentures or similar instruments whether or not such indebtedness is secured by any Encumbrance existing on property owned by us or any Subsidiary of ours, (ii) indebtedness for borrowed money of a Person other than us or our Subsidiaries which is secured by any Encumbrance existing on property owned by us or our Subsidiaries, to the extent of the lesser of (x) the amount of indebtedness so secured and (y) the fair market value (as determined in good faith by our Board of Directors) of the property subject to such Encumbrance, (iii) the reimbursement obligations, contingent or otherwise, in connection with any letters of credit actually issued or amounts representing the balance deferred and unpaid of the purchase price of any property or services, except any such balance that constitutes an accrued expense or trade payable, or all conditional sale obligations or obligations under any title retention agreement, (iv) the principal amount of all obligations of us or our Subsidiaries with respect to redemption, repayment or other repurchase of any Disqualified

Stock or (v) any lease of property by us or any Subsidiary as lessee which is reflected on our consolidated balance sheet as a capitalized lease in accordance with GAAP, and also includes, to

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the extent not otherwise included, any obligation by us or our Subsidiaries to be liable for, or to pay, as obligor, guarantor or otherwise (other than for purposes of collection in the ordinary course of business), Indebtedness of another Person (other than us or our Subsidiaries) (it being understood that Indebtedness shall be deemed to be incurred by us or our Subsidiaries whenever we or such Subsidiary shall create, assume, guarantee or otherwise become liable in respect thereof).

Subsidiary means, with respect to any Person, any corporation or other entity of which a majority of (i) the voting power of the voting equity securities or (ii) the outstanding equity interests of which are owned, directly or indirectly, by such Person. For the purposes of this definition, *voting equity securities* means equity securities having voting power for the election of directors, whether at all times or only so long as no senior class of security has such voting power by reason of any contingency.

Total Assets as of any date means the sum of (i) the Undepreciated Real Estate Assets and (ii) all other assets of us and our Subsidiaries determined on a consolidated basis in accordance with GAAP (but excluding accounts receivable and intangibles).

Total Unencumbered Assets means the sum of (i) those Undepreciated Real Estate Assets not subject to an Encumbrance for borrowed money and (ii) all other assets of us and our Subsidiaries not subject to an Encumbrance for borrowed money determined on a consolidated basis in accordance with GAAP (but excluding accounts receivable and intangibles); *provided, however*, that, in determining Total Unencumbered Assets as a percentage of outstanding Unsecured Indebtedness for purposes of the covenant requiring us and our subsidiaries to maintain Total Unencumbered Assets equal to at least 150% of the aggregate outstanding principal amount of Unsecured Indebtedness on a consolidated basis, all investments in unconsolidated joint ventures, unconsolidated limited partnerships, unconsolidated limited liability companies and other Persons that are not consolidated for financial reporting purposes in accordance with GAAP shall be excluded from Total Unencumbered Assets.

Undepreciated Real Estate Assets as of any date means the cost (original cost plus capital improvements) of real estate assets of us and our Subsidiaries on such date, before depreciation and amortization, determined on a consolidated basis in accordance with GAAP.

Unsecured Indebtedness means Indebtedness which is not secured by any Encumbrance upon any of our properties or those of any Subsidiary.

See *Description of Debt Securities* *Certain Covenants* in the accompanying prospectus for a description of additional covenants applicable to us.

Events of Default

The Indenture provides that the following events are *Events of Default* with respect to the notes:

default in the payment of any interest on any notes when such interest becomes due and payable that continues for a period of 30 days;

default in the payment of the principal of (or Make-Whole Amount, if any, on) any notes when due and payable;

our default in the performance, or breach, of any other covenant or warranty in the Indenture with respect to the notes and continuance of such default or breach for a period of 60 days after written notice as provided in the Indenture;

default under any bond, debenture, note, mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by us (or by any Subsidiary, the repayment of which we have guaranteed or for which we are directly responsible or liable as obligor or guarantor), having an aggregate principal amount outstanding of at

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least \$25,000,000, whether such Indebtedness now exists or shall hereafter be created, which default shall have resulted in such Indebtedness becoming or being declared due and payable prior to the date on which it would otherwise have become due and payable, without such Indebtedness having been discharged, or such acceleration having been rescinded or annulled, within a period of 10 days after written notice to us as provided in the Indenture; provided, however, that for so long as any of the securities issued pursuant to any supplemental indenture to the Original Indenture that preceded the Twelfth Supplemental Indenture are outstanding, the reference to \$25,000,000 in this paragraph is replaced by \$10,000,000;

the entry by a court of competent jurisdiction of one or more judgments, orders or decrees against us or any Subsidiary in an aggregate amount (excluding amounts covered by insurance) in excess of \$10,000,000 and such judgments, orders or decrees remain undischarged, unstayed and unsatisfied in an aggregate amount (excluding amounts covered by insurance) in excess of \$10,000,000 for a period of 30 consecutive days; provided, however, that upon cancellation by the Trustee of all securities issued pursuant to each of the supplemental indentures to the Original Indenture that precede the Twelfth Supplemental Indenture, this provision shall cease to exist and will no longer be deemed to constitute an Event of Default; and

certain events of bankruptcy, insolvency or reorganization, or court appointment of a receiver, liquidator or trustee of us or any Significant Subsidiary. The Term Significant Subsidiary has the meaning ascribed to such term in Regulation S-X promulgated under the Securities Act.

If an Event of Default specified in the last bullet point above, relating to us or any Significant Subsidiary occurs, the principal amount of and the Make-Whole Amount on all outstanding notes shall become due and payable without any declaration or other act on the part of the Trustee or of the Holders.

Discharge, Defeasance and Covenant Defeasance

The provisions of Article XIV of the Indenture relating to defeasance and covenant defeasance, which are described under Description of Debt Securities Discharge, Defeasance and Covenant Defeasance in the accompanying prospectus, will apply to the notes. Each of the covenants described under Certain Covenants in this prospectus supplement and Description of Debt Securities Certain Covenants in the accompanying prospectus will be subject to covenant defeasance.

The Trustee

U.S. Bank National Association is the trustee under the Indenture and is a lender under our credit facility. Certain of its affiliates have engaged and in the future may engage in joint investments, investment banking transactions and in general financing and commercial banking transactions with, and the provision of services to, us and our affiliates in the ordinary course of business. U.S. Bancorp Investments, Inc., one of the underwriters, is an affiliate of the Trustee.

Book-Entry System

The notes will be issued in the form of one or more fully registered global notes (Global Securities) which will be deposited with, or on behalf of, The Depository Trust Company (DTC), and registered in the name of DTC's nominee, Cede & Co. Except under the circumstances described below, the notes will not be issuable in definitive form. Unless and until it is exchanged in whole or in part for the individual notes represented thereby, a Global Security may not be transferred except as a whole by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC or by DTC or any nominee of DTC to a successor depository or any nominee of such successor.

DTC has advised us of the following information regarding DTC: DTC is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York

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Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants (Participants) deposit with DTC. DTC also facilitates the settlement among its Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in its Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants of DTC (Direct Participants) include securities brokers and dealers (including the underwriters), banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation or DTCC. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant of DTC, either directly or indirectly (Indirect Participants). The rules applicable to DTC and its Participants are on file with the SEC.

Purchases of Global Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the securities on DTC's records. The ownership interest of each actual purchaser of each Global Security (Beneficial Owner) is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Global Securities are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Global Securities, except in the event that use of the book-entry system for the Global Securities is discontinued.

To facilitate subsequent transfers, all Global Securities deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Global Securities with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Global Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Global Securities are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. will consent or vote with respect to the Global Securities. Under its usual procedures, DTC mails an Omnibus Proxy to us as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Global Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy). Principal and interest payments on the Global Securities will be made to Cede & Co., as nominee of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from us or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of such Participant and not of DTC, the Trustee or us, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. is our responsibility or the responsibility of the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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DTC may discontinue providing its services as securities depository with respect to the Global Securities at any time by giving reasonable notice to us or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, definitive certificates are required to be printed and delivered.

We may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, definitive certificates will be printed and delivered. Notes so issued in definitive form will be issued as registered notes in denominations of \$2,000 and integral multiples of \$1,000 in excess thereof.

Clearstream. Clearstream Banking, société anonyme (Clearstream), is incorporated under the laws of Luxembourg as a professional depository. Clearstream holds securities for its participating organizations (Clearstream Participants) and facilitates the clearance and settlement of securities transactions between Clearstream Participants through electronic book-entry changes in accounts of Clearstream Participants, thereby eliminating the need for physical movement of certificates. Clearstream provides Clearstream Participants with, among other things, services for safekeeping, administration, clearance and establishment of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries. As a professional depository, Clearstream is subject to regulation by the Luxembourg Monetary Institute. Clearstream Participants are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations, and may include the underwriters. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream Participant either directly or indirectly.

Distributions with respect to notes held beneficially through Clearstream will be credited to cash accounts of Clearstream Participants in accordance with its rules and procedures to the extent received by DTC for Clearstream.

Euroclear. Euroclear Bank S.A./N.V. (Euroclear) was created in 1968 to hold securities for participants of Euroclear (Euroclear Participants) and to clear and settle transactions between Euroclear Participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear includes various other services, including securities lending and borrowing and interfaces with domestic markets in several markets in several countries. Euroclear is operated by Euroclear Bank S.A./N.V. (the Euroclear Operator), under contract with Euro-clear Clearance Systems S.C., a Belgian cooperative corporation (the Cooperative). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Cooperative. The Cooperative establishes policy for Euroclear on behalf of Euroclear Participants. Euroclear Participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the underwriters. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear Participant, either directly or indirectly.

The Euroclear Operator is regulated and examined by the Belgian Banking Commission.

Links have been established among DTC, Clearstream and Euroclear to facilitate the initial issuance of the notes sold outside of the United States and cross-market transfers of the notes associated with secondary market trading.

Although DTC, Clearstream and Euroclear have agreed to the procedures provided below in order to facilitate transfers, they are under no obligation to perform these procedures, and these procedures may be modified or discontinued at any time.

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The size and scope of share buybacks depend, in exactly the same way as the size of the dividend, on Swedish Match's financial position, net income, anticipated future profitability, cash flow, investments and expansion plans. Other factors that affect repurchases are the price of the shares, the Group's interest and tax expenses, and the earnings available for distribution.

Financial restrictions

When considering the size of the surplus funds to be transferred to shareholders, it has been decided that the following restrictions should apply:

The Company shall over time strive for a capital structure with an interest cover based on EBITA (profit before financial items, interest and amortization on intangible assets/net interest) that exceeds nine times.

The Company shall over time strive for a net debt divided by EBITA below two.

Accounting principles

This interim report is prepared in accordance with the Accounting Standard IAS 34 Interim Financial Reporting from the International Accounting Standards Board.

New accounting principles 2005

As of January 1, 2005 Swedish Match changed its accounting principles for the preparation of financial statements to comply with International Financial Reporting Standards (IFRS). Previously the financial statements were prepared in accordance with Swedish Generally Accepted Accounting Principles (Swedish GAAP).

The financial statements for periods beginning on or after January 1, 2005 are therefore prepared in accordance with IFRS. IFRS has also been retrospectively applied to year 2004 comparable data but with the exception of the reporting of financial instruments (IAS 32 and IAS 39) and share-based payments (IFRS 2). The financial instruments and share-based payments have not been restated as Swedish Match does not fall under the retrospective reporting requirements for these standards.

The financial statements are from January 1, 2005, set up as specified in IAS 1. The main implication of applying IAS 1, is that net income, on the face of the income statement, and equity, on the face of balance sheet, are presented including the minority's interest.

For Swedish Match, the transition to IFRS has changed the reporting of biological assets (IAS 41), goodwill (IFRS 3 and IAS 38), financial instruments (IAS 32 and IAS 39) and share-based payments (IFRS 2). The accounting principles for employee benefits (IAS 19) were already adopted on January 1, 2004 under Swedish GAAP and therefore Swedish Match's financial statements already complied with IAS 19 in 2004.

Goodwill and biological assets

Information on changes in accounting principles for biological assets (IAS 41) and goodwill (IFRS 3 and IAS 38), due to the transition to IFRS, is included in the report of operations for 2004 and the annual report for 2004.

Financial instruments

The rules for reporting of financial instruments, IAS 39, imply that financial assets and liabilities, including all derivatives, shall be measured at fair value or amortized cost depending on classification of the asset and liability. The gain or loss from a change in the value of a financial asset or liability shall be recognized, depending on classification, in profit or loss or directly in equity until realized.

According to IAS 39, companies can apply hedge accounting. Under hedge accounting, a company shall link a balance sheet item to a designated hedging instrument. To qualify for hedge accounting under IAS 39, the hedging relationship has to satisfy strict requirements.

The major portion of the Group's borrowing was originally assumed at a fixed interest rate but subsequently converted to a floating rate by means of interest rate swaps. Swedish Match has decided to apply hedge accounting on interest rate swaps that can be linked to the original borrowing.

All other financial instruments within Swedish Match will be subject to fair value accounting and the gain or loss from change in value will be recognized in the profit and loss.

At transition to IFRS, the difference between the fair values or amortized costs of the financial assets and liabilities and the values reported according to Swedish GAAP was recognized directly in equity. Any initial recognition of derivatives not previously recognized was also reported directly in equity. At January 1, 2005, an increase in equity of 31 MSEK was thereby reported. The reporting in accordance with IAS 39 has resulted in a negative effect in net income by 3 MSEK during the first nine months of 2005.

Share-based payments

The rules for reporting of share-based payments (such as Swedish Match's option program), IFRS2, imply that an assessed fair value of the options shall be expensed during a vesting period or at a vesting date. During the first nine months 2005, net income has been negatively affected by 3 MSEK due to reporting in accordance with IFRS 2.

Additional information

This report has not been reviewed by the Company's auditors. The full year 2005 report will be released February 15, 2006. The Annual General Meeting will be held in Stockholm on April 20, 2006.

Stockholm, October 25, 2005

Sven Hindrikes

President and Chief Executive Officer

Key data

	January - September		12 months ended	Full year
	2005	2004	Sep 30, 2005	2004
Operating margin, % ¹⁾	19.5	18.2	18.5	17.5
Operating capital, MSEK	8,148	7,840	8,148	7,243
Return on operating capital, % ¹⁾			30.2	29.1
Return on shareholders' equity, %			33.5	48.1
Net debt, MSEK ²⁾	1,213	1,229	1,213	527
Net debt/equity ratio, %	24.6	24.4	24.6	10.5
Equity/assets ratio, %	31.1	31.4	31.1	33.7
Investments in tangible assets, MSEK	271	349	409	486
EBITDA, MSEK ³⁾	2,319	2,243	2,959	2,884
EBITA, MSEK ⁴⁾	2,030	1,913	2,581	2,464
EBITA interest cover	18.7	17.0	16.3	15.2
Net debt/EBITA			0.5	0.2
<i>Share data⁵⁾</i>				
Earnings per share, SEK				
Basic	4.08	5.26	4.90	6.10
Diluted	4.06	5.24	4.89	6.08
Excluding major one time items, diluted	3.77	3.29	4.61	4.12
Excluding amortization and major one time items, diluted	4.00	3.56	4.94	4.50
Shareholders' equity per share, SEK	15.81	13.68	15.81	14.05
Number of shares outstanding at end of period	311,763,281	321,100,681	311,763,281	321,516,893
Average number of shares outstanding	316,983,930	327,155,038	318,080,314	325,708,645
Average number of shares outstanding, diluted	318,028,805	328,487,004	319,163,877	327,013,542

- 1) Excluding major one time items
2) Pension liabilities are not included in net debt
3) Operating income excluding major one time items adjusted for depreciation, amortization and writedowns
4) Operating income excluding major one time items adjusted for amortization and writedowns of intangible assets
5) Net income attributable to Swedish Match equity holders

Consolidated Income Statement in summary

MSEK

	July - Sep		Jan Sep			12 months ended	Full year	
	2005	2004	2005	2004	Change	Sep 30, -05	2004	Change
					%			%
Sales, including tobacco tax	5,754	5,761	16,244	16,362		21,587	21,705	
Less tobacco tax	(2,294)	(2,342)	(6,432)	(6,566)		(8,565)	(8,698)	
Sales	3,461	3,419	9,811	9,797	0	13,022	13,007	0
Cost of goods sold	(1,848)	(1,954) ^{a)}	(5,319)	(5,403) ^{a)}		(7,163)	(7,246) ^{a)}	

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Gross profit	1,612	1,465	4,492	4,394	2	5,860	5,761	2
Sales and administrative expenses	(664) ^{c)}	(1,011) ^{b)}	(2,386) ^{c)}	(2,853) ^{b)}		(3,256) ^{c)}	(3,722) ^{b)}	
Shares in earnings of associated co.	4	(1)	12	(1)		15	1	
	953	454	2,118	1,539	38	2,618	2,040	28
Settlement income	0	0	0	1,521		0	1,521	
Operating income	953	454	2,118	3,061	(31)	2,618	3,561	(26)
Net interest expense	(47)	(32)	(109)	(113)		(158)	(163)	
Other financial items, net	(7)	8	(9)	16		(26)	(2)	
Net financial items	(54)	(24)	(117)	(97)		(185)	(164)	
Profit before taxes	899	430	2,001	2,963	(32)	2,434	3,397	(28)
Taxes	(337)	(211)	(700)	(1,194)		(843)	(1,336)	
Net income for the period	562	219	1,301	1,770	(27)	1,591	2,061	(23)
Attributable to:								
Swedish Match equity holders	562	200	1,292	1,721		1,560	1,988	
Minority interests	0	19	8	49		32	72	
Net income for the period	562	219	1,301	1,770	(27)	1,591	2,061	(23)
Earnings per share, basic, SEK	1.79	0.63	4.08	5.26		4.90	6.10	
Earnings per share, diluted, SEK	1.79	0.63	4.06	5.24		4.89	6.08	

- a) Including impairment charge in match operations of 150 MSEK
b) Including provisions for acquisition of shares in Wimco Ltd. of 90 MSEK
c) Including income from sale of real estate of 206 MSEK

Consolidated Balance Sheet in summary

MSEK

	Sep 30, 2005	Dec 31, 2004
Intangible fixed assets	4,230	3,452
Tangible fixed assets	2,549	2,712
Financial fixed assets	949	760
Current operating assets	5,364	4,884
Short-term investments	804	1,815
Cash and bank	1,943	1,187
Total assets	15,839	14,809
Swedish Match equity holders	4,930	4,516
Minority interests	3	481
Total equity	4,933	4,997
Long-term provisions	2,883	2,487
Long-term loans	3,525	2,559
Other long-term liabilities	43	21
Short-term provisions	817	647
Short-term loans	435	970
Other current liabilities	3,203	3,129
Total shareholders equity, provisions and liabilities	15,839	14,809

Consolidated Cash Flow Statement in summary

MSEK

	Jan - Sep 2005	Jan - Sep 2004
Income after financial items	2,001	2,963
Non-cash items and taxes paid	(332)	(97)
Cash flow from operations before changes in Working Capital	1,669	2,866
Cash flow from changes of Working Capital	3	35
Cash flow from operations	1,672	2,901
<i>Investments</i>		
Investments in property, plant and equipment	(271)	(349)
Sales of property, plant and equipment	611	33
Investments in intangibles		(19)
Investments in consolidated companies		(53)
Payment of minority shares in General Cigar	(1,099)	
Investments in other companies		(10)
Divestment of business operations	7	117
Changes in financial receivables etc.	(50)	6
Changes in short-term investments ¹⁾	1,011	(1,052)

Cash flow from investments	209	(1,327)
<i>Financing</i>		
Changes in loans	412	(733)
Dividends	(612)	(558)
Repurchase of own shares	(895)	(658)
Sale of treasury shares	23	63
Other	(156)	31
Cash flow from financing	(1,228)	(1,855)
Cash flow for the period	653	(281)
Cash and bank at the beginning of the period	1,187	1,497
Translation difference attributable to cash and bank	103	(6)
Cash and bank at the end of the period	1,943	1,210

- 1) Refers to investments in short term securities as part of the cash management activities. The sum of cash and bank and short-term investments amounted to 2,747 MSEK at the end of the period compared to 3,002 MSEK at the end of 2004.

Change in Shareholders' equity

	Jan Sep 2005			Jan Sep 2004		
	Swedish Match equity holders	Minority interest	Total equity	Swedish Match equity holders	Minority interest	Total equity
<i>MSEK</i>						
Opening balance as per Dec 31	4,516	481	4,997	3,758	604	4,362
New accounting principle, IAS 39	31	17	48			
Repurchase of own shares	(895)		(895)	(658)		(658)
Sale of treasury shares	23		23	63		63
Dividend paid	(612)		(612)	(558)		(558)
Acquisition of minority shares in Best Blend					(16)	(16)
Acquisition of minority shares in General Cigar		(532)	(532)			
Divestment of shares in Wimco		(6)	(6)			
Fair value reserve IAS 39 etc.	5		5			
Translation difference for the period	570	35	604	65	8	73
Net income for the period	1,292	8	1,301	1,721	49	1,770
Closing balance at end of period	4,930	3	4,933	4,391	645	5,036

Quarterly data*MSEK*

	Q1/04	Q2/04	Q3/04	Q4/04	Q1/05	Q2/05	Q3/05
Sales, including tobacco tax	4,973	5,628	5,761	5,343	4,886	5,604	5,754
Less tobacco tax	(1,971)	(2,252)	(2,342)	(2,132)	(1,918)	(2,220)	(2,294)
Sales	3,002	3,376	3,419	3,211	2,967	3,384	3,461
Cost of goods sold	(1,585)	(1,864)	(1,804)	(1,843)	(1,629)	(1,842)	(1,848)
Gross profit	1,417	1,512	1,615	1,367	1,338	1,542	1,612
Sales and administrative expenses	(909)	(933)	(921)	(869)	(811)	(911)	(870)
Shares in earnings of associated co.	(1)	0	(1)	2	2	6	4
	507	579	694	500	528	637	747
Income from real estate sale							206
Income from settlement with UST	1,417	104					
Match impairment charges			(150)				
Provision for acquisition of shares in Wimco Ltd			(90)				
Operating income	1,924	683	454	500	528	637	953
Net interest expense	(42)	(39)	(32)	(50)	(20)	(42)	(47)
Other financial items, net	(4)	12	8	(17)	(2)	0	(7)

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Net financial items	(47)	(27)	(24)	(67)	(21)	(42)	(54)
Profit before tax	1,878	656	430	433	507	595	899
Income taxes	(738)	(245)	(211)	(142)	(167)	(196)	(337)
Net income for the period	1,140	411	219	291	340	399	562
<i>Attributable to:</i>							
Swedish Match equity holders	1,130	391	200	268	333	397	562
Minority interests	10	20	19	23	7	2	0
Net income for the period	1,140	411	219	291	340	399	562

Sales by product area*MSEK*

	<u>Q1/04</u>	<u>Q2/04</u>	<u>Q3/04</u>	<u>Q4/04</u>	<u>Q1/05</u>	<u>Q2/05</u>	<u>Q3/05</u>
Snuff	751	814	791	726	703	800	809
Chewing Tobacco	254	282	285	237	242	267	290
Cigars	687	846	848	790	734	841	874
Pipe Tobacco & Accessories	211	214	234	242	216	218	241
Matches	324	340	348	366	294	369	298
Lighters	146	146	147	142	143	155	156
Other operations	628	734	766	708	635	734	792
Total	3,002	3,376	3,419	3,211	2,967	3,384	3,461

Operating income by product area*MSEK*

	<u>Q1/04</u>	<u>Q2/04</u>	<u>Q3/04</u>	<u>Q4/04</u>	<u>Q1/05</u>	<u>Q2/05</u>	<u>Q3/05</u>
Snuff	354	365	371	287	324	388	401
Chewing Tobacco	73	82	82	67	69	83	94
Cigars	129	156	174	108	136	112	188
Pipe Tobacco & Accessories	60	53	69	72	60	56	62
Matches	(19)	(37)	28	15	(17)	30	31
Lighters	8	9	6	(10)	12	15	16
Other operations	(98)	(48)	(38)	(38)	(56)	(46)	(47)
Subtotal	507	579	694	500	528	637	747
<i>Major one time items</i>							
Income from real estate sale							206
Income from settlement with UST	1,417	104					
Match impairment charges			(150)				
Provision for acquisition of shares in Wimco Ltd.			(90)				
Subtotal	1,417	104	(240)				206
Total	1,924	683	454	500	528	637	953

Operating margin by product area*PERCENT*

	<u>Q1/04</u>	<u>Q2/04</u>	<u>Q3/04</u>	<u>Q4/04</u>	<u>Q1/05</u>	<u>Q2/05</u>	<u>Q3/05</u>
Snuff	47.1	44.8	46.9	39.5	46.0	48.5	49.5

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Chewing Tobacco	28.7	29.0	28.8	28.4	28.6	31.2	32.5
Cigars	18.8	18.5	20.6	13.6	18.6	13.3	21.5
Pipe Tobacco & Accessories	28.4	24.6	29.7	29.8	27.6	25.6	25.7
Matches	(5.7)	(11.0)	8.1	4.2	(5.6)	8.2	10.5
Lighters	5.7	5.9	4.4	(7.3)	8.6	9.8	10.4
Group*	16.9	17.1	20.3	15.6	17.8	18.8	21.6

* Excluding major one time items

Comparison of financial statements according to Swedish GAAP and IFRS

In the tables below, the financial statements for the third quarter 2004 according to Swedish GAAP is accompanied with the restated financial statements according to IFRS as well as the reconciliation between the two.

A reconciliation of the full year 2004 financial statements according to Swedish GAAP and IFRS are presented in the fourth quarter interim report and annual report for year 2004.

Consolidated adjusted closing balance per Sep 30, 2004 in summary

MSEK

	Reported Sep 30, 2004	Goodwill IAS 38	Biological assets IAS 41	IFRS Sep 30, 2004
Intangible fixed assets	3,494	131		3,625
Tangible fixed assets	2,763		26	2,789
Financial fixed assets	517			517
Current operating assets	5,653			5,653
Short-term investment	1,210			1,210
Cash and bank	2,221			2,221
Total assets	15,858	131	26	16,015
Swedish Match equity holders	4,262	112	17	4,391
Minority interests	638	6	1	645
Total equity	4,900	118	18	5,036
Provisions	3,084	14	8	3,105
Long-term loans	4,047			4,047
Other long-term liabilities	20			20
Short-term loans	613			613
Other current liabilities	3,195			3,195
Total shareholders equity, provisions and liabilities	15,858	131	26	16,015

Consolidated Income Statement January – September, 2004 in summary

MSEK

	Reported Jul-Sep 2004	Goodwill IAS 38	Biological assets IAS 41	IFRS Jul Sep 2004	Reported Jan-Sep 2004	Goodwill IAS 38	Biological assets IAS 41	IFRS Jan Sep 2004
Sales, including tobacco tax	5,761			5,761	16,362			16,362
Less tobacco tax	(2,342)			(2,342)	(6,566)			(6,566)
Sales	3,419			3,419	9,797			9,797
Cost of goods sold	(1,963)		9	(1,954)	(5,421)		18	(5,403)
Gross profit	1,456		9	1,465	4,375		18	4,394
Sales and administrative expenses	(969)			(969)	(2,742)			(2,742)
Amortization, intangible assets	(87)	45		(42)	(243)	133		(111)
Shares in earnings of associated companies	(1)			(1)	(1)			(1)
	400	45	9	454	1,388	133	18	1,539
Settlement income	0			0	1,521			1,521
Operating income	400	45	9	454	2,910	133	18	3,061
Net interest expense	(32)			(32)	(113)			(113)
Other financial items, net	8			8	16			16
Net financial items	(24)			(24)	(97)			(97)
Profit before taxes	376	45	9	430	2,812	133	18	2,963
Taxes	(203)	(5)	(3)	(211)	(1,174)	(14)	(5)	(1,194)
Net income for the period	173	40	6	219	1,638	119	13	1,770
Attributable to:								
Swedish Match equity holders	156	38	6	200	1,596	113	12	1,721
Minority interests	17	2	0	19	42	6	1	49
Net income for the period	173	40	6	219	1,638	119	13	1,770
Earnings per share, basic, SEK	0.49			0.63	4.88			5.26
Earnings per share, diluted, SEK	0.49			0.63	4.86			5.24

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