



**NEPI  
ROCKCASTLE**



# 2018

ANNUAL REPORT



PHOTO: NOVI SAD, SERBIA



EXCELLENCE. INNOVATION. EXPERIENCE.

PERFORMANCE AND OPERATIONS

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[www.nepirockcastle.com](http://www.nepirockcastle.com)

for more information about us and our business

The terms 'NEPI Rockcastle', the 'Group', the 'Company', 'we', 'our' and 'us' refer to NEPI Rockcastle Plc and, as applicable, its subsidiaries and/or interests in joint ventures and associates.



# PERFORMANCE AND OPERATIONS



PHOTO: BONARKA CITY CENTER, POLAND



# Company profile

NEPI Rockcastle is the premier owner and operator of shopping centres in Central and Eastern Europe (CEE), with presence in nine countries and an investment portfolio of over €5.9 billion.

The Group benefits from a highly-skilled internal management team which combines asset management, development, investment, leasing and financial expertise. Geographically diverse management skills allow NEPI Rockcastle to pursue CEE property opportunities more efficiently, benefiting from a strategic advantage in the acquisition, development and management of properties.

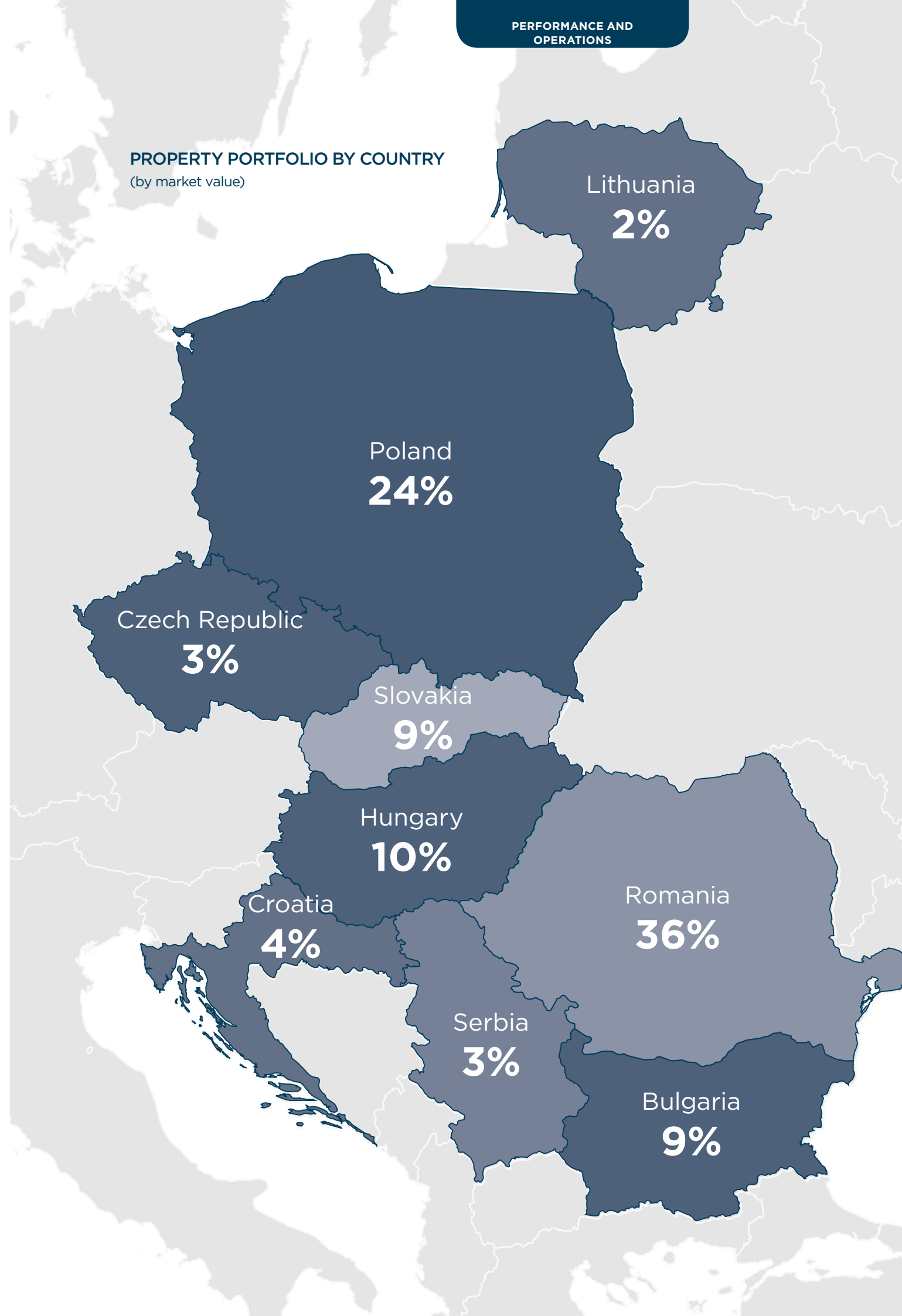
NEPI Rockcastle owns and operates 51 retail properties (excluding joint ventures) which attracted 307 million visits in 2018. With Group-level management of tenant relationships and a focus on cross-country collaboration, the Group is the leading strategic partner for major retailers targeting CEE countries.

The Group's financial strategy includes maintaining a profile of adequate liquidity, conservative gearing, and a diverse debt structure, which combines secured and unsecured bank debt with unsecured bonds listed on the Irish Stock Exchange. NEPI Rockcastle is investment-grade rated by Standard & Poor's (BBB, stable outlook) and Fitch (BBB, stable outlook).

NEPI Rockcastle's shares are listed on the Johannesburg Stock Exchange ("JSE") and Euronext Amsterdam ("Euronext"). The Group plans to distribute at least 90% of its distributable earnings on a semi-annual basis. Given the nature of its business, and as it is considered a more relevant performance measure than earnings or headline earnings per share, NEPI Rockcastle uses distribution per share as its key performance measure for trading statement purposes in accordance with the JSE Listings Requirements.

## PERFORMANCE AND OPERATIONS

### PROPERTY PORTFOLIO BY COUNTRY (by market value)



**€5.9 billion** <sup>over</sup>  
value of  
investment property

**2 million** <sup>over</sup>  
m<sup>2</sup> GLA of income-producing  
properties

**268,000** <sup>nearly</sup>  
m<sup>2</sup> GLA of  
developments and extensions

**307 million**  
visits in 2018

**99.9%**  
collection rate

**97.2%**  
EPRA occupancy rate

**480** <sup>over</sup>  
professionals



# CEO's statement

*During 2018, we have strengthened NEPI Rockcastle's position as the CEE's leading property operator, investor and developer. The Company continued to deliver strong results, in line with guidance, in a challenging year. The Group expanded its geographical coverage and benefitted from the strong performance of its property portfolio, while managing through competitive markets and changes in its own management.*

*NEPI Rockcastle has continuously adapted its strategy and prioritised long-term earnings' quality and growth, and balance sheet stability, generating increased value for its stakeholders. The Group acquired 4 dominant properties worth €594 million during this period (in Poland, Lithuania, Slovakia and Hungary), and over €260 million was invested in land and prime developments. This was funded by a material divestment from the listed securities portfolio, despite less than favourable equity markets, as well as using the Company's debt capacity while maintaining a safe credit profile.*

*Active portfolio management has been, and will continue to be, the cornerstone of NEPI Rockcastle, and significant investments have been made into properties ensuring they remain regionally dominant. Considering the recent merger and the addition of professionals in new countries, having a unified, interconnected team is essential to the Group's success, and is a priority.*

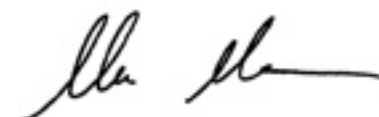
*Our portfolio performed very well throughout the year, with tenants' turnovers increasing 7.5% on average across the region, contributing to a 4.9% growth in net operating income on a like-for-like basis. Our nearly 2 million m<sup>2</sup> of leasable area attract more than 300 million visitors annually, reflecting the quality and appeal of our assets. Combined with the superior growth prospects of the economies we operate in, we are optimistic about the future potential of our portfolio.*

*To continuously improve our market positioning, our team has worked and continues progress on over a dozen individual development or redevelopment projects, which varied during the year from concept phase to permitting, ongoing construction and to completion of two greenfield developments and one material extension.*

*It is our Group's philosophy that retail needs to combine physical and digital environments where businesses engage their customers. We consider that our CEE markets have a healthy mix of brick and mortar and online retail and that the overall retail market is growing proportionately along encouraging forecasts. To keep our properties appealing from an offering point of view, our leasing team concluded during the year 763 lease agreements covering over 200,000m<sup>2</sup> of GLA, of which 522 leases (115,000m<sup>2</sup>) for units located in existing shopping centres or in extensions of the existing shopping centres and 241 leases (87,000m<sup>2</sup> GLA) in relation to green field projects. A number of these leases were successful online-only retailers entering our shopping centres with stores, as part of their strategy to pursue omni-channel retailing. Using our CEE-wide footprint, we are continuously identifying innovative retail concepts that adapt to changing consumer needs.*

*With over eleven years of success in the CEE, NEPI Rockcastle has accumulated significant retail real estate expertise and a portfolio of dominant assets across diverse jurisdictions. The Group remains confident that it is best placed to benefit from opportunities and growth in its markets, generating stability and value for its stakeholders.*

**ALEX MORAR**  
Chief Executive Officer








## Chairman's statement

NEPI Rockcastle experienced an excellent year of operations. The Company's first full year of activity since the merger, 2018 presented a variety of challenges which were successfully resolved.

The Group's strategy, focused on long-term sustainability through continued investments in regionally dominant acquisitions and developments, was successfully implemented. To ensure continued growth, the team focused on active asset management and continuously upgrading the property portfolio.

Throughout 2018, the Board optimised corporate governance and operations. This included switching to a single Chief Executive Officer (CEO) structure, and

appointing two new non-executive directors, Sipho Vuso Majija and George Aase, while Dan Pascariu (former Chairman) and Michael Mills (former Chair of Audit Committee) retired. I am honoured to have been appointed Chairman of the Board, and endorsed by the shareholders during the August 2018 Annual General Meeting. The Board thanked Spiro Noussis (former joint CEO) and Nick Matulovich (former Executive Director) for their contributions.

During 2018, stakeholder interaction was significantly more intensive than previously. Due to events outside of its control, NEPI Rockcastle faced adverse market conditions, which required materially increasing investor relations. The Company withstood the scrutiny of activist campaigns, and all allegations have been rebutted. During the year, the Financial Sector Conduct Authority (FSCA) has initiated investigations related to NEPI Rockcastle, and the Group cooperated with this review. The FSCA concluded the insider trading investigation in 2019, with no issues identified. The Group continues to offer its full support to the FSCA, advocating for a resolution of the remaining investigations, to restore market confidence.

A group of ten investors have raised concerns during 2018 following which the Board established a special sub-committee to analyse and respond to matters raised. The sub-committee engaged in fully transparent communications with its investors, and improved the existing whistle-blower facilities. The special sub-committee and the Board consider the respective matters as addressed and reconfirm that no substantiated allegations were made. The Company maintains its commitment that any future substantiated allegations will be properly scrutinised.

Following an internal investigation by the Board and sub-committee set up to analyse the related matters, the Group has, and continues to, adhere to all corporate governance and operational standards.

With a high-quality asset base of approximately €6 billion diversified across nine countries having strong macro-economic fundamentals, the Group is well positioned to tackle the challenges and benefit from the opportunities the future holds. Given the rapidly changing market conditions, the Group's versatility combined with its strategy will ensure short and long-term success.

**ROBERT EMSLIE**  
Chairman

PHOTO: PARADISE CENTER, BULGARIA





# Directors' report

## FINANCIAL AND OPERATIONAL HIGHLIGHTS\*

### Strong financial and operational performance

- Distributable earnings per share for the second half of 2018 of 26.37 eurocents, which together with the interim distribution of 26.49 eurocents per share resulted into a total distribution for the year of 52.86 eurocents per share. Distributable earnings per share are 9.5% higher than the 2017 combined distribution of 48.26 eurocents per share, and in line with previously announced earnings guidance;
- NOI growth for the retail portfolio was 4.9% in 2018 compared to the previous year (like-for-like);
- Net rental and related income ("NOI") of €346 million in 2018, up by 29.6% from €267 million in 2017 (considering full impact of former Rockcastle portfolio for 2017);
- Tenant sales increased by 7.5%; tenant sales / m<sup>2</sup> improved by 5.7%; both indicators are like-for-like and exclude hypermarkets' sales, as they don't consistently report turnover data across portfolio;
- Occupancy cost ratio was 11.9% in 2018 (excluding hypermarkets);
- EPRA vacancy of 2.8% as at December 2018;
- Consistent collection rate of 99.9% of annual gross rental income and service charge income;
- Customer footfall: 307 million visits during 2018.

### Active management of the portfolio via acquisitions and developments

- Completed acquisitions pipeline of €594 million, plus investment in land and developments of €260 million;
- Gross Lettable Area ("GLA") increased by 278,000m<sup>2</sup>;
- Entry into a new market, the Baltics, with the acquisition of Ozas Shopping and Entertainment Centre, a prime asset in Vilnius, Lithuania; this extended NEPI Rockcastle's retail presence to a total of nine countries;
- Consolidation of the Group's significant positions in the retail market through acquisitions in Hungary of Mammut Shopping Centre (Budapest), in Slovakia of Galeria Mlyny (Nitra) and in Poland of Aura Centrum (Olsztyn);
- Completion of three development and extension projects in Poland, Romania and Serbia, with a large part of the space let to leading international retailers including Carrefour, Cinema City, Douglas, Hervis, New Yorker, Orsay, Sephora, Starbucks, and the Inditex and LPP brands;
- Nine development and extension projects ongoing in CEE, totalling over 100,000m<sup>2</sup>, across four different markets.

### Robust balance sheet

- Total value of direct property portfolio owned by NEPI Rockcastle of over €5.9 billion, 20% larger than at the end of 2017;
- EPRA NAV per share of €7.09 (IFRS NAV per share of €6.66) compared to €7.10 (IFRS NAV per share of €6.78) in previous year;
- Net listed securities portfolio represented 3% of total assets, a significant decrease compared to 10% at December 2017;

*\*All information in the Directors' report excludes joint ventures, unless otherwise stated*

## PERFORMANCE AND OPERATIONS

PHOTO: GALERIA WARMIŃSKA, POLAND



- Loan to Value ratio ("LTV") of 33%, below the Group's strategic target of 35% and with comfortable headroom to the unsecured debt covenant of 60%;
- Investment grade credit ratings by Standard & Poor's (BBB, stable outlook) and Fitch (BBB, stable outlook);
- Weighted average cost of debt of 2.3%;
- All interest rate exposure related to long-term loans is hedged (excluding revolving facilities), with a remaining weighted average hedge term of 4.1 years.

## ENHANCED DISCLOSURE AND TRANSPARENCY

In 2018, the Group joined European Public Real Estate Association (EPRA) and started reporting EPRA indicators with the aim to enhance disclosure and transparency, while aligning to industry standards.

	2018	2017
EPRA NAV per share (€)	7.09	7.10
EPRA Earnings (€ million)	308.7	212.9*
EPRA Earnings per share (€cents per share)	53.43	37.81*
EPRA Net Initial Yield (NIY)	6.74%	6.69%
EPRA 'topped-up' NIY	6.82%	6.73%
EPRA vacancy rate	2.8%	n/a**

\*EPRA Earnings are computed based on IFRS financial statements which included the effect of the merger with Rockcastle from 11 July 2017 onwards. Thus, EPRA earnings do not incorporate the company specific adjustments relating to antecedent dividend corresponding to Rockcastle distributable earnings for the six-months ended 30 June 2017 and antecedent dividend corresponding to the equity issue in October 2017, respectively (cumulated effect of €56,392 thousand).

\*\* The Group became an EPRA member in 2018 and the EPRA vacancy rate was not computed for the comparative period.

Detailed computation of EPRA indicators on pages 26-29.

## RETAIL TRANSFORMATION

Penetration of e-commerce and retail area supply relative to population in the Group's region are on average lower in CEE as compared to the Western markets. Even though the CEE region is not under the same pressure for retail transformation, the Company is embedding international trends in changing consumer preferences into its business model. Active dialogue with leading online retailers led to high-profile online brands within the region such as epantofi.ro, eobuwie.com.pl, Notino and eMag opening brick-and-mortar shops in our malls in Poland and Romania.

It is notable that the overall supply of shopping centres per capita is lower in CEE than Western Europe or the US, and CEE malls are relatively newer and more modern. Furthermore, online penetration in Eastern Europe is low at 3%, compared to Western Europe at 9%. North America has the highest global penetration rate: 11% (GlobalData source).

NEPI Rockcastle is focused on offering customers preferred social and recreational destinations by actively upgrading the leisure and entertainment activities in its shopping centres. In 2018, the Group refurbished and extended food courts and leisure areas in Kragujevac Plaza, Shopping City Timisoara, Shopping City Ploiesti, Braila Mall and City Park Constanta and started the refurbishment of food court in Mega Mall Bucharest, Shopping City Sibiu and Aurora Mall Buzau. For newly development shopping centers the Group applied new design trends, resulting in more attractive leisure areas (e.g: Shopping City Satu Mare and Promenada Novi Sad).





PHOTO: AURA CENTRUM, POLAND

## OZAS SHOPPING AND ENTERTAINMENT CENTRE

Vilnius, Lithuania

Acquisition date: 31 May 2018

NEPI Rockcastle acquired Ozas, a 62,400m<sup>2</sup> GLA modern shopping centre with a strong fashion and entertainment-oriented tenant mix, benefiting from an excellent location in Vilnius. The top five tenants by rented area are H&M, Maxima, Multikino, Peek&Cloppenburg and Zara.

Vilnius is the capital city of Lithuania and has a population of 574,000 residents, with 432,000 inhabitants within a 15-minute drive from Ozas. The centre has an annual footfall in excess of 5 million people.

## GALERIA MLYNY SHOPPING CENTRE

Nitra, Slovakia

Acquisition date: 31 May 2018

The Group acquired Galeria Mlyny, a 32,400m<sup>2</sup> GLA central shopping and entertainment destination in Nitra, Slovakia. The top five tenants by rented area are Billa, C&A, H&M, Mlyny Cinemas and New Yorker. The city is the oldest urban centre in Slovakia, the seat of two universities, and is inhabited by approximately 79,000 people; it is also the capital of the Nitra region, populated by over 689,000 people. Approximately 356,000 inhabitants are within a 30-minute drive from the shopping centre. Footfall exceeded 8.8 million last year.

## MAMMUT SHOPPING CENTRE

Budapest, Hungary

Acquisition date: 11 September 2018

The Group acquired the controlling stake in Mammut, one of the largest and most successful shopping and entertainment destinations in Budapest, which is prominently located at Kalman Square, the busiest interchange hub in the Buda side of the city. The centre offers 61,300m<sup>2</sup> of total GLA (out of which 56,100m<sup>2</sup> is owned by NEPI Rockcastle) in two buildings connected via a double-level pedestrian bridge and includes key anchors such as Cinema Pink, H&M, Hervis, Interspar, Media Markt, New Yorker and Reserved. Mammut is the second dominant asset that the Group controls in the Hungarian capital.

Budapest is one of the largest cities in the CEE: it is inhabited by 1.75 million people and its metropolitan area houses a third of the country's population. The centre is visited by 15.6 million people each year.

# Directors' report » continued

## PROPERTY PORTFOLIO

NEPI Rockcastle implemented its announced strategy of converting the majority of its portfolio of liquid listed securities into direct property investment, decreasing the listed securities exposure to €197 million, from €593 million at December 2017. The remaining exposure consists of shares in two large companies, Unibail Rodamco Westfield and Klepierre, that operate primarily in the US, UK, and Continental Europe

## ACQUISITIONS

NEPI Rockcastle completed acquisitions of €594 million and added a total of over 176,300m<sup>2</sup> GLA to its direct property portfolio during 2018. The main acquisitions are detailed below.

## AURA CENTRUM

Olsztyn, Poland

Acquisition date: 30 May 2018

The Group acquired Aura Centrum, a 25,400m<sup>2</sup> GLA shopping and entertainment centre in the heart of Olsztyn. The top five tenants by rented area are Carrefour, H&M, Kino Helios, New Yorker and Reserved. Olsztyn, a city with centuries of history, has a population of 173,000 inhabitants; it is located in north-eastern Poland and is the capital of the Warmian-Masurian province, with a population of over 1.4 million people. The city ranks highly in quality of life, income, employment and security. The shopping centre is within a 15-minute drive for over 180,000 inhabitants and attracts 5.5 million people on an annual basis.

PHOTO: GALERIA MLYNY SHOPPING CENTRE, SLOVAKIA





PHOTO: PROMENADA NOVI SAD, SERBIA



# Directors' report» continued

## DEVELOPMENTS AND EXTENSIONS

The Group has and will continue to invest strategically in developments that contribute to growth in distributable earnings per share or improve long-term prospects for its portfolio. NEPI Rockcastle is pursuing a development pipeline which exceeds €1 billion (including redevelopments and extensions, estimated at cost), of which €200 million was spent until 31 December 2018. Out of the remaining investments, only 24% have already been committed, which gives the Group flexibility regarding prioritisation and timing of its pipeline projects.

## COMPLETED DEVELOPMENTS AND EXTENSIONS

### PLATAN SHOPPING CENTRE EXTENSION

Zabrze, Poland  
Opening date: 26 October 2018

After 15 months of works, the extension of over 14,000m<sup>2</sup> of Platan Shopping Centre opened in October 2018. The city of Zabrze has a population of 175,000 residents and is part of the Silesian metropolitan area that has 4.6 million residents. The centre serves a 30-minute catchment of 1,968,000 people. The centre has an EPRA occupancy rate of 93.6%. The extension positioned Platan as an upgraded, fourth generation, upscale shopping centre with a total GLA of 39,400m<sup>2</sup>; the centre now includes previously missing functions, such as a food court, fitness centre, cinema and intelligent parking, as well as new brands such as Carry, Cropp, Home & You, House, Kids Play, KIK, Martes Sport, Maxi Zoo, Neonet, Pepco, Reserved, Super-pharm and TEDI.

### PROMENADA NOVI SAD

Novi Sad, Serbia  
Opening date: 15 November 2018

After 16 months of works, NEPI Rockcastle opened its first greenfield development in Serbia. With a 49,200m<sup>2</sup> GLA, it is the largest mall in Serbia. It is located in Novi Sad, the country's second largest city, with a population of approximately 320,000 inhabitants. The centre serves a 45-minute catchment of 607,000 people. The city is also 2019's European Youth Capital, was named Lonely Planet's third best city to visit in 2019 and, in 2021, will be the first non-European Union city to be the European Capital of Culture.

The centre has an EPRA occupancy of 98.2% and boasts an attractive tenant mix such as: Adidas, Armani Exchange, Cineplexx, Diesel, Guess, Inditex (Zara, Massimo Dutti, Zara Home, Oysho, Bershka, Pull&Bear, Stradivarius), KFC, Lacoste, LC Waikiki, LPP (Reserved, Cropp, Sinsay, House, Mohito), McDonald's, New Yorker, Nike, Tommy Hilfiger and Univerexport Supermarket. The Group's strategy to increase the size and quality of the food and leisure offering was implemented by accommodating a Cosmoland playground, Pro Fitness, two outdoor terraces used by four restaurants and a large, naturally-lit food court with cozy seating areas.

### SHOPPING CITY SATU MARE

Satu Mare, Romania  
Opening date: 5 December 2018

The Group successfully completed the construction of the 29,200m<sup>2</sup> GLA modern retail and entertainment destination in the heart of Satu Mare, a city of 123,000 residents, with a history going back to the Middle Ages. The centre is the prime shopping destination for the 288,000 inhabitants that live within a 45-minute catchment area. Satu Mare Shopping Centre is anchored by the city's first Carrefour hypermarket and has over 1,000 parking bays. The centre has a 97.3% EPRA occupancy, hosting tenants such as: Carrefour, CCC, Cineplexx (the first in Romania), Deichmann, Douglas, Hervis, Intersport, KFC, LC Waikiki, New Yorker, Pepco, Reserved and Smyk.

The centre features an outdoor terrace of over 1,000m<sup>2</sup>, overlooking Somes River, which will be connected to the historical city center by a pedestrian bridge. The terrace has three outdoor dining areas with selected regional restaurants. With a welcoming design that includes an integrated green area, the terrace complements the entertainment offering and is expected to become the main social hub of the region.



# Directors' report» continued

## DEVELOPMENTS AND EXTENSIONS PIPELINE

### SOLARIS SHOPPING CENTRE EXTENSION

Opole, Poland

Construction work on the approximately 8,900m<sup>2</sup> extension, including the development of a multi-level basement parking and a new town square in front of the main entrance, are ongoing. Tenant demand is strong: C&A, CCC, Deichmann, Guess, Just Gym, KFC, LPP group brands, McDonald's and Smyk have signed lease agreements.

Following the extension, Solaris will be a 26,000m<sup>2</sup> dominant shopping centre serving the 128,000 citizens of Opole, a beautiful historical city. The project's expected delivery date is in the second quarter of 2019.

### DEVELOPMENTS IN SIBIU: FESTIVAL DEVELOPMENT AND SHOPPING CITY SIBIU RECONFIGURATION AND EXTENSION

Sibiu, Romania

The Group is continuing the development work on its two projects in Sibiu, one of the most developed and affluent cities in Romania, a major tourist destination and home to over 170,000 citizens. The two projects will satisfy a 45-minute catchment of 286,000 residents and complement each other's offering.

Festival is conveniently located in the inner city. The mall will have a 42,200m<sup>2</sup> GLA, with the first Kaufland supermarket located in a shopping centre in Romania, and a strong fashion and entertainment offering: Cinegold, H&M, Inditex (Zara, Massimo Dutti, Oysho, Bershka, Pull&Bear, Stradivarius) and New Yorker. The project is expected to be delivered by the end of 2019. Its architectural concept will be unique, allowing the centre to seamlessly blend into the city's medieval skyline.

Shopping City Sibiu will remain the larger destination shopping centre, with a 83,100m<sup>2</sup> GLA post-reconfiguration and extension, catering to a wider range of product demand via its two hypermarkets as well as a DIY store. Shopping City Sibiu was recently refurbished and extended, with several fashion brands added, such as Cropp, De Facto (first store in the country), House, LC Waikiki, Mohito, Reserved and Smyk. Some of the existing stores were refurbished and extended: CCC, Douglas, Humanic and Noriel. The second phase of the extension will open in spring 2019, with the food court, cinema and open-air terrace served by new tenants such as KFC, Pepp&Pepper, Salad Box and Taco Bell.

### AURORA SHOPPING MALL EXTENSION

Buzau, Romania

In October 2018, the Group started the development work on the 6,000m<sup>2</sup> GLA extension and reconfiguration of Aurora Mall. The centre is a top performer due to its unique location and access; it is now being refurbished to include a Cinema City, a food court and several new fashion tenants. Buzau, a city with a population of 133,000 residents, is a major transit-hub that links Bucharest to the Moldavia region. Buzau is the seat of a county with over 430,000 residents that substantially overlaps with the centre's 45-minute catchment area.

The extension and reconfiguration will be done in several phases expected to be completed by the end of the year, with the exception of the Cinema City that will open in spring 2020.

### ARENA CENTAR - SHOPPING CENTRE EXTENSION AND RECONFIGURATION, AND RETAIL PARK DEVELOPMENT

Zagreb, Croatia

Arena Centar is one of the most successful assets in the Group's portfolio, and the top retail destination in Zagreb. The city is the capital of Croatia and has a population of over 800,000 residents; its metropolitan area houses almost a quarter of the country's population.

The Group has planned to extend the centre since its acquisition; the extensive reconfiguration will be fully completed during 2019, bringing the total GLA to 67,200m<sup>2</sup> and adding brands such as CK, Gap, Muller, Peek and Cloppenburg, TAF and Under Armour, together with the extensions of Adidas, Fashion Friends, Sport Vision and Stradivarius.

In addition, a new retail park adjacent to the shopping centre is almost completed and expected to open in May 2019, adding 8,300m<sup>2</sup> of GLA. The retail park will extend the range of tenant mix available to Arena Zagreb with Extra Sport, Intersport, Jysk, LC Waikiki (market entry in Croatia), Pepco, Pitta Rosso and Sancta Domenica.

### FOCUS MALL ZIELONA GORA EXTENSION

Zielona Gora, Poland

The Company has started the 15,000m<sup>2</sup> GLA extension of Focus Mall Zielona Gora, a vibrant city well known for its annual wine festival, the largest municipality and the seat of Lubuskie Voivodeship. It is well connected to several international roads and rail routes.

Once completed, the 43,900m<sup>2</sup> GLA mall will be the main retail destination for 140,000 inhabitants in a 30-minute catchment area, including the 284,000 citizens of the city. The extension is expected to be finalised in Q4 2020.

### TARGU MURES DEVELOPMENT

Targu Mures, Romania

The Company is in process of obtaining a building permit for the development of a 41,300m<sup>2</sup> GLA shopping mall in the south-eastern part of Targu Mures, the seat of Mures county. A vibrant and multi-cultural city of 148,000 inhabitants, Targu Mures is also home to the largest urban Hungarian community in Romania.

The project aims to become the regional dominant mall and offer to the 390,000 residents estimated to be living in a 45-minute catchment area access to a large hypermarket, numerous fashion stores, food court and cinema with leisure areas. Targu Mures Shopping City is currently 30% pre-leased and will be anchored by a Carrefour hypermarket. The project is expected to be completed in Q2 2020, depending on permitting.



PHOTO: ARENA CENTAR, CROATIA



PHOTO: BONARKA CITY CENTER, POLAND



# Directors' report» continued

## CASH MANAGEMENT AND DEBT

The Group has a strong liquidity profile, with €97 million in cash, €236 million in available unsecured revolving facilities, and €197 million net available in the listed securities portfolio at 31 December 2018.

NEPI Rockcastle's gearing ratio (interest bearing debt less cash, divided by investment property and listed securities) was 33%, below the gearing ratio target of 35%.

The average interest rate, including hedging costs, was 2.3% during 2018. As at 31 December 2018, fixed-coupon bonds represented 43% of NEPI Rockcastle's outstanding debt, and out of the remaining long-term debt exposed to Euribor, 30% was hedged with interest rate caps and 48% with interest rate swaps (the difference relates to the outstanding revolving facilities).

Depending on market conditions, the Group may initiate a repurchase of issued bonds or shares during the upcoming reporting periods.

In February 2019, NEPI Rockcastle has decided to discontinue the credit rating agreement with Moody's with a view of optimising costs and management time.

## ACCOUNTING AND AUDIT MATTERS

### Valuation

NEPI Rockcastle reassesses the valuation of its property portfolio twice a year. Fair value is determined by external, independent professional valuers, with appropriate and recognised qualifications, and recent experience in the location and category of property being valued. The valuations as at 31 December 2018 were performed by Cushman&Wakefield, Cushman&Wakefield Affiliate Partners and Jones Lang La Salle, and reviewed by the Company's auditors, PricewaterhouseCoopers LLC ("PwC"), as part of the year-end audit procedures.

### External audit

The Group's consolidated financial statements are audited by PwC Isle of Man, by relying on the work of PwC firms in the jurisdictions where the Group operates. The local PwC firms audit the standalone IFRS financial information of the subsidiaries, for the purpose of issuing an audit report on the consolidated financial statements of the Group, prepared in accordance with IFRS. For 2018, all property-owning subsidiaries requiring statutory audit will be audited by PwC, except for Ploiesti Shopping City. For statutory reporting purposes, audit requirements are driven by local regulations, and not all subsidiaries are required to submit statutory audited financial statements.

## CORPORATE GOVERNANCE

The membership of the Board of Directors went through several changes in 2018. As announced on 12 June 2018, the executive management evolved into a sole CEO structure. In line with best practice and corporate governance principles, the Company rotates its board members to achieve a Board comprised of highly qualified and experienced directors. The Company would like to thank once more its former directors, Mr. Dan Pascariu, Mr. Michael Mills, Mr. Spiro Noussis and Mr. Nicholas Matulovich for their valuable contribution and at the same time welcome its new directors: Mr. George Aase and Mr. Sipho Vuso Majija.

NEPI Rockcastle has initiated the process for obtaining an Environmental, Social and Governance (ESG) rating. Initiatives are detailed in the Corporate Governance section of this Annual Report.



# Directors' report » continued

## DISTRIBUTABLE EARNINGS

The Group achieved 26.37 eurocents in distributable earnings per share for the second half of 2018, which, aggregated with the distribution achieved for the six months ended 30 June 2018 of 26.49 eurocents per share, results in a total distribution per share of 52.86 euro-cents for the year ended 31 December 2018. The 2018 distribution is 9.5% higher than the 2017 distribution of 48.26 eurocents per share. This growth is in line with previously announced guidance, although macroeconomic circumstances proved more challenging than initially envisaged. The strong results reflect the solid performance of the Group's assets and management team, and the quality of acquisitions and developments completed during the year.

The Board of Directors declares a distribution of 26.37 euro cents per share for the second half of 2018. Shareholders can elect to receive distribution either in cash or as an issue of fully-paid shares based on a ratio between distribution declared and the reference price. The reference price will be calculated using a maximum 5% discount to the five-day volume-weighted average traded price, less distribution, of NEPI Rockcastle shares on the JSE. The Company reserves the right to limit the total allocation of shares as a percent of the total distribution. A circular containing full details of the election being offered to shareholders, accompanied by announcements on the Stock Exchange News Service (SENS) of the JSE and Euronext Amsterdam will be issued in due course.

## PROSPECTS AND EARNINGS GUIDANCE

NEPI Rockcastle's strategy is to continue focusing on the long-term performance of its portfolio and selective expansion via developments and acquisitions. Leveraging on the quality of the existing portfolio and management platform, future results are expected to outperform those of the Company's peers operating in the same markets. Moreover, superior GDP growth between 2.8% and 4.5% is expected to continue in CEE, relative to EU average of 2.2%, driving up retail consumption and tenant turnovers in the countries where NEPI Rockcastle operates. The Company will maintain a flexible approach to new development and acquisition opportunities, considering the availability and cost of funding, with the aim of optimising the long-term benefit to its stakeholders.

Based on strategic options currently under management's control, distributable earnings per share for 2019 are expected to be approximately 6% higher than the 2018 distribution. This guidance is based on the assumptions that a stable macroeconomic environment prevails, no major corporate failures occur and controlled developments remain on schedule. This forecast has not been audited or reviewed by NEPI Rockcastle's auditors and is the responsibility of the Board of Directors.



PHOTO: ARENA CENTAR, CROATIA





# Strong strategic positioning oriented towards long-term growth

NEPI Rockcastle's strategy is based on a sustainable business model which combines the high-quality of assets with the success of the tenants and prudent financial management, enabling the Group to deliver sustainable income growth over the long-term.

## INVESTMENT APPROACH

The Group is committed to invest selectively in assets that meet its rigorous investment criteria. **Retail assets must be or have the potential to be dominant. Size is critical to achieve comprehensive offering and an optimum tenant mix**, including a large proportion of food and fashion anchors with a substantial leisure and entertainment area. **Good location, access, visibility, design and technical specifications, and potential for extension** reduce the threat of significant future competition.

Professional active management of such properties creates significant and valuable growth opportunities.

**NEPI Rockcastle pursues low-risk development, redevelopment and extension opportunities, in a non-speculative phased manner.** Construction costs are committed to on a gradual basis, following the achievement of pre-leasing targets agreed by the Board and are limited to the availability of internal sources of financing.

The Group also owns and manages an office portfolio; office buildings are located in large cities, in central locations, and have excellent access to public transportation, up-to-date technical specifications, large floor areas, high efficiency rates and high parking ratios. The Company has pursued office acquisitions and developments on rare occasions, and the proportion of offices, as a percentage of total assets, is expected to further decrease.

## OPERATIONAL EXCELLENCE

The Group's **strong corporate culture** is focused on planning, quality of execution, sustainability, ethics and early risk assessment.

The Group has great **in-house expertise in all key functions**, combining investment, development, asset and property management, leasing, accounting and finance skills, in an integrated approach.

**Outstanding knowledge and expertise in the CEE retail markets** is illustrated by best-in-class indicators, such as consistently high collection and occupancy rates, low occupancy cost for tenants, increase in tenant sales and footfall and strong organic growth despite operating in low inflation environments. Preventative maintenance decreases long-term capital expenditure, service charge levels and non-recoverable expenses.

With a **broad platform across nine CEE countries** and 307 million visits, the Group is focused on **adapting its business model** to the changing consumer preferences and **building strong, trust-based relationships with leading retailers** across CEE, sharing both a long-term vision and the capacity for innovation.

## PRUDENT FINANCIAL STRATEGY

Growth is funded through a **combination of equity issues and debt**.

The debt strategy focuses on a **targeted 35% loan-to-value (LTV)**, maintaining high interest coverage ratios and diversifying financing sources to optimise cost of debt. Debt funding is biased towards group-level unsecured bonds and revolving facilities, adding secured bank debt only when it decreases the overall cost of funding. **As at 31 December 2018, the LTV ratio was 33%, while 72% of total assets were unencumbered.**



# Strong operational and financial performance



PHOTO: MAMMUT SHOPPING CENTRE, HUNGARY

**Operational performance indicators**

Net Rental and Related Income (NOI)	€346m
NOI growth (like-for-like)	4.9%
Weighted average remaining lease term	4 years
Collection rate	99.9%
EPRA occupancy ratio	97.2%
Turnover/m <sup>2</sup> increase (like-for-like)	5.7%
Tenants turnover growth (like-for-like)	7.5%
Occupancy cost ratio*	11.9%

\* Base and overage rent, service charge and marketing contribution, divided by tenant sales; excludes sales reported by hypermarkets.

**Financial performance indicators**

Loan-to-value*	33%
Unencumbered assets (% of total assets)	72%
Cost of debt	2.3%
Average remaining debt maturity	3.1 years
Long-term interest rate hedge coverage	100%**
Distributable earnings per share (eurocents)	52.86
EPRA NAV per share (euro)	7.09

\* Interest bearing debt less cash divided by investment property and net listed securities

\*\* Exposure related to long-term loans excluding revolving facilities



# EPRA PERFORMANCE MEASURES

In 2018, NEPI Rockcastle joined European Public Real Estate Association (EPRA), the representative organisation of the publicly listed real estate industry in Europe. EPRA has established a set of Best Practice Recommendation Guidelines (EPRA BPR), which focus on the key measures of the most relevance to investors. These recommendations aim to give financial statements of public real estate companies more clarity, more transparency and comparability across european peers.

EPRA performance measures reported by NEPI Rockcastle are set out below:

	2018	2017
EPRA NAV per share (€)	7.09	7.10
EPRA Earnings (€ million)	308.7	212.9*
EPRA Earnings per share (€cents per share)	53.43	37.81*
EPRA Net Initial Yield (NIY)	6.74%	6.69%
EPRA 'topped-up' NIY	6.82%	6.73%
EPRA vacancy rate	2.8%	n/a**

\*EPRA Earnings are computed based on IFRS financial statements which included the effect of the merger with Rockcastle from 11 July 2017 onwards. Thus, EPRA earnings do not incorporate the company specific adjustments relating to antecedent dividend corresponding to Rockcastle distributable earnings for the six-months ended 30 June 2017 and antecedent dividend corresponding to the equity issue in October 2017, respectively (cumulated effect of €56,392 thousand).

\*\* The Group became an EPRA member in 2018 and the EPRA vacancy rate was not computed for the comparative period.



PHOTO: SHOPPING CITY DEVA, ROMANIA

## EPRA EARNINGS

EPRA Earnings presents the underlying operating performance of a real estate company excluding fair value gains or losses on investment properties, profit or loss on disposals and other non-recurring items, that are not considered to be part of the core activity of the Group.

amounts in € thousand

EPRA Earnings	Dec 2018	Dec 2017
<b>Earnings in IFRS Consolidated Statement of Comprehensive Income</b>	<b>221 855</b>	<b>(579 694)</b>
Fair value adjustments of investment property	(108 411)	(162 022)
Fair value and net result on sale of financial investments at fair value through profit or loss	152 047	24 112
Gain on acquisition of subsidiaries / Sale of investment property	(6 933)	(9)
Goodwill impairment	-	886 167
Fair value adjustment of interest rate derivatives financial assets and liabilities	1 432	(500)
Acquisition fees	6 079	10 681
Deferred tax expense	45 326	46 199
Adjustments above in respect of joint ventures	(2 455)	(11 780)
Non-controlling interests	(236)	(226)
<b>EPRA Earnings (interim)</b>	<b>164 104</b>	<b>76 743</b>
<b>EPRA Earnings (final)</b>	<b>144 600</b>	<b>136 185</b>
<b>EPRA Earnings (total)</b>	<b>308 704</b>	<b>212 928</b>
<b>Number of shares for interim distribution</b>	<b>577 800 734</b>	<b>538 953 857</b>
<b>Number of shares for final distribution</b>	<b>577 800 734</b>	<b>577 800 734</b>
<b>EPRA Earnings per Share (EPS interim) (euro cents)</b>	<b>28.40</b>	<b>14.24</b>
<b>EPRA Earnings per Share (EPS final) (euro cents)</b>	<b>25.03</b>	<b>23.57</b>
<b>EPRA Earnings per Share (EPS total) (euro cents)</b>	<b>53.43</b>	<b>37.81</b>
<b>Company specific adjustments:</b>		
Amortisation of financial assets	(2 291)	(1 807)
Reverse foreign exchange loss	923	1 255
Add back realised foreign exchange loss	(913)	(766)
Reverse income from financial investments at fair value through profit or loss	(29 132)	(18 084)
Add accrued dividends from financial investments at fair value through profit or loss*	28 122	19 803
Antecedent dividend	-	56 392
<b>Distributable Earnings (Interim)</b>	<b>153 041</b>	<b>126 423</b>
<b>Distributable Earnings (final)</b>	<b>152 372</b>	<b>143 298</b>
<b>Distributable Earnings (total)</b>	<b>305 413</b>	<b>269 721</b>
<b>Distributable Earnings per Share (interim) (euro cents)</b>	<b>26.49</b>	<b>23.46</b>
<b>Distributable Earnings per Share (final) (euro cents)</b>	<b>26.37</b>	<b>24.80</b>
<b>Distributable Earnings per Share (total) (euro cents)</b>	<b>52.86</b>	<b>48.26</b>

\*Dividends from financial investments are recognised on IFRS when the company's right to receive payment is established. For distribution purposes, whose computation is in line with the Best Practice Recommendations of the South African REIT Association, the dividends recognised under IFRS are reversed and an adjustment matching the income to the period for which the investment is held is made under "accrued dividends from financial investments at fair value through profit or loss".



# EPRA PERFORMANCE MEASURES» continued

## EPRA NET ASSET VALUE (EPRA NAV)

EPRA NAV is a measure of the fair value of net assets assuming a real estate company owning and operating investment property for the long term. The objective of the EPRA NAV measure is to highlight the fair value of net assets on a going concern basis. Assets and liabilities not expected to crystallise in normal circumstances, such as the fair value of financial derivatives and deferred taxes are therefore excluded.

amounts in € thousand

EPRA Net Asset Value	Dec 2018	Dec 2017
<b>Equity as per financial statements</b>	<b>3 845 873</b>	<b>3 914 719</b>
Interest rate derivatives financial (assets)/liabilities at fair value through profit or loss*	(5 004)	3 941
Net deferred tax liabilities*	348 192	267 471
Goodwill	(93 070)	(82 582)
<b>Net Asset Value (EPRA NAV)</b>	<b>4 095 991</b>	<b>4 103 549</b>
Number of shares	<b>577 800 734</b>	<b>577 800 734</b>
<b>EPRA NAV per share (€)</b>	<b>7.09</b>	<b>7.10</b>

\* The items above include joint ventures effect. The deferred tax liabilities for joint ventures amount to €10,744 thousand as at 31 December 2018 (2017: €8,856 thousand). Interest rate derivatives financial liabilities at fair value through profit or loss for joint ventures amount to €916 thousand as at 31 December 2018 (2017: €1,056 thousand).

## EPRA TRIPLE NET ASSET VALUE (NNNAV)

In comparison with EPRA NAV, EPRA NNNAV includes the deferred tax liabilities and fair value of financial instruments and therefore it is a measure of the real estate company's fair value at the balance sheet date. Thus, EPRA NNNAV reflects the fair value of net assets of the company as a "spot" measure as opposed to EPRA NAV, which reflects the fair value of net assets on a going concern basis. However, EPRA NNNAV is not a liquidation NAV as the fair values of assets and liabilities are not based on a liquidation scenario.

amounts in € thousand

EPRA Triple Net Asset Value (NNNAV)	Dec 2018	Dec 2017
<b>EPRA NAV</b>	<b>4 095 991</b>	<b>4 103 549</b>
Interest rate derivatives financial assets/(liabilities) at fair value through profit or loss*	<b>5 004</b>	<b>(3 941)</b>
Difference between the secondary market price and accounting value of debt	<b>106 102</b>	<b>(19 400)</b>
Net deferred tax liabilities*	<b>(348 192)</b>	<b>(267 471)</b>
<b>Triple Net Asset Value (EPRA NNNAV)</b>	<b>3 858 905</b>	<b>3 812 737</b>
Number of shares	<b>577 800 734</b>	<b>577 800 734</b>
<b>EPRA NNNAV per share (€)</b>	<b>6.68</b>	<b>6.60</b>

\* The items above include joint ventures effect. The deferred tax liabilities for joint ventures amount to €10,744 thousand as at 31 December 2018 (2017: €8,856 thousand). Interest rate derivatives financial liabilities at fair value through profit or loss for joint ventures amount to €916 thousand as at 31 December 2018 (2017: €1,056 thousand).

## EPRA NET INITIAL YIELD (NIY) AND EPRA 'TOPPED-UP' NIY

The EPRA NIY (Net Initial Yield) is calculated as the annualized rental income based on passing cash rents, less non-recoverable property operating expenses, divided by the gross market value of the property. In EPRA "topped-up" NIY, the net rental income is "topped-up" to reflect rent after the expiry of lease incentives such as rent free periods and rental discounts.

amounts in € thousand

EPRA NIY and 'topped-up' NIY <sup>1</sup>	Dec 2018	Dec 2017
Investment property as per financial statements	5 911 070	4 927 509
Investment property under joint ventures (on a pro-rata basis)	116 590	112 150
Investment property held for sale	11 957	10 238
Less investment property under development	(222 460)	(202 416)
<b>Total investment property in use including joint ventures (on a pro-rata basis)</b>	<b>5 817 157</b>	<b>4 847 481</b>
Estimated purchasers' costs	29 086	24 237
<b>Gross up value of the investment property in use including joint ventures (on a pro-rata basis)</b>	<b>5 846 243</b>	<b>4 871 718</b>
Annualised cash passing rental income	398 172	327 600
Non-recoverable property operating expenses	(3 903)	(1 771)
<b>Annualised net rents</b>	<b>394 269</b>	<b>325 829</b>
Notional rent expiration of rent free periods or other lease incentives	4 570	1 951
<b>Topped-up net annualised rent</b>	<b>398 839</b>	<b>327 780</b>
<b>EPRA Net Initial Yield (EPRA NIY)</b>	<b>6.74%</b>	<b>6.69%</b>
<b>EPRA "topped-up" NIY</b>	<b>6.82%</b>	<b>6.73%</b>

## EPRA VACANCY RATE

The EPRA vacancy rate estimates the percentage of the total potential rental income not received due to vacancy. The EPRA vacancy rate is calculated by dividing the estimated rental value of vacant premises by the estimated rental value of the entire property portfolio if all premises were fully leased. The EPRA vacancy rate is calculated using valuation reports performed by independent experts.

EPRA Vacancy Rate*	Dec 2018
Estimated Rental Value of vacant space	11,233,501
Estimated Rental Value of the entire portfolio	408,266,308
<b>EPRA Vacancy Rate</b>	<b>2.8%</b>

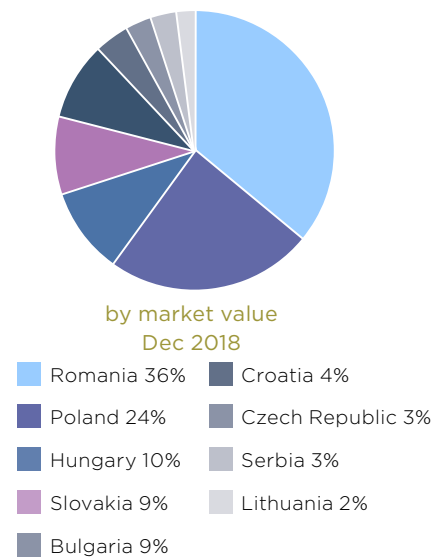
\* Excluding joint ventures.

Country	EPRA Vacancy Rate	Segment	EPRA Vacancy Rate
Romania	2.2%	Retail	2.8%
Poland	3.6%	Office	2.3%
Hungary	3.9%	Industrial	1.7%
Lithuania	2.0%	<b>EPRA Vacancy Rate</b>	<b>2.8%</b>
Slovakia	2.2%		
Croatia	2.1%		
Serbia	1.5%		
Bulgaria	1.6%		
Czech Republic	8.7%		
<b>EPRA Vacancy Rate</b>	<b>2.8%</b>		



# Portfolio at a glance

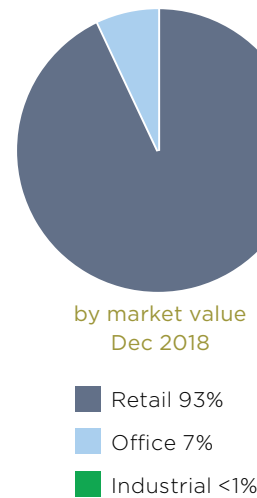
## GEOGRAPHICAL PROPERTY PORTFOLIO PROFILE



Geographical property portfolio profile by gross rentals:  
Romania - 39%, Poland - 22%, Bulgaria - 9%,  
Slovakia - 9%, Hungary - 9%, Croatia - 4%,  
Czech Republic - 3%, Serbia - 3% and Lithuania 2%.

Geographical property portfolio profile by rentable area:  
Romania - 44%, Poland - 22%, Bulgaria - 8%,  
Slovakia - 6%, Hungary - 6%, Czech Republic - 4%,  
Serbia - 4%, Croatia - 3%, and Lithuania 3%.

## SECTORAL PROPERTY PORTFOLIO PROFILE



Sectoral property portfolio profile by gross rentals:  
Retail - 92%, Office - 8% and Industrial - <1%.

Sectoral property portfolio profile by rentable area:  
Retail - 91%, Office - 8% and Industrial - 1%.

## KEY PROPERTY INFORMATION\*

	Group 31 Dec 2018	Group 31 Dec 2017
<b>Total number of properties</b>	<b>63</b>	<b>59</b>
Income-producing properties	59	54
Greenfield developments	4	5
Extensions to existing properties	8	10
Fair value of properties (€ million)	5,911	4,928
Annualised property yield (by passing rent)	6.8%	6.7%
<b>Lettable area (thousand m<sup>2</sup>)</b>	<b>2,292</b>	<b>2,037</b>
Income-producing properties	2,024	1,746
Properties under development (estimated)	268	291
<b>Weighted average remaining lease term</b>	<b>4.0</b>	<b>4.0</b>
<b>Weighted average rent (€/m<sup>2</sup>/month)</b>	<b>16.0</b>	<b>15.8</b>

\* Excludes non-core properties held for sale and joint ventures.  
All figures in this section are weighted by ownership. Detailed property schedule is included in this report at pages 224-225.

## OVERVIEW OF VALUATION YIELDS

Country	Segment	Number of properties	Prime yield*	Capitalisation rate**
Romania	Retail	24	6.75%	7.25%
Romania	Office	4	7.25%	7.25%
Romania	Industrial	2	8.75%	8.75%
Poland	Retail	12	4.25%	6.00%
Slovakia	Retail	5	5.50%	6.50%
Slovakia	Office	1	6.00%	7.50%
Czech Republic	Retail	2	4.85%	6.50%
Bulgaria	Retail	2	7.25%	7.25%
Bulgaria	Office	1	8.00%	8.25%
Serbia	Retail	2	8.00%	8.25%
Hungary	Retail	2	5.65%	6.00%
Croatia	Retail	1	7.00%	7.50%
Lithuania	Retail	1	6.75%	7.25%

\*Source: JLL, Cushman & Wakefield, Q4 2018.

\*\*Percentages represent averages weighted by Market Values and rounded to the closest 25 bps.

## RENTAL ESCALATIONS

The annual rise in rental income projected is partially due to increase in index-linked leases to the European Consumer Price Index (CPI) and partially due to contractual gradual rental lease increase as per existing contracts as at 31 December 2018. The weighted average rental escalation does not include impact from leasing renewal activities as per initial contract. Out of the total operational GLA as at the year end, the weighted average rental escalation by rentable area is presented below:

<b>TOTAL, out of which:</b>	<b>1.8%</b>
Retail	1.8%
Office	1.7%
Industrial	1.9%

## VACANCY PROFILE

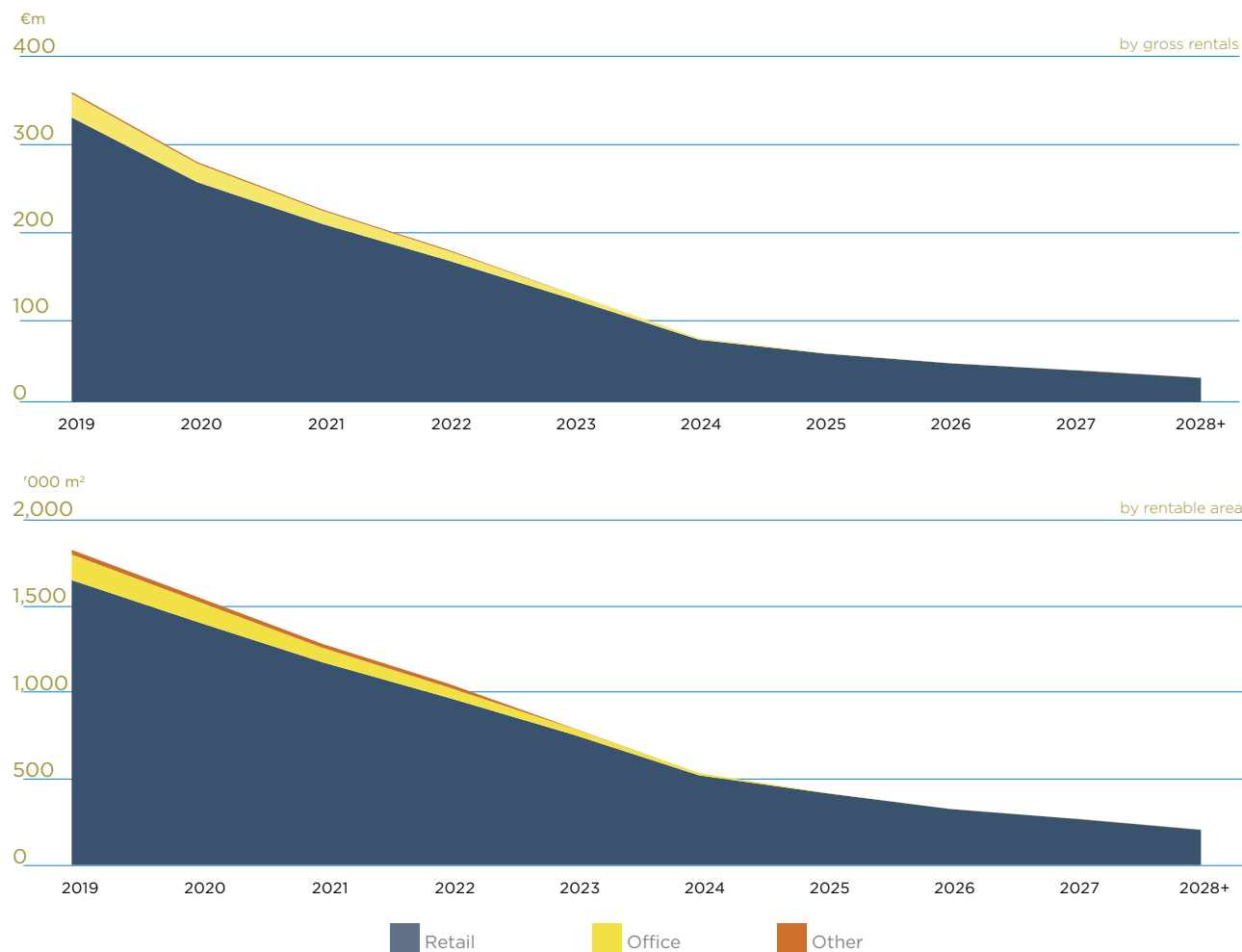
EPRA vacancy rate is calculated by dividing the estimated rental value of vacant space (€/annum) by estimated rental value of the property (€/annum).

The EPRA vacancy rate for income-producing properties at the end of 2018 was 2.8% (excluding properties held for sale), split as follows: retail 2.8%, office 2.3% and industrial 1.7%.



# Portfolio at a glance » continued

## EXPIRY PROFILE

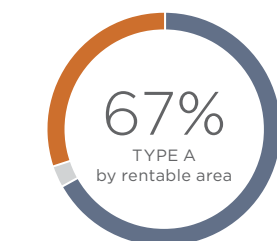


## TENANT PROFILE

Type A: Large international and national tenants, large listed tenants, government and major franchises (companies with assets and/or turnovers in excess of €200 million).

Type B: Smaller international and national tenants, smaller listed tenants and medium to large professional firms (companies with assets and/or turnovers ranging from €100 to €200 million).

Type C: Other tenants (2,998 total number)



Type A	67%
Type B	3%
Type C	30%

## TOP 10 RETAIL TENANTS

The top 10 retail tenants accounted for 22% of the annualised passing rent of the Group as at 31 December 2018. Tenant concentration risk is very low as shown by the graph below.



\* Reserved, Cropp, House, Mohito, Sinsay

\*\* Bershka, Massimo Dutti, Oysho, Pull and Bear, Stradivarius and Zara



PHOTO: MAMMUT SHOPPING CENTRE, HUNGARY



# Romania

RETAIL

With a total of 24 regional malls and value centres, the Group is the largest owner of retail space in the country.

In 2018, the Group successfully completed the construction of the 29,200m<sup>2</sup> GLA modern retail and entertainment destination in the heart of Satu Mare, a prime shopping destination for the 288,000 inhabitants that live within a 45-minute catchment area.

**736,600**  
m<sup>2</sup> GLA of retail  
income-producing  
properties

**€1,699m**  
property value

**97.9%**  
EPRA occupancy rate

**€125m**  
passing rent

**10.4%**  
increase in  
tenants turnover\*

\*like-for-like

**24**  
retail  
income-producing  
properties



ROMANIA

Mega Mall  
Bucharest



Ownership	100%
GLA	75,800m <sup>2</sup>
Valuation	€307.3 million
Passing rent	€20.0 million
EPRA Occupancy	99.3%

Promenada Mall  
Bucharest



Ownership	100%
GLA	39,400m <sup>2</sup>
Valuation	€198.5 million
Passing rent	€12.9 million
EPRA Occupancy	97.2%

RETAIL

Shopping City Timisoara  
Timisoara



Ownership	100%
GLA	56,900m <sup>2</sup>
Valuation	€128.9 million
Passing rent	€9.1 million
EPRA Occupancy	98.6%

Shopping City Galati  
Galati



Ownership	100%
GLA	49,100m <sup>2</sup>
Valuation	€108.8 million
Passing rent	€8.1 million
EPRA Occupancy	96.8%

City Park  
Constanta



Ownership	100%
GLA	52,100m <sup>2</sup>
Valuation	€185.3 million
Passing rent	€13.0 million
EPRA Occupancy	96.7%

Shopping City Sibiu  
Sibiu



Ownership	100%
GLA	79,400m <sup>2</sup>
Valuation	€132.2 million
Passing rent	€9.9 million
EPRA Occupancy	96.2%

Iris Titan Shopping Center  
Bucharest



Ownership	100%
GLA	45,000m <sup>2</sup>
Valuation	€98.0 million
Passing rent	€8.5 million
EPRA Occupancy	99.3%

Shopping City Deva  
Deva



Ownership	100%
GLA	52,500m <sup>2</sup>
Valuation	€80.4 million
Passing rent	€6.7 million
EPRA Occupancy	100%



ROMANIA

Braila Mall  
Braila



Ownership	100%
GLA	55,300m <sup>2</sup>
Valuation	€80.1 million
Passing rent	€6.4 million
EPRA Occupancy	96.6%

Vulcan Value Centre  
Bucharest



Ownership	100%
GLA	24,600m <sup>2</sup>
Valuation	€58.2 million
Passing rent	€4.2 million
EPRA Occupancy	100%

RETAIL

Shopping City Targu Jiu  
Targu Jiu



Ownership	100%
GLA	27,100m <sup>2</sup>
Valuation	€46.8 million
Passing rent	€3.5 million
EPRA Occupancy	99.5%

Shopping City Ramnicu Valcea  
Ramnicu Valcea



Ownership	100%
GLA	28,200m <sup>2</sup>
Valuation	€45.2 million
Passing rent	€3.6 million
EPRA Occupancy	96.8%

Shopping City Piatra Neamt  
Piatra Neamt



Ownership	100%
GLA	28,000m <sup>2</sup>
Valuation	€51.8 million
Passing rent	€3.7 million
EPRA Occupancy	99.8%

Shopping City Satu Mare  
Satu Mare



Ownership	100%
GLA	29,200m <sup>2</sup>
Valuation	€48.4 million
Passing rent	€3.4 million
EPRA Occupancy	97.3%

Severin Shopping Center  
Turnu Severin



Ownership	100%
GLA	22,600m <sup>2</sup>
Valuation	€35.6 million
Passing rent	€2.6 million
EPRA Occupancy	100%

Pitesti Retail Park  
Pitesti



Ownership	100%
GLA	24,800m <sup>2</sup>
Valuation	€31.0 million
Passing rent	€4.0 million
EPRA Occupancy	98.7%



ROMANIA

Aurora Shopping Mall  
Buzau



Ownership	100%
GLA	17,900m <sup>2</sup>
Valuation	€23.2 million
Passing rent	€2.4 million
EPRA Occupancy*	84.7%

\* The property is undergoing a refurbishment.

Regional Strip centres

Alba Iulia, Alexandria, Brasov, Petrosani, Sfantu  
Gheorghe, Sighisoara and Vaslui



Ownership	100%
GLA	28,700m <sup>2</sup>
Valuation	€38.8 million
Passing rent	€3.0 million
EPRA Occupancy	99.7%

Ploiesti Shopping City (joint venture)  
Ploiesti



Ownership	50%
GLA	45,800m <sup>2</sup>
GLA weighted by ownership	22,900m <sup>2</sup>
Valuation weighted by ownership	€51.7 million
Passing rent weighted by ownership	€3.8 million
EPRA Occupancy	96.9%



PHOTO: MEGA MALL, ROMANIA



# Poland

RETAIL

The Group has built a dominant portfolio in Poland, the largest and most liquid real estate market in the CEE region, currently including 12 regional malls.

In 2018, NEPI Rockcastle acquired Aura Centrum, a 25,400m<sup>2</sup> GLA shopping and entertainment centre in the heart of Olsztyn and finished the extension of over 14,000m<sup>2</sup> of Platan Shopping Centre in Zabrze.

**454,500**

m<sup>2</sup> GLA of retail  
income-producing  
properties

**€1,345m**

property value

**96.4%**

EPRA occupancy rate

**€84m**

passing rent

**5.7%**

increase in  
tenants turnover\*

\*like-for-like



**12**

retail  
income-producing  
properties



## POLAND

### Bonarka City Center

Krakow



<b>Ownership</b>	100%
<b>GLA</b>	72,600m <sup>2</sup>
<b>Valuation</b>	€378.1 million
<b>Passing rent</b>	€20.2 million
<b>EPRA Occupancy</b>	95.8%

### Galeria Warminska

Olsztyn



<b>Ownership</b>	100%
<b>GLA</b>	42,700m <sup>2</sup>
<b>Valuation</b>	€159.9 million
<b>Passing rent</b>	€10.5 million
<b>EPRA Occupancy</b>	99.9%

### Karolinka Shopping Centre

Opole



<b>Ownership</b>	100%
<b>GLA</b>	70,500m <sup>2</sup>
<b>Valuation</b>	€152.5 million
<b>Passing rent</b>	€9.6 million
<b>EPRA Occupancy</b>	95.9%

### Focus Mall Zielona Gora

Zielona Gora



<b>Ownership</b>	100%
<b>GLA</b>	28,900m <sup>2</sup>
<b>Valuation</b>	€123.5 million
<b>Passing rent</b>	€7.4 million
<b>EPRA Occupancy</b>	97.8%

## RETAIL

### Alfa Centrum Bialystok

Bialystok



<b>Ownership</b>	100%
<b>GLA</b>	36,900m <sup>2</sup>
<b>Valuation</b>	€98.6 million
<b>Passing rent</b>	€6.7 million
<b>EPRA Occupancy</b>	96.7%

### Platan Shopping Centre

Zabrze



<b>Ownership</b>	100%
<b>GLA</b>	39,400m <sup>2</sup>
<b>Valuation</b>	€80.4 million
<b>Passing rent</b>	€4.4 million
<b>EPRA Occupancy</b>	93.6%

### Pogoria Shopping Centre

Dabrowa Gornicza



<b>Ownership</b>	100%
<b>GLA</b>	36,700m <sup>2</sup>
<b>Valuation</b>	€79.3 million
<b>Passing rent</b>	€5.1 million
<b>EPRA Occupancy</b>	99.7%

### Aura Centrum

Olsztyn



<b>Ownership</b>	100%
<b>GLA</b>	25,400m <sup>2</sup>
<b>Valuation</b>	€65.7 million
<b>Passing rent</b>	€6.0 million
<b>EPRA Occupancy</b>	97.1%



POLAND

Galeria Wolomin  
Wolomin



Ownership	90%
GLA	30,700m <sup>2</sup>
Valuation	€61.2 million
Passing rent	€4.1 million
EPRA Occupancy	97.0%

Solaris Shopping Centre  
Opole



Ownership	100%
GLA	17,100m <sup>2</sup>
Valuation	€60.7 million
Passing rent	€3.1 million
EPRA Occupancy	90.5%

Focus Mall Piotrkow Trybunalski  
Piotrkow Trybunalski



Ownership	100%
GLA	35,200m <sup>2</sup>
Valuation	€52.1 million
Passing rent	€4.5 million
EPRA Occupancy	91.6%

Galeria Tomaszow  
Tomaszow Mazowiecki



Ownership	85%
GLA	18,400m <sup>2</sup>
Valuation	€33.0 million
Passing rent	€2.7 million
EPRA Occupancy	98.4%



PHOTO: AURA CENTRUM, POLAND



## Hungary

RETAIL

In September 2017, the Group entered the Hungarian market by acquiring Arena Mall, the second largest shopping centre in Budapest, the capital city. One year later, the Group extended its presence in Hungary through the acquisition of the controlling stake in Mammut Shopping Centre, becoming the largest retail owner in Budapest.

# 121,900

m<sup>2</sup> GLA of retail  
income-producing  
properties

# €584m

property value

# 96.1%

EPRA occupancy rate

# €37m

passing rent

# 2.6%

increase in  
tenants turnover\*

\*like-for-like



PHOTO: MAMMUT SHOPPING CENTRE, HUNGARY

### Arena Mall

Budapest



Ownership	100%
GLA	65,800m <sup>2</sup>
Valuation	€307.6 million
Passing rent	€20.4 million
EPRA Occupancy	99.5%

### Mammut Shopping Centre

Budapest



Ownership	100%
GLA	56,100m <sup>2</sup>
Valuation	€276.4 million
Passing rent	€16.1 million
EPRA Occupancy	92.3%



# Slovakia

RETAIL

After the 2013 acquisition of a dominant regional mall and establishment of a strong local management team, the Group further extended its presence in Slovakia in 2014, 2016 and 2018. The Group currently owns five regional malls, one office building and land for the development of a retail or mixed-use scheme.

The acquisition of Galeria Mlyny in 2018 strengthens the Company's competitive position in Slovakia, Nepi Rockcastle becoming the largest retail landlord in the country.

**117,800**

m<sup>2</sup> GLA of retail  
income-producing  
properties

**€514m**

property value

**97.9%**

EPRA occupancy rate

**€32m**

passing rent

**2.2%**

increase in  
tenants turnover\*

\*like-for-like



**5**

retail  
income-producing  
properties

PHOTO: AUPARK ZILINA, SLOVAKIA



SLOVAKIA

Aupark Zilina  
Zilina



Ownership	100%
GLA	24,900m <sup>2</sup>
Valuation	€129.1 million
Passing rent	€8.1 million
EPRA Occupancy	99.9%

Galeria Mlyny Shopping Centre  
Nitra



Ownership	100%
GLA	32,400m <sup>2</sup>
Valuation	€128.4 million
Passing rent	€8.0 million
EPRA Occupancy	99.3%

Aupark Shopping Center Piestany  
Piestany



Ownership	100%
GLA	10,300m <sup>2</sup>
Valuation	€41.9 million
Passing rent	€2.5 million
EPRA Occupancy	97.1%

Korzo Shopping Centrum  
Prievidza



Ownership	100%
GLA	16,100m <sup>2</sup>
Valuation	€41.5 million
Passing rent	€3.0 million
EPRA Occupancy	98.4%

Aupark Kosice Mall  
Kosice

Ownership	100%
GLA	34,100m <sup>2</sup>
Valuation	€172.7 million
Passing rent	€10.1 million
EPRA Occupancy	95.3%



PHOTO: PARADISE CENTER, BULGARIA

## Bulgaria

RETAIL

In August 2017 NEPI Rockcastle acquired Serdika Center, a modern shopping centre benefiting from an excellent location in Sofia, and Serdika Office, a Class A office situated atop the shopping centre. In December 2017 the Group completed the acquisition of Paradise Center, the largest retail centre in the capital city, consolidating the Group's position in the Bulgarian market.

# 133,000

m<sup>2</sup> GLA of retail  
income-producing  
properties

# €430m

property value

# 98.3%

EPRA occupancy rate

# €29m

passing rent

# 4.6%

increase in  
tenants turnover\*

\*like-for-like



2  
retail  
income-producing  
properties

### Paradise Center

Sofia



Ownership	100%
GLA	81,600m <sup>2</sup>
Valuation	€263.6 million
Passing rent	€16.3 million
EPRA Occupancy	97.7%

### Serdika Center

Sofia



Ownership	100%
GLA	51,400m <sup>2</sup>
Valuation	€166.5 million
Passing rent	€12.8 million
EPRA Occupancy	99.3%



## Croatia

## RETAIL

In November 2016, the Group acquired the largest shopping mall in Zagreb, Arena Centar, as well as 4.4ha of adjacent land for future development opportunities. Zagreb is the capital of and largest city in Croatia. During 2018, Arena Centar was subject of an extensive upgrade and expansion works, aimed to improve the overall customer experience. In 2018, the Group also started the development of a retail park, scheduled to open in Q2 2019.

# 65,700

m<sup>2</sup> GLA of retail  
income-producing  
properties

# €243m

property value

# 97.9%

EPRA occupancy rate

# €16m

passing rent





PHOTO: FORUM USTÍ NAD LABEM, CZECH REPUBLIC

## Czech Republic

RETAIL

The Group owns two dominant malls in the Czech Republic: Forum Ústí nad Labem and Forum Liberec Shopping Centre, both situated in the northern part of the country.

**74,300**  
m<sup>2</sup> GLA of retail  
income-producing  
properties

**€174m**  
property value

**91.3%**  
EPRA occupancy rate

**€11m**  
passing rent

**18.6%**  
increase in  
tenants turnover\*

\*like-for-like



**2**  
retail  
income-producing  
properties

### Forum Ustí nad Labem Ustí nad Labem



Ownership	100%
GLA	27,800m <sup>2</sup>
Valuation	€90.6 million
Passing rent	€5.4 million
EPRA Occupancy	98.6%

### Forum Liberec Shopping Centre Liberec



Ownership	100%
GLA	46,500m <sup>2</sup>
Valuation	€83.7 million
Passing rent	€5.7 million
EPRA Occupancy	84.0%



# Serbia

RETAIL

The Group acquired its first Serbian mall in 2014. The country is underdeveloped in terms of retail offering and the Group is gradually building up a portfolio of dominant regional retail centres. In 2016, the Group acquired land in a prime location in Novi Sad, the country's second largest city, with a population of approximately 320,000 inhabitants.

After 16 months of works, in 2018, NEPI Rockcastle opened Promenada Novi Sad, its first greenfield development and the largest mall in Serbia.

**71,500**  
m<sup>2</sup> GLA of retail  
income-producing  
properties

**€173m**  
property value

**98.5%**  
EPRA occupancy rate

**€13m**  
passing rent

**16.9%**  
increase in  
tenants turnover\*

\*like-for-like



2  
retail  
income-producing  
properties

PHOTO: PROMENADA NOVI SAD, SERBIA

## Promenada Novi Sad Novi Sad



Ownership	100%
GLA	49,200m <sup>2</sup>
Valuation	€129.1 million
Passing rent	€9.6 million
EPRA Occupancy	98.2%

## Kragujevac Plaza Kragujevac



Ownership	100%
GLA	22,300m <sup>2</sup>
Valuation	€44.2 million
Passing rent	€3.6 million
EPRA Occupancy	99.4%



## Lithuania

### RETAIL

In 2018 the Group entered the Lithuanian market through the acquisition of Ozas Shopping and Entertainment Centre, a 62,400m<sup>2</sup> GLA mall with a strong fashion and entertainment-oriented tenant mix, benefiting from an excellent location in Vilnius.

# 62,400

m<sup>2</sup> GLA of retail  
income-producing  
properties

# €128m

property value

# 98.0%

EPRA occupancy rate

# €10m

passing rent







Office

The Group's offices must have a central location, excellent access to public transport, up-to-date technical specifications, large floor areas, high efficiency rates and high parking ratios.

**158,800**  
m<sup>2</sup> GLA of office  
income-producing  
properties

**€383m**  
property value

**97.7%**  
EPRA occupancy rate

**€30m**  
passing rent



## Floreasca Business Park

Bucharest, Romania



<b>Ownership</b>	100%
<b>GLA</b>	36,300m <sup>2</sup>
<b>Valuation</b>	€105.1 million
<b>Passing rent</b>	€7.8 million
<b>EPRA Occupancy</b>	96.5%

## City Business Centre

Timisoara, Romania



<b>Ownership</b>	100%
<b>GLA</b>	47,800m <sup>2</sup>
<b>Valuation</b>	€94.2 million
<b>Passing rent</b>	€8.2 million
<b>EPRA Occupancy</b>	96.9%

## Victoriei Office

Bucharest, Romania



<b>Ownership</b>	100%
<b>GLA</b>	7,800m <sup>2</sup>
<b>Valuation</b>	€40.8 million
<b>Passing rent</b>	€2.8 million
<b>EPRA Occupancy</b>	97.7%

## Aupark Kosice Tower

Kosice, Slovakia



<b>Ownership</b>	100%
<b>GLA</b>	12,800m <sup>2</sup>
<b>Valuation</b>	€21.3 million
<b>Passing rent</b>	€1.8 million
<b>EPRA Occupancy</b>	96.9%

## The Lakeview

Bucharest, Romania



<b>Ownership</b>	100%
<b>GLA</b>	25,600m <sup>2</sup>
<b>Valuation</b>	€69.1 million
<b>Passing rent</b>	€5.3 million
<b>EPRA Occupancy</b>	99.5%

## Serdika Office

Sofia, Bulgaria



<b>Ownership</b>	100%
<b>GLA</b>	28,500m <sup>2</sup>
<b>Valuation</b>	€52.5 million
<b>Passing rent</b>	€4.3 million
<b>EPRA Occupancy</b>	99.5%

## The Office Cluj-Napoca (joint venture)

Cluj-Napoca, Romania



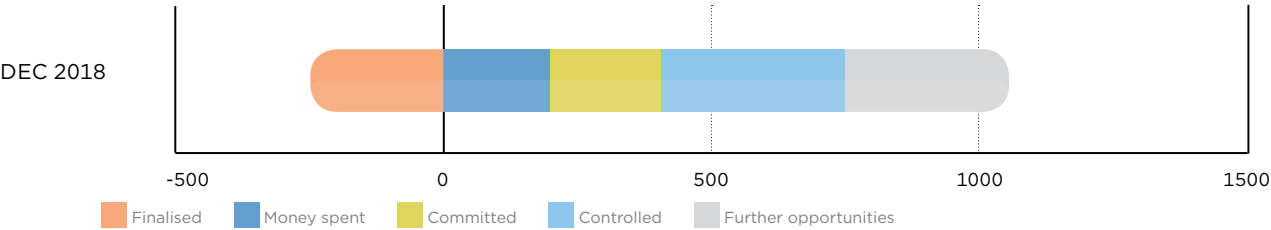
<b>Ownership</b>	50%
<b>GLA</b>	63,600m <sup>2</sup>
<b>GLA weighted by ownership</b>	31,800m <sup>2</sup>
<b>Valuation weighted by ownership</b>	€64.9 million
<b>Passing rent weighted by ownership</b>	€5.3 million
<b>EPRA Occupancy</b>	99.6%



# Development and extensions pipeline

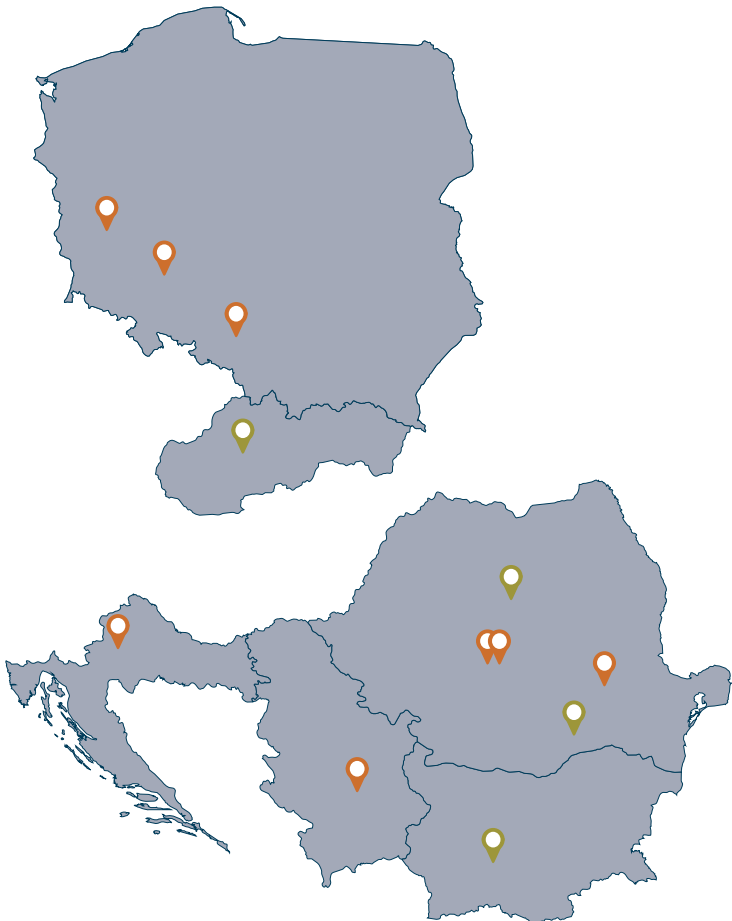
The Group will continue to invest strategically in developments that contribute to growth in distributable earnings per share or improve long-term prospects for its portfolio. NEPI Rockcastle is pursuing a development pipeline which exceeds €1 billion (including redevelopments and extensions, estimated at cost), of which €200 million was spent until 31 December 2018. Out of the remaining investments, only 24% have already been committed, which gives the Group flexibility regarding prioritisation and timing of its pipeline projects.

## DEVELOPMENTS AND EXTENSIONS PIPELINE (€ MILLION)



Committed: projects currently under construction  
Controlled: projects where the land is controlled, but not yet under construction  
Capitalised interest and fair value not included

## DEVELOPMENTS AND EXTENSIONS MAP



	GLA of development m²
<b>Developments under construction</b>	<b>93 700</b>
Festival Sibiu	42 200
Focus Mall Zielona Gora	15 000
Solaris Shopping Centre	8 900
Retail park Krusevac - Phase I	8 500
Arena Centar Retail Park	8 300
Aurora Shopping Mall	6 000
Shopping City Sibiu - Phase II	3 700
Pogoria Shopping Centre	1 100
<b>Developments under permitting and pre-leasing</b>	<b>174 100*</b>
Promenada Mall	62 300
Promenada Plovdiv	59 500
Shopping City Targu Mures	41 300
Korzo Shopping Centrum	11 000

\* GLA depends on permitting.



RENDER: AURORA SHOPPING MALL, ROMANIA



UNDER CONSTRUCTION



Festival Sibiu  
Sibiu, Romania

The 42,200m<sup>2</sup> GLA of Festival Sibiu development, will complement the other retail property of the Group in the city, Shopping City Sibiu. Festival has an excellent location, within walking distance to Sibiu's historical centre and to the main train station. Several tenants have been signed, including: CineGold, H&M, Inditex (Bershka, Massimo Dutti, Oysho, Pull&Bear, Stradivarius, Zara), Kaufland (their first unit in a shopping mall in Romania), New Yorker.

Development	
Ownership	100%
Estimated lettable area	42,200m <sup>2</sup>
Targeted opening	Q4 2019



Focus Mall Zielona Gora  
Zielona Gora, Poland

The Company has started the 15,000m<sup>2</sup> GLA extension of Focus Mall. Zielona Gora, a vibrant city which is well known for its annual wine festival, is the largest municipality and the seat of Lubuskie Voivodeship; it is also well connected to several roads and international rail routes. Once completed, the 43,900m<sup>2</sup> GLA mall will be the main retail destination for 151,000 inhabitant in a 15-minute catchment area.

Extension and Redevelopment	
Ownership	100%
Lettable area - property in use	28,900m <sup>2</sup>
Estimated lettable area - extension	15,000m <sup>2</sup>
Targeted opening	Q4 2020

PERFORMANCE AND OPERATIONS

UNDER CONSTRUCTION



Solaris Shopping Centre  
Opole, Poland

The construction works have started in 2018 and are ongoing. The project includes the development of multi-level basement parking and a new town square in front of the centre's main entrance. Extension area is scheduled to be completed in the second quarter of 2019. Tenant demand is strong and includes brands like C&A, CCC, Deichmann, Guess, Just Gym, KFC, LPP group brands, McDonald's, Smyk.

Extension	
Ownership	100%
Lettable area - property in use	17,100m <sup>2</sup>
Estimated lettable area - extension	8,900m <sup>2</sup>
Targeted opening	Q2 2019



Arena Centar Retail Park  
Zagreb, Croatia

The 8,300m<sup>2</sup> GLA retail park is adjacent to the 65,700m<sup>2</sup> GLA shopping mall and is expected to open in May 2019. The retail park will bring additional large-format tenants such as Extra Sport, Intersport, Jysk, LC Waikiki (market entry in Croatia), Pepco, Pitta Rosso and Sancta Domenica, creating a complete offering that will contribute to making Arena Centar the premier retail destination in Zagreb.

Extension	
Ownership	100%
Lettable area - property in use	65,700m <sup>2</sup>
Estimated lettable area - extension	8,300m <sup>2</sup>
Targeted opening	Q2 2019



UNDER CONSTRUCTION



Aurora Shopping Mall  
Buzau, Romania

Based on good results of the existing scheme and strong demand for additional commercial space, the Group has decided to extend this shopping mall.

Extension	
Ownership	100%
Lettable area - property in use	17,900m <sup>2</sup>
Estimated lettable area - extension	6,000m <sup>2</sup>
Targeted opening	Q3 2019/Q2 2020



Shopping City Sibiu - Phase II  
Sibiu, Romania

Shopping City Sibiu was recently refurbished and extended, with several fashion brands added, such as Cropp, De Facto (first store in the country), House, LC Waikiki, Mohito, Reserved and Smyk. Some of the existing stores were refurbished and extended: CCC, Douglas, Humanic and Noriel. The second phase of the extension will open in spring 2019, with the food-court, cinema and open-air terrace serviced by new tenants such as KFC, Pepp&Pepper, Salad Box and Taco Bell.

Development	
Ownership	100%
Lettable area - property in use	79,400m <sup>2</sup>
Estimated lettable area - extension	3,700m <sup>2</sup>
Targeted opening	Q1/Q4 2019

UNDER PERMITTING AND PRE-LEASING

Promenada Mall - extension  
Bucharest, Romania



Extension	
Ownership	100%
Lettable area - property in use	39,400m <sup>2</sup>
Estimated lettable area - extension	62,300m <sup>2</sup>
Targeted opening	2021

Promenada Plovdiv  
Plovdiv, Bulgaria



Development	
Ownership	100%
Estimated lettable area	59,500m <sup>2</sup>
Targeted opening	2020

Shopping City Targu Mures  
Targu Mures, Romania



Development	
Ownership	100%
Estimated lettable area	41,300m <sup>2</sup>
Targeted opening	2020

Korzo Shopping Centrum  
Prievidza, Slovakia



Extension	
Ownership	100%
Lettable area - property in use	16,100m <sup>2</sup>
Estimated lettable area - extension	11,000m <sup>2</sup>
Targeted opening	2021



# RETAIL TRANSFORMATION







## Innovative retailers

The new retail reality combines the physical and digital environments.

Using its wide footprint in CEE, the Group is continuously looking to identify innovative retail concepts that adapt to changing consumer needs. In 2018 The Group added to its retail mix several retailers that were “on-line born” and teamed up with them to develop their physical presence, blending the best of both worlds. eObuwie, Notino and eMag are examples of successful online retailers in CEE that moved into a sizable physical presence.

eMag is the largest on-line retailer in Romania and Bulgaria, part of the South Africa based Naspers Group, with a presence in over 4 countries in CEE (including Poland). eObuwie is the largest online shoe retailer in CEE part of polish CCC Group. Notino is present digitally all over Europe and with physical presence in the largest CEE countries (Poland, Romania, Slovakia, Czech Republic, Hungary) and in Germany. Notino opened the first two physical shops in Romania in Promenada Mall and Mega Mall with further negotiations to extend the network to other locations within the Group.













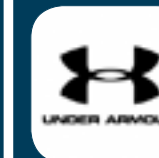



## Strengthening the portfolio positioning

Largest cross border platform in CEE for the expansion of international brands in the region with key tenant relationships managed at group level.

eMAG

eobuwie

NOTINO

 1 <sup>st</sup> in Romania	 1 <sup>st</sup> in Romania	 1 <sup>st</sup> in Romania	 1 <sup>st</sup> in Bulgaria	 1 <sup>st</sup> in Croatia	 1 <sup>st</sup> in Bulgaria	 1 <sup>st</sup> in Croatia and Bulgaria
 1 <sup>st</sup> in Hungary	 1 <sup>st</sup> in Lithuania	 1 <sup>st</sup> in Slovakia	 1 <sup>st</sup> in Croatia	 1 <sup>st</sup> in Serbia	 1 <sup>st</sup> in Serbia	 1 <sup>st</sup> in Serbia





# Focus on leisure and social interaction

## ENHANCED ENTERTAINMENT OFFERING: FIRST SCREENX IN CEE (ARENA MALL, HUNGARY)



## ENHANCED LEISURE AREAS FOCUSED ON CREATING SOCIAL GATHERING POINTS



## IMPROVED DESIGN AND CONCEPTS TO MEET CUSTOMER PREFERENCES

The Group's asset managers continuously adapt the properties to new trends that influence consumer behaviour. By adding community and social areas and engaging customers through customised events and digital channels the Group is actively participating in the transformation of retail.

- Redesigned and extended food, dining and leisure offer: Kragujevac Plaza, Shopping City Timisoara, Shopping City Ploiesti, Braila Mall, City Park Constanta, Focus Piotrków Trybunalski, Karolinka Opole.
- Food, dining and leisure areas that are under construction (refurbishment & extension): Mega Mall Bucharest, Shopping City Sibiu, Aurora Buzau.



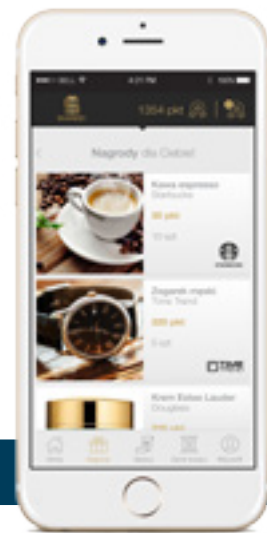


# Engaging customer experience through new technologies

## ENGAGING CUSTOMER EXPERIENCE THROUGH NEW TECHNOLOGIES

The Group has upgraded its Customer Relationship Management (CRM) marketing tool, adding Machine Learning capabilities. The upgrade resulted in a digital marketing platform scalable to the entire Group, which achieved significant efficiencies of digital marketing campaigns.

Additionally, loyalty tools are being implemented using latest digital technologies. The loyalty platforms are aimed at improving customer engagement, offering new services and instant rewards, and increase tenants' turnovers.



Loyalty Application

CRM automation tool



## Urban events

THE GROUP CONVERTS ITS SHOPPING CENTRES IN PLACES WHERE PEOPLE MEET AND SHARE MOMENTS TO REMEMBER.





PHOTO: CITY BUSINESS CENTRE, ROMANIA

# CORPORATE INSIGHTS



# Executive Board of Directors

**ALEX MORAR (35)**  
Chief Executive Officer

BSc

Alex Morar began his career at Julius Baer Investment Bank in New York, and later joined the financial advisory practice of Deloitte Romania, working on large projects and M&A transactions.

He joined NEPI upon its founding in 2007 and has contributed to all aspects of the business since. He was initially involved in operational and reporting activities, and later assumed leadership of NEPI's investments programme throughout CEE. He was appointed as an Executive Director of NEPI in 2013 and as NEPI's CEO in August 2015, whereafter he drove a significant increase and diversification in the Company's portfolio and expansion of its asset management platform. He also supervised the 2017 merger with Rockcastle, which consolidated the Group's position in CEE through the access to the significant Polish market. Mr. Morar manages the group's strategy and activities across all its geographies.

**MIRELA COVASA (36)**  
Chief Financial Officer

BCom, ACCA, CAFR

With over 17 years of experience in accounting and finance, Mirela Covasa is responsible for the financial management of NEPI Rockcastle.

Prior to NEPI, she spent eight years in PricewaterhouseCoopers, where she progressed to the Senior Manager position, and was responsible for audit assignments in diverse industries in Romania, Slovenia and India. She joined NEPI in February 2012 as Finance Manager and became Chief Financial Officer in 2015. She has notable achievements in aligning financial initiatives and operational goals with corporate objectives, contributing to the group's superior performance over the last years. Ms. Covasa sourced the funding of the M&A pipeline in the last four years, while ensuring an adequate capital structure for the group, focused on a conservative gearing ratio. She has driven the transition from an asset-based financing model to capital markets and group-level unsecured debt, and significantly decreased cost of funding.

**MAREK NOETZEL (40)**  
Executive Director

MSc, MRICS

Marek Noetzel started his real estate career in 2002 with Cushman & Wakefield in Warsaw as a retail leasing agent, and was promoted to associate in 2007 and partner in 2011. As head of the retail department at Cushman & Wakefield, he was responsible for the key client account management.

He was appointed as Executive Director of Rockcastle in 2016, and is focused on western portfolio asset management. Mr. Noetzel was appointed as an executive director of NEPI Rockcastle on 15 May 2017.





# Corporate governance

Sound corporate governance values guide the Board in directing, governing and controlling the Group, whilst subscribing to the principles of ethical leadership, business, social and environmental sustainability and stakeholder engagement. The Board recognises the importance of good corporate governance, endorses and monitors compliance with King IV Report on Corporate Governance in South Africa (King IV), Johannesburg Stock Exchange Limited (JSE) Listing Requirements and Euronext Amsterdam (Euronext) guidelines. The Board is satisfied that it fulfilled all its duties and obligations in this regard in the 2018 financial year.

**Leadership, ethics and corporate citizenship**

Principle 1: The governing body should lead ethically and effectively.

Principle 2: The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.

Principle 3: The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.

**Governing structures and delegation**

Principle 6: The governing body should serve as the focal point and custodian of corporate governance in the organisation.

Principle 7: The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.

Principle 8: The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.

Principle 9: The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.

Principle 10: The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.

**Stakeholder relationships**

Principle 16: In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.

In line with the King IV ‘apply and explain’ approach, the Directors disclose the extent to which NEPI Rockcastle applies the King IV principles to sustain value for stakeholders and conclude that the Group is materially compliant with King IV. A register with the applicable King IV principles and the Company’s compliance with them is available on the Company website [www.nepirockcastle.com](http://www.nepirockcastle.com). The summary of the principles and the areas covered are further depicted below.

**Strategy, performance and reporting**

Principle 4: The governing body should appreciate that the organisation’s core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.

Principle 5: The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation’s performance, and its short, medium and long-term prospects.

**Governance functional areas**

Principle 11: The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.

Principle 12: The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.

Principle 13: The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.

Principle 14: The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.

Principle 15: The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation’s external reports.

PHOTO: FLOREASCA BUSINESS PARK, ROMANIA





# Corporate governance» continued

Given the fact that the Group is materially compliant with King IV principles and with a view to enhancing its approach to corporate governance, the Group commissioned PricewaterhouseCoopers LLC (PwC), Isle of Man, to provide advice on other corporate governance frameworks and best practices. Following careful consideration of available codes in Europe (given that

the Group's operations are in this geographical area), the Group concluded that the UK and the Dutch Corporate Governance Codes are the most useful comparators. The Group commissioned the mapping and comparison of the three codes, to identify the most prescriptive requirements or practices per area, in order to consider going beyond compliance with King IV.

Code	King IV Report on Corporate Governance for South Africa 2016	The UK Corporate Governance Code 2018	Dutch Corporate Governance Code 2016
Underlying notion	<p>'The exercise of ethical and effective leadership by the governing body towards the achievement of the following governance outcomes:</p> <ul style="list-style-type: none"><li>- Ethical culture</li><li>- Good performance</li><li>- Effective control</li><li>- Legitimacy</li></ul> <p>Ethical and effective leadership should complement and reinforce each other'</p>	<p>'Companies should demonstrate how the governance of the company contributes to its long-term sustainable success and achieves wider objectives'</p>	<p>'To facilitate a sound and transparent system of checks and balances within Dutch listed companies and, to that end, to regulate relations between the management board, the supervisory board and the shareholders'*</p>
Approach	Apply and explain - apply principles and explain practices	Comply or explain - comply with provisions or explain non-compliance	Comply or explain - comply with provisions or explain non-compliance
Content	5 themes	5 themes	5 chapters
	17 principles	18 principles	24 principles
	215 provisions	41 provisions	132 best practice provisions
Implementation	<p>The principles have universal applicability, with only the implementation being different, depending on the size and complexity of the organisation</p>	<p>An alternative to complying with a provision may be justified in particular circumstances based on a range of factors, including the size, complexity, history and ownership structure of a company</p> <p>Explanations should set out the background, provide a clear rationale for the action the company is taking, and explain the impact that the action has had.</p>	<p>The Code offers flexibility to depart from the principles and best practice provisions, providing there is a substantive and transparent explanation for any departures</p>

*\* The Netherlands traditionally works with a dualistic governance model (a two-tier governance structure). Management and supervision are divided between two company bodies: the management board and the supervisory board. The Code is focused on this model. Companies with a one-tier governance structure have a single board comprising executive (management) and non-executive (supervisory) directors.*

While all three codes have common themes and often make the same or similar requirements of the organisations to which they apply, at various points the provisions or best practices of one code are more prescriptive than their equivalents in the other two.

Having identified the most restrictive provisions or best practices across the three codes, the Group is in the process of assessing further practices and controls to be implemented in 2019 in order to enhance its approach to corporate governance.



PHOTO: VICTORIEI OFFICE, ROMANIA



# Corporate governance» continued

## GOVERNANCE FRAMEWORK

The Board meets regularly and is responsible for setting the Group's strategy, approving major matters, governing risk management processes and monitoring overall performance. The Board monitors the overall effectiveness of the internal controls framework, designed to ensure that assets are appropriately safeguarded, operations are run efficiently, proper accounting records are maintained and that the financial information which is issued is reliable. There are no external advisors who regularly attend, or are invited to attend Board meetings.

The Board and its Committees are committed to monitoring the definition of policies and frameworks to mitigate the risk of non-compliance with laws in the various jurisdictions where the Group conducts its business, ensure safeguarding of assets and accurate and truthful financial reporting. Management is responsible for implementing and executing the detailed policies and procedures, inside the framework approved by the Board.

Responsibility for the day-to-day operations of the Group is delegated to Senior Management team overseen by Executive Directors (Management). An Operational Mandate approved by the Board is in place, in order to ensure that the appointment of, and delegation to Management contributes to role clarity and the effective exercise of authority and responsibility.

If the Group would incur material or repeated regulatory penalties, sanctions or fines for contraventions of, or non-compliance with, statutory obligations, this would be disclosed to shareholders. As of the date of this report, there were no material regulatory penalties, sanctions or fines for contravention or non-compliance with statutory obligations imposed on the Group companies or any of its directors or officers. The key compliance risks that the Group is facing and the mitigating measures and controls implemented are included in the Key Risks section of this Report.

### Strategy

- Adopted the strategic plans for the Group;
- Ensured the timely execution of investment and development strategies.

### Operational performance

- Steered the direction of the Group for realisation of its core targets;
- Monitored the Group's operational performance compared to budget and forecasts;
- Fostered:
  - further consolidation of the Group's significant position in the Polish retail market;
  - market entry into Lithuania, with the acquisition of a prime asset in Vilnius and further consolidation in Hungary with the acquisition of Mammút Shopping Centre;
  - completion according to the schedule of the retail developments and extensions in Romania, Poland, Serbia.

### Financial performance

- Monitored the financial performance of the business, including its going concern and viability;
- Reviewed the financial and operational results and approved the financial statements and Annual Report.

### Stakeholder engagement

- Considered and approved the Sustainability report;
- Endorsed the Group's ongoing relationships with various stakeholders;
- Reviewed feedback from institutional shareholders, analysts and other entities or regulatory bodies;
- Actively engaged with stakeholders throughout the period under review.

### Governance, internal controls and risk

- Adopted King IV, ensured that the principles were embedded into the organisation's processes, monitored overall compliance;
- Considered the independence of non-executive directors in accordance with King IV;
- Performed a review of the appropriateness of the Company Secretary, concluding that there were no improper direct or indirect relationships with Board of Directors and confirming his competence, qualifications and experience;
- Ensured that the Company's JSE sponsor and its representatives are sufficiently qualified and skilled to act in accordance with, and advise directors on, the recommendations of King IV, JSE Listings Requirements and other relevant regulations and specific legislation;
- Reviewed the composition of Board Committees, in accordance with King IV, and revised the membership, to ensure committees comprised a majority of non-executive directors with an independent non-executive chairman (where required) and that their skill set is appropriate and sufficient to fulfil their purpose;
- Reviewed the effectiveness of the system of internal controls and information technology capabilities.

### Leadership, management and employees

- Oversaw the streamlining of Group's operations;
- Unified the executive management team at Group level;
- Reviewed the Group's approach to people development and identifying potential talents, including succession planning for key positions and senior management.

## THE DIRECTORS AND THE COMPOSITION OF THE BOARD AND COMMITTEES AS OF 31 DECEMBER 2018

### Board of directors

The Directors are appointed by the Board and by the shareholders. Board appointed Directors need to be re-appointed by the shareholders at the Company's annual general meeting ("AGM") following their appointment.

The Group has a strict retiring by rotation policy, i.e. each year one third of the directors retire by rotation and may stand for reappointment by the shareholders, except for the first AGM when all directors must retire and stand for reappointment. When a Director is appointed by the Board, the appointments are conducted in a formal and transparent manner by the entire Board, following the recommendation made by the Nomination Committee.

The membership of the Board went through several changes in 2018. As announced on 12 June 2018, the executive management evolved into a sole CEO structure. In line with corporate governance best practices and principles, the Company rotates its board members to achieve a Board comprised of highly qualified and experienced directors. In 2018, the Directors were elected by shareholders, at the Annual General Meeting held on 28 August 2018, as follows:

- Robert Emslie was appointed Chairman of the Board, with 97.24 % of the votes, and replaced Dan Pascariu who decided to retire after having served the Group for approximately nine years as Chairman of the Board; he no longer holds any position within NEPI Rockcastle, as of the same date;
- George Aase was appointed as Non-Executive Director of the Company and member of the Audit Committee;
- Andre van der Veer, non-Executive Director of the Board was elected as Chairman of the Audit Committee and replaced Michael Mills who decided to retire and not offer himself for re-election;
- Spiro Noussis was re-elected as Executive Director of the Company for a limited term ending 31 December 2018, after which he decided to pursue other career opportunities;
- Nick Matulovich, due to retire by rotation, did not offer himself for re-election and decided, after a transition period, to pursue other career opportunities;
- Sipho Vuso Majija appointed Non-Executive Director on 6 June 2018 by the Board, was re-elected;
- The remaining Directors were re-elected for a new mandate.

As of 31 December 2018, the Board composition was as follows:

Independent Non-Executive Directors	Non-independent Non-executive Directors	Executive Directors~	Board Meetings
Robert Emslie (Chairman) Andre van der Veer Antoine Dijkstra George Aase	Desmond de Beer (or his alternate Andries de Lange) Sipho Vuso Majija	Alex Morar Spiro Noussis* Mirela Covasa Marek Noetzel	19 February 2018 24 May 2018 11 July 2018 28 August 2018 19 October 2018 22 November 2018

\* no longer part of the Board starting 1 January 2019  
Details on the Executive Directors experience are set out on page 84.

Each meeting of the Board has been attended by all directors holding positions at the date of the meeting. In terms of King IV, the Board shall consist of a majority of non-executive directors, the majority of whom are independent. The Nomination Committee is currently working on adding further independent directors to the Board.



# Corporate governance» continued

Details of the Non-Executive Directors experience are set out below:



**ROBERT EMSLIE**  
BCom, Hons Acc, CA (SA)

**Career**

Robert Emslie is a Chartered Accountant, with more than 30 years’ experience in the financial services sector and property management. He held various positions within the ABSA Group (currently part of Barclays) during a period of 21 years, more recently as Head of ABSA Corporate and Business Bank, Head of ABSA Africa and member of ABSA Group’s Executive Committee.

Mr. Emslie retired in 2009 and currently holds chairmanship and non-executive directorship positions in various private and public companies. Mr. Emslie was a Non-Executive Director of NEPI starting from 2016 and also the Chair of Remuneration Committee in NEPI. He was appointed as an independent Non-Executive Director of NEPI Rockcastle on 15 May 2017 and Chairman of the Board effective from 28 August 2018.

Appointments at 31 December 2018	
NEPI Rockcastle	Other listed companies
Chairman	Chairman of the Board at SilverBridge Holdings Ltd
Chairman of Nomination Committee	Chairman of the Board at Transcend Residential Property Fund Ltd
Member of Remuneration Committee	
Member of Investment Committee	



**GEORGE AASE**  
BSc, CPA

**Career**

George Aase is an experienced CFO in publicly traded real estate firms, technology companies and Fortune 100 U.S. multinational industrial firms. He is a highly strategic and business-oriented senior finance executive with extensive experience in leadership roles. His core specialties include corporate finance, capital markets, IPO transactions, debt financing, international financial operations, international finance and controlling, and investor relations, with at over 12 years’ experience in the real estate sector. He has led the process of three major initial public offering projects in London, Zurich and Frankfurt. Mr. Aase also possesses extensive financing and debt restructuring experience, and has managed various portfolios connected with major acquisitions and underwriting.

Appointments at 31 December 2018	
NEPI Rockcastle	Other listed companies
Member of Audit Committee	-
Member of Remuneration Committee	
Member of Risk Committee	



**DESMOND DE BEER**  
BProc, MAP

**Career**

Desmond de Beer has significant experience in property investment and management. He spent several years in the banking industry, first at Barclays Bank, South Africa, where he was Bond Manager at the Barclays Trust. Subsequently, he was appointed General Manager, Corporate Equity and became a member of the Executive Committee at Nedcor Investment Bank. Since 2002, Mr. de Beer has been the Managing Director of Resilient REIT Limited, a South African property company listed on the JSE.

Mr. de Beer was a non-executive director of NEPI starting from 2008 and also the Chair of the Investment Committee in NEPI and was appointed as an non-independent non-executive director of NEPI Rockcastle on 15 May 2017.

Appointments at 31 December 2018	
NEPI Rockcastle	Other listed companies
Chairman of Investment Committee	CEO at Resilient REIT Limited
Member of Nomination Committee	



**ANTOINE DIJKSTRA**  
MSc, COL (INSEAD)

**Career**

Antoine Dijkstra started his career at Credit Agricole in Rotterdam, Paris and Frankfurt. Mr. Dijkstra has extensive experience in investment management, with a focus on public sector related entities and financial institutions. He had various managing roles within NIBC (Netherlands), Harcourt Investment Management (Zurich), JPMorgan/ Bear Stearns and Gulf International Bank (Bahrain). He is senior advisor to several companies such as Oakam, Schroders Plc., Arrow Global Plc. and Carval Inverstors, providing financial and asset management services. Mr. Dijkstra was appointed as an independent Non-Executive Director of NEPI in 2016 and independent Non-Executive Director of NEPI Rockcastle on 15 May 2017.

Appointments at 31 December 2018	
NEPI Rockcastle	Other listed companies
Chairman of Social and Ethics Committee	-
Member of Audit Committee	
Member of Nomination Committee	
Member of Risk Committee	



**SIPHO VUSO MAJIJA**  
BSc Hons, MBA

**Career**

Sipho Vuso Majija has been an employee of Fortress REIT Limited (“Fortress”) since its listing in 2009 and joined the Fortress board of directors as an executive director during May 2017. He has extensive experience in property and asset management of commercial, industrial and retail properties gained over a period of 13 years. Mr. Majija manages Fortress’ retail portfolio, including aspects related to developments, re-developments, extensions, national tenant relations, acquisitions and disposals. He has also previously served on the board of Pangbourne Properties Limited as an alternate director.

Appointments at 31 December 2018	
NEPI Rockcastle	Other listed companies
Member of Risk Committee	Executive Director at Fortress REIT Limited
Member of Social and Ethics Committee	
Member of Investment Committee	



**ANDRE VAN DER VEER**  
BPL, MPL

**Career**

After completing a Masters degree in Banking and Economics during 1991, Andre Van Der Veer joined Rand Merchant Bank (RMB) where he founded the agricultural commodities and derivatives trading group in 1995. He headed the trading, derivatives structuring and proprietary trading teams and in 2003 joined the RMB Equity Global Markets team.

He became Head of RMB Equity Proprietary Trading desk in 2009 with a mandate to invest in debt and equity instruments globally. Mr. Van der Veer founded Foxhole Capital during 2012 as a family office specialising in global real estate securities in the listed and private equity markets. He was a Non-Executive Director of Rockcastle since 2014, and also the Chair of Investment Committee in Rockcastle.

Mr. Van der Veer was appointed as Independent Non-Executive Director of NEPI Rockcastle on 15 May 2017.

Appointments at 31 December 2018	
NEPI Rockcastle	Other listed companies
Chairman of Audit Committee	-
Chairman of Remuneration Committee	
Member of Risk Committee	
Member of Investment Committee	



## Corporate governance» continued

As at 31 December 2018, the Board's Committees composition was as follows:

<b>Audit Committee</b>	<b>Nomination Committee</b>	<b>Remuneration Committee</b>
<b>Independent non-executive directors</b> Andre van der Veer (Chairman) Antoine Dijkstra George Aase	<b>Independent non-executive directors</b> Robert Emslie (Chairman) Antoine Dijkstra  <b>Non-independent non-executive director</b> Desmond de Beer	<b>Independent non-executive directors</b> Andre van der Veer (Chairman) Robert Emslie George Aase
<i>7 meetings</i> <i>100% attendance*</i>	<i>2 meetings</i> <i>100% attendance**</i>	<i>4 meetings</i> <i>100% attendance**</i>
<b>Risk Committee</b>	<b>Social and Ethics Committee</b>	<b>Investment Committee</b>
<b>Independent non-executive directors</b> Antoine Dijkstra (Chairman) Andre van der Veer George Aase  <b>Non-independent non-executive director</b> Sipho Vuso Majija^	<b>Independent non-executive directors</b> Antoine Dijkstra (Chairman)  <b>Non-independent non-executive director</b> Sipho Vuso Majija^  <b>Executive director</b> Marek Noetzel	<b>Independent non-executive directors</b> Robert Emslie Andre van der Veer  <b>Non-independent non-executive director</b> Desmond de Beer (Chairman) Sipho Vuso Majija^  <b>Executive director</b> Alex Morar
<i>2 meetings</i> <i>100% attendance**</i>	<i>1 meetings</i> <i>100% attendance**</i>	<i>5 meetings</i> <i>100% attendance**</i>

*\*Michael Mills and Robert Ernsie participated as members of the Audit Committee until the composition changed, further to the AGM dated 28 August 2018. Andre van der Veer and George Aase participated in all meetings held after their appointment.*

*\*\*Attendance was determined based on the participation of all members when each meeting took place.*

<sup>^</sup> Siphso Vuso Majija was appointed in the committees on 12 December 2018, after the meetings took place.

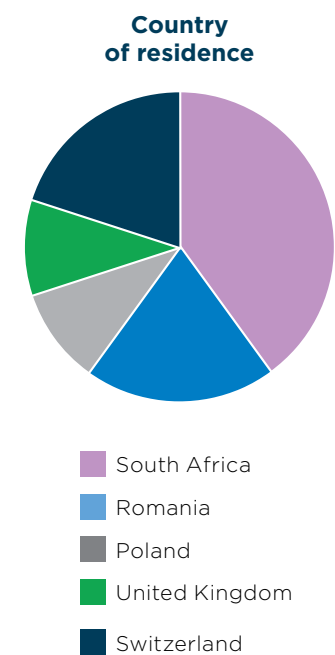
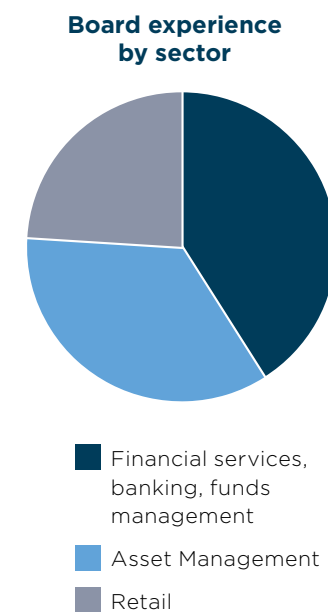
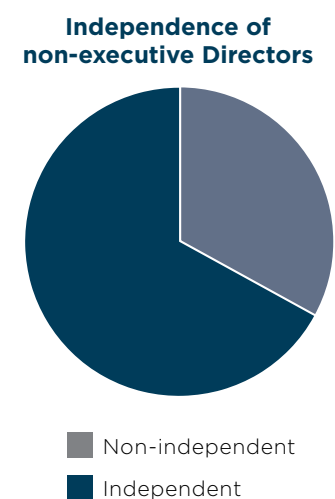
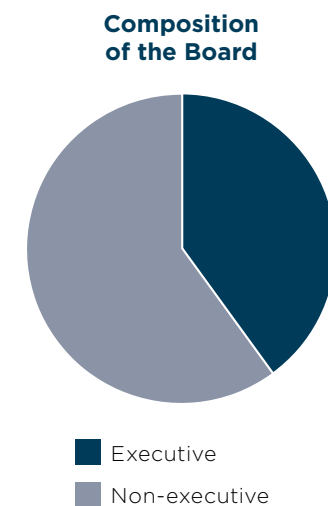
On 31 August 2018, the Board nominated a temporary sub-Committee to closely engage with shareholders' representatives, identify any queries or specific issues they may have related to Company's operations and performance, and take measures so that those are properly addressed. The members of the sub-committee were Robert Emslie (Chair of the Board), Andre van der Veer (Chair of the Audit Committee), Alex Morar (Chief Executive Officer) and Mirela Covasa (Chief Financial Officer). The sub-Committee was mandated by the Board to liaise with relevant representatives of shareholders, with the Group's JSE sponsor, with the JSE and FSCA representatives.

In a commitment to foster transparency and access of all stakeholders to the same level of information, the sub-Committee has organised a public conference call. The Company's approach was to ask participants to express specific concerns they may have in relation to NEPI Rockcastle, and to discuss and respond to these openly and fully. In line with the Company's commitment towards transparency, an unedited recording of the conference call was made available on the NEPI Rockcastle website. As a follow-up to the conference call, the sub-Committee then organised separate meetings with all investors which have expressed concerns, and addressed these by further disclosure. The sub-Committee has investigated some of the concerns raised, together with the Internal Auditor or external advisors. No material issues or matters that would require additional public disclosure were raised.

## BALANCE OF SKILLS AND INDEPENDENCE OF THE BOARD

The Directors' varied backgrounds and experience provide NEPI Rockcastle with an appropriate mix of knowledge and expertise that is necessary to manage the business effectively. The Board, based on an annual self-assessment process, concluded that, in the Group's current set-up and needs, it is satisfied with the skills set, mix of knowledge, diversity, as well as the quota of independent Directors. The Board considers that its composition is adequate and that the categorisation of

each director, member's qualifications, experience, age, period of service, other directorships and positions held are satisfactory to comply with the King IV principles. The graphs below show the diversity of the Board. A clear division of responsibilities at Board level (based on the set up of the Committees as well as the whole level Board processes), ensures a balance of power and authority, so that no individual is able to take unilateral decisions.





Corporate governance» continued

INDEPENDENCE

Independent Non-Executive Directors play a crucial role in acting as a sounding panel to the Executives, fostering high-quality Board discussions. The appointment of independent Directors provides valuable objectivity and external perspectives on the business, market challenges and macroeconomic climate. Guidance is provided by King IV and has been used by the Group in establishing criteria for evaluating the independence of its Directors. The Board considers the independence of a Director from the perspective of a reasonable and informed third party.

The following criteria, indicated in the King IV, are used to annually assess the independence of the Board of Directors’ non-executive members:

- Criteria 1: The member is a significant provider of financial capital to the Group.
- Criteria 2: The member is an officer, employee or representative of a significant financial capital or funding provider.
- Criteria 3: The member is a participant in the Group’s share incentive scheme.
- Criteria 4: The member owns shares in NEPI Rockcastle, which is material to the personal wealth of the Director.
- Criteria 5: The member has been an executive of the Group during the preceding three financial years.
- Criteria 6: The member has been the designated external auditor or a key member of the external audit engagement team during the preceding three financial years.
- Criteria 7: The member is part of the executive management of another organisation which is a related party.
- Criteria 8: The member is entitled to remuneration contingent on the performance of the Group.

	Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Criteria 6	Criteria 7	Criteria 8	Overall Assessment
Robert Emslie	No	No	No	No	No	No	No	No	Independent
Andre van der Veer	No	No	No	No	No	No	No	No	Independent
Antoine Dijkstra	No	No	No	No	No	No	No	No	Independent
George Aase	No	No	No	No	No	No	No	No	Independent
Desmond de Beer (or his alternate, Andries de Lange)	No	Yes	No	Yes	No	No	Yes	No	Non-independent
Sipho Vuso Majija	No	Yes	No	No	No	No	Yes	No	Non-independent

LENGTH OF DIRECTOR SERVICE	
Director	Years of service in the Board*
Alex Morar	5.3
Spiro Noussis**	4.6
Mirela Covasa	3.9
Desmond de Beer	10.2
Robert Emslie	2.8
Antoine Dijkstra	2.6
Marek Noetzel	3.0
Andre Van der Veer	4.6
George Aase	0.3
Sipho Vuso Majija	0.5

*\*Length of service in both NEPI and Rockcastle before the merger has been accounted for. If a Director served in both Boards, the highest of the two values was considered*  
*\*\*No longer part of the Board starting 1 January 2019*

KEY ROLES WITHIN THE BOARD

The division of responsibilities between the Chairman and the Chief Executive Officer is set out in writing and is summarised below, together with the primary responsibilities of the Chief Financial Officer, providing a system of delegation in which no single individual has unfettered decision making power.

Chairman of The Board	Chief Executive Officer	Chief Financial Officer
<ul style="list-style-type: none"><li>to set the ethical tone;</li><li>to ensure implementation of the Board Committees Charters;</li><li>to participate in the selection of Board members;</li><li>to oversee formal succession planning for the Board members;</li><li>to set the Board work plan;</li><li>to take a lead role in removing non-performing Directors;</li><li>to ensure that Directors are fully aware of their duties and responsibilities.</li></ul>	<ul style="list-style-type: none"><li>to ensure that a long-term strategy is deployed;</li><li>to direct the development of the organization, establish performance goals, plan and allocate resources to ensure future growth;</li><li>to ensure that financial and operating goals and objectives are achieved;</li><li>to ensure that a positive and ethical working environment exists;</li><li>to act as chief spokesman of the Company;</li><li>to manage the communication between the Executive Directors / management and Non-Executive Directors; and</li><li>to maintain investor relations</li></ul>	<ul style="list-style-type: none"><li>to establish and manage the accounting and financial functions of the Group, including establishing policies and practices that ensure effective financial accounting and financial performance monitoring are maintained;</li><li>to take responsibility for financial and general reporting of business performance;</li><li>to create realistic, projected budget plans and oversee their implementation, including limiting expenses and managing variations between projected and actual performance indicators;</li><li>to identify financing needs and ensure that these are met in a cost-effective manner;</li><li>to supervise fiscal research, projections, analysis and optimisation; and</li><li>to interact and maintain relationships with external auditors, regulators, analysts and rating agencies.</li></ul>

DEVELOPMENT

The development of industry knowledge is ongoing and Directors are updated on legal developments and changes in the risk and business environment on a continuous basis. The Board and its Committees are entitled to seek independent professional advice concerning the Company’s affairs and to gain access to any information they may require in discharging their duties as directors.

EVALUATION

The Board Charter provisions the evaluation of the performance and effectiveness of the Board and its Committees. The performance of the Board, its Committees and individual Directors is evaluated annually, and the results are reviewed by the Nomination Committee or the Board. The performance and effectiveness of the Chairman of the Board is evaluated collectively by its members.

SUCCESSION PLANNING

A Board succession process is in place to ensure that a framework exists for an effective and orderly succession of Directors that will result in the knowledge, skills and experience necessary for the Board to effectively govern the Group. The objectives of the succession planning process include:

- to identify the required knowledge, skills and experience at a full Board level to effectively fulfil the Board’s legal role and responsibilities;
- to ensure an appropriate balance across the Board, including sufficient diversity among Directors;
- to identify the appropriate qualified individuals for recommendation at the shareholders’ AGM;
- to achieve continuity through a smooth succession of Directors (including Board and Committee leadership) that balances perspective and independence with experience and historical knowledge; and,
- to satisfy best practice within the legal and regulatory framework applicable to the Group; in particular, the satisfaction of JSE and Euronext Listings Requirements and compliance with statutory obligations which exist in the various legal environments where the Group operates.

The Nomination Committee provides leadership over Board succession planning and shall implement such processes and procedures as required to fulfil the committee objectives.



# Corporate governance» continued

## BOARD AND COMMITTEES RESPONSIBILITIES

The activity of each Committee is governed by a formalised Charter approved by the Board, summarising its objectives, responsibilities and authority. The Charters are reviewed and revised on an annual basis by the Board. All Committee members are provided with appropriate induction on joining their respective Committees, as well as on-going access to training. Minutes of all meetings of the Committees are made available to all Directors before any Board meetings, and feedback from each of the Committees is provided to the Board by the respective Committee Chairs. The Committee Chairs attend the annual general meeting to answer any questions from shareholders on their Committee's actions. The interaction between the Board, its Committees and the management of the Company is further detailed below.

Board of Directors
The Board of Directors steers and sets the direction of the Group for the realisation of its core purpose and values through its strategy. The Board considers and approves key issues, including acquisitions, disposals and reporting. The Board is responsible for monitoring NEPI Rockcastle's operational performance and overseeing the effectiveness of the internal controls systems. The Board oversees the adequacy of internal controls to ensure that assets are safeguarded, proper accounting records are maintained and that the financial information, on which business decisions are made and which is published, is reliable. The Board has delegated some of its functions to the various Committees, to assist in performing its duties. The objectives of each Committee are outlined below.

### Committees at glance

Audit
The Audit Committee is established to assist the Board to: <ul style="list-style-type: none"><li>• discharge its duties relating to the safeguarding of assets;</li><li>• monitor the internal controls system;</li><li>• review and approve the interim and annual financial reports;</li><li>• nominate external auditors whose appointment is subject to shareholder approval; and</li><li>• interact with external and internal auditors.</li></ul>
Risk
The Risk Committee is established to assist the Board to: <ul style="list-style-type: none"><li>• discharge its duties relating to the safeguarding of assets;</li><li>• set up the risk management framework;</li><li>• ensure that the Company has embedded effective risk management processes within its operations, supporting the Company's ability to achieve its strategic objectives;</li><li>• ensure that sustainability is embedded in the Company's processes, that reporting is comprehensive, timely and relevant.</li></ul>
Nomination
The Nomination Committee is established to: <ul style="list-style-type: none"><li>• identify suitable Board candidates in order to fill vacancies;</li><li>• ensure there is a succession plan in place for key Board members;</li><li>• assess the skills and independence of Non-Executive Directors; and</li><li>• assess the composition of the Board sub-committees.</li></ul>
Social and ethics
The Social and Ethics Committee oversees and reports on the Group's organisational ethics, responsible corporate citizenship (including the promotion of equality, prevention of discrimination, the environment, health and public safety, taking into consideration the impact of the Company's activities and of its products or services), and sustainable development and stakeholder relationships.
Investment
The Investment Committee considers all acquisitions, sales of properties and capital expenditures that support the mission, values, and strategic goals of the Group. Appropriate investments or disposals are then presented to the Board for consideration and approval, ensuring that investment policies, guidelines and performance objectives are met.
Remuneration
The Remuneration Committee's objectives are to: <ul style="list-style-type: none"><li>• annually review and recommend to the Board the remuneration paid to Board members;</li><li>• assess and recommend to the Board the remuneration of the Group's management;</li><li>• assess and recommend to the Board the participation of employees in the Long-Term Incentive Plan;</li><li>• ensure that staff remuneration is aligned with market trends; and</li><li>• ensure that the Group's remuneration and incentive policies, practices and performance indicators are aligned to the Board's vision, values and overall business objectives, and are designed to motivate all Directors and employees to pursue the Group's growth and success.</li></ul>

### Company Secretary

The Company Secretary assists the Board in ensuring that the Group complies with statutory and regulatory requirements and ensures that the Board members are informed of their legal responsibilities.

### Audit Committee

The members of the Audit Committee were nominated by the Board and approved by shareholders at the AGM held on 28 August 2018. The Audit Committee comprises three Independent non-Executive Directors. To ensure that the Audit Committee continually comprises qualified individuals, the Board reviews its membership at least once a year. The Audit Committee assumed the following responsibilities during the period under review:

- oversee the integrated accounting and reporting process, including financial reporting. The Audit Committee members collectively have an understanding of integrated reporting, internal financial controls, the external and internal audit process, corporate law, sustainability issues, information technology governance, and governance processes across the Group;
- review the independence of internal and external auditors;
- evaluate and coordinate the internal and external audit process;
- monitor the compliance of the Company with legal requirements;
- satisfy itself as to the expertise, resources and experience of the Company's Finance and Internal Audit Functions;
- dealing appropriately with any concerns or complaints relating to accounting practices, the content or auditing of the Group's financial statements, internal controls or any other relevant matters; and
- assisting the Board in carrying out its IT governance by obtaining the relevant assurances that all IT risks are adequately addressed by the controls in place.

Termination of Audit Committee membership needs to be decided by the Board.

The Board supports and endorses the Audit Committee, which operates independently of management and is free from any organisational impairment. The Audit Committee assists the Board in fulfilling its responsibilities and has unrestricted access to all information, including records, property and personnel of the Company. The Committee is provided with the necessary resources to fulfil its responsibilities.

The Audit Committee convenes at least four times a year.

The Audit Committee has considered and found:

- the expertise and experience of the Chief Financial Officer are appropriate for the position, and the arrangements for the Finance function are adequate to the size and complexity of the Group;
- the expertise and experience of the Internal Audit Director are appropriate for the position and the arrangements for the Internal Audit function are adequate to the size and complexity of the Group.

In relation to the External Auditor, the Audit Committee, based on the mandate received in AGM, approved the terms of the engagement, the fees and the scope of work for 2018. Based on interactions with the external auditor and the quality of the external auditor reports, the Audit Committee considered the expertise and independence of the External Auditor is satisfactory, including also the policy for the provision of non-audit services and partner rotation.

In order to fulfil its responsibility of monitoring the integrity of financial reports issued, the Audit Committee has reviewed the accounting principles, policies and practices adopted during the preparation of financial information and examined relevant documentation related to the Annual Report. The Committee is comfortable that appropriate financial reporting procedures have been established and are operating. The Audit Committee reviewed:

- the clarity of the disclosures included in the financial statements;
- the basis for significant estimates and judgements.

The Audit Committee monitors the effectiveness of the internal controls system, including financial controls. The Audit Committee is satisfied with the design and effectiveness of the financial controls, is comfortable that any weakness may not result in material financial loss, fraud, corruption or error and that the Company implemented mechanisms to identify such significant weaknesses.

The Audit Committee complied with its legal and regulatory responsibilities and its Charter, and recommended the Annual Report to the Board for approval.

### Risk Committee

The members of the Risk Committee and its Chairman are appointed and removed by the Board and serve until a successor is elected and qualified, they resign or are removed. To ensure that the Risk Committee is properly constituted for each financial year, the Board reviews its membership at least once a year.

The Risk Committee assumed the following responsibilities during 2018:

- oversee the development and annual review of the risk management policy;
- monitor implementation of the policy and plan for risk management through adequate risk management systems and processes;
- make recommendations to the Board on risk appetite and tolerance levels and monitor the operation within the limits approved by the Board;
- oversee that the risk management plan is widely disseminated throughout the Company and integrated in the day-to-day operations of the Company;
- ensure that risk management assessment and risks monitoring are performed on a continuous basis;
- acknowledge the mitigating action plans committed by the business functions, and review implementation status for major company-wide risks;
- ensure that frameworks and methodologies are implemented to anticipate unpredictable risks;
- liaise closely with the Audit Committee to exchange information relevant to risk;
- express the Committee's formal opinion to the Board on the effectiveness of Group risk management processes; and
- review risk report to be included in the Annual Report to ensure it is accurate, relevant and comprehensive.

### Nomination Committee

The members of the Nomination Committee and its Chairman are appointed and dismissed by the Board. Directors serving on the Nomination Committee



# Corporate governance» continued

have diverse, complementary backgrounds and are independent of the management and the Company.

During 2018, the Nomination Committee assumed the following responsibilities delegated by the Board:

- Reviewing and making recommendations in relation to Board composition, competencies and diversity to ensure vacancies are filled with suitable candidates
- Periodically assessing the skill set required to:
  - competently discharge the Board's duties, taking into account the Group's strategic direction and assessing the skills of the current members;
  - regularly reviewing and making recommendations to the Board regarding its structure, size, effectiveness and composition (including the mix of skills, knowledge and experience); and
  - developing strategies to address Board diversity.
- Developing and reviewing Board succession plans, Director induction programs and continuing development:
  - giving full consideration to the succession plans of the Board (including the role of Chairman) with the aim of maintaining an ongoing appropriate mix of skills, experience, expertise and diversity;
  - identifying existing directors who are due for re-election by rotation at AGM; and
  - developing induction programs that are undertaken by each new Director and reviewing their effectiveness.
- Reviewing and making recommendations regarding Board appointments, re-elections and terminations:
  - preparing a description of the role and skill set required for appointments;
  - identifying suitable candidates to fill Board vacancies and nominating them for Board approval;
  - deciding on whether Board appointments should be extended;
  - ensuring that, on appointment, all Directors receive a formal letter of appointment that sets out the duration and responsibility required by the appointment; and
  - reviewing disclosures made by the Group regarding Board appointments, re-elections and terminations.

## Social and Ethics Committee

The members of the Committee are appointed and may be removed by the Board. To ensure that the Social and Ethics Committee continually comprises the best personnel, the Board reviews its membership annually.

The main purpose of the Social and Ethics Committee is to monitor the Company's activities, having regard to any relevant legislation, other legal requirements or prevailing codes of best practice. The Committee must draw certain matters to the attention of the Board. These matters include:

- social and economic development;
- good corporate citizenship;
- the environment, health and public safety;
- consumer relationships; and
- labour and employment.

## Investment Committee

The members of the Committee are appointed and removed by the Board. To ensure that the Investment Committee continually comprises the best personnel, the Board reviews its membership every year. The members of the Committee have significant property investment and management experience. The Chairman must be a Non-Executive Director with adequate financial and investment experience.

Part of the asset management role of the Executive management of the Group is to seek new investment opportunities, optimise the performance of existing assets (for example, through refurbishments, developments and re-tenanting), and where necessary, to propose the disposal of assets which no longer contribute to the Company's income growth strategy. Executive management will direct all such acquisitions, capital expenditure (capex) and disposal recommendations (which exceed their mandate) to the Investment Committee.

The Committee is responsible for formulating the overall investment policies of the Group, and establishing investment guidelines to further those policies. The Committee monitors the management of the investment portfolio for compliance with the investment policies and guidelines, and ensures that the performance objectives are met. The Committee will comply with all applicable fiduciary, prudence and due diligence requirements, which experienced investment professionals would utilise, and with all applicable laws, rules, and regulations from various local and international institutions that have an impact on the Group's portfolio.

The purpose and function of the Investment Committee is to:

- consider recommendations from management for acquisitions, capex and disposals;
- authorise transactions that fall within its mandate;
- make recommendations to the Board regarding transactions that fall outside its approval mandate;
- evaluate investment performance; and
- periodically review and assess the performance of the Committee and its members, including reviewing the compliance of the Committee with its Charter.

## Remuneration Committee

The members of the Remuneration Committee and its Chairman are appointed and removed by the Board. The Directors serving on the Remuneration Committee should have diverse, complementary backgrounds and be independent of the management and the Company. To ensure that the Remuneration Committee continually comprises the best personnel, the Board reviews its membership annually.

The Remuneration Committee assumed the following responsibilities during 2018:

- overseeing the development and annual review of the remuneration policy and presenting it to the Board for approval;
- monitoring implementation and administration of the remuneration policy;
- determining remuneration for Executive Directors in alignment with the remuneration policy;



PHOTO: SHOPPING CITY PIATRA NEAMT, ROMANIA



# Corporate governance» continued

- incentivising all employees based on individual and Group performance;
- ensuring that the Group's remuneration policies are aligned with its strategy and create long-term value for the Group;
- approving annual increases for all employees; and
- recommending the fees paid to Non-Executive Directors and members of Board Committees.

The Remuneration Committee:

- has the power to investigate any activity within the scope of its mandate as delegated by the Board;
- assists the Board in fulfilling its responsibilities regarding the determination of remuneration policies;
- has reasonable access to information, including Group records, property and personnel, and must be provided with resources to fulfil its responsibilities;
- is authorised by the Board to investigate any activities within its mandate, seek outside legal or other independent professional advice and seek any information it requires from any employee.

The Remuneration Committee must report and make recommendations to the Board regarding any issues that may arise. The Board retains the responsibility for implementing such recommendations, therefore ultimate responsibility for fair and equitable remuneration rests with the Board.

## INTERNAL CONTROLS SYSTEM AND INFORMATION TECHNOLOGY

A comprehensive set of control mechanisms has been designed by NEPI Rockcastle to ensure compliance with laws and regulations, internal governance and delegation principles, stock exchange rules and best practices in the industry.

The Group implemented the three lines of defence approach, with a view to further strengthen the system of internal controls and track compliance with relevant laws and regulations, including King IV Report on Corporate Governance. As such, the system of internal controls is structured on the following lines:

- the first line of defence, **line management**, is the function that owns risks and is responsible for operational processes within the Group. Line management is in charge to design appropriate processes and procedures, implement and execute internal controls, embed risk management in the day to day operations, compare performance against targets and KPIs and monitor status;
- the second line of defence, **support functions**, is responsible for oversight and compliance monitoring role, such as Legal and Compliance, Risk Management, Data Privacy. These functions are primarily charged with monitoring new laws and regulations and emerging risks and providing support and advice to management in ensuring compliance thereof. These functions monitor and facilitate the implementation of effective risk and compliance management practices by operational management and assist the risk owners in reporting adequate risk related information;

- the third line of defence, **Internal Audit**, is in charge of providing independent assurance on the effectiveness of the internal controls and risk management activities, including on how the first two lines discharge their duties.

The Group is committed to preventing and deterring significant risks such as but not limited to:

- potential conflicts of interest;
- related party transactions which may not be transparent or at an arm's length;
- confidentiality and observance of professional secrecy;
- unopen and incomplete financial communication;
- non-compliance with fiscal regulations within a complex tax environment;
- use of privileged information and insider trading;
- money-laundering and the financing of terrorism;
- non-adequate adherence to anti-corruption and anti-fraud rules;
- inefficient delegation of authority required to keep the right balance between flexibility, speed and span of control.

The Group implemented a comprehensive Procurement Policy and a supplier due diligence process, in order to ensure that responsible purchasing is conducted and that procurement decisions are in the best interest of the Company. Responsible purchasing is ensured at Group level through:

- implementation of sound policies, promoting objectivity and transparency throughout the procurement processes, and continuous monitoring of compliance thereto;
- implementation of aligned requirements and controls in the property management contracts to ensure that the same principles are applied by the outsourced property managers;
- design of a detailed supplier risk assessment and due diligence when onboarding a new supplier and timely revisions afterwards;
- win-win partnerships with the Group's suppliers, based on sustainable business practices, where both the Group and its suppliers may thrive and grow.

The Board is responsible for the governance of and ongoing oversight of the internal controls, including information and technology, and its management thereof, and confirms that processes exist ensuring timely, relevant, accurate and accessible reporting, communication and data storage. The Board oversees the IT processes in relation to compliance with relevant laws and risk related to the outsourced IT services, providing for business resilience, continuity and disaster recovery. Part of the IT processes are outsourced to third-party service providers and are governed by service level agreements. Compliance with the service level agreement is monitored by management and the terms are reviewed on a regular basis. The risks and controls over IT assets and data are considered by the Risk Committee. The Board also oversees the records management, information privacy and data quality.

The Group is committed to ensure compliance in all aspects, and therefore, during 2018, invested significant effort in defining rules, processes, structures to advise and monitor compliance with the EU Regulation 2016/679 on personal data protection.



In a commitment to enhance its internal controls, transparency and traceability, as well as targeting towards building a paperless environment (to the extent possible and within current legal constraints in various jurisdictions the Group operates), the Group implemented in 2018 and will continue to roll-over during 2019, an IT-based solution, to be used in all countries of the Group and for all significant core and support processes. The system automates significantly the process and the controls embedded and allows advanced functionalities such as electronic signature of supplier and tenants contracts, reporting and tracking.

## EXTERNAL AUDIT

The Group's audit rotation policy is to organise tenders for audit services every three years, to ensure auditors' independence and verify that audit fees are in line with the market. As PwC had been auditing NEPI since 2014, the Company considered tendering the external audit services in 2017. The process was postponed due to the complexities raised by the merger between NEPI and Rockcastle, which required an immediate integration of the finance systems of the companies, involving significant efforts from the newly-formed Finance team. The Audit Committee considered that a new external auditor would require substantial additional time invested by the Group's team in explaining the business specifics and financial reporting process, which would have placed further strain on the internal resources, so the tender process was postponed.

In 2018, NEPI Rockcastle organised a tender to which top audit firms (Big 4) were invited, as the selected auditor should have the knowledge, experience and capacity to carry out a multinational audit and comply with strict reporting deadlines. A request for proposal was sent to three firms, detailing the Group's audit requirements. The firms signed confidentiality agreements, and received the information necessary for the preparation of the proposals. The three firms also carried out internal independence and client acceptance procedures, as well as other assessments necessary according to professional standards. The qualifying firms' senior teams then met the Audit Committee to discuss in detail their proposals including the detailed audit process, audit approach, selected teams and envisaged fees. After careful consideration of all proposals, the Audit Committee recommended to the Board the reappointment of PwC as Group auditor, including the external auditor's terms of engagement. The external auditor's scope of work includes:

- the audit of the annual consolidated and standalone financial statements of NEPI Rockcastle plc, prepared in accordance with IFRS;
- the audit of the financial statements of NEPI Rockcastle's subsidiaries, prepared in accordance with local accounting principles, if such subsidiaries are required to be audited by statutory rules.

PwC's appointment was also approved by the Board, and later endorsed by the shareholders, in the Annual General Meeting, with 99.87% of the total number of present votes.



# Corporate governance» continued

The fees incurred in relation to PwC, for audit and non-audit services, are disclosed in the notes to the financial statements, and depicted below:

	Group 31 Dec 2018	Group 31 Dec 2017
<b>Administrative expenses (note 27)</b>	<b>1,092</b>	<b>765</b>
Audit fees	845	760
Other assurance services	187	-
Other consulting services	60	5
<b>Acquisition fees (note 28)</b>	<b>88</b>	<b>24</b>
<b>Financing fees - deferred bonds costs (note 20)</b>	<b>-</b>	<b>194</b>
<b>TOTAL</b>	<b>1,180</b>	<b>983</b>

Amounts in € thousand

The Audit Committee and the external auditor have communicated on all matters required by International Standard on Auditing No. 260 (Revised) “Communication of audit matters with those in charged with governance”. In addition, the external auditor has communicated that in respect of JSE Listing Requirements Section 22.15(h):

- the audit firm has met all the criteria stipulated in the requirements, including that the audit regulator has completed a firm-wide independent quality control inspection on the audit firm and on the designated individual auditor, during its previous inspection cycle;
- the auditors have provided to the Audit Committee the required inspection decision letters, findings report and the proposed remedial action to address the findings, both at the audit firm and the individual auditor levels and have confirmed that there have been no legal or disciplinary proceedings brought against either of the two within the past 7 years; and
- both the audit firm and the individual auditor understand their roles and have the competence, expertise, experience and skills required to discharge their specific audit and financial reporting responsibilities.

In accordance with best practice and the principle of direct, independent communication between the Audit Committee and the external auditor, the Audit Committee was provided with an independent report including significant auditing matters and auditor’s observations relating to the internal control environment of the Group, and management’s response. The Audit Committee reviewed the report and discussed directly with the external auditor the findings, and both have confirmed that all matters have been satisfactorily addressed by management.

The external auditor has in addition communicated with the Audit Committee in respect of its own independence. They have confirmed their independence in respect of: relationships between PwC and the Group, relationships and investments held by individuals employed by PwC related to the Group, employment of PwC staff by the Group, business relationships, other services provided by PwC to the Group, fees, as well as confirmation of lack of: contingent fees, services granted by PwC to Directors and/or Senior Management of the Group, gifts

and hospitality. The auditor has additionally confirmed compliance of the firm and individual audit partners with all internal PwC independence requirements, rotation policies, as well as relevant regulatory and professional requirements including the Ethical Standard issued by the Financial Reporting Council, and have affirmed that their integrity, objectivity and independence have not been compromised.

The Committee is satisfied with the information received based on which it concluded that PricewaterhouseCoopers LLC, the signing external audit firm, and Mr. Nicholas Mark Halsall, the responsible individual, are independent of the Company and of the Group.

## INTERNAL AUDIT

The Group implemented an insourced Internal Audit function, coordinated by an experienced Audit Director. The activity of Internal Audit, its mandate, responsibilities and access are regulated through the Internal Audit Charter, approved by the Audit Committee. In alignment with its Charter, Internal Audit reports functionally to the Audit Committee and administratively to the CEO.

Internal Audit carries out independent risk-based audits, under the guidance of the Audit Committee. The Audit Committee therefore:

- defines the mandate of Internal Audit through the Audit Charter;
- reviews the effectiveness of the Internal Audit function, and its capacity to carry out the annual audit plan;
- reviews the activities and organisational structure of the Internal Audit function and ensures no unjustified restrictions or limitations exist;
- provides independence of the Internal Audit function, through the reporting line;
- ensures Internal Audit activities comply with the relevant rules and regulations;
- reviews and approves the results of risk assessment and the Annual Audit Plan;
- reviews and approves the Internal Audit reports and evaluate the adequacy of management’s action plans to address risks and control deficiencies;
- monitors the status of implementation of management action plans;
- may escalate to the Board of Directors the significant audit findings and control deficiencies which require the Board’s attention and prioritisation.

Internal Audit remains independent of all line and functional management and answers to the Board of Directors through the Audit Committee, having unlimited access to the Audit Committee and its Chair.

Internal Audit is responsible for implementing the Annual Audit Plan, approved by the Audit Committee and perform ad-hoc engagements, based on the request of the Audit Committee or on the red flags identified.

Based on the work performed during 2018, Internal Audit concluded that management continued to strengthen

and formalise the internal controls framework, through implementation of guidelines, clear definition of roles and responsibilities and design of a system to delegate responsibility based on risk, embedded within the core processes of the Company. Management has also strengthened the risk management processes, leading to closer monitoring of emerging risks in key areas, real time planning of measures and escalation to the appropriate bodies. Going forward, for 2019, management committed satisfactory action plans to remediate risks raised by Audit and further align policies and principles for delegation of responsibility within the vast portfolio.

## DIRECTORS’ DEALINGS AND INSIDER TRADING

Dealing in Company securities by Directors, their associates, and Company officials is regulated and monitored in accordance with the JSE Listings Requirements and Euronext guidelines and applicable legislation, regulations and directives. NEPI Rockcastle maintains a closed period from the end of a financial period to publication of the financial results. To prevent the risk of insider trading, the Group has adopted a formal Dealing Code, available to all its employees and Directors. The Dealing Code is in place to ensure that all restricted persons do not abuse, and do not place themselves under suspicion of abusing inside information. The Dealing Code is in place to ensure that all persons discharging management responsibilities and persons closely associated, are aware of their obligations under the Market Abuse Regulation and the JSE/Euronext Listing Requirements, regarding clearance to deal and notifications of transactions in the Group’s securities.

Through its Dealing Policy, the Group prohibits all Directors and employees from using confidential information, not generally known or available to the public, for personal benefit. The Group announces closed periods to its employees and the Company’s Directors, and during such periods, both Directors and employees with insider knowledge are banned from dealing in NRP shares. In compliance with JSE requirements, the Company is announcing publicly all dealings of its Executive and Non-Executive Directors in the Company’s shares through SENS (Stock Exchange News Service).

## GOVERNANCE, SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

Responsibility for the oversight of the implementation of the Group’s governance framework rests with the Board of Directors. The Board and its Committees fulfil the responsibilities for all Group subsidiaries and the governances and operational policies established by the Board have been adopted throughout the NEPI Rockcastle Group. The Group is an integral part of the community in which it operates and is committed to building sound relationships, based on trust, honesty, and fairness. Not only is environmental compliance legally obligatory, but it is also an important component of the Group’s commitment to the community and developing its good reputation. NEPI Rockcastle is dedicated to minimising the environmental impact of its activities by reducing waste, emissions and discharges, and using energy efficiently. More details on these topics are included in the Sustainability Section of this report.

In a continuous search to enhance its approach towards sustainable business practices and corporate governance, the Group decided to further analyse its ESG (environmental, social and governance) practices and to invest time and effort into implementing best practices aligned with peers, industry and markets where it operates. The ESG definition in a nutshell encompasses the following:

- Environmental criteria look at how a company performs in relation to nature and natural resources;
- Social criteria examine how a company manages relationships with its employees, suppliers, customers and the communities where it operates;
- Governance deals with a company’s leadership, executive pay, audits, internal controls, compliance monitoring and shareholder rights.

An ESG risk rating provides investors and wider public with an overall company score based on an assessment of how much of a company’s exposure to ESG risk is unmanaged. The more of the risk is unmanaged, the higher the ESG Risk Rating Score is. In March 2019, based on information available publicly as of 2017, Sustainalytics rated NEPI Rockcastle’s ESG Risk as Low. Sustainalytics is a well-known ESG rating agency, incorporated in the Netherlands and operating for the last 25 years in Europe, United States of America, Australia and Singapore markets.

## HUMAN CAPITAL IN NEPI ROCKCASTLE

### ETHICS, EQUAL EMPLOYMENT AND NON-DISCRIMINATION

The Group maintains the highest ethical standards and complies with all applicable legislation, rules, and regulations. The Group’s continued success depends on employing the most qualified people and establishing a working environment free from discrimination, harassment, intimidation or coercion based on race, religion, gender, age, nationality or disability.

NEPI Rockcastle is committed to ensuring ethical behaviour throughout its business practices, in relation to all internal and external stakeholders. The Group’s ethical standards are based on trust, sound morality, confidentiality, reliability, sustainability. The Code of Ethics, approved by the Board and made available to all employees, demonstrates the Company’s commitment to strong values and human rights. The Code is applicable to all the Group people: directors, officers and employees, permanent or temporary, consultants and contractors in every country, workforce and entity that is consolidated in the Group’s financial statements or otherwise controlled by the Group. The Company does not tolerate any form of unlawful or unethical behaviour by any person or entity associated with it.

The Group reinforces and reminds its employees at least on an annual basis the core values which are embedded in all its internal and external processes, i.e. Integrity, Excellence, Teamwork and Communication, Innovation and Learning. As the Group places paramount importance on ethical behaviour, a specific feedback component related to adherence to these values was applied for the first time in 2017 and continued to be used in the formal annual performance evaluation process of all employees for 2018.

The Code of Ethics addresses in detail the conflict of interest topic and management conducted a campaign in 2018, which is to be further continued in 2019, in order to raise employees’ awareness of risks deriving from conflict



# Corporate governance» continued

of interest and reporting requirements. According to the Code, a conflict of interest arises whenever an employee's position or responsibilities present an opportunity for personal benefit, inconsistent with the Group's best interests. Individuals are responsible for their own ethical behaviour, and are expected to act, at all times and in all ways, in the best interest of the Company. If and when they consider that a conflict of interest exists, the Compliance Officer is to be notified immediately. The Compliance Officer provides advice on how the conflict of interest can be avoided. Undisclosed, materialised conflict of interest will trigger employee consequence management process and disciplinary measures are considered by the Ethics / Disciplinary Committee constituted at Group level.

- Besides conflict of interest, the Code of Ethics has strong provisions on the following areas:
- bribery and corruption: such behaviour is illegal in all jurisdictions and rejected by the Group, whether performed in the name of the business or in personal name of an employee;
  - gifts and events: it defines the value of gifts that may be offered or received as well as conditions for participation to various events organised by tenants or suppliers;
  - acceptable behaviour towards public officials, i.e. under no circumstance any gifts or amounts of money will be offered;
  - acceptable behaviour in terms of other ethics and compliance requirements, i.e. health & safety, use of drugs and alcohol, antitrust policy, creating a non-discrimination and inclusion environment for all employees.

Awareness campaigns are organised with the collaboration of various functions within the Group, in order to train employees and enforce the Code of Ethics provisions.

The Group does not support any political parties (no payments, donations or any other in-kind benefits are offered) and does not get involved in political issues of the countries it operates in. The Group does not engage in lobbying activities and is not part of any professional organization established for lobbying purposes.

The Company has an open-door policy and supports the "speak-up" culture, thus employees are encouraged to share their concerns, suggestions or complaints with their supervisor. In order to promote full transparency as well as a means to report concerns, the Company has implemented a Whistleblowing Policy, which also provides reporting channels, while guaranteeing non-retaliation against the whistle-blower.

- The reporting channels available to both employees and any external party are the following:
- On-line portal available in the Group's website;
  - 24/7 hotline reachable from all countries relevant to the Group, operated independently by a service provider.

The Company encourages the potential whistle-blowers to disclose their identity through enforcing its non-retaliation policy and guaranteeing confidentiality to the end reasonably possible. However complaints made anonymously are treated and analysed with the same diligence.

The Whistleblowing policy and reporting channels are communicated proactively to all employees by management on an annual basis and are available also on the Group's website.

The summary of all tip offs received, including types of misconduct, procedures performed and conclusions, is traced and reported periodically to the Audit Committee. Tip offs are investigated following a plausibility check by Internal Audit, while the reports together with conclusions and recommendations are reported to the Audit Committee.

Employees may consult on any ethical issues, report potential conflict of interest and request advice from the Compliance Officer and a general e-mail address is available for use by all employees.

All Group guidelines, policies and procedures are available to its employees in a shared location, therefore making sure expectations are known and properly communicated, regardless of borders and geographical spread.

In relation to its external stakeholders, NEPI Rockcastle strongly believes in collaborating with partners sharing the same values, hence, ethical behaviour clauses were included in the standard contract templates to be signed with any supplier. Part of the Group's commitment to strong ethics was to introduce during 2018 a consequence management approach in relation to all third parties the Group is doing business with, in the context of non-ethical practices. As a result, based on a transparent and objective process where several functions from the Company provide input, any supplier with proven unethical behaviour, is excluded from the list of suppliers that the Group is engaging with.

### GENDER DIVERSITY POLICY

The Group supports the principles of gender diversity at both Board level and on Group-wide basis. No voluntary target has been set, however the approach to gender diversity adopted by the Group is that as long as a vacancy on the Board arises, consideration will be given to the appointment of female Director(s), so as to attain and maintain a level of gender diversity within the Board that is considered appropriate at the time, having regard to the skills, expertise, experience and background required.

Across the Group, an open and engaging culture is maintained which ensures the Group is able to attract and retain a skilled and dedicated team of employees. The Group recognises that a balanced gender workforce enhances its ability to meet its targets. At year-end, 64% of the employees were women, including 38% of senior management.

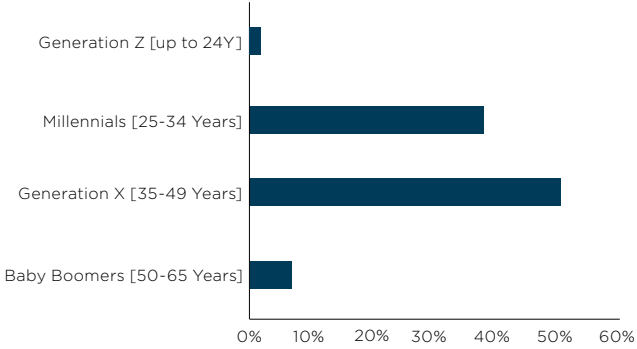


PHOTO: THE LAKEVIEW, ROMANIA

Level	Gender	% distribution
Executive Committee (Functions Leads)	F	38%
	M	62%
Middle Management and Subject Matter Expert	F	52%
	M	48%
Non-managerial	F	72%
	M	28%

Another key measure of diversity and equity is the pay ratio by gender and location. The Group analysed the ratio of the salary of women and men for each category and location, however, due to the limited number of employees in some locations and positions, the disclosure of results by each category might lead to compromising confidentiality. In aggregate, the ratio of women's salaries to men across all categories and geographies is between 1:1.10 and 1:1.25.

The Group encourages in addition the diversity across age ranges, which therefore, has a balanced distribution, considering the needs and skills set required to deliver the Company's mission and strategy.



### RETENTION AND DEVELOPMENT

The Group has also intensified its efforts towards employee skills development and will continue to have initiatives in this direction during 2019.

An employees' development plan, including all lines of staff and management, is established annually by the HR team. The development plan is revised on an annual basis and factors in the Company's short, medium and long-term strategy, together with the employees' annual assessment and specific development needs identified therein.



# Corporate governance» continued

During 2018, the following targets have been achieved in terms of training programs:

- 498 trained employees;
- Feedback scores average 3.7 on a 1 to 4 scale;
- Top management training program started;
- Pilot skill building program for staff started (including topics such as Time Management, Effective Meetings, Leadership & Team building, Working with consumer trends).

For 2019, the development plans include the following:

- Create and implement training plan for 2019 at Group level (based on identified needs from performance feedback and strategic priorities);
- Re-engage people on Company values, communicate and further implement;
- Create development plan for identified successors for key management positions and critical roles.

The Group continued to support employees in finding the appropriate work-life balance and integrating their professional and personal responsibilities, as we strongly believe such efforts lead to more engaged, motivated and committed employees. Initiatives in this direction include:

- One off allowance for parents when a child is born;
- Flexible return-to-work schedule for employees returning from maternity and parental leave;
- Employee well-being initiatives such as: participation in sport events, subsidising gym subscription, employee health insurance program.

Besides the financial and operational KPIs of a company, which drive its success, a more qualitative measure is employee turnover. The global employee turnover rate during 2018 was 15.4%, blended across all jurisdictions, with 11% voluntary leave and 4.4% non-voluntary leave. The figure includes various initiatives of consolidating the Group from an operational point of view after the 2017 merger between NEPI and Rockcastle. In terms of geographical areas, Romania and Croatia had the highest turnover rates, while in terms of seniority, most of the leavers were non-management.

Seniority	Number of leavers	Total professionals at 31 December 2018	%
Executive Committee (Function Leads)	2	13	15.4%
Middle Management and Subject Matter Experts	14	174	8.0%
Non-managerial	59	299	19.7%
Total	75	486	15.4%

Besides retention and development programs depicted above, one other measure the Group undertook to reduce employee turnover was to increase the screening procedures within the recruiting process. Since 2017, a dedicated Human Resources (HR) Business Partner has joined the HR function and driven the recruitment for all positions. During 2018, the Group implemented within the recruiting processes various assessments applicable to all candidates regardless of the position to be filled. Moreover, the recruitment policy designed includes a compulsory HR assessment/interview for all positions before concluding and making an offer. Also, HR together with business leaders designed job profiles for each recruited position consistent across the Group.

The Group continues to take on a variety of initiatives in terms of career path and employee development programs, adjusting and communicating transparently the remuneration and benefits principles and searching for improvements towards a more objective and traceable performance management process. These are discussed in detail further on in the Remuneration Review section of this report, on pages 120-135.

## B-BBEE COMPLIANCE

The Group does not have a reporting obligation under section 13G(2) of the South African Broad-Based Black Economic Empowerment Amendment Act No 46 of 2013 and accordingly is excluded from compliance with the provisions of paragraph 16.21(g) of the JSE Listings Requirements as confirmed by the legal opinion provided by the Group's advisers.

## STAKEHOLDER ENGAGEMENT

The Board exercises ongoing oversight of stakeholder relationship management, while responsibility for implementation and execution of effective stakeholder relationship management has been delegated by the Board to Management. The Company's main stakeholders are considered to be its shareholders, bondholders, employees, tenants, suppliers, banks and fiscal administrations of the locations where the Group carries out its activities.

Management engaged actively during 2018 in communication with the major stakeholders of the Group.

NEPI Rockcastle has a transparent information communication policy, to enable stakeholders to assess the Group's economic value and prospects. The Company encourages proactive engagement with shareholders, including the Company's results presentations and annual general meetings, where all Directors are available to respond to shareholders' queries on how the Board has executed its governance duties.

### Key investor relation activities during the year

February 2018	Condensed Consolidated financial results and distribution
	Results presentations
March 2018	Annual Report
June 2018	Investors property tour
	Various changes in Board composition, including sole CEO structure
July – August 2018	Results of Annual General Meeting of shareholders
	Unaudited condensed financial statements for six months and dividend payment timetable
	Results presentations
November 2018	Business update

Shareholders	The Group is committed to providing shareholders with timely access to relevant information. Communication with its shareholders is open, honest, transparent, while providing equal access to information to all shareholders. The Group includes efforts to engage with shareholders on a wide range of topics including remuneration, strategy, risk management, corporate governance and other topics falling outside of the usual financial topics.
Financing partners	The Group has a wide range of relationships with banks, financial institutions and bondholders. The Group keeps open communication with its financing partners. Compliance with loan covenants is closely monitored by Finance management and the Audit Committee, and reported according to the applicable agreements.
Analysts	NEPI Rockcastle holds semi-annual results presentations and participations to conferences. Information is provided through analyst presentations, road shows, annual reports and interim reporting. NEPI Rockcastle adopts open and transparent lines of communication to analysts regarding questions about all aspects of the business and communicates frequently during the course of the year with analysts to answer such questions. To promote transparency and provide detailed information on the practices it undertakes, management included in the Group's website a Q&A section in Investors Relations, which includes Group tax policy, intra-group transactions, as well as financial treatment and accounting matters.
Tenants	NEPI Rockcastle strives to form mutually beneficial business relationships with its tenants. The asset managers and property managers meet with the tenants on a regular basis and conduct regular site visits to properties. NEPI Rockcastle participates in retail conferences where relationships are built and ideas are shared with tenants.
Government and local authorities	NEPI Rockcastle endeavours to build mutually beneficial relationships with government in the jurisdictions where the Group operates, based on the fact that the Group is a major tax payer, it creates job opportunities both during development projects and afterwards. NEPI Rockcastle engages with local authorities both directly and via its property managers and external consultants.
Employees	NEPI Rockcastle maintains professional working relationships with its employees while at the same time fostering a culture of collaboration, encouraging new ideas, proactivity and ownership. NEPI Rockcastle ensures that all of its employees fully understand the performance and governance standards and requirements.
Communities and environment	NEPI Rockcastle is committed to being a good corporate citizen and frequently evaluates the impact of its projects and developments on society and the environment. Further details are provided in the sustainability report included in this Annual Report on pages 136-159.
Suppliers	NEPI Rockcastle maintains professional relationships with all of its suppliers and ensures that its providers understand performance standards and requirements. Where possible, NEPI Rockcastle will have service level agreements or terms of reference for its relationships with suppliers, which include performance expectations.



# Corporate governance » continued

## Communication with stakeholders

King IV encourages a dialogue with shareholders based on an aligned understanding of objectives. The Executive Directors have regular discussions of operational trends and financial performance with shareholders where they believe this to be in the Group's best interests.

However, no information is shared preferentially to some shareholders, which is not available to all shareholders generally. Detailed feedback from these interactions is discussed at Board level.

Investor presentations take place twice a year and Executive Directors are available to answer questions.

The Group reports formally in a number of ways:

- Regulatory news announcements or press releases are issued in response to events or routine reporting obligations;
- Unaudited interim results are published in August of each year, outlining performance for the six months ended 30 June. The results announcements are followed by live presentations and conference calls. The presentation slides and the interim results are made available on the Group's website;
- Condensed consolidated financial statements are published in February each year, for the year ended 31 December, including detailed management commentary. These are also followed by results presentations;
- The Annual Report and Audited financial statements are published in March each year, comprising reporting on many items of statutory, regulatory or voluntary reporting across a range of matters.

The Board is required by King IV to provide a fair, balanced and understandable assessment of the Group's position and prospects in its external reporting. The Board considers that this Annual Report and Audited financial statements, taken as a whole, meet all requirements and provide the information necessary for shareholders to assess the Directors' governance of the Group.

The Group's website remains one of the key ways of communicating with existing shareholders and informing new or potential investors about the Group. The website contains the regulatory announcements and an archive of all published results and reports, press releases, factual details about the Group's assets and contact information for the operational teams within the Group.



PHOTO: AUPARK ZILINA, SLOVAKIA



# Risk management

## RISK OVERVIEW

The Board recognises that proactive identification and engagement of risk based on an early warning system is a crucial part of the business strategy of NEPI Rockcastle. Risk management is aiming to proactively identify potential threats, actions or events that will negatively affect the Group's ability to achieve its objectives, and then address, monitor and report on these risks. Appropriate processes for risk identification, assessment, reporting, response and monitoring, are implemented or are being implemented at all levels of the organisation with the aim of embedding a risk awareness culture. An early warning system is in place to ensure risks are identified in due time in order to allow the Company to prepare well in advance when the risk becomes apparent and therefore address it effectively.

## RISK MANAGEMENT STRATEGY AND RISK GOVERNANCE

The Board, supported by the Risk Committee, is ultimately responsible for governing the risk management processes, in accordance with King IV and best practice corporate governance requirements.

The Risk Committee reviews the Group's risk appetite and risk tolerance, the Risk Management Policy, the significant risks identified and the proposed mitigating measures. The Committee then recommends the approval of the annual Group risk management plan by the Board. The Risk Management Policy supports management in organising the day-to-day risk management processes and appropriate risk management response.

### Risk Management Responsibilities across the Group



The Board is ultimately responsible for the strategic direction of the Group, and risk management is linked to the corporate strategy. The Board assumes overall responsibility for the governance related to risk management. The Board monitors and reviews all significant aspects related to the appropriate management of risks and opportunities.

The Risk Committee must ensure that the risk management plan is appropriate and widely disseminated throughout the Group, is integrated into its day-to-day activities, that risk identification and assessment is performed on a continuous basis.

Management is responsible for encouraging a risk-conscious business environment and embedding risk management activities within all processes, by integrating the required mindset, appropriate internal controls and mitigating actions across all its processes, jurisdictions and operations. The Group's Legal Director carries the responsibilities of Risk Officer and is responsible to implement the risk framework across the organisation and to provide the adequate mechanisms for risk evaluation, collection and correlation at Group level.

## RISK MANAGEMENT PROCESS

The risk management process is designed to identify, measure, prioritise, respond to and monitor the impact of both internal and external risks.

Identified risks are evaluated in terms of potential impact and likelihood of occurrence. The monitored risks are categorised within the following major categories: Strategy, Market, Financial, Operations, Legal, Regulatory and Compliance.

The Group understands and proactively manages risks and opportunities within the pre-determined risk appetite and risk tolerance levels, in order to optimise business returns. As part of its risk management activities, the Board assesses the residual risk for each of the Group's principal risk categories. Residual risk is determined based on the risk mitigation plans implemented by management. If residual risk is not at an acceptable level according to the organization's risk appetite, the Board will instruct management to implement additional measures and will approve, if necessary, resource reallocation in order to properly mitigate risks.



## KEY RISK AREAS

The Group's operations focus on acquiring, developing and managing regionally dominant retail assets in Central Eastern Europe with prioritising long-term earnings, quality and growth. Apart from risk factors specific to each asset and market, the Group's activities are exposed to factors beyond its control and specific systemic risks. The Group's approach aims to hedge and curb the significant adverse effects of these risks. Sudden changes in the political, economic, financial, currency, regulatory, geopolitical, social or health environments of the countries in which it operates, may have adverse effects on the Group, the valuation of its assets, its results, its distribution policy, its development plans and/or its investment/divestment activities.












The key risks factors together with the most relevant mitigating actions are detailed in the table below. Attention is drawn to the fact that the risk factors discussed in this section are not exhaustive, but rather the most relevant ones to the Company's ecosystem. Additional operational risk factors, for which occurrence is not considered likely or impact is not considered to have a material adverse effect at Group level, are not included in this report.










The risk assessment represents the Group's evaluation of the probability of occurrence in conjunction with the impact on the Group's operations, if a certain risk materialises. The Group has a low risk appetite regarding certain risk factors, and consequently it has assessed them as high, despite the fact that their impact is not in any way imminent or the effectiveness of the mitigating measures it has in place. This assessment is based on the analysis done by the Group and is subject to change depending on various unforeseen circumstances.

Strategic goals	
	Sustainable growth in earnings per share
	Sustainable growth in NAV per share
	Maintaining or improving the overall portfolio quality
	Long-term tenant relationship management
	Maintaining or improving the Company's credit rating





















# Risk management » continued

Risk description	Risk assessment	Strategic goal impacted	Business impact	Key mitigating actions	Stakeholders impacted
<b>Strategic</b>					
Strategic risks arise mainly from the fundamental decisions that executive management makes or from the pursuit of an unsuccessful business plan. Essentially, strategic risks lead to the Group not being able to achieve its business plan and core corporate targets, or may even endanger the going concern of the Group.					
Delays in executing appropriate property investment and development strategy, or executing in less favourable conditions.	Medium	  	Net assets value may be impacted due to losses incurred.  Distributable income may be reduced due to the reduction of rentals and/or investment income.	A strong business acquisition and asset appraisal policy is in place, setting out a structured framework used in the decision-making process for new acquisitions and developments. The Board monitors compliance and performance thereof, on a quarterly basis.	Shareholders  Tenants  Financing partners
Political climate risks in the various jurisdictions may lead to uncertainty, delays in executing the Group's strategy.	Medium	  	Delays or impossibility to execute the Group's strategy.	Risk controlled by monitoring country specific credit ratings, enhancing features such as required collateral, where applicable, create emergency response plans, improve recruitment and retention processes in order to select and keep talented people in the organisation.  The Group continues to diversify its portfolio across CEE.	Shareholders  Local authorities  Tenants  Suppliers  Employees
<b>Market</b>					
The Group may not always be able to execute its investments and divestments policy at the most opportune time, due to unforeseen fluctuations in the real estate or financial and capital markets.  Adverse market movements could also affect the value of the Group's portfolio, its financial position, liquidity, operating income and future prospects.					
Limitations on new capital available arising from:  - shortage of financing or of re-financing at an acceptable cost,  - adverse changes in macroeconomic conditions.	High	    	Impaired ability to fund the pipeline.  The cost of financing may increase substantially, thus decreasing distributable earnings.	The Group aims to maintain a spread of funding sources, including loan facilities with extensive and various maturity profiles contracted with a diversified base of lenders, various types of bonds, listed securities and revolving facilities. Management ensures ongoing capital markets and banks relationship management. All committed acquisitions and developments are funded in advance.  Investment grade credit ratings: - BBB, stable outlook - Standard & Poor's - BBB, stable outlook - Fitch.  The Group maintains a prudent target LTV of 35% and is currently at 33%.	Shareholders  Financing partners  Employees




Risk description	Risk assessment	Strategic goal impacted	Business impact	Key mitigating actions	Stakeholders impacted
Rapid growth in on-line retail with a negative impact on traditional brick and mortar retail.	Medium	  	Potential impact on tenants' sales with a direct impact on income.	Penetration of e-commerce and retail area supply relative to population in the Group's region are on average lower in CEE as compared to the Western markets or the US. Even though the CEE region is not under the same pressure for retail transformation yet, the Company is embedding international trends in changing consumer preferences into its business model and is investing in positioning its shopping centres as entertainment hubs and preferred shopping destinations.  Active dialogue with leading online retailers led to high-profile online brands within the region opening brick and mortar shops in several of the Group's properties during 2018.	Shareholders  Tenants
Sector and geographical risk due to concentration of assets.	Low	  	Valuation changes in certain geographies or sectors may impact net asset value and total shareholder returns.	All investment decisions are made based on a mandate reviewed by the Board on a quarterly basis. This also sets limits on relevant market exposure by means of diversification. Significant investments are reviewed individually.  The Board commissions extensive analysis before entering a new market. Local teams are established to manage daily operations, to ensure that local specificities are addressed, while at the same time leveraging the skills, experience and relationships of the centralised management team.  The Group's portfolio is well diversified across the CEE region.	Shareholders
Volatility in the share price arising from market sentiment.	High	  	Changes in market sentiment can reduce NEPI Rockcastle's share price and its ability to raise equity.	The Group implemented sound corporate governance practices and ensures proactive and continuous shareholder engagement. Additional information on the initiatives undertaken in this area can be found in the corporate governance section of this report.	Shareholders  Financing partners  Employees





Risk description	Risk assessment	Strategic goal impacted	Business impact	Key mitigating actions	Stakeholders impacted
<b>Financial</b>					
The Group identifies and regularly measures its exposure to interest rate volatility, liquidity, foreign exchange rates, equity markets, and sets applicable management policies. The Group pays close attention to managing the inherent financial risks of its activity and the financial instruments it uses.					
An increase in interest rates could have a significant adverse effect on the Group's results.	Medium		Increased cost of borrowing and hedging may result in reduced distributable income and lower total property returns.	<p>The Group uses instruments such as interest rate swaps and caps to hedge 100% of its long-term debt.</p> <p>Bank loan maturity is monitored and refinancing options are considered well in advance. The Group has a versatile funding strategy, based on a combination between equity and debt. The debt strategy is to combine group-level unsecured debt with property-level secured debt (when the latter reduces the overall cost of capital).</p> <p>72% of the Group's portfolio is currently unencumbered.</p>	Shareholders  Financing partners
Risk of losses due to currency fluctuations.	Low		Distributable income for the period is reduced due to foreign exchange rates fluctuation.	<p>The Group keeps the majority of its cash resources in euro.</p> <p>The majority of the Group's current assets and liabilities are denominated in euro.</p> <p>The income generated from rentals is contracted in euro and settled in local currency. The Group's Treasury department actively manages cash resources to ensure that exposure to local currencies is mitigated.</p>	Shareholders
Insufficient liquidity leading to the Group's inability to finance its short-term needs.	Medium	  	Continued short position on liquidity would endanger the Group's ability to achieve its strategic objectives, meet its payments schedule, increase cost of borrowing.	<p>High levels of liquidity to cover at least 12 months of operating and financial current obligations are maintained. Any temporary shortfalls, if the case can be covered by existing revolving facilities.</p> <p>Liquidity is closely monitored: the forecast is continuously updated with recent results and assumptions based on market developments. A highly experienced financial team deals with the budgeting process, under the CFO's direct supervision, to ensure that liquidity needs and profitability targets are met.</p>	Shareholders  Tenants  Suppliers  Employees  Local authorities  Financing partners
In case of default by a counterparty financial institution, the Group might lose part of its cash deposits, other investments or hedges.	Low	 	Losses as a result of a counterparty default would lead to a reduction in the distributable income and net asset value, as well as reduce the capital growth.	<p>The Group's interest rate position, liquidity, availability of cash resources and counterparty exposure is closely monitored.</p> <p>The Board, supported by the Risk Committee, provides the framework for dealing with financial counterparties, including the requirement to diversify.</p> <p>The vast majority of the counterparties in the interest rate hedges and deposits contracted by the Group are investment-grade rated financial institutions.</p>	Shareholders  Financing partners

Risk description	Risk assessment	Strategic goal impacted	Business impact	Key mitigating actions	Stakeholders impacted
<b>Operational</b>					
Property development and management activities typically entail inherent risks, such as insufficient building maintenance leading to degradation of portfolio, health & safety risks, business continuity not properly managed, budgets overrun, improper tenant relationship management, overreliance on a single third party.					
Construction or refurbishment activities undertaken may deviate from the Group's strategy and from future tenants and tenants' expectations, generating high vacancies or inadequate rental levels.	Low	   	<p>Reduction in rental income and operating cash flows, resulting in a decrease of distributable income.</p> <p>Empty unit costs resulting in decreased return on property investment.</p>	<p>Management and the Board monitor that the development and refurbishment activities are carried out according to approved plans.</p> <p>Leasing Function keeps in close contact with the potential tenants and triggers discussions and negotiations even before the development or extension is started.</p>	Shareholders  Tenants
Risks associated with developing a property include: the construction risk (materials risk, contractor insolvency, professional design risks and structural risk), tenant risk (if the unit is not handed over in time, penalties or lease cancellation could occur), design and market risk (the property fails due to location or design) and feasibility risk (the project costs more than projected resulting in lower returns or low profitability).	Medium	   	<p>Initial yield resulting from the feasibility study based on which the investment was undertaken may not be achieved.</p> <p>Legal, safety and compliance risks.</p>	<p>Development projects approval by the Board entails comprehensive analysis.</p> <p>Regular reviews of the developments progress (in terms of milestones and budget versus actual) are performed by management, with overruns and delays reported to the Board.</p> <p>Based on the cost monitoring in place, management may decide where to reduce certain costs, or increase the rental income, so as to keep the planned yield.</p> <p>The Group employs an experienced development team to manage development projects and oversee the external contractors' performance. Only reputable professional companies are engaged within the development projects.</p> <p>Appropriate insurance coverage is in place for both NEPI Rockcastle, the architects, external project managers and contractors.</p>	Shareholders  Tenants  Suppliers
Security incidents, failure of information systems and data loss may lead to incurring high costs for information retrieval and verification, and to potential loss of business opportunities or business interruptions.	Low	  	Business interruption or data loss / theft may have a severe impact on the operations of the Group, may reduce the distributable earnings and cause reputational damage.	<p>Backup and recovery plans to restore data are in place. The Group performs regular backups, as required by its IT policy. The Group uses experienced consultants to ensure that appropriate IT security is implemented.</p> <p>In line with the mandate received from the Board, management implemented a cloud-based solution in order to reduce reliance on physical hardware and provide better accessibility.</p> <p>There are various firewalls and anti-virus software solutions in place and outside access to the servers / cloud is controlled. Business Continuity Plan is documented. The IT security is outsourced, but is monitored internally. Cloud disaster recovery system is budgeted and scheduled for implementation in 2019.</p> <p>Implementation of a data loss prevention tool is also planned for 2019.</p>	Shareholders  Tenants  Employees



Risk description	Risk assessment	Strategic goal impacted	Business impact	Key mitigating actions	Stakeholders impacted
Risk of tenants' default.	Low		Tenants default would lead to bad debts, high vacancy and in the end a reduction in the distributable earnings.	<p>Detailed creditworthiness reviews are performed before signing lease agreements with the tenants. All tenants are required to provide cash deposit or bank letter of guarantee, covering rent and operating costs, based on exposure.</p> <p>The Group maintains close tenant relationships through its internal leasing team, and tenants' performance is monitored regularly by the asset management team. Various indicators such as tenants turnovers and occupancy cost / affordability are assessed monthly, and measures are implemented on a need basis.</p> <p>Where the collection is insourced, the Group has an experienced cash collection team which follows standardised procedures. Where property management services are outsourced, the property managers' fees are depending on the collected receivables.</p>	Shareholders  Tenants
<b>Tax</b>					
The Group is subject to various taxes in the countries in which it operates. In some jurisdictions, there is an increasing burden from compliance and regulatory requirements, as well as a certain degree of unpredictability, which can lead to lower performance.					
International tax risk given the Group's multijurisdictional presence	Medium		<p>Loss of tax efficiency in the structure.</p> <p>Non-compliance with regulatory requirements could lead to fines, penalties and censures.</p>	<p>The Group has a sound tax strategy.</p> <p>The local economic substance of transactions is aligned with fiscal regulations and expectations from tax authorities. Local fiscal legislations are closely monitored and processes and controls are implemented to ensure fiscal compliance.</p> <p>The Group has employed Tax specialists with extensive know-how of international regulations, and also works with tax advisers to ensure compliance.</p>	Shareholders  Local authorities
Transfer pricing - transactions between related entities should be carried out at an arm's length basis. Local tax authorities may challenge the pricing of related party transactions.	Low		<p>Loss of tax efficiency in the structure and additional tax liability.</p> <p>Non-compliance with regulatory requirements could lead to fines, penalties and censures.</p>	<p>The economic substance of transactions is aligned with fiscal regulations and documented annually. The Group engages with transfer pricing specialists to review the Group's transfer pricing policies and benchmark the transactions in accordance with the arm's length principle.</p> <p>The Organisation for Economic Co-operation and Development (OECD) tax measures and initiatives, European Directives as well as local fiscal legislation are closely monitored, while adequate processes and controls are implemented to ensure fiscal compliance.</p>	Shareholders  Local authorities

Risk description	Risk assessment	Strategic goal impacted	Business impact	Key mitigating actions	Stakeholders impacted
<b>Legal, Regulatory and Compliance</b>					
As an owner and manager of real estate assets, the Group must comply with various laws and regulations, in all countries where it operates. Areas such as corporate law, health and safety, environment, building construction and urban planning, commercial licensing, leases and commercial laws, personal data protection are highly regulated across the Group's portfolio.					
<p>Non-compliance with laws, regulations and non-adherence to good governance practices.</p> <p>Investing in international markets increases operational, regulatory and other related risks. The Group operates across numerous jurisdictions and is therefore subject to a complex compliance environment.</p>	Medium		Non-compliance with regulatory requirements could lead to fines, penalties, censures, and reputational damage.	<p>The Group engages experienced and reputable in-house and external legal and specialised advisors.</p> <p>Management continuously monitors compliance with legal requirements.</p> <p>Management has prepared a checklist with all permits and authorisations required by law, covering all properties, operations and jurisdictions. A digital platform which will streamline the process to monitor compliance and take measures in time for re-permitting is under development with the support of an external provider. The Company currently conducts a centralised quarterly review of compliance status.</p> <p>Appropriate policies and procedures set the tone from the top for ethical culture within the Group.</p> <p>The Compliance status is reported regularly to the Board.</p>	Shareholders  Financing partners  Employees  Tenants  Local authorities
Non-compliance with EU General Data Protection Regulation, within complex jurisdictions and local specificities.	Low		Non-compliance with regulatory requirements could lead to fines, penalties, censures, and reputational damage.	<p>The Group has set up a structure and has employed an experienced DPO (Data Privacy Officer) to coordinate the data privacy compliance.</p> <p>Responsibilities for data privacy have been assigned in each jurisdiction.</p> <p>Relevant processes have been scrutinised and as a result the Group implemented a set of measures across all relevant processes to ensure compliance as well as to early identify and address vulnerabilities.</p>	Tenants  Shareholders  Employees  Local authorities



# Remuneration review

1. Key principles of remuneration

The Remuneration Report aims to provide insight into the Company’s remuneration strategy and policy for directors and staff. The report has been approved by the Remuneration Committee, which ensures that the Group’s remuneration and incentive policies, practices and performance indicators are aligned to the Board’s vision, the Group’s values and overall business objectives. The Group’s remuneration and incentives policies are designed to motivate all Directors and employees to pursue the Group’s growth and success.

The report covers various elements of remuneration policy, including details on the implementation during 2018, while also setting out strategic changes that the Company is committed to implement starting 2019. The Group’s remuneration philosophy is that a well-defined, transparent and fair remuneration strategy and its implementation are essential elements in driving achievement of business results, and in attracting, engaging and retaining the best professionals. Moreover, it is a joint commitment of the Remuneration Committee, together with the management of the Company, to ensure that the remuneration policy is sustainable, supporting the business and people strategy.

The remuneration policy is also aimed at creating a performance-driven corporate culture, strong enough to compete in a rapidly developing market characterised by high labour turnover, expertise scarcity and increased mobility. Hence, the remuneration structures have been designed to motivate delivery of strong results, performance and achievement of strategic objectives, while also serving as a powerful tool for retention of valuable, performant and skilled professionals.

Considering the Group’s leading market position in Central and Eastern Europe, it has become increasingly important that its team of professionals remains motivated and incentivised over the long term.

The key remuneration principles are:

**Performance-driven pay** – Remuneration is driven by the employee’s role and performance, as well as the Group’s performance. NEPI Rockcastle has implemented a clear process of setting measurable goals, both short- and long-term.

**Competitive pay** – The Company is committed to offering competitive packages to its employees and executive directors and is constantly observing the relevant market benchmarks. The Company aims to ensure that its remuneration components are aligned to the market, and positioned at least at the median, and towards maximum of the market for strong performance.

**Total Annual Pay** approach – remuneration is defined as a total annual package and consists of three main components:

- fixed pay;
- variable pay: short- and long-term, which can be delivered in both cash and share awards, as per the

Company’s Incentive plan approved by shareholders in 2017;

- individual and collective benefits.

**Variable Pay** as a differentiator – the Company’s remuneration policy emphasises variable pay structures as enhancers of differentiated total pay, in line with seniority of the role and expected impact on the business, as well as with results delivered.

**Fair Pay** – The Group targets internal fairness (similar pay for similar roles, levels of complexity and experience) and external fairness (pay in line with market levels and dynamics).

**Annual pay review process** – remuneration reviews are held yearly, in connection with performance reviews, to ensure the remuneration process is adapted to internal and external factors in the appropriate timeframe, fair and objective.

2. Internal and external factors influencing remuneration related decisions

The Remuneration Committee and executive management are committed to continuously observing internal and external factors that may influence the context in which the Group operates, which may result in a need to re-assess and adapt the policy so that it remains relevant and achieves set objectives.

**Merger of Nepi and Rockcastle**  
During 2018, the Company underwent significant structural changes related to the 2017 merger of NEPI and Rockcastle. In June 2018, the Management Board decided to transition from a “joint-CEO” to a “sole-CEO” management structure and appointed Alex Morar as CEO. Also, two Executive Directors, Spiro Noussis and Nick Matulovich, resigned during 2018.

**Engagement with stakeholders and implementing feedback**  
A key priority for the Remuneration Committee and the Company’s executive management is to remain open to shareholders’ feedback, and to understand their expectations or concerns in relation to the Company’s policies and practices. Moreover, the Board is committed to provide feedback and ensure that the Group remains independent, that long-term value creation from the business is not challenged, while also ensuring transparency in the process.

Executive and non-executive directors meet stakeholders and discuss economic context, market factors and challenges, the Company’s achievements, results, strategic priorities, as well as remuneration related aspects. Such direct consultation is acknowledged, and while not all stakeholders can be engaged (due to their large number), directors personally meet major stakeholders and request feedback.

During the 2018 Annual General Meeting, the Remuneration Policy obtained a 66% approval rate, while the Implementation Report received an 83% approval rate (compared to 75% required for both resolutions).

Although the votes are non-binding, the directors sought direct feedback on the remuneration policy, to better understand shareholders’ expectations. The feedback received is presented below:

Shareholders’ feedback	NEPI Rockcastle response and actions
Inadequate/limited disclosure of incentive plans in remuneration report	With the preparation of the 2018 remuneration report, the Remuneration Committee has ensured that the principles set out in King IV related to remuneration are observed, and focused on improving disclosure in respect to remuneration principles, pay structure and pay levels, and specific elements of the short-term and long-term incentive schemes, thus remaining committed to a transparent reporting.
Inadequate performance periods for long-term incentive plan (LTIP)	The Company is in the process of re-designing certain principles of the long-term incentive plan, considering conditions whereby vesting becomes conditioned by achievement of pre-set specific objectives.
All incentive awards should be time pro-rated and tested for performance, including in the event of an early termination due to the change of control. Termination payments following a change of control should be similar to those available under normal circumstances	Under the current remuneration policy, short-term and long-term incentive awards are time pro-rated and tested for performance, including in the event of an early termination due to the change of control.  Executive Directors’ appointment agreements do not include termination payments entitlements. Employees’ termination payments are paid depending on each jurisdiction’s regulatory requirements.
The introduction of a clawback policy	The Company intends to introduce clawback provisions for its proposed long-term incentive. These provisions are aimed at safeguarding the Company.
The structure of the LTIP raised concerns regarding the loan facility provided to participants to assist them in acquiring the Company’s shares.	Since the merger of NEPI and Rockcastle in 2017, the shares awarded under the NEPI Rockcastle Share Incentive Plan (“SIP”) were not subject to a loan structure.  No loans have been granted for acquisition of shares, and loans will not be granted for any further awards payable in respect of 2017, 2018 or 2019.

**Wider external factors**  
The Group operates in competitive markets which are influenced by extremely challenging and diverse factors that may affect its operations and decisions. Factors related to the remuneration policy are workforce dynamics, availability of skill-set and instability of remuneration factors in specific geographies. Central and Eastern Europe is increasingly affected by migration of skilled professionals towards Western Europe or other regions.

Also, the fiscal and remuneration related changes adopted by local governments of the CEE markets where the Group operates may be unpredictable or challenging, therefore pay structures must be sufficiently flexible in design and implementation in order to maintain competitiveness.

As the CEE market leader in commercial real-estate, NEPI Rockcastle must set the standard in terms of professionalism, and is proud to have the best teams and

professionals, therefore must maintain an incentivisation policy in line or ahead of market.

3. Remuneration Committee priorities

Considering all the above factors, together with the wider economic context, as well as the challenges the Company has faced during 2018, the Remuneration Committee and management have decided mid-2018 to undertake a thorough process of remuneration review at all levels. During the process’ various stages, the Company has engaged professional reward and remuneration consultants (Korn Ferry UK, Mercer International and PwC South Africa) to support with a range of activities, from job analysis to pay benchmarking, gap analysis and compliance with specific requirements set out by King IV and best practice standards.



# Remuneration review » continued

The objectives, process steps and high-level way forward are outlined below:

Our Objectives	Our Process	Our Way Forward
<b>Remuneration related priorities</b> <ul style="list-style-type: none"> <li>To ensure our remuneration <b>motivates</b> people for performance while driving <b>value</b> delivery to <b>shareholders</b></li> <li>To address to <b>shareholders' feedback</b> expressed at August 2018 AGM</li> <li>To align to <b>market standards</b></li> <li>To be <b>compliant with King IV</b> requirements</li> </ul>	<b>All Staff</b> <ul style="list-style-type: none"> <li><b>Job analysis</b> and <b>pay benchmark</b> with international and local markets (Mercer pay survey)</li> <li>Reviewed and implemented <b>variable pay criteria linked directly to KPIs</b> and individual performance and salary increase principles</li> </ul> <b>Executives</b> <ul style="list-style-type: none"> <li><b>International benchmarks</b> for executives' pay, structure and policy – selected relevant comparison group</li> <li><b>Gap analysis</b> – vs both European/International/ South African markets: Korn Ferry UK and PwC South Africa</li> </ul> <b>Drivers of the process</b> <ul style="list-style-type: none"> <li>Process <b>driven by Remuneration Committee</b> – with close support of CEO and HR Director</li> <li>Use of professional consultants to achieve <b>most adequate policy</b> (PwC and Korn Ferry)</li> </ul>	<b>Disclosure</b> <ul style="list-style-type: none"> <li><b>Increase transparency</b> of our remuneration policy, pay structures, pay levels, objectives and link between pay and business performance</li> </ul> <b>Alignment and Ethics of pay</b> <ul style="list-style-type: none"> <li><b>Alignment</b> of all staff remuneration principles, pay structures <b>across all our countries</b></li> <li>Bottom to top level <b>ratios</b> (increasing variable pay with seniority)</li> </ul> <b>Principles of Executive pay</b> <ul style="list-style-type: none"> <li>Overall packages at <b>50%-75% percentile of relevant market</b></li> <li>Conservative weight of <b>fixed / variable pay (approximately 30% / 70%)</b></li> <li>Fixed pay – role, responsibilities and experience</li> <li>STIP – past performance, KPIs driven</li> <li>LTIP – forward looking, KPIs conditioned vesting</li> </ul>

## 4. Key Decisions and considerations going forward

The wider understanding and insights acquired through the comprehensive analysis of the market, the Group's existing pay structures, together with the feedback from shareholders, lead to the Remuneration Committee and Company's management considering several areas of change in the remuneration policy starting 2019. It is

the commitment of the Remuneration Committee and executive directors to fine-tune these changes during 2019, to be ready for full implementation during the next financial period.

The main changes envisaged are presented below:

Current	Amendments	Future direction
<b>Fixed Pay</b> At or below market median	Adjust to 3rd quartile	At market median/above, 50-75% percentile
<b>Short – term incentive plan (cash) - STI</b> Only Financial and Operational performance criteria Same KPIs for all Executive roles – different weight STI as % of annual fixed – <b>up to 100% (capped)</b> Hit or miss approach per each measure 5% of total entitlement - Management Board discretion	Role specific measures / weights Introduce 70% / 30% KPIs split: financial / non financial Introduce STI range: target – max	Measures – most adequate and best practices on the <b>market</b> <b>Financial (70%) - Non-financial (30%)</b> <b>STI range 0-105%</b> (as % of annual salary) Performance incentive zone (payout as % of target STI based on sliding scale achievement)
<b>Long – term incentive plan (shares) - LTI</b> Backward looking determination of quantum: 1.Total shareholder return versus peers 2.Three year CAGR in distribution per share in excess of 3 year CAGR in inflation plus 3% ("hurdle rate") <b>Vesting:</b> 5 yrs (executives) / 3 yrs (staff). Only retention determined, no performance conditions on vesting <b>Flexible plan</b> – allowing for loan (still, NEPI Rockcastle did not implement loan since 2017 merger)	Introduce PIZ (performance incentive zone)* <small>*valid for both STI and LTI</small> Change vesting period and introduce performance criteria for vesting Limit loan / Introduce clawback and shares holding requirement	<b>Forward looking</b> , targeting consistent earnings growth <b>Vesting:</b> 3 to 5 years (executives and staff); performance conditions on vesting <b>2 years shares holding of a min %</b> <b>Introduction of clawback</b>



# Remuneration review» continued

Moreover, the Remuneration Committee will continue to carefully monitor industry trends, market dynamics and stakeholders' expectations to ensure that NEPI Rockcastle adopts best remuneration practices, aligned to good corporate governance. Specifically, NEPI Rockcastle will:

- benchmark executive and employees pay against relevant market trends every two years;
- monitor the alignment of the remuneration policy with King IV principles and best practice;
- ensure that performance measures are defined in a manner that supports the delivery of added value for stakeholders;
- engage with stakeholders in a transparent manner, taking appropriate action when deemed necessary.

## 5. Non-Binding Advisory Vote on Remuneration Policy and Implementation Report

In line with King IV and the JSE listing requirements, the shareholders will have the opportunity to vote on the Company's Remuneration Policy and the Remuneration Implementation Report. We invite the shareholders to engage with us prior to the 2019 Annual General Meeting on any concerns that the remuneration policy and implementation report could raise, or any clarification needed for a better understanding of the remuneration practices. Directors remain committed to engaging with shareholders in order to address all legitimate and reasonable objections and concerns.

The Remuneration Committee has carefully considered the implementation of the remuneration policy during the year and believes it has achieved the stated objectives. The Committee is confident that the remuneration policy remains aligned with the strategy of the business to support value return to our shareholders and other stakeholders.

Andre van der Veer  
Remuneration Committee Chairman



PHOTO: FORUM USTI NAD LABEM, CZECH REPUBLIC

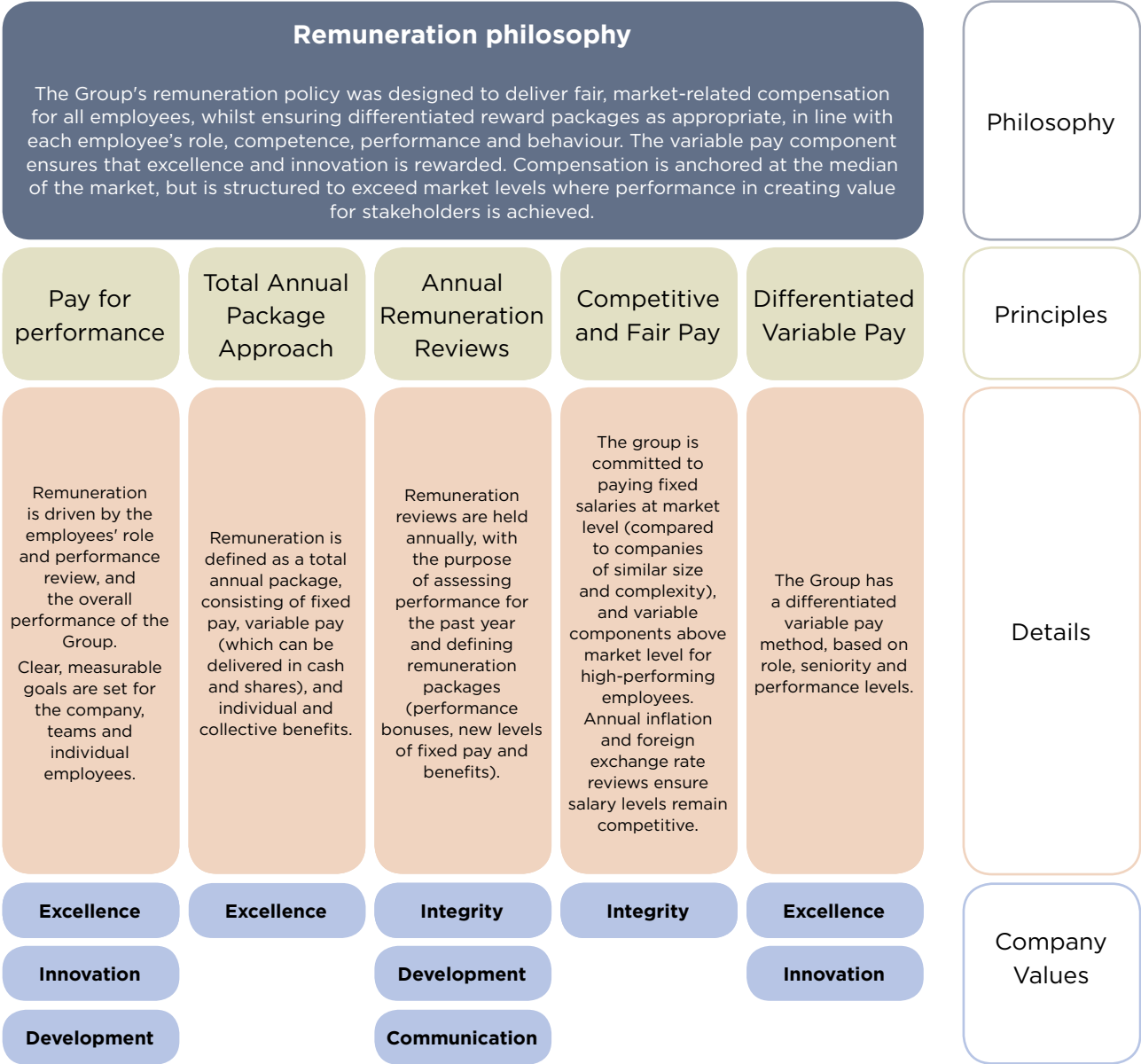
## REMUNERATION POLICY

The core of NEPI Rockcastle's remuneration policy is the focus on the value created within and by its teams, which results from:

- the achievement and results delivered by each team member, and collectively
- the way the Company develops top professionals, helps them acquire new skills and encourages innovations in the business; and
- the stability within the teams, ensured by motivating and retaining key professionals.

To support this strategy, the policy is designed based on the following key principles:

- Performance Driven Pay
- Competitive Pay
- Total Annual Package
- Variable Pay
- Fair Pay
- Annual Pay review





# Remuneration review » continued

REMUNERATION DESIGN

Pillar	Description	Purpose and link to strategy
Fixed pay  (all staff)	<ul style="list-style-type: none"><li>Guaranteed and fixed pay, determined by role and responsibilities, experience, competence, qualifications and expertise.</li></ul>	<ul style="list-style-type: none"><li>The Group aims to remain the dominant commercial real estate investor and operator CEE. Hence, its teams should comprise the best professionals: qualified, experienced, competent and motivated.</li></ul>
	<ul style="list-style-type: none"><li>Median of the relevant market is used as a reference point for determining the level of fixed pay;</li></ul>	
	<ul style="list-style-type: none"><li>Adjustments can be made for the specific circumstances, achievements, responsibilities.</li><li>Reviewed annually to ensure internal and external equity, correlation to role and responsibilities (especially in case of role change or competence / qualifications uplift)</li></ul>	<ul style="list-style-type: none"><li>The Group's target is to attract, motivate and reward specific skill-sets needed, especially considering a competitive labour market with high scarcity of property and commercial real - estate skills and qualifications.</li></ul>
Short-term incentive plan (“STIP”)	<ul style="list-style-type: none"><li>Variable pay delivered for achievements against short-term objectives set in advance</li></ul>	
	<ul style="list-style-type: none"><li>Variable pay is triggered and influenced by the level of achievement of the Company’s objectives</li></ul>	<ul style="list-style-type: none"><li>NEPI Rockcastle aims to remain the best performing company in the industry, and continue to deliver best results against challenging targets.</li></ul>
	<ul style="list-style-type: none"><li>Variable pay is connected with employees’ role. The more senior an employee is, the more he can impact the Group’s results, hence the higher proportion of variable pay in his annual package.</li></ul>	<ul style="list-style-type: none"><li>Variable pay is designed to incentivise individual contribution to business results. The stronger the performance, the higher the variable pay.</li></ul>
All staff	<ul style="list-style-type: none"><li>Under-delivering against objectives leads to no variable pay</li></ul>	
paid in cash	<ul style="list-style-type: none"><li>Categories of seniority used for staff STIP are: non-managerial, middle management and subject matter experts, and senior management.</li></ul>	<ul style="list-style-type: none"><li>Employees are encouraged to focus on the achievement of short-term objectives which are considered to be vital to long-term value creation.</li></ul>
	<ul style="list-style-type: none"><li>STIP total variable pay is subject to business targets and budgets.</li></ul>	
Long-term incentive plan (“LTIP”)	<ul style="list-style-type: none"><li>Annual awards made to participants based on Company’s achievements of 3-year trailing KPIs (internal and external).</li></ul>	<ul style="list-style-type: none"><li>NEPI Rockcastle aims to drive achievement of ambitious strategic priorities and keep senior management and executive directors focused on long-term value creation</li></ul>
Executive directors and selected members of staff	<ul style="list-style-type: none"><li>Quantum of allocation is determined as % of annual fixed pay</li></ul>	<ul style="list-style-type: none"><li>The Group's long-term interests should be aligned with those of senior management and executive directors.</li></ul>
	<ul style="list-style-type: none"><li>Vesting period of 5 years for executive directors and 3 years for staff</li></ul>	
Shares awards	<ul style="list-style-type: none"><li>Awards are typically settled in shares</li></ul>	<ul style="list-style-type: none"><li>A medium to long-term retention of key professionals is essential to the business.</li></ul>
Benefits	<ul style="list-style-type: none"><li>Medical service based on subscription or medical insurance, the cost of which is partly of fully covered by the Group</li></ul>	<ul style="list-style-type: none"><li>Happy, healthy and motivated employees are more efficient and deliver better results.</li></ul>
	<ul style="list-style-type: none"><li>Access to sports facilities – cost of subscription partially covered by the Group</li></ul>	<ul style="list-style-type: none"><li>Ensuring stable teams is essential, and the Company can play an important part in educating lifestyle-related habits.</li></ul>
All staff	<ul style="list-style-type: none"><li>Other wellbeing benefits</li></ul>	

Each element of remuneration is described in more detail below.

Fixed pay

The strategy is to position the fixed pay at market median. In order to best determine the appropriate level of fixed remuneration, the Company is benchmarking salaries against the relevant markets, on an annual basis, starting 2017.

Remuneration is reviewed annually with the aim to validate internal and external equity, as well as to determine any changes needed. As the Group focuses on being more competitive in annual pay through variable pay, increases in salaries are considered only in case of:

- change of role and responsibilities (e.g. promotions);
- external equity: significant gaps versus relevant market benchmarks;
- internal equity: similar pay for similar roles in similar geographies;
- inflation and foreign exchange differences.

Increases of salaries are subject to meeting the budgets, and must be aligned with the overall performance of the Group.

Executive Directors’ fixed remuneration did not increase during 2018.

Variable Pay – STIP

STIP for regular employees is determined as a proportion of the annual fixed pay, and it can vary depending on certain elements:

- Company achievement rate** (actual versus budget for various Company targets; for 2018 STIP calculations, the main Company target was growth in distribution of 10%, achieved 9.5%)
- The role** determines the **target bonus rate** (e.g. non-managerial, middle management and subject matter experts, senior management)
- Individual performance rating** – obtained by each employee within the Annual performance evaluation process (on a scale of 1 to 5, 5 being the highest level of achievement).

STIP formula: annual fixed salary \* role target rate \* company achievement \* individual performance multiplier

The Company achievement rate table is presented below:

Company achievement rate	% adjustment
Less than 80%	0%
80.01%-85%	25%
85.01%-95%	50%
95.01%-99.9%	90%
100%	100%
100.01%-110%	105%
110.01%-120%	115%
120.01%-130%	120%
over 130.01%	130%+

STIP for Executive Directors is capped at 100%. The objectives are set for the 12 months financial period under review, and the achievement rate is calculated considering specific weights of each individual measure. Weights vary depending on the executive director's role and responsibilities – see detailed table of objectives and weights below, as well as in the implementation report STIP section.

STIP Objectives applicable to Executive Directors for 2018

Performance Measures 2018 STI		CEO	CFO	Executive Property Director
	Target	weight	weight	wight
Financial performance		50	50	50
Growth in distributable earnings per share	10%	50	50	50
increase in net asset value per share	10%	50	50	50
Operational		30	25	30
Increase in retail trading densities over CPI	1.0%	25	25	25
Maximum accepted vacancies	2.5%	25	25	25
Maximum tenant arrears written off	1.0%	25	25	25
Maximum net property expenses to revenue ratio	15.0%	25	25	25
Debt risk management		10	15	10
Minimum hedging of the Group's exposure to interest rate movement	80%	50	50	50
Minimum average interest rate hedge term (yrs)	4	10	10	10
Qualitative factors		10	10	10
Timing (weeks) of financial results publication (from the end of financial period)	8	50	50	50
Discretion of the Board / non numerical targets	5%	50	50	50



# Remuneration review» continued

Variable Pay – LTIP

LTIP awards in terms of the NEPI Rockcastle Share Incentive Plan 2017 (“SIP”) were made so far only to staff, in respect of the performance achieved for 2017, without loans. Eligible employees received an award of restricted shares which vest equally over three years. The quantum of allocation was determined based on the employee’s STIP for the 2017 financial period. The LTIP allocation for 2018 for staff will be finalised in April 2019.

Awards under the executive LTIP are based on achievement of internal KPIs, as well as benchmarking against peers. The internal factor is driven by the 3-year compound annual growth rate (based on NEPI’s history pre-merger and NEPI Rockcastle subsequently) of distributable earnings per share relative to an inflation-linked benchmark. The external factor is determined as total shareholder return versus peers, with the respective KPI being considered fully met if the Company performed in the top quartile, 50% met if the Company performed in the third quartile, and not met if the Company performed in the bottom two quartiles. The resulting factors are multiplied with internally determined multiplier coefficients which provide for a cap.

No LTIP awards were made to executive directors in 2017 or 2018. The Remuneration Committee has recently approved the awards for the executive directors’ 2017 and 2018 performance, which will be settled through share awards (no loans attached).

Termination of employment

The following applies in the event of termination of employment:

Incentive	“Fault terminations”- resignation, early retirement, dismissal	“No-fault terminations” – dismissal, retrenchment, retirement, restructuring, disability, death
Fixed pay	Paid over the notice period.	Paid over the notice period.
Benefits	Benefits are discontinued when employment ceases.	Applicable benefits may continue to be provided during the notice period, but will not be paid on a lump sum basis.
Short-term Incentive	Entitlement to incentive will lapse. No payments will be made.	Although entitlement to further incentives will lapse, the Board’s (for executive directors) or management’s (for staff) assessment of the particular situation may lead to full or partial payment of the incentive.
Long-term incentives	All unvested awards shall be forfeited in their entirety and will lapse immediately on the date of termination. Exceptions are at Board’s discretion.	All unvested awards shall be forfeited in their entirety and will lapse immediately on the date of termination. Exceptions are at Board’s discretion.

Service Contracts

All executive directors have appointment agreements which entitle them to participation in the Company’s incentive plan.

Non-Executive Directors’ fees

The company’s non-executive directors (NEDs) are paid based on their role. Increases in NED pay are proposed by the Board, based on relevant market benchmarks, and approved by the AGM.

The Company engaged an external reward consultant (Korn Ferry) to conduct an independent market benchmark for NED salaries in September 2017. During 2018, NED remuneration was increased, with the aim to achieve a better alignment to the market. All proposed increases have been approved in the August 2018 AGM, effective 1 January 2018.

The NED remuneration policy also sets specific rules for any additional pay, as follows:

- A separate consideration is received for each membership of a Board Sub-Committee as detailed in the Implementation Report.
- Any additional remuneration for work outside the normal annual program shall be in the amount of €1,000 per day or part thereof, to be approved by the Board on a case-by-case and documented basis, approval which shall not be unreasonably withheld
- Travel, accommodation and logistics costs incurred by NEDs in relation to performance of their duties are covered or reimbursed by the Company.

Non Binding Advisory Vote

The remuneration policy is subject to an advisory vote by shareholders at the 2019 AGM.





# Remuneration review» continued

## IMPLEMENTATION REPORT

### Executive Directors’ Remuneration

The remuneration paid during 2018 to directors includes fixed salaries and the STIP for 2017, paid in the first half of 2018. The variable pay components (STIP and LTIP) were determined based on performance criteria and overall business results, and approved by Remuneration Committee. The 2017 LTIP, as well as the 2018 STIP and

LTIP are expected to be settled in the second quarter of 2019.

No other salary adjustments or payments (excluding reimbursements for travel and accommodation for business purposes) were made in 2018.



PHOTO: CITY PARK, ROMANIA

### 2018 and 2017 STIP – performance measures and calculation

Calculation of STIP for executive directors was done based on the STIP policy for executive directors, as presented in the remuneration report, including specific performance measures defined by the Remuneration Committee.

Details of the 2018 and 2017 STIP calculations (expressed in €) are presented below:

Performance Measures 2018 STIP			CEO		CFO		Executive Property Director	
	Target	Result	weight	Result	weight	weight	weight	Result
<b>Financial performance</b>			<b>50</b>	<b>22.5</b>	<b>50</b>	<b>22.5</b>	<b>50</b>	<b>22.5</b>
Growing distributable earnings per share	10%	9.5%	50	22.5	50	23	50	22.5
Increasing net asset value per share	10%	0%	50	-	50	0	50	-
<b>Operational</b>			<b>30</b>	<b>29.3</b>	<b>25</b>	<b>24.4</b>	<b>30</b>	<b>29.3</b>
Increasing retail trading densities over CPI	1.0%	3%	25	7.5	25	6	25	7.5
Maximum accepted vacancies	2.5%	2.8%	25	6.8	25	6	25	6.8
Maximum tenant arrears written off	1.0%	0.01%	25	7.5	25	6	25	7.5
Maximum net property expenses to revenue ratio	15.0%	1%	25	7.5	25	6	25	7.5
<b>Debt risk management</b>			<b>10</b>	<b>10.0</b>	<b>15</b>	<b>15.0</b>	<b>10</b>	<b>10.0</b>
Minimum hedging of the group’s exposure to interest rate movement	80%	100%	50	5.0	50	8	50	5.0
Minimum average interest rate hedge term (yrs)	4	4.1	50	5.0	50	8	50	5.0
<b>Qualitative factors</b>			<b>10</b>	<b>10.0</b>	<b>10</b>	<b>10.0</b>	<b>10</b>	<b>10.0</b>
Timing (weeks) of financial results publication (vs end of financial period)	8	8	50	5.0	50	5	50	5.0
Discretion of the Board / non numerical targets	5%	5%	50	5.0	50	5	50	5.0
<b>Total % of 2018 annual fixed salary</b>				<b>71.75</b>		<b>71.88</b>		<b>71.75</b>
<b>Total 2018 STIP to be settled during 2019</b>				<b>344</b>		<b>266</b>		<b>169</b>
<b>2017 STIP settled in 2018</b>				<b>407</b>		<b>322</b>		<b>199</b>



# Remuneration review» continued

2018 and 2017 LTIP – performance measures and calculation

The Remuneration Committee recently approved the awards for the 2017 and 2018 performance, which will be settled through share awards (no loans attached).

Awards are based on achievement of internal factors as well as on benchmarking against peers. The internal factor is driven by the 3-year compound annual growth rate (CAGR) of distributable earnings per share, relative to an inflation-linked benchmark, based on NEPI's history for the pre-merger period. The external factor is determined as total shareholder return (TSR) versus peers, with the respective KPI considered fully met if the Company performed in the top quartile, 50% met if the Company performed in the third quartile, and not met if the Company performed in the bottom two quartiles. The resulting factors are multiplied with internally determined multiplier coefficients, which provide for a cap.

LTIP = (3-year CAGR of DPS – inflation linked benchmark) coefficient \* (TSR versus peers) coefficient \* role specific coefficient

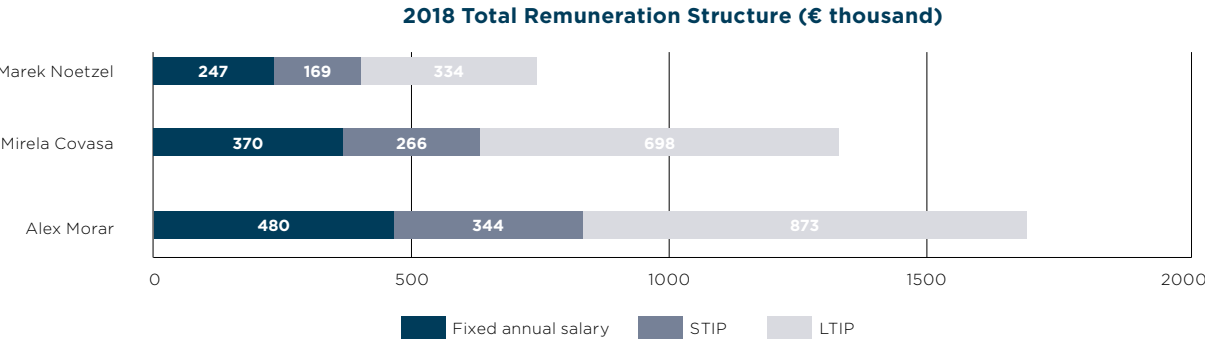
The awards for 2017 and 2018 are presented in the following table, and will be settled in shares to be issued at a price equal to the 30-day volume weighted average price of the NEPI Rockcastle shares on the JSE.

	2017	2018
Alex Morar	1,170	873
Mirela Covasa	895	698
Marek Noetzel	307	334

All amounts in € thousand

Total Remuneration Outcomes

The annual package structure and weights of fixed and variable pay of currently serving executive directors are presented below:



Executive director's shareholding

Executive directors or entities in which they have an indirect beneficial interest held the following numbers of NEPI Rockcastle shares at 31 December 2018:

	Number shares as at 31 December 2018 part of the share scheme	Freehold shares	Total
Alex Morar	23,000	815,998	838,998
Mirela Covasa	25,000	76,118	108,118
Marek Noetzel	78,571	22,525	101,096

Single Figure Remuneration

The total remuneration and detail for executive directors for 2018 is reflected in the table below. This disclosure is aligned to the King IV recommended total single figure disclosures of remuneration .

Names		Base salary (€'000)	Other benefits (€'000)	STIP <sup>2</sup> (€'000)	LTIP <sup>3</sup> (€'000)	Total single figure of remuneration <sup>4</sup> (€'000)
<b>Executive directors</b>						
Alex Morar	2018	480	-	344	873	1,698
	2017	413	-	407	1,170	1,990
Mirela Covasa	2018	370	-	266	698	1,334
	2017	315	-	323	895	1,533
Marek Noetzel	2018	247 <sup>4</sup>	20	169	334	769
	2017 <sup>5</sup>	118	20	206	307	651
Spiro Noussis <sup>1</sup>	2018	655	-	-	-	655
	2017 <sup>5</sup>	320	-	560	-	880
Nick Matulovich <sup>1</sup>	2018	505	-	-	-	505
	2017 <sup>5</sup>	247	-	438	-	685

1. In addition to the above presented figures, Mr. Noussis and Mr Matulovich were awarded €640 thousand and €493 thousand respectively as exit grants paid upon their departure in early 2019. Mr. Noussis' and Mr. Matulovich's fixed remuneration post merger amounted to an annual €640 thousand and €493 thousand respectively. The figures presented in the table do not include amounts paid to Mr. Noussis and Mr. Matulovich prior to the merger date.

2. Performance bonus (STIP) linked to performance in the 2017 and 2018 financial years. Details provided in the STIP section.

3. The values reflect the LTIP awards, payable in shares, in respect of the performance in 2017 and 2018. The number of allocated shares is computed based on the 30-day VWAP of NEPI Rockcastle shares at 26 April 2018 in respect of the 2017 award, and the 30-day VWAP of NEPI Rockcastle shares to be determined on the issue date of the 2018 award.

4. Effective July 2018, further to the acquisition of new properties, Mr Marek Noetzel's fixed remuneration increased with a total annual amount of €4.6 thousand/ annum.

5. The figures exclude amounts paid to the respective Directors by Rockcastle prior to the Merger.

\* all figures represent total cost to company, and any taxes and social contributions due either by the Group or the directors are included in the respective amounts

Non Executive Directors (NED)' fees

Non-executive directors remuneration for 2018 was established in accordance with the amounts and principles approved at the August 2018 AGM. The levels of remuneration for NED participation to the Board of Directors and Board Sub-Committees is detailed below:

	Member	Chairman
Board of Directors	35	70
Audit Committee	10	16
Investment Committee	10	16
Risk Committee	7	10
Remuneration Committee	6.5	10
Nomination Committee	5	8
Social and Ethics Committee	4	5

Any additional remuneration for work outside the normal annual program shall be in the amount of €1,000 per day or part thereof, to be approved by the Board on a case-by-case and documented basis, approval which shall not be unreasonably withheld.



# Remuneration review» continued

The total remuneration paid to NEDs during 2018 is presented below:

Participation	Member/ Chairman	Annual remuneration	Robert Emslie (4)	Andre van der Veer (1)	Antoine Dijkstra (2)	Desmond de Beer (3)	Dan Pascariu (8)	Michael Mills (7)	Sipho Vuso Majija (5)	George Aase (6)	Total
Board of Directors	Member	35,000	23,333	35,000	35,000	35,000	-	23,333	19,736	14,583	185,985
Board of Directors	Chairman	70,000	23,333	-	-	-	46,667	-	-	-	70,000
Audit Committee	Member	10,000	6,667	-	10,000	-	-	-	-	4,167	20,834
Audit Committee	Chairman	16,000	-	5,333	-	-	-	10,667	-	-	16,000
Investment Committee	Member	10,000	10,000	10,000	-	-	-	-	833	-	20,833
Investment Committee	Chairman	16,000	-	-	-	16,000	-	-	-	-	16,000
Risk Committee	Member	7,000	-	7,000	-	-	-	4,667	-	2,333	14,000
Risk Committee	Chairman	10,000	-	-	10,000	-	-	-	-	-	10,000
Remuneration Committee	Member	6,500	2,167	4,333	-	4,333	-	-	-	2,167	13,000
Remuneration Committee	Chairman	10,000	6,667	3,333	-	-	-	-	-	-	10,000
Nomination Committee	Member	5,000	3,333	-	-	1,667	-	3,333	2,083	-	10,416
Nomination Committee	Chairman	8,000	2,667	-	-	-	5,333	-	-	-	8,000
Social and Ethics Committee	Member	4,000	-	-	-	-	2,667	-	1,667	-	4,334
Social and Ethics Committee	Chairman	5,000	-	-	5,000	-	-	-	-	-	5,000
Adjustment for 2017			-	668	-	-	-	-	-	-	668
Effective paid in 2018	-	-	78,167	65,667	60,000	57,000	54,667	42,000	24,319	23,250	405,070
Adjustments for changes in December 2018 (to be paid in 2019)	-	-	-	-	274	-	-	-	658	-	932
Other activities (daily fee based) (to be paid in 2019)		1,000	27,000	17,000	1,000	3,000	-	-	-	2,000	50,000
Total remuneration for 2018			105,167	82,667	61,274	60,000	54,667	42,000	24,977	25,250	456,002

(1) Andre van der Veer was appointed Chairman of the Audit Committee starting 1 September 2018. He was member of the Remuneration Committee until 1 September 2018 when he was appointed Chairman.

(2) Antoine Dijkstra has been appointed member of the Nomination Committee starting 12 December 2018. Pro-rata fee (€274) for his contribution to the Nomination Committee in 2018 will be paid in 2019.

(3) Desmond de Beer was revoked as member of the Remuneration Committee and became member of the Nomination Committee starting 1 September 2018.

(4) Robert Emslie was member of the Board of Directors, member of the Audit Committee, Chairman of the Remuneration Committee and member of the Nomination Committee until 1 September 2018. Subsequently, he was appointed Chairman of the Board, Chairman of the Nomination Committee, member of the Remuneration Committee and he was revoked as member of the Audit Committee.

(5) Sipho Vuso Majija become member of the Board of Directors starting 6 June 2018. He become member of Social and Ethics and Nomination Committee starting 28 August 2018, but he was remunerated for his activity starting 1 August 2018. He was appointed member of the Risk Committee and Investment Committee starting 12 December 2018 and revoked as member of the Nomination Committee starting 12 December 2018. The pro-rata fee (€658) for the period 12 to 31 December 2018 will be paid in 2019.

(6) George Aase become member of the Board of Directors and member of the Audit Committee, Risk Committee and Remuneration Committee starting 28 August 2018. His activity as member of the Board of Directors and Audit Committee was remunerated starting 1 August 2018 due to his involvement before the AGM.

(7) Michael Mills was member of the Board of Directors, Chairman of the Audit Committee, member of the Risk Committee and the Nomination Committee until his retirement on 28 August 2018.

(8) Dan Pascariu was Chairman of the Board of Directors, Chairman of the Nomination Committee and member of the Social and Ethics Committee until his retirement on 28 August 2018.

All figures represent total cost to company, and any taxes and social contributions due either by the Group or the directors are included in the respective amounts

### Termination Payments

During 2018, no termination payments were made, although Nick Matulovich resigned as executive Director in August 2018, and Mr. Spiro Noussis remained as executive director until 31 December 2018, after stepping down as Joint-CEO in June 2018. Their termination payments are presented in the Single Figure Remuneration table above.

### Non-Binding Advisory Vote on the Implementation Report

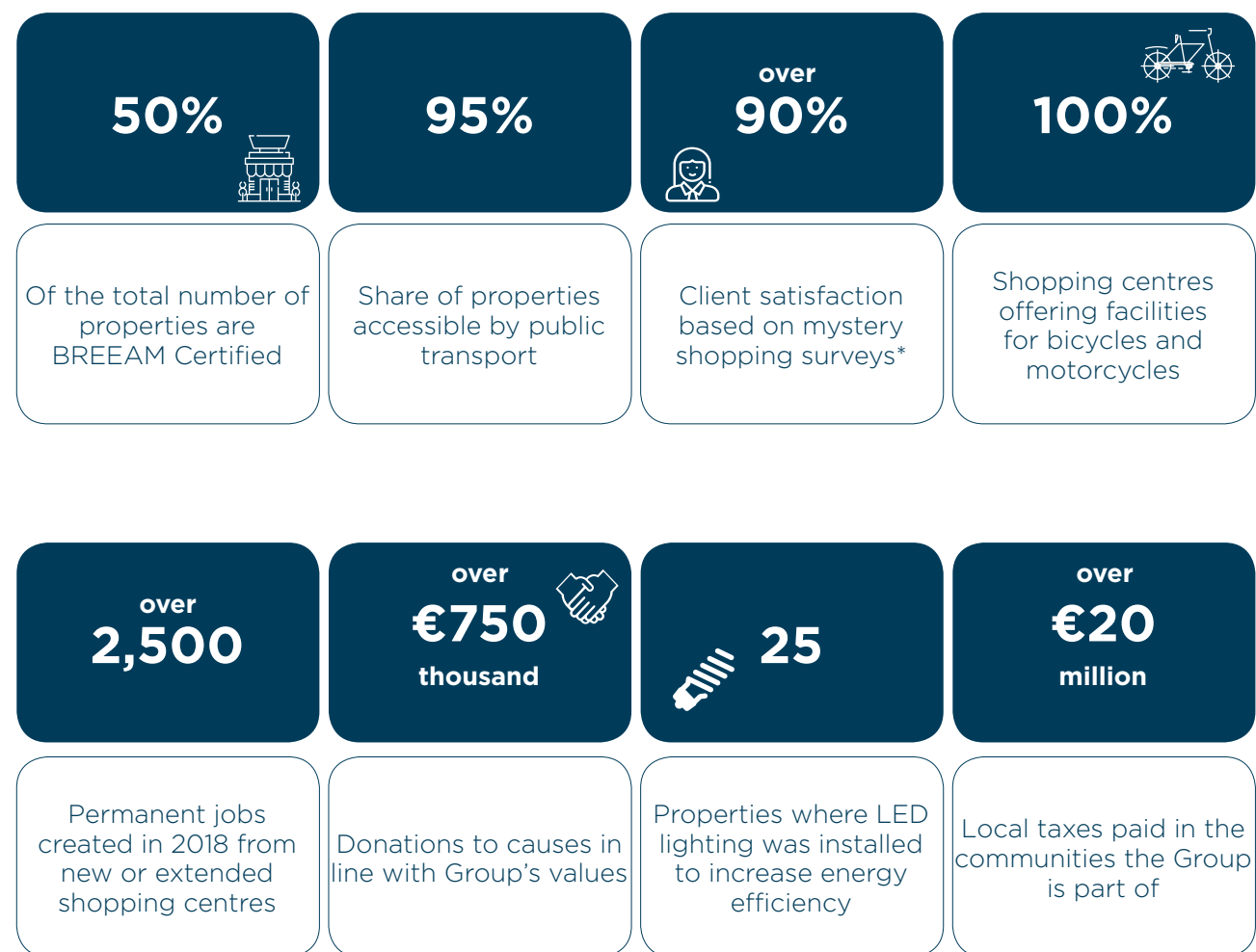
This implementation report is subject to a non-binding advisory vote by shareholders at the 2019 AGM.



PHOTO: VICTORIEI OFFICE, ROMANIA



## Key sustainability metrics in 2018



\*For the properties where such surveys have been implemented.

## Sustainability report

NEPI Rockcastle is continuously committed to achieving the highest standards of sustainability and to being a responsible corporate citizen, under the guidance of its Board of Directors. The Group views this approach as an enabler of its strategic objectives, as it contributes significantly to stakeholders relationship management, allowing a unified approach towards customers, local communities, staff, suppliers, investors, analysts, local and central government, peers and non-governmental organisations.

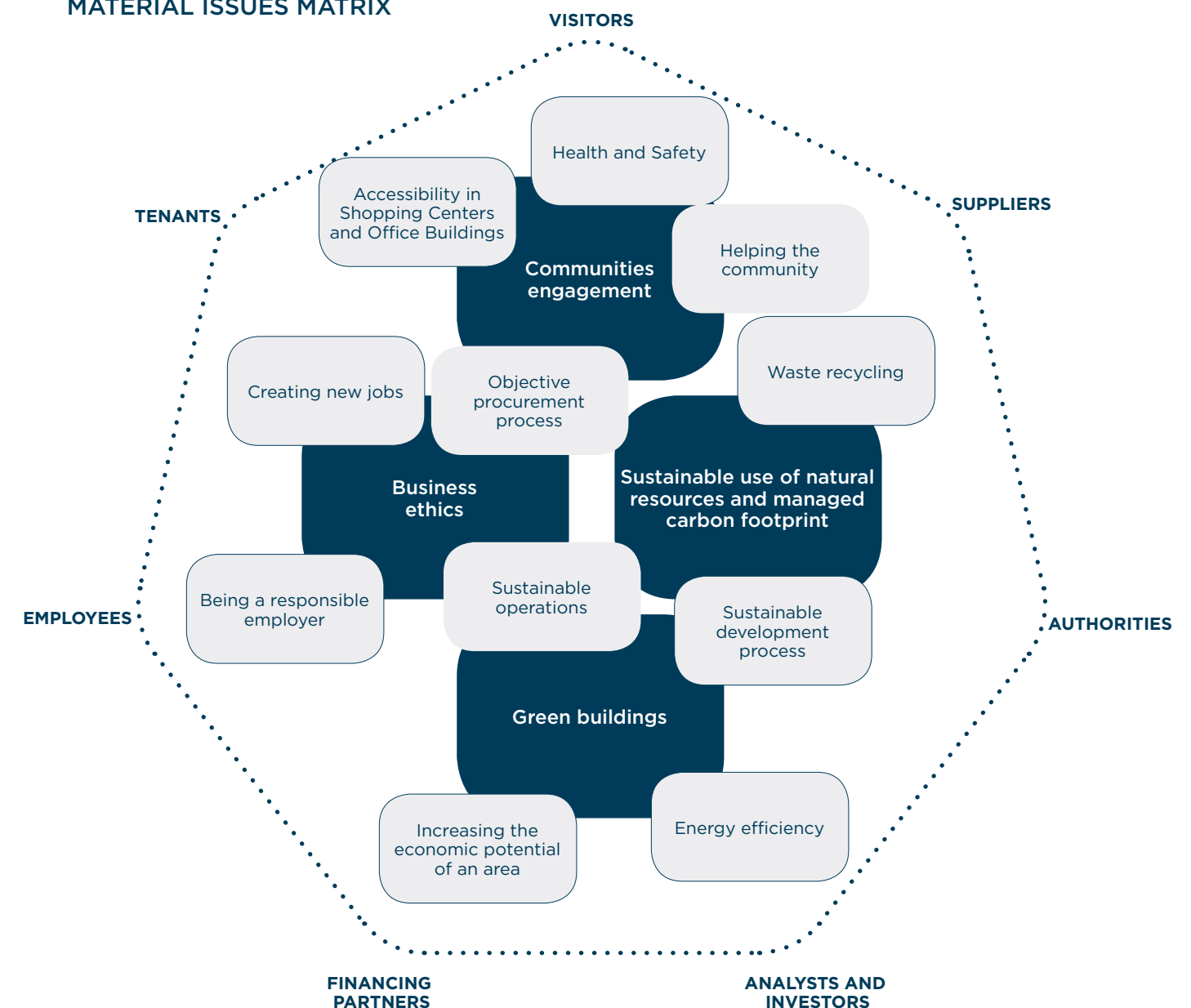
The European real estate sector has a role in creating a sustainable economy, therefore NEPI Rockcastle has continued during 2018 to invest in clean technologies, adopting policies that address environmental and social risks, and engaging in more proactive and robust stakeholder discussions and disclosure. NEPI Rockcastle is revising its risk management framework on a continuous

basis with regard to climate change, human rights, social responsibility and energy efficiency.

The Group considered the following areas for defining its sustainability framework and the measures to be prioritized during 2018:

1. Key areas identified based on various interactions with stakeholders
2. Risk management policy and key risk areas identified at Group level
3. Changes in its ecosystem and macroeconomic environment
4. Best practice frameworks for sustainable development

### MATERIAL ISSUES MATRIX





# Sustainability report » continued

NEPI Rockcastle is currently enhancing its Environmental, Social and Governance (ESG) approach and disclosure policy, as part of the integrated Annual Report, in compliance with GRI Standards (the organization which has pioneered sustainability since 1997 across the globe), as well as with the Principles for Responsible Investment (the world's leading advocate for responsible investment, supported by the United Nations)

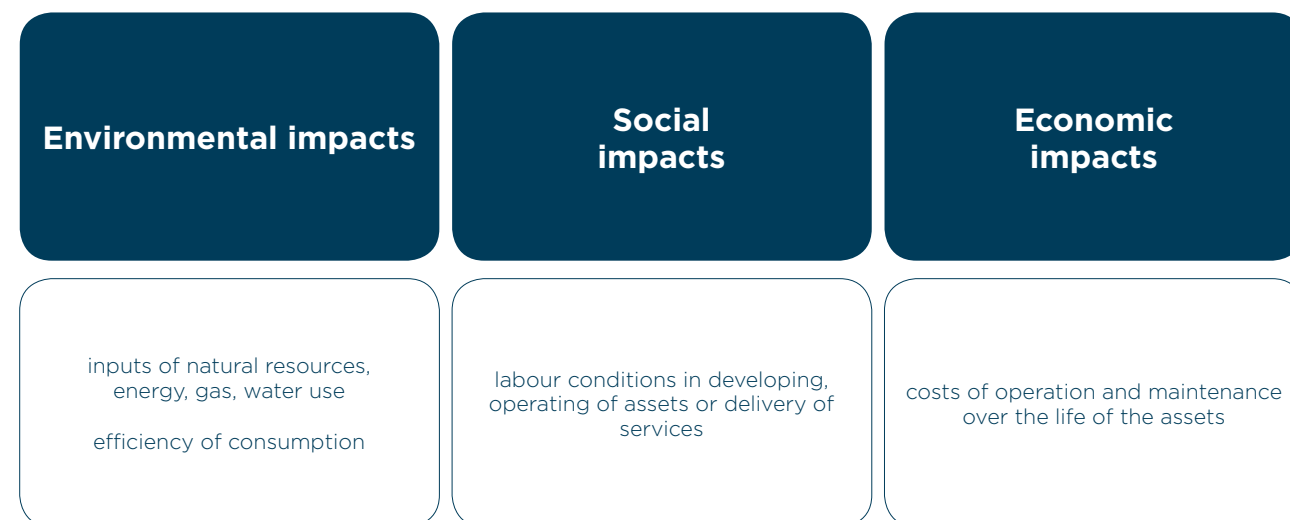
The ESG engagement has been growing in the last years, as the Group expanded and became the strongest retail real estate presence in the CEE. This resulted in analysing the impact of the ESG factors on its day to day activities, for properties already constructed and also developments and acquisitions.

The Group is in process of formalising its sustainable business practices into its Group Procurement Policy.

Through its Sustainable Procurement Policy, the Group aims to reduce the adverse environmental, social and economic impacts of purchased products and services throughout their life. Below are some examples of environmental, social and economic impacts, that the Group aims to minimise:

- use of natural resources, energy and water in developing and operation of assets;
- pollution caused by developing and operation of assets;
- costs of operation and maintenance over the life of the goods;
- improper labour conditions;
- negative impact to flora and fauna.

## Sustainable procurement considers:



The principles of the Sustainable Procurement Policy include:

- Adopting strategies to avoid unnecessary consumption and manage demand;
- Minimising environmental impacts over the life of the goods and services;
- Fostering innovation in sustainable products and services;
- Ensuring that fair and ethical practices are applied

in the process of producing the goods / services provided to the Group;

- Ensuring that suppliers are complying with the sustainability procurement principles to help reduce the environmental impact of their products.

Detailed information related to energy, gas, water consumption and waste management is monitored for all Group's properties, in order to assess the environmental performance including how this affects Stakeholders' rights, as defined by national legislation and internationally agreed standards.

PHOTO: SHOPPING CITY TARGU JIU, ROMANIA



The Group's operations and investments have direct and indirect impacts on local economies. These generate new jobs, create product demand, facilitate the initiation and growth of new businesses, and encourage the development of local infrastructure. NEPI Rockcastle acknowledges its role in the community and is determined to continue its commitment in areas which can optimise the value creation for its stakeholders.

All challenges and opportunities are prioritised in accordance with the Group's long-term organisational strategy and business prospects, as well as NEPI Rockcastle's financial performance. The Group is committed to realising its long-term financial objectives through the KPI's established for each pillar, while maximising the positive and minimising the negative effects of its activities on society and the environment. This is achieved through the understanding and rigorous management of the environmental, ethical and social impacts of its operations.

The Group's approach to sustainability proves commitment to merge the specific needs of its stakeholders with the business targets of the Group and capitalise on synergies. The Group acknowledges its key role in the society, as a catalyst for economic, social and environmental development. The Group appreciates

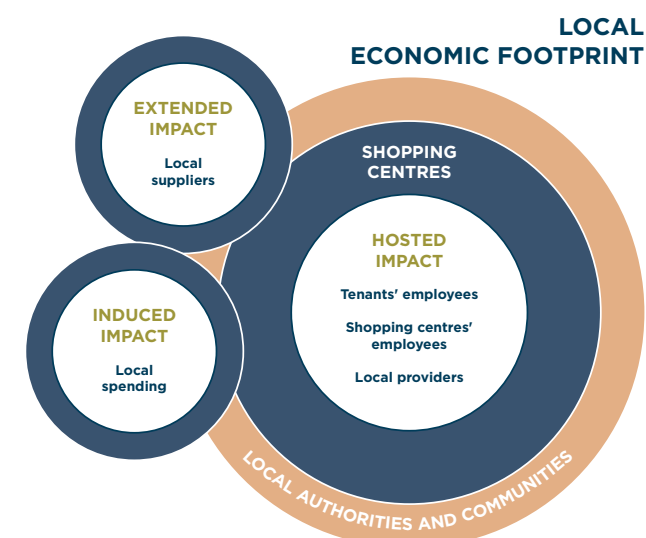
that preserving a healthy environment by continuing to invest in clean technologies, adopting policies that address environmental and social risks, and engaging in more proactive and robust stakeholder discussions and disclosures, is essential to its success. NEPI Rockcastle strongly believes in continuously improving its sustainability approach, structured on four pillars:

- 1. Sustainable resource management** - an initiative that covers biodiversity, water, energy and gas consumption, waste management and gas emissions, in an attempt to improve both impact of consumption as well as efficiency.
- 2. Sustainability through green buildings** - the Group's buildings have been certified at the highest sustainability standards in the real estate industry, which acknowledges the Group's investment in sustainable buildings both during construction and in the operational stages.
- 3. Community Engagement** - NEPI Rockcastle believes in the importance of giving back to the communities, and seeks to contribute to sustainable social development.
- 4. Business Integrity** - integrity is embedded in all the processes and is an integral part of the Group's culture, to ensure compliance with laws and regulations and that operations are conducted according to the highest standards of business ethics.

The Group's approach to sustainability covers four stages:

- setting targets on an annual basis, for each managed asset, in line with long and medium term KPIs;
- implementing action plans to reach those targets;
- measuring performance and implementing additional measures if necessary;
- periodically reviewing performance with the purpose of setting new targets for the following period.

The Group aims to engage stakeholders in the process.





# Sustainability report » continued

Strategic initiatives	Objective /Commitment	KPIs	Term	
			Medium	Long
<b>1. Sustainable resource management</b>	Increase energy efficiency for Office portfolio by 5%	energy consumption in MWh/ visitor energy consumption in MWh/ m² GLA	2022	-
	Increase energy efficiency for Retail portfolio by 10%	energy consumption in MWh/ visitor energy consumption in MWh/ m² GLA	2022	-
	Invest 5% of the annual budget in renewable sources of energy	% CAPEX invested in renewable energy sources % renewable energy in electricity contracts	2022	-
	Reduce by 20% the carbon footprint associated with all operations	carbon footprint	-	2030
	Purchase 50% of electricity from renewable sources for all areas managed by the Group	% of electricity from renewable sources % LED deployment level (common areas)	-	2030
	Reach a waste recycling rate of at least 50%	% waste recycled in Kg/visitor % waste recycled in Kg/m² GLA		2030
	Decrease water consumption for Office portfolio by 5%	water consumption in m³/visitor water consumption in m³/m² GLA	2022	-
	Decrease water consumption for Retail Portfolio by 10%	water consumption in m³/visitor water consumption in m³/m² GLA	2022	-
<b>2. Sustainability through green buildings</b>	Obtain "BREEAM In - Use" certification for 100% of the Retail portfolio that will be going through recertification, at least "Very Good"	- % assets certified BREEAM In Use - % of assets recertified at least "Very Good"	2022	-
	Obtain "BREEAM In - Use" certification for 100% of the Office portfolio that will be going through recertification, at least "Very Good"	- % assets certified BREEAM In Use - % of assets recertified at least "Very Good"	2022	-
	Obtain EDGE certifications	- % assets certified EDGE	2022	-
<b>3. Community engagement</b>	Deploy a re-charging infrastructure for electric vehicles in 100% of the parking lots managed by the Group	% parking lots with infrastructure for electric recharge	2022	-
	Develop smart partnerships with our stakeholders	community relevant partnerships		permanent
	Create relevant community events and CSR campaigns	- centres which have organised at least one annual CSR-relevant event - time, budget and area in our properties dedicated to CSR campaigns		permanent
<b>4. Business integrity</b>	Ensure compliance with regulations, policies and procedures	- timely monitoring, reporting and remediation - consequence management		permanent
	Collaborate with responsible and sustainable partners (clients and suppliers)	- supplier risk assessment performed for any new supplier and revised periodically - "know your customer" due diligence performed for new customers and revised periodically		permanent
	Ethical relationship with authorities and government representatives	- reports through whistleblowing channel, if any, timely addressed - no financial support to any political party / political exposed person - no gifts / benefits / other form of payment to public officials / political exposed persons		permanent

## APPROACH TO SUSTAINABILITY

NEPI Rockcastle's commitment to building a sustainable business and being a responsible citizen is endorsed by its Board of Directors. The Group engages and liaises with various international organizations specialized in sustainability, in order to better its approach and implement best practices in this area. As such, the Group liaises and engages permanently with the following organizations:

### GLOBAL REAL ESTATE SUSTAINABILITY BENCHMARK (GRESB)

The organization's purpose is to assess the environmental and social performance of companies specialising in the real estate sector. NEPI Rockcastle has participated in the benchmark every year and improved its results year on year, to a total score of 49 in 2018.

### INTERNATIONAL FINANCE CORPORATION (IFC)

IFC supports investments in the retail sector in developing countries because of its economic importance in terms of employment, consumer spending, and tax revenues.

### EUROPEAN PUBLIC REAL ESTATE ASSOCIATION (EPRA)

EPRA supports the transition towards a sustainable built environment promoting sustainability reporting and identifying opportunities for EPRA's members related to sustainability regulations and initiatives at European level. The Group started applying in 2018 the Best Practice Recommendations (BPR) Guidelines in respect of financial reporting, and EPRA's sBPR Guidelines on sustainability.

### SUSTAINALITYCS

In March 2019, based on information available publicly as of 2017 on the Group and its operations, Sustainalytics rated NEPI Rockcastle's ESG Risk Low. Sustainalytics considers NEPI Rockcastle to have a low risk of experiencing material financial impacts from ESG factors due to its low exposure and average management of material ESG issues.

### FTSE4GOOD

Created by the global index provider FTSE Russell, the FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. NEPI Rockcastle was included in the index at the beginning of 2019.

### Environmental Policy

The Group is currently engaged in formalising its Environmental Policy, with the purpose of providing guidelines for protecting the indoor air quality, as well as outdoor habitat, while also supporting high performance building operations and developing synergies between the building and its environmental context. The primary goals of this policy are to minimize the impact of site management practices on the local ecosystem and reduce the exposure of occupants, staff and maintenance

personnel to potentially hazardous chemical, biological and particle contaminants. This policy will address environmental best practices in terms of energy and water use, use of painting and low emitting materials, erosion and sedimentation control, waste, cleaning products, pest management.

NEPI Rockcastle is responsible for developing and managing the implementation of the Environmental Policy, together with its tenants and suppliers.

The Group's environmental practices are based on:

- **Lighting Energy** - lighting efficiency is achieved by replacing the traditional lighting sources with LED luminaires, thus decreasing power consumption;
- **HVAC Controls** - optimise energy consumption by setting back the temperatures during closed hours;
- **Water** - the consumption is monitored on a daily basis, thus being able to identify leaks and/or excess consumption, as a basis for water conservation practices;
- **Low emitting materials** - the Group is conscious that the finishing materials have a direct effect on indoor air quality, therefore it selects carefully these materials in the development process and does not accept the acquisition of toxic products or of products with high level of carbon emissions;
- **Pest control** - integrated methods based on monitoring and non-toxic preventive measures (e.g. site inspection and maintenance, cultural controls, pest inspection and population monitoring) are used to proactively manage and minimize pest issues. In the event that monitoring activities reveal a need for the use of pest controls, appropriate options are evaluated, and the least-toxic option likely to be effective is being employed;
- **Cleaning products** - Cleaning products and materials, including hard-floor and carpet-care products, are meeting the requirements of Green Seal, Environmental Choice Programs or European Eco-Label Programs;
- **Landscape waste** - The landscaping company attempts to minimise the creation of landscape waste onsite through the use of mulching mowers and brooms for the leaves. As space is not available for on-site composting, landscaping debris are directed to offsite composting facilities;
- **Efficient waste reduction** (non - recyclable waste) - achieved through an integrated waste management system applied across the core portfolio. There is a rigorous approach towards waste management, by setting the following priorities: diminish waste to the extent possible, reuse, recycle, recover and store, strictly following the applicable legal provisions;
- **Fertiliser use**, where the case - kept to a minimum to prevent eutrophication of local ponds and streams.



PHOTO: CITY BUSINESS CENTRE, ROMANIA

All properties are equipped with measurement systems that enable real time control of the consumption of the natural resources. The Group is considering implementation of a centralised building operations system across its portfolio, with the purpose of improving asset management process, increase visibility on utilities consumption in order to be able to optimise such consumption, perform proactive equipment maintenance. This will enable higher energy efficiency, lower operating and maintenance costs, better indoor air quality, greater occupant (tenants, visitors and employees) comfort and productivity.

As economy starts with identifying the sources of waste, NEPI Rockcastle has made sustained efforts towards improving the consumptions monitoring for each of its properties. Regular analyses are performed to compare consumptions with the previous month, the previous year and with similar properties.

The detailed performance analysis supports identification of areas for improvement at all levels and prioritization of measures to be implemented in the following period.

NEPI Rockcastle has planned to engage in obtaining the EDGE Certification for its properties. This will also be achieved by developing the first projects according to the EDGE sustainability norms, which emphasize the efficient use of resources both in the development process and during the administration. EDGE is a complementary certification system and was created by the International Finance Corporation, the World Bank investment division. To obtain the certification, the Group must achieve a 20% reduction in energy, water and energy consumption during construction.

#### Responsible construction practices

The Group promotes and follows responsible construction practices throughout its developments, where it sees value in preventing risks and liabilities arising from pollution of the surrounding areas. Adoption of responsible construction practices may lead to a wide range of environmental, social, and financial benefits while at the same time improving project efficiency and understanding of construction performance through continuous construction progress monitoring.

The Group aims to improve various aspects of its construction processes, ensuring the safety of vehicle deliveries to and around its construction sites, as well as promoting on-site and off-site health and safety, including road safety. As construction activities may result in ground, water and air pollution, affecting workers on site, as well as others in the surrounding area, NEPI Rockcastle is assessing alternatives to minimise any undesired or negative effects its developments may cause.

The Group strongly believes in the importance of and directs its actions towards continuous monitoring of procedures relating to health and safety, resource management, construction progress and site conditions, as this brings added value and maximises project performance.

NEPI Rockcastle is already compliant with the major requirements of the Environmental Management System during the development stage, in order to ensure the design and construction of properties promote efficiency and lowest level of negative environmental impact. Some of the processes covered are:

- assessing sustainability and climate change risks, during the due diligence process;



- challenging each construction project based on the “Design Guidelines” described below, in order to ensure that the buildings will be sustainable and in preparation for “BREEAM in use” certification;
- applying formal testing procedures to each new building, to ensure that operational requirements are met, systems perform as intended, maintenance suppliers and management staff are trained.

The “Design Guidelines” applied for new developments, redevelopments and extensions are aligned with “BREEAM” requirements, to ensure that properties will be sustainable from multiple points of view, including low energy consumption or greenhouse gas emissions.

The Group’s development process gives special attention to:

- structural elements that can affect energy requirements and carbon footprint;
- maximising daytime light use while minimising solar heat gains through shading, glass specifications, thus minimising the use of air conditioning and energy consumption;
- implementing proficient building management systems, which monitor and optimise technical equipment operation.

#### Responsible operations practices

Taking into account that several hundred million visitors and employees enter the Group’s buildings every year, NEPI Rockcastle is committed to ensuring a safe and healthy environment for everyone, therefore it has implemented a number of safeguards, including but not limited to:

- cleaning providers are heavily encouraged to use certified non-harming products, and the Group continues to monitor the implementation of this project. Products used are aimed at meeting the requirements of Green Seal or Environmental Choice programs or European Eco-Label programs;
- the use of good-quality materials with low emissions of volatile organic compounds and with low content of harmful substances;
- technical specifications are considered for a large range of products: finishing materials, paints, adhesives, floor coverings, carpets and other largely utilised products;
- ventilation ducts and filters are checked regularly and filter replacement is carried out at least twice a year, while the risk of legionella disease is controlled by undertaking regular tests;
- The technical teams ensure that sufficient fresh air is constantly available in the Group’s buildings, through the Building Monitoring Systems; and
- encouraging the use of integrated methods based on monitoring and non-toxic preventive measures (site inspection, pest inspection and population monitoring), to proactively manage and minimise pest issues.

Investing in sustainable solutions has become a priority, therefore, starting 2016, a significant part of the CAPEX property management budget was allocated to replacing traditional lighting with LED technology, installing frequency converters, upgrading building management systems, installing water-efficient faucets, replacing obsolete roof membranes, investing in cooling water towers, mounting solar protection foil and growing natural indoor plants.



# Sustainability report» continued

## PILLAR I - SUSTAINABLE RESOUCES MANAGEMENT

### BIODIVERSITY

Prior to starting new developments, external experts engaged by the Group perform environmental impact assessments on biodiversity, in accordance with applicable local laws. Where protected areas or species are present, the Group closely monitors the ecosystem with the help of specialised partners. For new developments, the environmental impact report indications are closely followed. Endangered species in the vicinity of the development site are monitored and, if necessary, actions are proactively taken.

The direct or indirect impact on the environment, observed and/or anticipated, is described and analysed in the environmental impact assessment, made by external experts. In case of a significant, observed and/or anticipated impact, the Group focuses with priority on avoiding and minimising it, instead of remediating and compensating for it.

### WASTE MANAGEMENT

NEPI Rockcastle designed an integrated waste management system to be applied across its core portfolio, leading to increased selective waste collection rate and minimising landfill. There is a rigorous approach towards waste management, by setting the following priorities: diminish waste to the extent possible, reuse, recycle, recovery and storage, strictly following the applicable legal provisions.

In 2018, the Group continued to implement its waste reduction strategy across its properties in Romania as an early adopter, and efforts will carry on in 2019 and onwards. Waste management audits have been conducted in a number of properties and measures have been implemented based on the findings of these audits in order to improve performance, such as: informing

the tenants regularly about on-site waste management, implementation of minimal requirements for sorting and recycling waste in supplier and lease contracts.

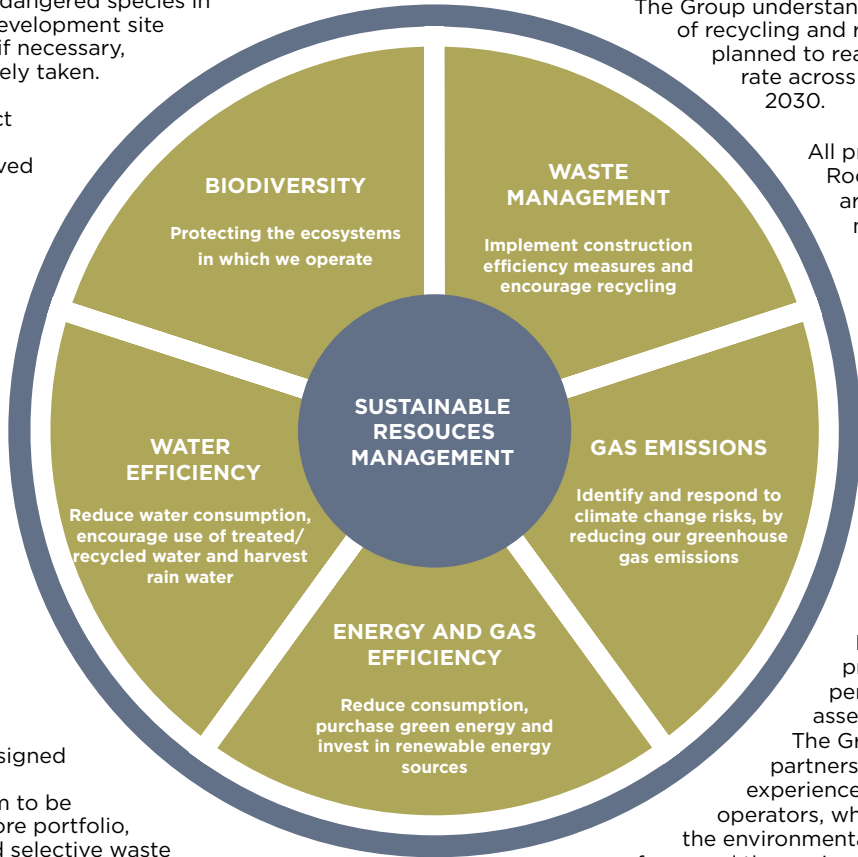
As part of this initiative, the Group also aims to increase applicable sorting solutions, in order to increase the proportion of waste sorted on-site and thereby reduce overall waste management processing costs.

The Group understands the importance of recycling and reusing and thus has planned to reach a 50% recycling rate across the portfolio by 2030.

All properties in NEPI Rockcastle portfolio are equipped with multi-compartment bins in the common areas, also raising awareness about selective sorting among the visitors. The tenants are also made aware, more frequently, through notifications and also by the tenant manual which includes Waste Management provisions, personalised for each asset.

The Group has partnerships with experienced, authorised waste operators, which comply with the environmental legislation in force and the environmental standards imposed by the company.

The volume of waste generated in a building mostly depends on the level of activity of the tenants, the turnovers in shopping centres and the occupancy for office buildings. Therefore the Group has limited control on the total volume of waste generated on site. However, the Group's commitment to minimise the volume of household waste and to increase the selective waste collection rate, materialises in the preventive measures taken and the investment in building the awareness of those in direct control.



The table below shows the split of waste throughout the Group's portfolio, measured in tons. The 9% increase in total waste is connected with the overall increase in footfall and operations (7.5% increase in tenant sales like-for-like, 16% GLA increase), mainly in the retail segment of the Group's portfolio.

	2018	2017
<b>Unrecycled waste</b>	<b>17,155</b>	<b>15,551</b>
Household Waste	17,155	15,551
<b>Recycled waste</b>	<b>5,078</b>	<b>4,849</b>
Paper Waste	4,689	4,519
Plastic Waste	266	263
Other Recyclable Waste (glass, wood, metal)	123	67
<b>Total portfolio</b>	<b>22,233</b>	<b>20,400</b>



PHOTO: SHOPPING CITY PIATRA NEAMT, ROMANIA



# Sustainability report » continued

## WATER EFFICIENCY

The Group's approach towards the use of water focuses on ensuring that the supply is of the highest quality, that water is reused whenever possible, and that consumption is minimised. Potable water purity is of prevailing importance, therefore, although supplied by the municipal network, the water is further cleansed using on-site mechanical filters.

Throughout the portfolio, improved water-efficient faucets are installed, along with equipment that detects leaks, enabling issues to be identified and remedied shortly after occurrence. Where possible, waste or rain water is collected, treated and recycled in closed-circuit systems for non-potable use. Monitoring consumption through the Building Management Systems is a current practice for NEPI Rockcastle properties, in order to analyse trends and identify improvement opportunities.

The Group focuses its efforts on limiting the amount of water used / the waste and monitoring the quality of wastewater it produces. Close attention is paid to the quality of waste water, therefore the drainage systems are cleaned on a regular basis, the parking lots managed by the Group are equipped with oil separators, and grease separators are installed and cleaned regularly.

The table below shows the split of water consumption throughout the Group's portfolio, measured in cubic metres. The 4% increase in the total water consumption is explained by extension of food courts in some properties, opening of various car wash or eco cleaning facilities, beauty salons, as well as a higher need to water the green areas within the properties, during the summer season. The Group plans to continue to extend water consumption reducing measures, as mentioned before.

Water Consumption (m³)					
<i>Total</i>			<i>like-for-like</i>		
					%
	2018	2017	2018	2017	2017-2018
<b>Total Portfolio</b>	<b>1,874,232</b>	<b>1,766,399</b>	<b>1,781,207</b>	<b>1,712,425</b>	<b>4.0%</b>
<b>Retail</b>	<b>1,756,406</b>	<b>1,659,785</b>	<b>1,674,603</b>	<b>1,609,066</b>	<b>4.1%</b>
Romania	782,317	754,113	722,453	719,821	
Poland	373,453	341,792	351,514	325,365	
Bulgaria	153,006	130,574	153,006	130,574	
Hungary	173,362	167,776	173,362	167,776	
Croatia	42,184	51,959	42,184	51,959	
Czech Republic	96,880	92,104	96,880	92,104	
Slovakia	57,335	55,415	57,335	55,415	
Serbia	25,262	23,478	25,262	23,478	
Lithuania	52,607	42,574	52,607	42,574	
<b>Office</b>	<b>117,826</b>	<b>106,614</b>	<b>106,604</b>	<b>103,359</b>	<b>3.1%</b>
Romania	95,544	88,620	84,322	85,365	
Bulgaria	18,935	14,795	18,935	14,795	
Slovakia	3,347	3,199	3,347	3,199	

## ENERGY AND GAS EFFICIENCY

The Group has continued during 2018 to increase the percentage of less carbon intensive energy, and managed to supply 28% energy from renewable sources in some buildings.

In order to reduce the energy and gas use, NEPI Rockcastle has implemented mechanisms such as:

- monitoring closely the consumption and performing month on month and year on year comparisons;
- conserving the energy based on operating hours through adjustment of indoor temperature settings in connection with outside temperatures;
- improving technical equipment, i.e. replacing energy intensive equipment;
- investing in building insulation and its compactness to improve thermal inertia, with particular focus on roofs and windows, which account for the majority of energy loss.

## Energy Consumption (Mwh)

	<i>Total</i>			<i>like-for-like</i>			
	No of Properties 2018	2018	2017	No of Properties	2018	2017	% 2017-2018
<b>Total Portfolio</b>	<b>59</b>	<b>489,501</b>	<b>483,293</b>	<b>53</b>	<b>469,032</b>	<b>469,382</b>	<b>-0.1%</b>
<b>Retail</b>	<b>51</b>	<b>451,594</b>	<b>446,622</b>	<b>46</b>	<b>432,889</b>	<b>433,543</b>	<b>-0.2%</b>
Romania	24	165,238	160,836	21	151,603	151,902	
Poland	12	118,115	117,740	11	113,045	113,595	
Bulgaria	2	53,446	51,561	2	53,446	51,561	
Hungary	2	42,748	43,298	2	42,748	43,298	
Croatia	1	20,778	24,205	1	20,778	24,205	
Czech Republic	2	18,799	16,843	2	18,799	16,843	
Slovakia	5	18,752	18,447	5	18,752	18,447	
Serbia	2	6,932	6,940	1	6,932	6,940	
Lithuania	1	6,786	6,752	1	6,786	6,752	
<b>Office</b>	<b>6</b>	<b>32,674</b>	<b>31,114</b>	<b>5</b>	<b>30,910</b>	<b>30,282</b>	<b>2.1%</b>
Romania	4	28,256	26,667	3	26,492	25,835	
Bulgaria	1	3,179	3,145	1	3,179	3,145	
Slovakia	1	1,239	1,302	1	1,239	1,302	
<b>Industrial</b>	<b>2</b>	<b>5,233</b>	<b>5,557</b>	<b>2</b>	<b>5,233</b>	<b>5,557</b>	<b>-5.8%</b>
Romania	2	5,233	5,557	2	5,233	5,557	

## Gas Consumption (Mwh)

	<i>Total</i>			<i>like-for-like</i>			
	No of Properties 2018*	2018	2017	No of Properties*	2018	2017	% 2017-2018
<b>Total Portfolio</b>	<b>32</b>	<b>93,571</b>	<b>101,643</b>	<b>29</b>	<b>87,428</b>	<b>98,692</b>	<b>-11.4%</b>
<b>Retail</b>	<b>29</b>	<b>80,633</b>	<b>78,721</b>	<b>26</b>	<b>74,490</b>	<b>75,770</b>	<b>-1.7%</b>
Romania	16	49,682	45,611	14	43,662	42,792	
Poland	4	1,854	1,745	3	1,731	1,613	
Bulgaria	1	6,240	6,147	1	6,240	6,147	
Hungary	2	12,343	14,346	2	12,343	14,346	
Croatia	1	3,087	3,179	1	3,087	3,179	
Slovakia	3	5,035	5,324	3	5,035	5,324	
Serbia	1	1,494	1,489	1	1,494	1,489	
Lithuania	1	898	880	1	898	880	
<b>Office</b>	<b>3</b>	<b>12,938</b>	<b>22,922</b>	<b>3</b>	<b>12,938</b>	<b>22,922</b>	<b>-43.6%</b>
Romania	2	6,479	6,410	2	6,479	6,410	
Slovakia	1	6,459	16,512	1	6,459	16,512	

\* includes only properties where gas consumption was applicable

Constant monitoring allows identification of poor performance and changes in consumption patterns, and taking steps towards minimisation of the performance gap between predicted and actual consumption, through efficient cost management and identification of areas of inefficient operations, system deficiencies and building management issues.

The Group believes that taking actions such as changing practices and procedures, reducing waste and managing energy use it can decrease operating costs, consumption and carbon emissions.



# Sustainability report» continued

All new developments give priority to natural lighting, while low-energy bulbs, combined with light sensors, are used wherever practical. The buildings' skylights are protected with reflective film, to reduce solar heat gain during the summer, thus decreasing the use of air conditioning. Escalators are fitted with motion sensors and stop automatically when not in use, while

developments with multiple elevators use computerised systems to monitor commands and optimise movement. One of the most significant energy optimisation initiatives across all properties of the Group, started in 2016, is the replacement of traditional lighting sources with LED technology in the common areas and outdoors. The status of this initiative is further depicted below:

PROPERTY	COUNTRY	TYPE OF PROPERTY	LED DEPLOYED 2018	LED DEPLOYED 2017
Paradise Center	Bulgaria	Retail	100%	-
Serdika Center	Bulgaria	Retail	100%	-
Arena Centar	Croatia	Retail	-	100%
Forum Liberec Shopping Centre	Czech Republic	Retail	feasibility study and technical solution under review	-
Mammut Shopping Centre	Hungary	Retail	-	19.4%
		Retail	-	26.0%
Bonarka City Center	Poland	Retail	feasibility study and technical solution under review	-
Galeria Warminska	Poland	Retail	partially implemented in common areas	partially implemented in common areas
Karolinka Shopping Centre	Poland	Retail	-	partially implemented in common areas
Aura Centrum	Poland	Retail	-	partially implemented in common areas
Pogoria Shopping Centre	Poland	Retail	-	100%
Focus Mall Piotrkow Trybunalski	Poland	Retail	partially implemented in common areas	partially implemented in common areas
Platan Shopping Centre	Poland	Retail	partially implemented in common areas	-
Galeria Wolomin	Poland	Retail	partially implemented in common areas	partially implemented in common areas
Galeria Tomaszow	Poland	Retail	-	partially implemented in common areas
City Park	Romania	Retail	39%	7%
Promenada Mall	Romania	Retail	13%	13%
Iris Titan Shopping Center	Romania	Retail	-	90%
Shopping City Galati	Romania	Retail	-	94%
Shopping City Deva	Romania	Retail	partially implemented in common areas	partially implemented in common areas
Braila Mall	Romania	Retail	partially implemented in common areas	partially implemented in common areas
Vulcan Value Centre	Romania	Retail	-	partially implemented in common areas
Shopping City Piatra Neamt	Romania	Retail	99%	-
Shopping City Targu Jiu	Romania	Retail	-	80%
Severin Shopping Center	Romania	Retail	43%	36%
Kragujevac Plaza	Serbia	Retail	-	100%
Aupark Kosice Mall	Slovakia	Retail	-	50%
Aupark Zilina	Slovakia	Retail	-	50%
Aupark Shopping Center Piestany	Slovakia	Retail	50%	50%
Serdika Office	Bulgaria	Office	100%	-
City Business Centre	Romania	Office	20%	30%
Floreasca Business Park	Romania	Office	20%	60%
The Lakeview	Romania	Office	30%	50%
Victoriei Office	Romania	Office	-	100%
Aupark Kosice Tower	Slovakia	Office	50%	50%

## CARBON FOOTPRINT AND CLIMATE CHANGE

NEPI Rockcastle recognises the challenges raised by global warming and climate change, therefore it plans to contribute to a greener environment by reducing the carbon footprint of its buildings during both construction and operation. As such, the Group made a long-term commitment to reduce its carbon footprint by 20% by 2030, based on continuous efforts such as:

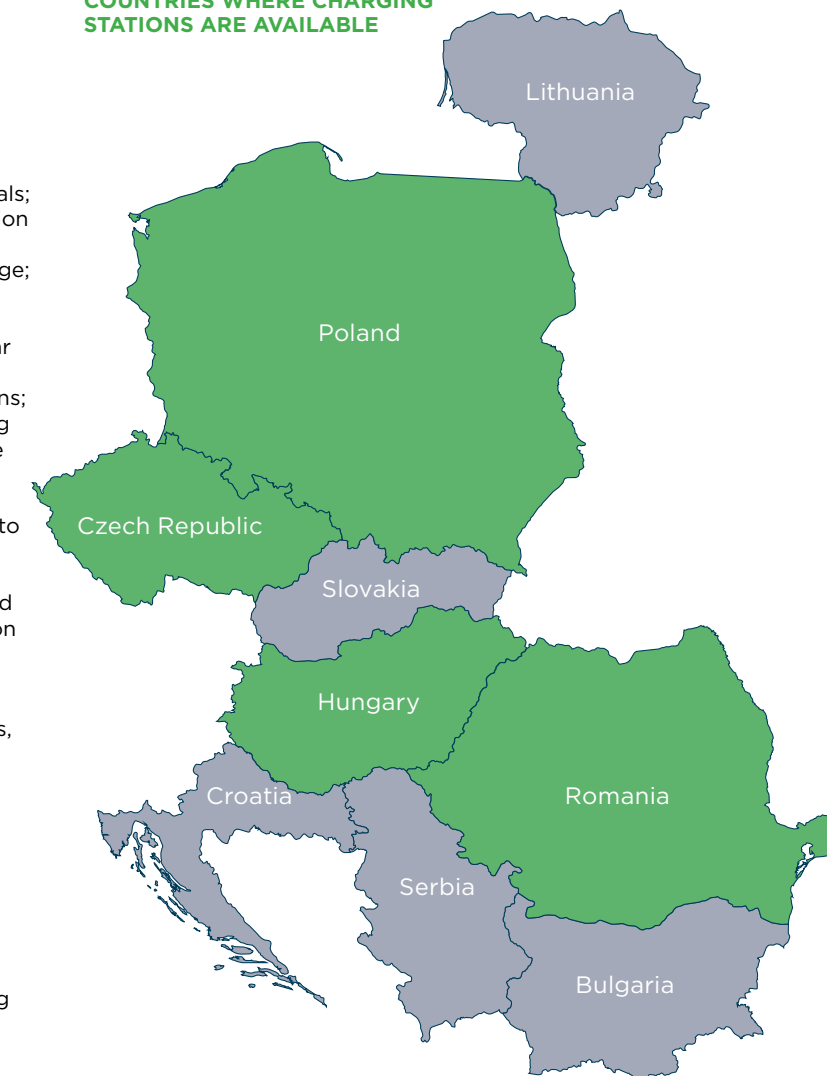
- carbon footprint measurement for all development projects;
- plan for “eco-friendly” buildings early in the design phase;
- use of alternative low carbon-emission materials;
- continued efforts to reduce energy consumption through an energy management strategy that promotes better understanding of energy usage;
- replacing old equipment with new energy efficient equipment;
- investing in green energy sources such as solar panels, electrical chargers for green cars;
- implementing LED lighting and sensor solutions;
- fostering innovation in technology, as incurring a certain cost in the short term, will contribute substantially to emissions reductions and cost efficiency in the long run;
- incorporating sustainable drainage systems into new developments;
- ensuring that buildings can cope with rising temperatures, using construction materials and ventilation systems that do not increase carbon emissions; and
- paper & ink use reduction.

Seeking to reduce the carbon footprint of its properties, bike racks have been installed and are available throughout the portfolio.

The connection to public transportation is relevant in the Group's strategy concerning carbon footprint, thus the properties are accessible by bus, connected to metro and tram lines and the Group is liaising with the local authorities in order to make public transportation available. In addition, the Group aims to make its properties easily accessible by foot, bicycle, electric vehicles. More properties invested in providing charging facilities for electric cars, as follows:

PROPERTY	COUNTRY
Forum Ústí nad Labem	Czech Republic
Arena Mall	Hungary
Mammut Shopping Centre	Hungary
Galeria Warminska	Poland
Aura Centrum	Poland
Platan Shopping Centre	Poland
City Park	Romania
Promenada Mall	Romania
Shopping City Timisoara	Romania
Shopping City Galati	Romania
Victoriei Office	Romania
Ramnicu Valcea Shopping City	Romania

## COUNTRIES WHERE CHARGING STATIONS ARE AVAILABLE



As the management team is geographically spread, the Group is making efforts to minimise its own effect on the environment through measures implemented in order to reduce employee travel, by promoting video-conference meetings as an efficient alternative to decrease unnecessary business travel and contribute to the reduction of carbon emissions.





PHOTO: VICTORIEI OFFICE, ROMANIA

# Sustainability report» continued

## PILLAR II - GREEN BUILDINGS

The Group's properties are built and operated with a focus on optimising the use of resources throughout the end-to-end lifecycle, from design to construction, operation, maintenance and redevelopment / extension.

NEPI Rockcastle acknowledges that the development of economically efficient and green buildings has a long-term positive impact on the environment, reduces waste, protects human health, and fosters efficient management. Ecologically sensible and cost-conscious sustainable constructions provide opportunities to improve energy and raw materials efficiency in any building.

The Group is working closely with leading real estate architects and developers that have a structured approach towards environmental issues. Through specialised partners in established certifications, in particular in the BREEAM certification, the use of natural resources is managed and verified, with the Group targeting at least an "Excellent" rating for all new development projects.

BREEAM is the world's leading environmental assessment method and rating system. Buildings that obtain BREEAM recognition have achieved the highest corporate, organisational and environmental objectives, and enhance the continuous improvement capability for sustainable design, construction and operation.

The BREEAM "In Use" certification policy ensures that biodiversity issues are well addressed and promoted to achieve high standards. Once the project has been built and delivered, the Group's operating management team, particularly the on-site teams that manage each asset, are responsible for maintaining and monitoring biodiversity.

The Group has continued to invest in BREEAM certification for its buildings as a measure of its commitment to sustainability, as presented below.

The status of BREEAM certifications is presented as follows:

Property	Country	Type of property	Status	Scoring obtained/targeted
Iris Titan Shopping Center	Romania	Retail	Obtained	Excellent
Mega Mall	Romania	Retail	Obtained	Excellent
Promenada Mall	Romania	Retail	Obtained	Excellent
City Park Mall Constanta	Romania	Retail	Obtained	Very Good
Shopping City Deva	Romania	Retail	Obtained	Very Good
Ploiesti Shopping City	Romania	Retail	Obtained	Very Good
Severin Shopping Center	Romania	Retail	Obtained	Very Good
Aurora Shopping Mall	Romania	Retail	Obtained	Very Good
Shopping City Sibiu	Romania	Retail	Obtained	Very Good
Pitesti Retail Park	Romania	Retail	Obtained	Very Good
Vulcan Value Centre	Romania	Retail	Obtained	Excellent
Shopping City Timisoara	Romania	Retail	Obtained	Excellent
Shopping City Targu Jiu	Romania	Retail	Obtained	Very Good
Shopping City Galati	Romania	Retail	Obtained	Excellent
Braila Mall	Romania	Retail	Obtained	Very Good
Shopping City Piatra Neamt	Romania	Retail	In progress	Very Good
Shopping City Ramnicu Valcea	Romania	Retail	In progress	Very Good
The Lakeview	Romania	Office	Obtained	Excellent
Floreasca Business Park	Romania	Office	Obtained	Excellent
City Business Centre, buildings A-D	Romania	Office	Obtained	Very Good
City Business Centre, building E	Romania	Office	Obtained	Excellent
The Office Cluj-Napoca	Romania	Office	Obtained	Excellent
Victoriei Office	Romania	Office	Obtained	Excellent
Galeria Tomaszow	Poland	Retail	Obtained	Very Good
Karolinka Shopping Centre	Poland	Retail	Re-certification in preparation	Very Good*
Platan Shopping Centre	Poland	Retail	Re-certification in preparation	Excellent*
Pogoria Shopping Centre	Poland	Retail	Re-certification in preparation	Excellent*
Aupark Zilina	Slovakia	Retail	Obtained	Very Good
Aupark Kosice Mall	Slovakia	Retail	Obtained	Very Good
Aupark Shopping Center Piestany	Slovakia	Retail	Obtained	Very Good
Korzo Shopping Centrum	Slovakia	Retail	Obtained	Very Good
Aupark Kosice Tower	Slovakia	Office	Obtained	Very Good
Arena Centar	Croatia	Retail	Obtained	Very Good
Forum Usti nad Labem	Czech Republic	Retail	Obtained	Very Good
Kragujevac Plaza	Serbia	Retail	In progress	Very Good
Promenada Novi Sad	Serbia	Retail	In progress	Excellent
Serdika Center	Bulgaria	Retail	In progress	Very Good
Serdika Office	Bulgaria	Office	In progress	Very Good
Paradise Center	Bulgaria	Retail	In progress	Very Good

\*Previous rating for properties which require re-certification

Promenada Mall Bucharest is the Group's first retail property, and also the first mall in Romania certified internationally as "Blue Building" Gold level by the German Sustainable Building Council. The certification council evaluates various qualitative tangible and intangible factors, such as selecting appropriate materials for the construction of the building and factors related to quality of life in the building for visitors and tenants (maintaining comfortable temperatures, ensuring the air is pleasant to breathe, and offering the right illumination and sound insulation). The certification also ascertains that during development, the whole life-cycle of the building was factored in. The main qualitative criteria analysed were related to economic factors, socio-cultural and functional aspects, technical components, process-related items, environmental elements and site considerations.

Serdika Office, in Bulgaria, was awarded Platinum level by the German Sustainable Building Council for sustainable development and with Green Building Award for South East Europe during the international SEE Real Estate Awards contest.



# Sustainability report» continued

## PILLAR III - COMMUNITY ENGAGEMENT

During 2018, the Group has continued its long-term commitment to find and implement solutions to issues faced by the communities it is a part of NEPI Rockcastle aims to create economic value while at the same time to actively contribute towards the development of a sustainable society through its business activities. The Group selects the initiatives it supports based on its core values, which are extended and integrated towards positively impacting communities through responsible and ethical behaviour. In addition, the Group strives to act as a role model for related industries, while developing conscious partnerships with like-minded organisations in order for its initiatives to deliver the best possible outcomes. The Group enlists the cooperation and promotion of local media in spreading awareness of initiatives it supports, as a method for inspiring other organisations to engage in similar actions as well.

NEPI Rockcastle actively manages its relationships with stakeholders, while aspiring to provide unique retail destinations and high standard services to all stakeholders. While the Group generates returns on capital from environmental, social, and governance programs through operational efficiency, its corporate vision is to also have a beneficial impact in the communities where it operates, seeking to contribute to sustainable social development globally.

The Group acknowledges it has a significant impact on the evolution and progress of communities and economies it selects as potential development or extension sites, where it creates opportunities both during the development period and throughout the ongoing operation of its retail centres. The impact is either direct, i.e. by creating jobs within the retail centres or indirect, through expansion of the local entrepreneurship, or introduction of global companies in local environments. During 2018, the Group has created, through its direct impact, over 2,500 jobs in the communities where it has completed the construction of new centres or extended existing ones.

During 2018, NEPI Rockcastle has continued to develop and implement its Corporate Social Responsibility (CSR) strategy focused on four main directions: education, environment, health and safety and community engagement. The directions of the Group's CSR strategy are in line with overall business strategy and values.

The Group continued its voluntary or discretionary activity of giving back to society in the form of donations or valuable partnerships that generate contributions to local communities in order to support its core values. Apart from collaboration with corporate partners, the Group also selects specific Non-Governmental Organisations (NGOs) whose visions are aligned with its own and consciously provides donations for causes it supports. In 2018, donations of over €750 thousand have reached over 29 organisations focusing mainly on improving healthcare, promoting education and culture or ameliorating social causes primarily in the communities where the Group activates.

The fiscal regime of donations in most CEE countries provide the Group with socially-responsible means to reduce income taxes owed to the state budgets, as the donations and sponsorships granted are considered as tax benefits for the purpose of Corporate Income Taxes. The respective tax benefits are only granted if the entities receiving sponsorship are not affiliates to the sponsor.

	2018	2017
Healthcare	437,283	180,000
Education and Culture	209,146	85,000
Social Causes	107,188	15,000
<b>Total</b>	<b>753,617</b>	<b>280,000</b>



PHOTO:CHESS COMPETITION, ROMANIA



PHOTO: KIDS IN THE ROMAN EMPIRE, ROMANIA

### EDUCATION INITIATIVES AND SUPPORT

NEPI Rockcastle strongly believes that a good educational background is vital to the success of the business environment throughout its communities, as its own success has been due to hiring a team of specialised professionals dedicated to their work, with great ethics and responsibility.

The Group has continued its **NEPI Academics** scholarship program during 2018. The program is dedicated to high performing college students with limited financial resources, helping bright students become tomorrow's professionals by starting to build their career path. After a screening campaign, 20 students were chosen and offered monthly scholarships, as well as face to face meetings with the CEO, who shared his own development story and provided inspiration for their future careers. Additionally, an English language certification course was offered to the students.

**Parenting and family activities** are encouraged and promoted in the Group's shopping centers as a means to cultivate healthy parent-child relationships. Local communities' families are encouraged by family-oriented workshops, and through free parenting sessions. In 2018, visitors in nine Romanian shopping centres have greatly appreciated sessions such as **Parent coach**, an event organised together with the creator of a nation-wide parenting phenomenon. For the parenting sessions organised, the eager audience has learned useful skills to deal with everyday challenges of the modern world while learning to be a good parent, and practical tips on using games to teach children valuable life skills.

The Group frequently organises **education events** throughout its shopping centres, with its most successful ones being interactive educational exhibitions for children organised in partnership with local school inspectorates, providing increased awareness to schools and kindergartens in proximity. For example, the **Human Body for Kids** interactive exhibition allowed children to learn about the human anatomy through a trail of entertaining activities, games and competitions, playing with an interactive operating table or with the use of a shirt and augmented reality tablet that showed their own inner organs moving. Parents were also able to continue the

experience as they were able to download an application and enter the extraordinary world of augmented reality within the human body. Another example was the **Kids in the Roman Empire** interactive exhibition where children learned about the history of Rome and the Roman Empire, gladiators, emperors, art and architecture. The exhibition included costumes for the children and the opportunity to learn through interactive and social inclusive games about additional topics such as roman numerals or mythology of the Roman Gods.

In addition to the above, the Group organised events in its shopping centres promoting science as well as workshops where children were familiarized with the modern world of technology, such as TEDx Events, Bucharest Science Festival, Tech Fest, Hack to the Future, and chess competitions for children.



PHOTO: HUMAN BODY FOR KIDS, ROMANIA



# Sustainability report » continued



PHOTO: TREES NEED PEOPLE, ROMANIA

## ECOLOGY INITIATIVES AND SUPPORT

The Group continues to support planting initiatives as well as other environmental conservation and wildlife preservation awareness campaigns as well as promoting the importance of ecologic initiatives. NEPI Rockcastle acknowledges the negative effects on the environment of deforestation and continuous decrease in green spaces in urban areas, and promotes education and involvement of communities in minimising the impact of urbanisation.

NEPI Rockcastle shopping centres organise regular ecological or environmental conservation promoting events and actions as well as awareness and educational campaigns in cooperation with environmental organisations such as World Wildlife Fund (WWF). Throughout the NEPI Rockcastle shopping centres, **Earth Hour** is celebrated each year in March, and it is an occasion for motivating people around the world to adopt and cultivate environmentally friendly attitudes on an everyday basis.



PHOTO: EKOAKTYWATOR, POLAND

In the Group's shopping centers, the collection of recyclable materials in exchange for flower seeds and eco-friendly bags continues to be one of the most popular activities in **EKOaktywator** events, while ecological workshops are consistently being organised in shopping centres in order to educate children and parents on themes related to the importance of eco-friendly lifestyles.



PHOTO: ECO WORKSHOPS, POLAND

In 2018, following its previous tree planting campaigns, the Group entered into a partnership with a local organisation Trees Need People - Constanta Restart, where the Group has sponsored the planting of 100 trees in Tabacariei Park, in vicinity of City Park Mall. The event honoured the Centennial anniversary of Romania, each tree planted represented one year of the united country, and the trees' species have been carefully selected by a landscape engineer.

The Group continues to promote ecological principles by engaging its own employees in projects to embed these concepts in its day to day business practices.



PHOTO: TENNIS ACADEMY, ROMANIA

NEPI Rockcastle has continued in 2018 its transition to paperless business practices, by spreading the implementation of its documents management system and electronic signature on contracts, in order to reduce printing and paper consumption.

## HEALTH & SAFETY INITIATIVES AND SUPPORT

The Group has continued its support for students, medical clinics and foundations which have organised awareness campaigns in the Group's shopping centres throughout the CEE, focusing on prevention measures and screening tests for heart diseases, blood pressure and diabetes, eye and hearing tests, support for parents of autistic children and prevention of cancer. In addition, the Group joined public institutions and hospitals organising blood donations in locations of its portfolio.

NEPI Rockcastle has promoted safety educational events in partnership with public institutions for promoting and increasing safety awareness and inspiring trust among children. For example, in the Czech Republic, the Group started a partnership with a local NGO Tým silniční

bezpečnosti as well as public institutions in Liberec namely the City Hall, Fire Department, City Police and the EMTs to educate kindergarten and school children into safety practices. Forum Liberec, as a partner of the safety education event, granted discount vouchers for kids as prizes for successfully finishing safety-themed educational games. Similar events have been organised in partnership with local authorities in shopping centres throughout the portfolio, including demonstrations on intervention techniques, teaching children how to react in crisis situations, as well as road safety education and awareness events in partnership with local Police Departments.

An important category of events also promoted and organised throughout the Group's shopping centres is represented by sporting events promoting a healthy lifestyle. During 2018 the Group organised numerous events promoting sports, as well as known players teaching children how to play tennis, Romanian national street basketball competitions, events where visitors were invited to participate in free aerobics, zumba, cycling, yoga classes or promoting jogging as outdoor sporting events.

Through the donations provided to Fundatia Poliano, The Group provided necessary funding to perform heart surgeries on new born children.

During 2017 and 2018, the Group has developed a partnership with MagicCAMP, a non-profit organisation undergoing multiple projects based in Romania including (a) MagicCAMP – camps for children having health issues such as cancer, severe burns, or children which have lost loved ones; (b) MagicTICKET – offering vacations for families affected by cancer; (c) MagicHOME – providing accommodation for parents whose children are affected by cancer and are in treatment in oncologic hospitals; (d) MagicBOX – providing monthly support for families in need and (e) Psychological counselling for children and parents. The purpose of these initiatives is to encourage and bring hope into the lives of children and families suffering following tragic events, to bring together a community where they can find people struggling with similar issues, create valuable relationships for people



PHOTO: TOGETHER FOR THE SAFETY OF CHILDREN, ROMANIA



# Sustainability report » continued

feeling lost and abandoned, recovering children's desire to restart their education and participation in social activities, and bring a new perspective on their childhood which had been prematurely disturbed. In 2018, the MagicCAMP initiative has hosted 270 children, 220 volunteers, 12 therapists, 10 onco-paediatrians, 15 nurses, 2 paediatricians, and hundreds of people who have provided logistic means for the camps. The MagicHOME network is increasing and covers the larger cities in Romania where the most specialised pediatric oncology hospitals reside and receive children from the entire country, such as Bucharest, Craiova, Cluj-Napoca, Timisoara, Targu Mures, Iasi as well as one location in Vienna for children and parents receiving treatment in the city. The organisation receives support from many Romanian public and private entities, and its programmes have reached hundreds of beneficiaries in 2018.

## COMMUNITY ENGAGEMENT AND SUPPORT

In addition to donations for causes it supports, the Group has sustained its efforts to be a socially responsible business partner and has actively been involved in engaging in bettering the welfare of its communities. Engaging stakeholders by involving them in social projects for their communities ensures the success of the projects by opening communication channels, and ensuring the right resources are employed for finding sustainable solutions to existing social issues in the community.

**Building destinies** is a project developed in partnership with a Romanian NGO named Social Incubator. The program's goal is to support the socio-professional integration of young institutionalised adults, who reach the legal age to start being on their own. The general objective of the project was to provide the tools for effective integration into society of the selected beneficiaries, and offer them the chance to a brighter and independent future. Based on available research, without proper guidance, many young adults have difficulties in



PHOTO: THE EMPTY SHOP, ROMANIA

respect of integration into society due to low self-esteem, lack of real emotional and financial support from family or legal guardians, low verbal or written literacy rates due to low quality of prior education, high risk of school abandonment or lack of perspective. The opportunity identified together with Social Incubator was that the young men and women can be trained for blue- or pink-collar jobs in cities where the Group's tenants have issues finding trained personnel. The project offered the

beneficiaries new perspectives on planning for their future jobs or careers based on their skills and personalities and were introduced to areas of interest through workshops they have participated in together with volunteers in the project. The programme included 162 young adults which were provided with over 130 therapy and career counseling sessions, as well as 19 personal and professional development workshops and 17 practical work visits within NEPI Rockcastle's shopping centers. The

project was conducted in partnership with regional Social and Child Protection Services, public cultural institutions such as public libraries or theatres, support of individual therapists, tutors and representatives of companies which have joined the project. Participants were provided with guidance and counselling on various areas of business and necessary skills for different types of jobs, including working for the Group's tenants.

**The Empty Shop** is a global donation campaign pioneered in Brazil, which the Group has introduced in Romania in April 2018. The project is centered on a charity pop-up store where shopping centre clients bring clothes donations, which are cleaned, sorted and delivered to families in need in remote locations in the country. Throughout the duration of the campaign, donated items of clothing are daily displayed on mannequins into fashion looks and shelves of the "empty shop". The project was implemented in Promenada Mall as the flagship of the campaign and collection boxes for clothing were provided to 12 additional shopping centers from Romania. The campaign was run in partnership with Let's do it Romania, a Romanian NGO whose volunteers sorted and delivered the clothes in areas having high risk of school dropout, Procter&Gamble that provided the infrastructure and cleaning supplies in order to clean the clothing gathered throughout the campaign, and Global Records that managed involvement of media for advertising the campaign. The campaign brought together over 10,000 people which have donated 72 tons of clothing items. The clothes have reached 6,721 families in need (over 25,000 people). The campaign won one Golden and two Silver Awards for Excellence at Romanian PR Awards 2018.

The Group participates each year in the annual event **The Great Orchestra of Christmas Charity (WOŚP)**, which is the largest and most famous charity in Poland, and which brings together thousands of volunteers, for a day of concerts, shows, and auctions. The event raises funds for the support of healthcare in Poland through the purchase of medical equipment which are donated to hospitals and clinics. The foundation supports paediatric and geriatric departments of healthcare units, and aims to help save children's lives and improve health by providing medical healthcare for senior citizens. The event has a global media outreach and benefits from the involvement of the largest private companies in Poland. The Group supports the charity organisation and within its Polish shopping centres over PLN550 thousand were collected in 2018.

PHOTO: ARMY DAY, ROMANIA



PHOTO: 3X3 BASKETBALL COMPETITION, ROMANIA





# Sustainability report » continued

**The Public Pianos.** In honour of the opening of Promenada Novi Sad and in order to promote the city of Novi Sad, which will become the European Capital of Culture in 2021, a series of street activities have been organised. As part of the awareness campaign, three pianos were installed in Novi Sad town squares and walking districts, where people and artists were invited to play. The pianos were donated after the finalisation of the campaign to three local cultural institutions in Novi Sad: The Historical Archives of the City of Novi Sad, The “Rumenka” Cultural Center and The Youth from Futog Cultural Center.

**The Big Arena „Re-Cycle” For Charity.** For one month, Arena Mall Budapest’s visitors could cycle on three stationary bicycles set up in the mall. A large screen displayed the amount of money generated by the cyclists, which were afterwards used to purchase Christmas gifts

for children in need. The cycling activity of the visitors that participated in the event also generated electric power used to turn on Christmas tree lights, while at the same time an application to collect funds was active. The Christmas gifts have brought a better and more joyful holiday season to the children.

**Flowers for the soul** is an international awareness campaign aimed at encouraging people to focus on the elderly around them, and to make them feel valued. Within the Group’s shopping centres, volunteers offered flowers and greeting cards to visitors that promised to pass it forward to an elderly. According to data gathered, the campaign has had a positive social impact by reaching over 2,000 people.

**Shopping is caring** was a campaign which promoted helping people diagnosed with incurable diseases.

For Promenada Mall’s 5th anniversary, for every client that participated in the anniversary raffle, Promenada committed to a donation of €5 to HOSPICE, a non-profit organization which has introduced the concept of palliative care in Romania and is the largest in the country offering specialized services of this kind.

As the Group is thoroughly committed to engaging its stakeholders to making a difference in their communities, it applies the same principles among its own operations and events with employees. At the end of 2018, the Company organised a charity event for raising money for social causes where it auctioned reconditioned IT equipment that had been written off, as well as organised a bake-off competition. The entire employee community from one of the largest offices participated.

## PILLAR IV - BUSINESS INTEGRITY

Setting the highest standards in terms of ethics and corporate governance is of utmost importance.

The Group has zero tolerance for fraud and corruption practices, thus Integrity is embedded in the Group’s core values. Starting from the strong belief that the tone from the top is one of the core prerequisites for building ethical practices, the Group has built a management team of strong and experienced professionals.

The Group’s commitment to integrity and exceptional business practices encompasses amongst others:

- implementation of Code of Ethics, Internal Regulation, Share Dealing Code and Whistleblowing Policy;
- continuous monitoring of compliance with relevant laws and regulations, including King IV Report on Corporate Governance;
- responsible purchasing through a Group Procurement Policy, which promotes objectivity and transparency;
- alignment to EU Regulation 2016/679 on personal data protection;
- alignment to EU Directive 2015/849 on Anti-Money laundering and counter-terrorism financing;
- regular, accurate, relevant and transparent communication within the Company and with the Group’s stakeholders, including shareholder communication through public announcements, property tours, meetings and presentation of results.

More details on the measures undertook by the Group to embed business integrity in all its processes are included in the Corporate Governance Section of this report.



PHOTO: TEDx FLOREASCA, ROMANIA



# Analysis of shareholders and share trading

Shareholder spread in terms of the JSE Listing Requirements	Number of shareholders	Number of shares held	Percentage of issued shares
Public	10 505	339 674 192	58.48
Non-public	2	214 954 444	37.20
Directors and employees	56	16 397 818	3.15
Other	-	6 774 280	1.17
<b>TOTAL</b>	<b>10 563</b>	<b>577 800 734</b>	<b>100.00</b>

*\*Those shares in issue and reflected as "Other" in the above analysis are shares that are traded on Euronext Amsterdam directly through Euroclear Nederland. By virtue of European privacy legislation, the Company is not able to ascertain the ultimate beneficial shareholder.*

Size of holding	Number of shareholders	Number of shares held	Percentage of issued shares
1 to 2 500 shares	8 326	5 079 643	0.88
2 501 to 10 000 shares	1 099	5 462 921	0.95
10 001 to 100 000 shares	771	24 796 086	4.29
100 001 to 1 000 000 shares	278	84 349 712	14.60
1 000 001 to 3 500 000 shares	56	100 187 857	17.34
More than 3 500 000 shares	33	351 150 235	60.77
Other	-	6 774 280	1.17
<b>TOTAL</b>	<b>10 563</b>	<b>577 800 734</b>	<b>100</b>

Registered shareholders owning 5% or more of issued shares	Number of shares held	Percentage of issued shares
<b>2018</b>		
Fortress REIT Limited	139 990 000	24.2%
Resilient REIT Limited	74 964 444	13.0%
Public Investment Corporation	44 933 845	7.8%
<b>TOTAL</b>	<b>259 888 289</b>	<b>45.0%</b>

<b>2017</b>		
Fortress REIT Limited	139 850 000	24.2%
Resilient REIT Limited	75 000 000	13.0%
Public Investment Corporation	49 652 942	8.6%
<b>TOTAL</b>	<b>264 502 942</b>	<b>45.8%</b>

Beneficial shareholding of 5% or more of issued shares	Number of shares controlled	Percentage of issued shares
<b>2018</b>		
Fortress REIT Limited	139 990 000	24.2%
Resilient REIT Limited	74 964 444	13.0%
Public Investment Corporation	44 933 845	7.8%
<b>TOTAL</b>	<b>259 888 289</b>	<b>45.0%</b>

<b>2017</b>		
Fortress REIT Limited	139 850 000	24.2%
Resilient REIT Limited	75 000 000	13.0%
Public Investment Corporation	49 652 942	8.6%
<b>TOTAL</b>	<b>264 502 942</b>	<b>45.8%</b>

# Beneficial shareholding of Directors

At 31 Dec 2018	Direct Holding	Indirect Holding	Associates	Total Shares Held	Percentage of shares issued (%)
Andre van der Veer	1 848	100 000	7 529	109 377	0.02
Andries de Lange	10 213	2 171 030	50 627	2 231 870	0.39
Desmond de Beer-	-	9 518 259	-	9 518 259	1.65
George Aase	-	-	-	-	-
Robert Emslie	-	-	-	-	-
Mirela Covasa	-	178 118	-	178 118	0.03
Alex Morar	-	838 998	-	838 998	0.15
Marek Noetzel	101 096	-	-	101 096	0.02
Antoine Dijkstra	4 500	-	-	4 500	0.00
Sipho Vuso Majija*	-	-	-	-	-
Nick Matulovich**	1 262	670 113	-	671 375	0.12
Spiro Noussis***	-	1 322 140	3 392	1 325 532	0.22
Michael Mills**	-	-	-	-	-
Dan Pascariu**	-	-	-	-	-
<b>TOTAL</b>	<b>118 919</b>	<b>14 798 658</b>	<b>61 548</b>	<b>14 979 125</b>	<b>2.60</b>

*\* Sipho Vuso Majija was appointed as Non-Executive Director from 6 June 2018.*

*\*\* Nick Matulovich, Michael Mills and Dan Pascariu served as Directors of the Company up to 28 August 2018.*

*\*\*\* Spiro Noussis served as Executive Director of the Company up to 31 December 2018.*

*- Between year-end and the date of approval of the annual financial statements, Desmond de Beer changed his shareholding by purchasing 120,000 additional shares.*

<b>At 31 Dec 2017</b>					
Andries de Lange	10 213	2 171 030	50 627	2 231 870	0.39
Alex Morar	-	738 998	-	738 998	0.13
Andre van der Veer	93 298	182 623	7 529	283 450	0.05
Desmond de Beer*	-	9 518 259	-	9 518 259	1.65
Mirela Covasa	-	108 118	-	108 118	0.02
Marek Noetzel	87 146	-	-	87 146	0.02
Nick Matulovich	38 417	854 880	-	893 297	0.15
Spiro Noussis	-	1 700 472	3 392	1 703 864	0.29
<b>TOTAL</b>	<b>229 074</b>	<b>15 503 454</b>	<b>61 548</b>	<b>15 565 002</b>	<b>2.68</b>

*\* Desmond de Beer is the beneficiary holder of shares held through companies in which he has 50% or 100% ownership. For one of these companies of which he owns 50%, in the 2017 Annual Report the indirect holdings were presented without adjusting for the partial ownership. The comparative information presented above has been restated in this respect.*



# FINANCIAL STATEMENTS

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## Statement of Directors' responsibilities

The Directors are responsible for preparing the financial statements in accordance with applicable laws and regulations.

The Directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRS).

- In preparing these financial statements, the Directors' are responsible for:
- selecting suitable accounting policies and then apply them consistently;
  - stating whether they have been prepared in accordance with International Financial Reporting Standards;
  - making judgements and estimates that are reasonable and prudent;
  - preparing the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business; and
  - preparing financial statements which give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period.

The directors confirm that they have complied with the above in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

The Group and Company financial statements on pages 170 to 223 were approved and authorised for issue by the Board of Directors on 26 February 2019 and signed on its behalf by:

**Alex Morar**  
Chief Executive Officer



**Mirela Covasa**  
Chief Financial Officer





# Independent Auditor’s report

to the shareholders of NEPI Rockcastle plc

Our opinion

In our opinion:

- the consolidated financial statements give a true and fair view of the consolidated financial position of NEPI Rockcastle plc (the “Company”) and its subsidiaries (together “the Group”) as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards; and
- the company financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

NEPI Rockcastle plc’s consolidated and company financial statements (the “financial statements”) comprise:

- the statements of financial position as at 31 December 2018;
- the statements of comprehensive income for the year then ended;
- the statements of changes in equity for the year then ended;
- the statements of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the “Auditor’s responsibilities for the audit of the financial statements” section of our report.

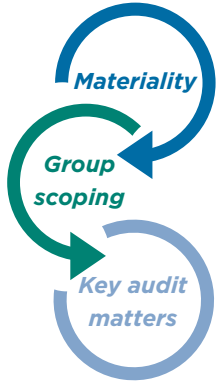
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (“IESBA Code”) and the ethical requirements of the United Kingdom Financial Reporting Council’s Ethical Standard that are relevant to our audit of the financial statements in the Isle of Man. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the United Kingdom Financial Reporting Council’s Ethical Standard.

Our audit approach

Overview

	<b>Materiality</b>  Overall Group materiality: €65.0 million which represents 1% of the Group’s total assets.  Specific Group materiality: €16.2 million which represents 5% of the Group’s EBITDA.  Overall Company materiality: €34.5 million which represents 1% of the Company’s total assets.
	<b>Audit scope</b>  A full scope audit has been performed on the most financially significant components in the Group, while other large components were subject to an audit over certain account balances, based on our assessment of risk and materiality of the Group’s operations at each component.
	<b>Key audit matters</b>  Group: Valuation of investment property.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.



# Independent Auditor’s report

to the members of NEPI Rockcastle Plc » continued

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

	Consolidated financial statements		Company financial statements
	Overall materiality	Specific materiality	Overall materiality
Materiality level	€65.0 million.	€16.2 million.	€34.5 million.
How we determined it	1% of total assets per the consolidated statement of financial position for the year ended 31 December 2018.	5% of EBITDA per the consolidated statement of comprehensive income for the year ended 31 December 2018.	1% of total assets per the company statement of financial position for the year ended 31 December 2018.
Rationale for the materiality benchmark applied	We have applied this benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. A key determinant of the Group’s value is the valuation of its investment properties. On this basis we set an overall materiality based on total assets.	We have applied this lower materiality to line items that make up EBITDA, on the basis that they merit more detailed audit work than the overall materiality level would require, given the heightened focus from users of the financial statements on earnings-based benchmarks which are not impacted by valuation movements.	We have applied this benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. The parent company’s main activity is the holding of investments in subsidiaries. On this basis we set an overall materiality based on total assets.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €3,250,000, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates. The Group owns and invests in a number of investment properties focussed on Central and Eastern Europe. These are held within a variety of subsidiaries and joint ventures.

Based on our understanding of the Group we focused our audit work primarily on the most financially significant components, which represent mainly large shopping centres and retail parks in Romania, Poland, Hungary, Bulgaria and the Czech Republic. These were subject to a full scope audit given their financial significance to the Group. Other large components were subject to an audit over certain account balances (including investment property), based on our assessment of risk and materiality of the Group’s operations at each component.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed by us, as the group engagement team, or component auditors from other PwC network firms or other networks operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><b>Valuation of investment property</b></p> <p>The valuation of the investment property is significant to our audit due to its magnitude and because the valuation is complex and highly dependent on a range of estimates (amongst others, rental value, vacancy rates, non-recoverable expenses, lease incentives, maintenance costs, discount rates and estimated terminal value) made by the directors as well as the external appraisers used by the directors. Entities that invest in real estate inherently are under pressure to achieve certain targets which leads to the risk that the value of property is overstated by the entity.</p> <p>The directors used external appraisers to support their determination of the individual fair values of the investment property semi-annually.</p> <p>For more information on the valuation of the investment property reference is made to notes 4.5, 4.6, 4.7, 5, 10 and 11.</p>	<p>Our procedures in relation to the directors’ valuation of investment property included:</p> <ul style="list-style-type: none"><li>• evaluation of the objectivity, independence and expertise of the external appraisers;</li><li>• assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the property industry;</li><li>• using our own auditor’s experts in valuation of real estate to assess the appropriateness of the estimates used in the calculation of the fair value of the investment property (amongst others, rental value, vacancy rates, non-recoverable expenses, maintenance costs, discount rates and estimated terminal value); and</li><li>• checking on a sample basis, the appropriateness of the inputs, by reconciling them to contracts and rent roll data. The main inputs consist of the property related data (such as rental income, operating costs, vacancy, etc.).</li></ul> <p>We found that investment property related data and the key valuation assumptions were supported by available evidence: contracts, rent roll and external market evidence.</p> <p>We also assessed the appropriateness of the disclosures relating to the assumptions, as we consider them to be important to the users of the financial statements given the estimation uncertainty and sensitivity of the valuations.</p>

Other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditor’s report thereon. The directors are responsible for the other information.



# Independent Auditor's report

to the members of NEPI Rockcastle Plc » continued

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and Isle of Man law, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors are responsible for overseeing the Group's and Company's financial reporting process.

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

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are

appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

This report, including the opinion, has been prepared for and only for the Company's shareholders as a body in accordance with our engagement letter dated 21 January 2019 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



**Nicholas Mark Halsall, Responsible Individual**

For and on behalf of  
PricewaterhouseCoopers LLC  
Chartered Accountants  
Douglas, Isle of Man  
27 February 2019



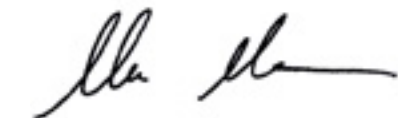
# Statements of financial position

	Note	Group 31 Dec 2018	Group 31 Dec 2017	Company 31 Dec 2018	Company 31 Dec 2017
<b>ASSETS</b>					
<b>Non-current assets</b>		<b>6,116,059</b>	<b>5,127,197</b>	<b>3,393,419</b>	<b>3,659,796</b>
Investment property		5,911,070	4,927,509	-	-
— Investment property in use	10	5,688,610	4,725,093	-	-
— Investment property under development	11	222,460	202,416	-	-
Goodwill	13	93,070	82,582	-	-
Deferred tax assets	24	13,739	12,490	-	-
Investments in subsidiaries	6	-	-	266,463	266,463
Loans granted to subsidiaries	6	-	-	3,105,884	3,365,083
Investments in joint ventures	34	49,185	40,856	-	-
Long-term loans granted to joint ventures	34	21,311	25,792	-	-
Other long-term assets	12	19,039	36,175	16,758	27,932
Interest rate derivatives financial assets at fair value through profit or loss	21	8,645	1,793	4,314	318
<b>Current assets</b>		<b>374,628</b>	<b>860,366</b>	<b>59,076</b>	<b>7,310</b>
Trade and other receivables	15	80,750	60,793	55,902	3,225
Financial investments at fair value through profit or loss	14	168,339	326,565	-	-
Equity derivative collateral	14	27,784	265,541	-	-
Financial assets at fair value through profit or loss	14	831	11,923	-	-
Loans granted to subsidiaries	6	-	-	1,917	3,575
Cash and cash equivalents	16	96,924	195,544	1,257	510
<b>Investment property held for sale</b>	<b>17</b>	<b>11,957</b>	<b>10,238</b>	<b>-</b>	<b>-</b>
<b>TOTAL ASSETS</b>		<b>6,502,644</b>	<b>5,997,801</b>	<b>3,452,495</b>	<b>3,667,106</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity attributable to equity holders</b>		<b>3,845,873</b>	<b>3,914,719</b>	<b>3,450,746</b>	<b>3,666,562</b>
Share capital	18	5,778	5,778	5,778	5,778
Share premium	18	3,625,568	3,625,568	3,625,568	3,625,568
Merger reserve		-	-	25,188	25,188
Accumulated profit		208,426	282,897	(205,788)	10,028
Non-controlling interest		6,101	476	-	-
<b>Total liabilities</b>		<b>2,656,771</b>	<b>2,083,082</b>	<b>1,749</b>	<b>544</b>
<b>Non-current liabilities</b>		<b>2,221,338</b>	<b>1,937,282</b>	<b>-</b>	<b>-</b>
Bank loans	20	930,048	734,493	-	-
Bonds	20	892,397	889,917	-	-
Deferred tax liabilities	24	351,187	271,105	-	-
Other long-term liabilities	23	44,981	37,089	-	-
Interest rate derivatives financial liabilities at fair value through profit or loss	21	2,725	4,678	-	-
<b>Current liabilities</b>		<b>435,433</b>	<b>145,800</b>	<b>1,749</b>	<b>544</b>
Trade and other payables	22	159,786	113,553	1,749	544
Financial liabilities at fair value through profit or loss	14	-	10,934	-	-
Bank loans	20	265,006	10,568	-	-
Bonds	20	10,641	10,745	-	-
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>6,502,644</b>	<b>5,997,801</b>	<b>3,452,495</b>	<b>3,667,106</b>
Net Asset Value per share (euro)	25	6.66	6.78		
Adjusted Net Asset Value per share (euro)	25	7.09	7.10		
Number of shares for Net Asset Value per share		577,800,734	577,800,734		
Number of shares for adjusted Net Asset Value per share		577,800,734	577,800,734		

All amounts in Thousand Euro unless otherwise stated  
The notes on pages 175 to 223 are an integral part of these financial statements.

The Group and Company financial statements on pages 170 to 223 were approved and authorised for issue by the Board of Directors on 26 February 2019 and signed on its behalf by:

**Alex Morar**  
Chief Executive Officer



**Mirela Covasa**  
Chief Financial Officer



# Statements of comprehensive income

	Note	Group 31 Dec 2018	Group 31 Dec 2017	Company 31 Dec 2018	Company 31 Dec 2017
Gross rental income		349,907	233,807	-	-
Service charge income		151,826	103,170	-	-
Property operating expenses		(155,663)	(104,892)	-	-
<b>Net rental and related income</b>	<b>26</b>	<b>346,070</b>	<b>232,085</b>	<b>-</b>	<b>-</b>
Administrative expenses	27	(22,022)	(15,191)	(7,205)	(5,250)
<b>EBITDA*</b>		<b>324,048</b>	<b>216,894</b>	<b>(7,205)</b>	<b>(5,250)</b>
<b>Net result from financial investments</b>		<b>(122,915)</b>	<b>(6,028)</b>	<b>-</b>	<b>(156)</b>
Income from financial investments at fair value through profit or loss	14	29,132	18,084	-	201
Fair value and net result on sale of financial investments at fair value through profit or loss	14	(152,047)	(24,112)	-	(357)
Acquisition fees	28	(6,079)	(10,681)	-	-
Fair value adjustments of investment property	29	108,411	162,022	-	-
Foreign exchange loss		(923)	(1,255)	(1,438)	(4)
Gain/(Loss) on disposal of investment property		-	9	-	-
Gain/(Loss) on acquisition or disposal of subsidiaries		6,933	-	(22)	(429)
Other operating income		-	-	5,771	2,787
<b>Profit/(loss) before net finance (expense)/ income</b>		<b>309,475</b>	<b>360,961</b>	<b>(2,894)</b>	<b>(3,052)</b>
<b>Net finance (expense)/ income</b>	<b>30</b>	<b>(39,859)</b>	<b>(22,906)</b>	<b>87,179</b>	<b>37,436</b>
Interest income		2,444	2,526	35,416	17,285
Interest expense		(40,318)	(24,370)	(375)	(662)
Other net finance income/ (expense)		(1,985)	(1,062)	52,138	20,813
Fair value adjustment of Interest rate derivatives financial assets and liabilities		(1,432)	500	(2,909)	(274)
Share of profit of joint ventures	34	8,329	16,068	-	-
Impairment of goodwill**	33B	-	(886,167)	-	-
Impairment expense of investments in equity of controlled subsidiaries	33B	-	-	-	(300,385)
Impairment expense of intercompany loans	33B	-	-	(866)	(585,760)
<b>Profit/(Loss) before tax</b>		<b>276,513</b>	<b>(531,544)</b>	<b>80,512</b>	<b>(852,057)</b>
<b>Income tax expense</b>		<b>(54,808)</b>	<b>(47,870)</b>	<b>-</b>	<b>-</b>
Current tax expense	24	(9,482)	(1,671)	-	-
Deferred tax expense	24	(45,326)	(46,199)	-	-
<b>Profit/(Loss) after tax</b>		<b>221,705</b>	<b>(579,414)</b>	<b>80,510</b>	<b>(852,057)</b>
<b>Total comprehensive (loss)/profit for the year</b>		<b>221,705</b>	<b>(579,414)</b>	<b>80,510</b>	<b>(852,057)</b>
Non-controlling interest		150	(280)	-	-
<b>PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS</b>		<b>221,855</b>	<b>(579,694)</b>	<b>80,510</b>	<b>(852,057)</b>
<b>PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS EXCLUDING IMPAIRMENT OF GOODWILL</b>		<b>221,855</b>	<b>306,473</b>	<b>80,510</b>	<b>(852,057)</b>
Weighted average number of shares in issue	31	577,800,734	436,806,684		
Diluted weighted average number of shares in issue	31	577,800,734	436,809,203		
Basic/ diluted (loss)/earnings per share (euro cents)	31	38.4	(132.71)		
Basic/ diluted earnings per share (euro cents) excluding impairment of goodwill	31	38.4	70.16		

All amounts in Thousand Euro unless otherwise stated  
The notes on pages 175 to 223 are an integral part of these financial statements.

\* EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) represents the Group's Operating profit, defined as Net rental and related income less Administrative expenses.

\*\* Impairment of goodwill arising from the merger with Rockcastle, computed as the difference between Rockcastle's market capitalisation and its net asset value at merger date.



## Statements of changes in equity

Group	Share capital	Share premium	Share-based payment reserve	Currency translation reserve	Accumulated profit	Non-controlling interest	Total
<b>Balance at 1 January 2017</b>	<b>3,215</b>	<b>1,368,171</b>	<b>4,797</b>	<b>(1,229)</b>	<b>439,598</b>	<b>-</b>	<b>1,814,552</b>
<b>Transactions with owners</b>	<b>2,563</b>	<b>2,257,397</b>	<b>(4,797)</b>	<b>1,229</b>	<b>422,993</b>	<b>196</b>	<b>2,679,581</b>
— Issue of shares	514	395,596	-	-	-	-	396,110
— Sale of shares issued under the Initial Share Scheme	-	18	-	-	-	-	18
— Issue of shares for the acquisition of Rockcastle	2,049	2,747,950	(4,797)	1,229	(424,152)	196	2,322,475
— Transfer of goodwill impairment on acquisition of Rockcastle Group to share premium	-	(886,167)	-	-	886,167	-	-
— Earnings distribution	-	-	-	-	(39,022)	-	(39,022)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(579,694)</b>	<b>280</b>	<b>(579,414)</b>
— Impairment of goodwill	-	-	-	-	(886,167)	-	(886,167)
— Profit for the year excluding impairment of goodwill	-	-	-	-	306,473	280	306,753
<b>BALANCE AT 31 DECEMBER 2017</b>	<b>5,778</b>	<b>3,625,568</b>	<b>-</b>	<b>-</b>	<b>282,897</b>	<b>476</b>	<b>3,914,719</b>
<b>Balance at 1 January 2018</b>	<b>5,778</b>	<b>3,625,568</b>	<b>-</b>	<b>-</b>	<b>282,897</b>	<b>476</b>	<b>3,914,719</b>
<b>Transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(296,326)</b>	<b>5,775</b>	<b>(290,551)</b>
— Issue of shares	-	-	-	-	-	5,775	5,775
— Earnings distribution	-	-	-	-	(296,326)	-	(296,326)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>221,855</b>	<b>(150)</b>	<b>221,705</b>
— Profit for the year	-	-	-	-	221,855	(150)	221,705
<b>BALANCE AT 31 DECEMBER 2018</b>	<b>5,778</b>	<b>3,625,568</b>	<b>-</b>	<b>-</b>	<b>208,426</b>	<b>6,101</b>	<b>3,845,873</b>

All amounts in Thousand Euro unless otherwise stated

## Statements of changes in equity» continued

Company	Share capital	Share premium	Merger reserve	Accumulated profit	Total
<b>Balance at 1 January 2017</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(14)</b>	<b>(14)</b>
<b>Transactions with owners</b>	<b>5,778</b>	<b>3,625,568</b>	<b>25,188</b>	<b>862,099</b>	<b>4,518,633</b>
— Issue of shares	388	324,047	-	-	324,435
— Issue of shares for the acquisition of Rockcastle and NEPI	5,390	4,187,688	25,188	-	4,218,266
— Transfer of impairment of investments in and loans to subsidiaries on acquisition of Rockcastle Group to share premium	-	(886,167)	-	886,167	-
— Earnings distribution	-	-	-	(24,068)	(24,068)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(852,057)</b>	<b>(852,057)</b>
— Impairment of investments in and loans to subsidiaries	-	-	-	(886,167)	(886,167)
— Profit for the year (excluding impairment of investments in and loans to subsidiaries)	-	-	-	34,110	34,110
<b>BALANCE AT 31 DECEMBER 2017</b>	<b>5,778</b>	<b>3,625,568</b>	<b>25,188</b>	<b>10,028</b>	<b>3,666,562</b>
<b>Balance at 1 January 2018</b>	<b>5,778</b>	<b>3,625,568</b>	<b>25,188</b>	<b>10,028</b>	<b>3,666,562</b>
<b>Transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(296,326)</b>	<b>(296,326)</b>
— Earnings distribution	-	-	-	(296,326)	(296,326)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>80,510</b>	<b>80,510</b>
— Profit for the year	-	-	-	80,510	80,510
<b>BALANCE AT 31 DECEMBER 2018</b>	<b>5,778</b>	<b>3,625,568</b>	<b>25,188</b>	<b>(205,788)</b>	<b>3,450,746</b>

All amounts in Thousand Euro unless otherwise stated  
The notes on pages 175 to 223 are an integral part of these financial statements.



# Statements of cash flows

	Note	Group 31 Dec 2018	Group 31 Dec 2017	Company 31 Dec 2018	Company 31 Dec 2017
<b>OPERATING ACTIVITIES</b>					
Profit/(Loss) after tax		221,705	(579,414)	80,510	(852,057)
<b>Adjustments</b>		<b>104,593</b>	<b>801,695</b>	<b>(87,737)</b>	<b>846,374</b>
Fair value adjustments of investment property for controlled subsidiaries	29	(108,411)	(162,022)	-	-
Fair value and net result on sale of financial investments at fair value through profit or loss	14	152,047	24,112	-	357
Income from financial investments at fair value through profit or loss	14	(29,132)	(18,084)	-	(201)
Foreign exchange loss		923	1,255	1,438	-
Gain on disposal of investment property		-	(9)	-	-
Other operating income		-	-	(5,771)	(2,787)
Gain on acquisition of subsidiaries		(6,933)	-	-	-
Impairment of goodwill		-	886,167	-	-
Impairment of investments in and loans to subsidiaries		-	-	866	886,167
Net finance expense/(income)	30	39,859	22,906	(87,179)	(37,436)
Fair value adjustment of Interest rate derivatives financial assets and liabilities for controlled subsidiaries		1,432	(500)	2,909	274
Deferred tax expense for controlled subsidiaries	24	45,326	46,199	-	-
Current tax expense	24	9,482	1,671	-	-
<b>Changes in working capital</b>					
(Increase)/decrease in trade and other receivables		(13,543)	4,687	15,007	2,243
Increase/(decrease) in trade and other payables		15,983	11,618	791	380
Interest paid		(17,153)	(8,139)	-	(8)
Bond coupon paid		(23,750)	(15,895)	-	-
Income tax paid		(6,054)	(2,615)	-	-
Interest received		124	1,139	37,074	573
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>281,905</b>	<b>213,076</b>	<b>45,645</b>	<b>(2,495)</b>
<b>INVESTING ACTIVITIES</b>					
<b>Investments in acquisitions and developments</b>		<b>(759,231)</b>	<b>(947,245)</b>	<b>-</b>	<b>-</b>
Expenditure on investment property under development		(260,213)	(157,169)	-	-
Payments for acquisition of subsidiaries less cash acquired during the year	33A	(500,739)	(788,364)	-	-
Settlements of deferred consideration for prior years acquisitions	22	945	(6,739)	-	-
Proceeds from sale of investment property held for sale (net of selling cost)	17	776	5,027	-	-
<b>Other investments</b>		<b>10,208</b>	<b>(369)</b>	<b>258,333</b>	<b>(297,564)</b>
Loans repaid by / (granted to) third parties		4,208	(4,208)	-	-
Loans to joint ventures – amounts granted	34	-	(2,818)	-	-
Loans to joint ventures – amounts repaid	34	6,000	6,657	-	-
Loans granted to subsidiaries	6	-	-	267,533	(297,564)
Loans repaid by subsidiaries	6	-	-	(9,200)	-
<b>Net cash flow from investments in financial assets</b>		<b>275,834</b>	<b>102,712</b>	<b>-</b>	<b>201</b>
Payments for investing in financial investments at fair value through profit or loss	14	(53,743)	(17,918)	-	-
Income from financial investments at fair value through profit or loss	14	29,132	18,084	-	201
Payments for equity swap resettlement	14	(78,317)	(41,123)	-	-
Cash flows from equity collateral	14	237,757	118,078	-	-
Proceeds from sale of financial investments at fair value through profit or loss	14	141,005	25,591	-	-
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		<b>(473,189)</b>	<b>(844,902)</b>	<b>258,333</b>	<b>(297,363)</b>
<b>FINANCING ACTIVITIES</b>					
Proceeds from issue of shares		-	396,128	-	324,435
<b>Net movements in bank loans and bonds</b>		<b>401,835</b>	<b>422,048</b>	<b>-</b>	<b>-</b>
Proceeds from bank loans	20	414,000	86,000	-	-
Proceeds from bonds	20	-	500,000	-	-
Repayment of bank loans	20	(12,165)	(113,952)	-	-
Repayment of bonds	20	-	(50,000)	-	-
<b>Other (payments)/proceeds</b>		<b>(12,845)</b>	<b>196</b>	<b>(6,905)</b>	<b>-</b>
Acquisition of non-controlling interest		-	196	-	-
Premium paid on acquisitions of derivatives		(12,845)	-	(6,905)	-
Earnings distribution		(296,326)	(39,022)	(296,326)	(24,068)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>92,664</b>	<b>779,350</b>	<b>(303,231)</b>	<b>300,367</b>
<b>NET (DECREASE) /INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(98,620)</b>	<b>147,524</b>	<b>747</b>	<b>509</b>
Cash and cash equivalents brought forward	16	195,544	48,020	510	1
<b>CASH AND CASH EQUIVALENTS CARRIED FORWARD</b>	16	<b>96,924</b>	<b>195,544</b>	<b>1,257</b>	<b>510</b>

All amounts in Thousand Euro unless otherwise stated  
The notes on pages 175 to 223 are an integral part of these financial statements.

# Notes to the financial statements

## 1 GENERAL

NEPI Rockcastle plc (“the Company”, “NEPI Rockcastle”, “the Group” or “NRP”) is a limited liability company incorporated and domiciled in the Isle of Man on 1 December 2016. The registered office is at 2nd floor, Athol Street, Douglas, Isle of Man. The Company's shares are listed on the Main Board of the Johannesburg Stock Exchange Limited (JSE) and Euronext Amsterdam.

NEPI Rockcastle resulted from the successful merger of New Europe Property Investments plc (NEPI) and Rockcastle Global Real Estate Company Limited (Rockcastle) on 11th of July 2017, pursuant to which the new holding company of the group acquired 100% of NEPI and Rockcastle's respective assets and liabilities. From a legal perspective, NEPI Rockcastle plc was the legal successor of New Europe Property Investments plc. One of the Group's subsidiaries issued in 2015 and in 2017 debt instruments listed on the Irish Stock Exchange (Note 19).

The Group includes the Company and its subsidiaries, as detailed in ‘Basis of consolidation’ in Note 4.4. The Group's consolidated financial statements and the Company's separate financial statements are collectively referred to as the Financial Statements. The accounting policies set out below are applicable consistently for the Group's and Company's financial statements, unless otherwise stated.

The financial statements for the year ended 31 December 2018 were authorised for issue in accordance with the Directors' resolution on 26 February 2019.

## 2 COMPARATIVE PERIOD

The comparatives are the audited consolidated and standalone financial statements of NEPI Rockcastle for the year ended 31 December 2017.

## 3 ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

During the current year, the Group adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2018. This adoption did not have a material effect on the accounting policies of the Group. IFRS 9 “Financial Instruments” was the most significant revised IFRS with potential impact on the Group's accounting policies.

As explained below, in accordance with the transition provisions of IFRS 9, the Group has elected the simplified approach for adoption of the standard. Accordingly, IFRS 9 was adopted without restating the comparative information. The revised requirements of IFRS 7 “Financial Instruments: Disclosures” have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

The comparative information is prepared in accordance with IAS 39 Financial Instruments: Recognition and Measurement and IAS 18 Revenue, and the impact of adoption is immaterial, and no changes have been recognised in the opening retained earnings.

### 3.1 IFRS 9 Financial instruments

IFRS 9 Financial instruments replaces the provisions of IAS 39 that relate to recognition and derecognition of financial instruments and classification and measurement of financial assets and financial liabilities. IFRS 9 further introduces a new forward-looking impairment model for financial assets.

The new standard requires debt financial assets to be classified into two measurement categories: those to be measured subsequently at fair value (either through other comprehensive income (FVOCI) or through profit or loss (FVTPL)) and those to be measured at amortized cost. The determination is made at initial recognition. For debt financial assets the classification depends on the Group's or Company's business model for managing its financial instruments and the contractual cash flows characteristics of the instruments. For equity financial assets it depends on the Group's or Company's intentions and designation.

In particular, assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Lastly, assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss.

For investments in equity instruments that are not held for trading, the classification depends on whether the entity has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. If no such election has been made or the investments in equity instruments are held for trading they are required to be classified at fair value through profit or loss.



IFRS 9 also introduces a single impairment model applicable for debt instruments at amortised cost and fair value through other comprehensive income and removes the need for a triggering event for recognition of impairment losses to be necessary. The new impairment model under IFRS 9 requires the recognition of allowances for doubtful debts based on expected credit losses (ECL), rather than incurred credit losses as under IAS 39. The standard further introduces a simplified and a general approach for calculating impairment on trade receivables.

For financial liabilities, the standard retains most of the requirements of IAS 39. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to the entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

With the introduction of IFRS 9, the IASB confirmed that gains or losses that result from modification of financial liabilities which do not result in derecognition shall be recognized in profit or loss.

The Group has adopted IFRS 9 with the date of transition of 1 January 2018. There have been no material changes in accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets.

The Company's accounting policies following adoption of IFRS 9 at 1 January 2018 are set out in Note 4.

### 3.2 Impact of adoption

On 1 January 2018 for loans granted to subsidiaries by the Company, management has assessed which business models apply to the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI test).

In addition, a separate assessment for equity instruments held by the Group was performed, in respect of whether these are held for trading. As a result of both assessments management has classified the loans granted to subsidiaries and equity instruments into the appropriate IFRS 9 categories.

As a result of the adoption of IFRS 9, the Group and the Company revised the impairment methodology for each class of assets subject to the new impairment requirements. From 1 January 2018, the Group and Company assess on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost, cash and cash equivalents and equity derivative collateral. The impairment methodology applied depends on whether there has been a significant increase in credit risk and whether the debt instruments qualify as low credit risk.

The Group has the following types of assets that are subject to IFRS 9's expected credit loss model: trade and other receivables, cash and cash equivalents and equity derivative collateral. From a standalone perspective, the Company has the following types of assets that are subject to IFRS 9's expected credit loss model: loans granted to subsidiaries, trade and other receivables and cash and cash equivalents.

The simplified expected credit loss model has been adopted by both, the Group and the Company. Based on the assessment performed by management, the incremental impairment loss as of 1 January 2018 would have been immaterial and thus, no impact from the adoption of IFRS 9 on the Company's or Group's retained earnings as of 1 January 2018 has been recognized.

Under IFRS 9 all gains or losses resulting from the modifications of borrowings that did not result in derecognition should be recognised in profit or loss. Previously under IAS 39, the Company has amortised the modification impact via adjusting the effective interest rate. The Group has assessed the above impact on the borrowing's balances existing on the date of adoption of IFRS 9 and no adjustment to the borrowings balance as at 1 January 2018 has been made.

The following table sets out the carrying amounts of financial instruments, from their previous measurement categories in accordance with IAS 39 into their new measurement categories upon transition to IFRS 9 on 1 January 2018:

Financial asset	Measurement category under IAS 39	Measurement category under IFRS 9	Group: Carrying value as per IAS 39 (Closing balance as at 31 Dec 2017)	Group: Carrying value as per IFRS 9 (Opening balance as at 1 Jan 2018)	Company: Carrying value as per IAS 39 (Closing balance as at 31 Dec 2017)	Company: Carrying value as per IFRS 9 (Closing balance as at 1 Jan 2018)
Loans granted to subsidiaries (non-current assets)	Amortised cost	Amortised cost	-	-	3,365,083	3,365,083
Loans to participants in Current Share Scheme (including accrued interest)	Amortised cost	Amortised cost	27,932	27,932	27,932	27,932
Long-term loans granted to joint ventures	Amortised cost	Amortised cost	25,792	25,792	-	-
Interest rate derivative financial assets at fair value through profit or loss	FVTPL	FVTPL	1,793	1,793	318	318
Trade and other receivables (excluding prepayments)	Amortised cost	Amortised cost	53,837	53,837	3,225	3,225
Financial investments at fair value through profit or loss	FVTPL	FVTPL	326,565	326,565	-	-
Equity derivative collateral	Amortised cost	Amortised cost	265,541	265,541	-	-
Financial assets at fair value through profit or loss	FVTPL	FVTPL	11,923	11,923	-	-
Loans granted to subsidiaries (current assets)	Amortised cost	Amortised cost	-	-	3,575	3,575
Cash and cash equivalents	Amortised cost	Amortised cost	195,544	195,544	510	510
<b>Total financial assets</b>			<b>908,927</b>	<b>908,927</b>	<b>3,400,643</b>	<b>3,400,643</b>



Financial liability	Measurement category under IAS 39	Measurement category under IFRS 9	Group: Carrying value as per IAS 39 (Closing balance as at 31 Dec 2017)	Group: Carrying value as per IFRS 9 (Opening balance as at 1 Jan 2018)	Company: Carrying value as per IAS 39 (Closing balance as at 31 Dec 2017)	Company: Carrying value as per IFRS 9 (Closing balance as at 1 Jan 2018)
Bank loans (long term)	Amortised cost	Amortised cost	734,493	734,493	-	-
Bonds (long term)	Amortised cost	Amortised cost	889,917	889,917	-	-
Interest rate derivative financial liabilities at fair value through profit or loss	FVTPL	FVTPL	4,678	4,678	-	-
Trade and other payables	Amortised cost	Amortised cost	113,553	113,553	544	544
Financial liabilities at fair value through profit or loss	FVTPL	FVTPL	10,934	10,934	-	-
Bank loans (short term)	Amortised cost	Amortised cost	10,568	10,568	-	-
Bonds (short term)	Amortised cost	Amortised cost	10,745	10,745	-	-
<b>Total financial liabilities</b>			<b>1,774,888</b>	<b>1,774,888</b>	<b>544</b>	<b>544</b>

When adopting IFRS 9, neither the Group nor the Company reclassified any assets into a different measurement category. Thus, there was no impact of adoption of IFRS 9 as of 1 January 2018 from the measurement of the financial assets and liabilities.

## 4 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Isle of Man company law and International Financial Reporting Standards (IFRS). The accounting policies set out below have been consistently applied to all periods presented unless otherwise stated.

### 4.1 Functional and presentation currency

The consolidated financial statements are presented in Euro (€, EUR) thousands unless otherwise stated, which is NEPI Rockcastle Plc's functional and presentation currency.

The functional currency is determined by the relevant, primary economic environment of each entity. The other determining factor is the currency in which the majority of cash flows, goods and services are denominated and settled in the respective country. When the functional currency cannot be clearly identified, International Accounting Standard (IAS) 21 The Effects of Changes in Foreign Exchange Rates allows management to use judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. Any change in the functional currency must be made prospectively in accordance with IAS 21.

### 4.2 Basis of preparation

The consolidated financial statements are prepared on the historical cost basis, except for investment property in use, land for investment property under development, financial investments at fair value through profit or loss, interest rate derivatives and financial assets and liabilities at fair value through profit or loss, which are measured at fair value.

Management prepared these financial statements on a going concern basis. There are no uncertainties relating to events and conditions that cast a significant doubt upon the Group's ability to continue as a going concern.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Estimates and associated assumptions, are based on experience and other factors believed to be reasonable under the circumstances, and enable judgements to be made about the carrying values of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period when the estimate is revised and future periods if applicable.

### 4.3 Statement of compliance

The financial statements have been consistently prepared in accordance with IFRS and its interpretations adopted by the International Accounting Standards Board (IASB) and the requirements of relevant Isle of Man company law.

## 4.4 Basis of consolidation

### Subsidiaries

The consolidated financial statements of the Group incorporate the assets, liabilities, operating results and cash flows of the Company and its subsidiaries.

Subsidiaries are all entities, including those that are structured, over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over it. Subsidiaries are fully consolidated from the date control is transferred to the Group. They are deconsolidated from the date control ceases. The acquisition method is used to account for the acquisition of subsidiaries. Identifiable acquired assets and liabilities, and contingent liabilities, assumed in a business combination are measured at their fair values on the date of acquisition. The consideration transferred for the acquired entity is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred, or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excluding acquisition related costs, such as advisory, legal, valuation and similar professional services.

The accounting policies of the subsidiaries are consistent with those of the Company.

In the Company's separate financial statements, investments in subsidiaries are stated at cost less accumulated impairment losses.

### Transactions and balances eliminated on consolidation

Intra-group balances and transactions, and any gains and losses or income and expenses arising from intra-group transactions, as well as investments in subsidiaries and corresponding equity in the subsidiaries are eliminated in preparing the consolidated financial statements.

The Company's separate financial statements include intra-group balances and transactions, investments in subsidiaries and any gains and losses or income and expenses arising from intra-group transactions. The Company's investments in subsidiaries as well as loans granted to subsidiaries are subject to impairment testing annually. The process of impairment testing for investment in subsidiaries and loans granted to subsidiaries is done at the level of cash-generating units (CGU). Any impairment arisen through the test is first allocated to investments in subsidiaries following which, if the impairment is higher than the value of investments in subsidiaries the difference is allocated to loans granted to subsidiaries.

### Jointly controlled entities

The Group has contractual arrangements with other parties that represent joint ventures. These take the form of agreements to jointly control other entities.

The Group accounts for its investments in joint ventures using the equity method. Under the equity method, the initial recognition of an investment in a joint venture is at cost; the carrying amount is subsequently increased or decreased to recognise the Group's share of profit or loss of the joint venture. Distributions received from a joint venture reduce the carrying amount of the investment. The Group classifies its investment in joint ventures as a non-current asset, and recognises its share of the joint ventures' net result in the Statement of comprehensive income.

## 4.5 Investment property in use

Investment properties are held to earn rental income, capital appreciation or both.

The cost of investment property acquired by any other means than a business combination consists of the purchase price and directly attributable expenditure. Subsequent expenditure relating to investment property is capitalised when future economic benefits from the use of the asset are probable and the cost of the item can be measured reliably. All other subsequent expenditure is recognised as an expense during the period it is incurred.

After initial recognition, investment properties in use are measured at fair value. Fair value is determined semi-annually by external, independent professional valuers, with appropriate and recognised qualifications and recent experience in the location and category of property being valued. Valuations are based on the open market value, using either the discounted cash flow method, the capitalisation of net income method or a combination of both. Gains or losses arising from changes in the fair values are included in the Statement of comprehensive income for the period during which they arise. Unrealised gains or losses, net of deferred tax, are classified as non-distributable in the accumulated profits.

Gains or losses on disposal of investment property are calculated as proceeds less carrying amount. Where the Group disposes of an investment property in use, the carrying value, immediately prior to the sale, is adjusted to the transaction price. The adjustment is recorded in the Statement of comprehensive income for the year within fair value adjustments of investment property.

## 4.6 Investment property under development

Property that is being constructed or developed for future use as investment property is classified as investment property under development and carried at cost until construction or development is complete, or its fair value can be reliably determined.

The land on which investment property is constructed or developed is carried at fair value, which is determined semi-annually by external, independent professional valuers, with appropriate and recognised qualifications and recent experience in the location and category of property being valued. Valuations are done using the market comparable approach or residual approach.



Gains or losses arising from changes in the fair values are included in the Statement of comprehensive income during the period when they arise. Unrealised gains or losses, net of deferred tax, are classified as non-distributable in the accumulated profits.

#### 4.7 Investment property held for sale

Investment property is classified as an asset held for sale if the majority of its carrying amount will be recovered through a sale transaction rather than continuing use. For this to apply, the property must be available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of such property and its sale must be highly probable. The sale will be considered highly probable if the following criteria are met:

- the Board must be committed to a plan to sell the property and an active programme to locate a buyer and complete the sale must be initiated;
- the property must be actively marketed at a price that is reasonable in relation to its current fair value, and
- the sale of property should be expected to qualify for recognition as a completed sale within one year of the date of classification.

On classification as held for sale, investment property that is measured at fair value continues to be so measured.

#### 4.8 Goodwill

Goodwill arises on acquisition of subsidiaries that constitute a business and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree. When the consideration transferred is lower than the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree, the gain on acquisition is recognised directly in the Statement of comprehensive income.

##### Subsequent measurement

Goodwill is not amortized, but is tested for impairment at least annually.

After initial recognition, goodwill is measured at cost, less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (CGUs), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and it is represented by the individual properties and listed securities business.

Goodwill impairment reviews are undertaken annually. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

The fair value disclosures presented in Note 10 Investment property in use are also relevant for goodwill impairment testing.

#### 4.9 Impairment of non-financial assets

Intangibles that have an indefinite useful life, including goodwill, are not subject to amortisation and are tested annually. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at CGU level. Non-financial assets, other than goodwill, that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

#### 4.10 Loans to participants in the Current Share Scheme (as defined in Note 19)

Loans to participants in the Current Share Scheme are initially recognised at the amount granted, carried at amortized cost and impaired based on expected credit losses (ECL) model.

#### 4.11 Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are initially recognised at acquisition cost, subsequently carried at acquisition cost less accumulated depreciation or amortization and accumulated impairment losses. They are tested for impairment when indicators exist.

For property, plant and equipment the costs of minor repairs and maintenance are expensed when incurred while gains and losses on disposals are determined by comparing the proceeds with the carrying amount. Both are recognised in the Statement of comprehensive income for the year.

The cost of computer licenses and property, plant and equipment is depreciated on a straight-line basis over the length of their useful lives:

	Useful lives in years
Computer licences	1–3
Office improvements	over the term of the underlying lease
Office equipment	2–16
Equipment used in owner-managed activities	3–22

#### 4.12 Tenant security deposits

Tenant security deposits represent financial advances made by lessees as guarantees during the lease and are settled by the Group upon termination of contracts. Tenant security deposits are recognised at nominal value.

#### 4.13 Financial assets

##### 4.13.1 Classification

From 1 January 2018, the Group and Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss and
- those to be measured at amortised cost.

The classification and subsequent measurement of debt financial assets depends on: (i) the Group's and Company's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

For financial assets measured at fair value through profit or loss (FVTPL), gains and losses are recorded in profit or loss.

##### 4.13.2 Recognition and derecognition

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date when the Group or Company commit to deliver a financial instrument. All other purchases and sales are recognized when the entity becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group or Company have transferred substantially all the risks and rewards of ownership.

##### 4.13.3 Measurement

At initial recognition, the Group or Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

##### Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Any gain or loss arising on derecognition is recognised directly in profit or loss. Impairment losses are presented as separate line item in the income statement. Financial assets measured at amortised cost (AC) comprise: cash and cash equivalents, loans granted to subsidiaries, long-term loans granted to joint ventures, loans to participants in the Current Share Scheme and management incentive, long term receivables, trade and other receivables (excluding prepaid expenses) and equity derivative collateral.



## Equity instruments

The Group and Company subsequently measures all equity investments at fair value.

The Group and Company's policy is to designate equity investments at FVTPL, with changes in fair value of financial assets recognized in profit or loss. Dividends from such investments are recognised in profit or loss when the Group's right to receive payments is established. In addition to equity financial investments at FVTPL, other financial assets at FVTPL comprise: Interest rate derivative financial assets at FVTPL, financial assets at FVTPL.

### 4.13.4. Impairment – credit loss allowance for ECL

From 1 January 2018, the Group assesses on a forward-looking basis the ECL for debt instruments (including loans) measured at amortised cost. The Group or Company measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

The carrying amount of the financial assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the Statement of comprehensive income (profit or loss).

Debt instruments measured at amortised cost are presented in the balance sheet net of the allowance for ECL.

Expected losses are recognized and measured according to one of two approaches: general approach or simplified approach.

For all financial assets the Group applies the simplified approach under IFRS 9.

### 4.13.5. Reclassification

Financial instruments are reclassified only when the business model for managing those assets changes. The reclassification has a prospective effect and takes place from the start of the first reporting period following the change.

### 4.13.6. Write-off

Financial assets are written-off, in whole or in part, when the Group or Company exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group or Company may write-off financial assets that are still subject to enforcement activity when the Group or Company seek to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

### 4.13.7. Modification

The Company or the Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Company assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: new contractual terms that substantially affect the risk profile of the asset, significant change in interest rate, change in the currency denomination.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Company also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Company compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Company recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate, and recognises a modification gain or loss in profit or loss.

Specific valuation techniques used to value financial assets include:

- The use of quoted market prices or dealer quotes for similar instruments (for financial investments at fair value through profit or loss and financial assets/liabilities at fair value through profit or loss);
- Discounted cash flow analysis (for the remaining financial instruments).

The hierarchy for the fair value of financial assets and liabilities is as follows:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable, and
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

## 4.14 Financial liabilities – measurement categories

Financial liabilities are initially recognised at fair value and classified as subsequently measured at amortised cost, except for financial liabilities at FVTPL: this classification is applied to interest rate derivatives and equity swaps (financial liabilities at fair value through profit or loss) and other financial liabilities designated as such at initial recognition.

### 4.15 Borrowings (bonds and bank loans)

Borrowings are recognised initially at the fair value of the liability (determined using the prevailing market rate of interest if significantly different from the transaction price) and net of transaction costs incurred. In subsequent periods, borrowings are subsequently carried at amortized cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in Statement of comprehensive income over the period of the borrowings, using the effective interest method, unless they are directly attributable to the acquisition, construction or production of a qualifying asset, in which case they are capitalised as part of the cost of that asset. Borrowings are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Borrowings are removed from the balance sheet when the obligation specified in the contract is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in Statement of comprehensive income (as other income or finance costs).

An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered.

If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in Statement of comprehensive income, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners and is recognised directly to equity.

Borrowing costs are interest and other costs that the Group incurs in connection with the borrowing of funds, including interest on borrowings, amortisation of discounts or premium relating to borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, being an asset that necessarily takes a substantial period of time to get ready for its intended use (such as properties developed for future sale, capital appreciation or rental income) are capitalised as part of the cost of that asset, when it is probable that they will result in future economic benefits to the Group or Company and the costs can be measured reliably.

### 4.16 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of financial position when the Group and/or Company has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

### 4.17 Cash and cash equivalents and equity derivative collateral

Cash and cash equivalents include cash balances, cash deposits and short-term, highly-liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Equity derivative collateral is cash held as collateral against the Group's equity swap derivatives exposures. Cash and cash equivalents and equity derivative collateral are carried at amortised cost because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

### 4.18 Trade receivables

Trade receivables are amounts due from customers for rental and service charge income from tenants in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.



Trade receivables are recognised initially at fair value, generally the amount of consideration that is unconditional. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Trade receivables are also subject to the impairment requirements of IFRS 9. The Group applies the IFRS 9 simplified approach to measuring expected credit losses.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

#### 4.19 Share capital and share premium

Ordinary shares are classified as equity. Incremental external costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds. Following the NEPI Rockcastle merger in 2017, a goodwill impairment arose that was transferred from accumulated profit to share premium, as permitted by Isle of Man law. An impairment loss arose in respect of the investment in subsidiaries and loans granted to subsidiary at Company level which was transferred from accumulated profit to share premium, as permitted by Isle of Man law.

#### 4.20 Share-based payment reserve

The NEPI Share Purchase Scheme (SPS) is accounted for by recognising the value of the shares issued as an asset, classified as 'loan to participants in the Incentive Plans (Note 19) and respectively as equity, more specifically share capital and share premium. The accrued interest is recognised as finance income in the Statement of Comprehensive Income.

The Rockcastle SPS is accounted for by recognising the value of the shares issued as an asset, classified as 'loan to participants in the Incentive Plans (Note 19) and respectively as equity, more specifically share capital and share premium. The accrued interest is recognised as finance income in the Statement of Comprehensive Income.

#### 4.21 Other reserves

##### 4.21.1 Currency translation reserves

The currency translation reserve within equity arose prior to 31 December 2012, on the translation of foreign operations that had other functional currencies. The Group did not recognize any subsequent movements to the currency translation reserves, and the currency translation reserve has been recognized as part of share premium of NEPI Rockcastle.

##### 4.21.2 Accumulated profit

The balance on the Statement of comprehensive income is transferred to accumulated profit at the end of each financial period. Distributions paid in cash are deducted from accumulated profit. Distributions for which shareholders elected to receive a return of capital are accounted for as an issue of share capital with a corresponding deduction from the share premium account.

#### 4.22 Provisions

Provisions for liabilities are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at the reporting date. Where the effect of the time value of money is material the amount of the provision is the present value of the expenditure expected to be required to settle the obligation.

Provisions are reassessed at each reporting date and are included in the financial statements at their net present values using discount rates appropriate to the Group in the economic environment at each reporting date.

#### 4.23 Revenue

Revenue is recognised at the fair value of the consideration received or receivable. Revenue comprises rental and related income and recovery of expenses, excluding VAT.

##### Rental income

Rental income receivable from operating leases is recognised on a straight-line basis over the duration of the lease, except for contingent rental income which is recognised when it arises.

##### Service charges income from tenants

Income arising from expenses recharged to tenants is recognised on an accrual basis.

As specified in the lease agreements, the Group has the primary responsibility for providing services to tenants

(electricity, water and gas utilities, interior and exterior cleaning, security, maintenance, repairs, etc). The Group negotiates directly with the suppliers all contracts for services provided to tenants. These contracts are concluded between the Group subsidiaries which own the properties and the direct supplier. As the Group sometimes uses the same providers for services across most of its portfolio, it can negotiate better prices through the economies of scale. The Group is considered principal in these transactions, in terms of the IFRS 15 requirements.

The Group negotiates and pays all expenses incurred by the tenants and then re-invoices these costs to them as defined in the contractual clauses included in the lease agreements. A flat fee is charged monthly during the year. This fee is estimated based on the previous year's actual costs. After the year-end, the annual service charge reconciliation is performed based on current year's actual costs incurred by the Group. For contracts terminated during the year, the Group estimates the service charge to be collected based on the current budget and last year's actual costs.

#### 4.24 Property operating and administrative expenses

Property operating expenses and administrative expenses are recognised on an accrual basis.

#### 4.25 Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to the Statement of comprehensive income for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

#### 4.26 Net result from financial investments at fair value through profit or loss

Dividend/distribution income is recognised in the Statement of comprehensive income on the date the Group or Company's right to receive payment is established and is included in the line "Income from financial investments at fair value through profit or loss". It relates to the investments in listed securities, shown as "Financial investments at fair value through profit or loss", "Financial assets at fair value through profit or loss" and "Financial liabilities at fair value through profit or loss".

Changes in fair value and net result on sale of financial investments recognised in the lines described above are shown in the Statement of comprehensive income on line "Fair value and net result on sale of financial investments through profit or loss".

#### 4.27 Dividend distributed

A distribution is recorded as a liability and deducted from equity in the period in which it is declared and approved. Any distribution declared after the reporting period and before the financial statements are authorised for issue is disclosed in Note 35.

#### 4.28 Taxation

Taxation on the profit or loss for the year comprises current and deferred tax. Current income tax and liabilities are measured at the amount expected to be recovered from, or paid to, taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the reporting date. Current income tax relating to items recognised directly in equity is recognised directly in equity and not in the Statement of comprehensive income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax is determined using the liability method and is based on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the date of the Statement of financial position, which are expected to apply to the period when the temporary differences will reverse or the tax loss carried forward will be utilised.

The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries that are unlikely to reverse in the foreseeable future.

A deferred tax asset is recognised based on the assumption that it is probable that future taxable profits will be available against which it can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The current tax expense incurred by the Group reflects tax accrued in the subsidiaries of the Group located in Bulgaria, Croatia, Czech Republic, Hungary, Lithuania, Mauritius, Poland, Romania, Serbia, Slovakia, The Netherlands and United Kingdom.

Output Value Added Tax (VAT) related to sales is payable to tax authorities on either the collection of receivables from customers or the delivery of services to customers depending on which occurs first. Input



VAT is generally recoverable against output VAT upon receipt of the invoice. The tax authorities in individual countries permit the settlement of VAT on a net basis. VAT relating to sales and purchases is recognised in the Statement of financial position on a net basis and is disclosed separately as an asset or liability, as the case may be. Where provision has been made for impairment of receivables, the loss is recorded for the gross amount of the debt, including VAT.

#### 4.29 Segment reporting

Management decisions and consequent allocation of resources are based on individual property level reports, which are analysed in detail. Management has a hands-on approach and is involved in day-to-day activities. Regular management meetings are held at least monthly for each property, where the top management of the Group and each property manager analyse the financial results, decide whether any repairs or improvements are necessary, review rent collection issues and allocate resources to resolve any delays with tenants and review maintenance plans, vacancies and the status of any contract negotiations, as well as other operational matters. The results of these discussions ensure management decisions are specific to each of the properties. The Segmental Reporting summarises the results recorded by the properties held by the Group. The properties can be classified as retail, office or industrial properties, depending on industry practice.

The Group's Chief Operating Decision Makers (CODM) are the executive directors and they take decisions based on detailed reports. These are prepared regularly and are presented to the Board of Directors, which approves the results and gives guidance on the subsequent strategy to be undertaken.

Segment results, assets and liabilities include items directly attributable to a segment, as well as those that can be allocated there on a reasonable basis. Unallocated items comprise mainly investments (other than investment property) and related revenue, corporate assets and head office expenses. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill.

Financial information in respect of investment property is provided to the Board of Directors: net rentals (including gross rent and property expenses) and valuation gains and losses. Individual properties are aggregated into segments with similar economic characteristics.

Consequently, the Group is considered to have four reportable operating segments:

- Retail segment: acquires, develops and leases retail properties in Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Serbia and Slovakia;
- Office segment: acquires, develops and leases office properties in Bulgaria, Romania, Slovakia and United Kingdom;
- Industrial segment: acquires, develops and leases industrial facilities in Romania, and
- Corporate segment: head office, administrative offices, Group financing expenses and listed securities.

The properties have been aggregated into four reportable segments (retail, office, industrial and corporate) as each of these segments have specific revenue streams, different operational reporting cycles across the Group's portfolio, separate operational teams including technical, leasing, property and facility management.

The Group also reports by geographic segments, currently Bulgaria, Croatia, Czech Republic, Hungary, Lithuania, Poland, Romania, Serbia, Slovakia, United Kingdom, and a Holding segment which includes entities located in the British Virgin Islands, Isle of Man, Mauritius, The Netherlands and United Kingdom.

In addition, the Group's CODM closely follow changes in distributable earnings to its shareholders as a measure of profitability and as a result of successful implementation of the Group's strategy. Distributable earnings per share is calculated in terms of the SA REIT Association's Best Practice Recommendations.

#### 4.30 Earnings per share

The Group presents basic and diluted earnings per share.

Basic earnings per share are calculated by dividing annual profit for the year attributable to equity holders by the weighted average number of shares in issue during the year. Diluted earnings per share is determined by adjusting the profit for the year and the weighted average number of shares in issue for the dilutive effects of all potential ordinary shares issued under the Initial Share Scheme, which has been fully redeemed during the comparative period.

#### 4.31 Headline earnings per share

The Group presents basic and diluted headline earnings per share.

Headline earnings are an additional earnings number that is permitted by IAS 33. The starting point is earnings as determined in IAS 33, excluding 'separately identifiable re-measurements', net of related tax (both current and deferred) and minority interest, other than re-measurements specifically included in headline earnings (referred to as included re-measurements), in terms of Circular 2/2015 issued by South African Institute of Chartered Accountants (SAICA).

#### 4.32 Investment property acquisitions and business combinations

For each acquisition, management considers if a business exists, more specifically if inputs, significant processes and outputs exist. The inputs are represented by the properties. The outputs are the leases from which rental

income is generated. In terms of processes, management considers if they exist and if they are substantive. Processes such as lease management, selection of tenants, marketing decisions, investment decisions, are seen as substantive processes that are indicative of the fact that a business combination exists. In assessing whether a transaction is a business combination, management looks at what has been acquired, rather than the Group's subsequent intentions. A transaction is still accounted for as a business combination, even if the Group is interested mostly in the assets that exist within the business acquired, whereas the processes and management within the business are disregarded or integrated within the existing structure.

For acquisitions or business combinations, the fair value of the net assets acquired is compared to the consideration transferred. If the fair value of net assets acquired is lower, the difference is recorded as goodwill. If the consideration is lower, the difference is recognised directly in the income statement.

If an acquisition does not qualify as a business combination, the purchase price is allocated to the individual assets and liabilities. Goodwill or deferred taxes are not recognised.

Business combinations are accounted for using the acquisition method. The acquisition is recognised at the aggregate amount of the consideration transferred, measured at fair value on the date of acquisition and the amount of any non-controlling interest in the acquired entity.

For each business combination, the acquirer measures the non-controlling interest in the acquired entity either at fair value or as a proportionate share of their identifiable net assets. Transaction costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation, in accordance with the contractual terms, economic circumstances and pertinent conditions on the date of acquisition.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value on the date of acquisition. Subsequent changes to the fair value of any contingent consideration classified as a liability will be recognised in the Statement of comprehensive income. Acquisition accounting is finalised when the Group has gathered all the necessary information, which must occur within 12 months of the acquisition date. There are no exemptions from the 12-month rule for deferred tax assets or changes in the contingent consideration.

Transactions with non-controlling interests, where control is maintained, are accounted for as transactions within equity. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in the accumulated profit reserve.

#### 4.33 Standards issued but not yet effective and not early adopted

**IFRS 16 "Leases"** (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. The Company has assessed no material impact of the new standard on its financial statements.

**IFRIC 23 "Uncertainty over Income Tax Treatments"** (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations.

If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Company has assessed no material impact of the new standard on its financial statements.

**Amendments to IFRS 3, Business Combinations** (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020). The IASB published an amendment to the requirements of IFRS 3 in relation to whether a transaction meets the definition of a business combination. The amendment clarifies the definition of a business, as well as provides additional illustrative examples, including those relevant to the real estate industry. A significant change in the amendment is the option for an entity to assess whether substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets. If such a concentration exists, the transaction is not viewed as an acquisition of a business and no further assessment of the business combination guidance is required. This will be relevant where the value of the acquired entity is concentrated in one property, or a group of similar properties. The amendment is effective for periods beginning on or after 1 January 2020 with earlier application permitted. There will be no impact on transition since the amendments are effective for business



combinations for which the acquisition date is on or after the transition date. There are no other standards and interpretations that are not yet effective and that would be expected to have an impact on the Group's financial position or performance.

## 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group's management discusses with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates, as well as their application.

The estimates and associated assumptions are based on historical experience and various other factors which are considered reasonable under the circumstances. These are used to make judgements about the carrying values of assets and liabilities that are not apparent from other sources. Actual results may differ from these estimates.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period when the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both.

Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year are detailed below.

### Valuation of investment properties

Investment property is stated at its fair value based on reports prepared by international valuers as at 30 June and 31 December each year. Valuations are based on discounted cash flow projections based on reliable estimates of future cash flows, using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. These are supported by the terms of any existing lease and other contracts and by external evidence such as current market rents for similar properties in the same location and condition.

In preparing the valuation reports on the Group's investment property, the external appraisers excluded distressed sales when considering comparable sales prices. Management reviewed the appraisers' assumptions relating to the discounted cash flow models used in the valuations, and confirmed that factors such as the discount rate applied have been appropriately determined considering the market conditions at the end of the reporting period.

Valuations of the income generating properties are based on cash flow statements, in which the present value of net operating income during a ten-year period and the residual value of the property at the end of the period are calculated.

Forecasts of net operating income are based on leases signed at the time of the valuation date, the estimated rental values for existing leases when they expire and the estimated achievable rental values of the existing vacancies. The value of long-term vacancies is estimated based on the properties' location and condition. The valuers' assessments of non-recoverable expenses are based on their experience of comparable properties and historical costs provided by the Group.

The discount rates used are nominal returns on total capital before tax and vary between 6.9% and 10.8% (2017: 5% and 11.5%). The required rates of return are based on assessments of the market's required returns for similar properties. The discount rate is set individually for each property and is based on the condition and location, the stability of the tenant and lease length.

Further information relating to sensitivity of significant accounting estimates used in the valuation of investment properties is presented in Note 10.

### Business combinations or asset acquisitions

The Group assesses for each property or entity acquired whether the transaction represents a business combination or an asset acquisition, taking into consideration the existence and level of inputs, processes and outputs in the respective property or entity. Additional information relating to the basis for this assessment is described in Note 4.32.

## 6 INVESTMENT IN SUBSIDIARIES AND JOINT VENTURES

The Company has direct investments and indirect holdings in other Group companies that were included in the consolidated financial statements, and are detailed below. The Group has considered all its shareholdings, both direct and indirect, and there are no unconsolidated holdings or entities that meet the criteria set out in IFRS. In addition, based on the Group's assessment there is no evidence that would indicate additional subsidiaries, joint ventures or associates other than those indicated in the table below.

No	Subsidiary/ joint venture	Incorporation/ date became subsidiary or joint venture	Country of incorporation	Principal activity	Investment	Effective interest (%)	Immediate parent investment 31 Dec 2018	Immediate parent investment 31 Dec 2017
1	ACE3 sp.z.o.o. -	Jun 2013/Jul 2017	Poland	Property-owning	Indirect	85	14,027	2
2	Arena Center Zagreb d.o.o.	2006/ Nov 2016	Croatia	Property-owning	Indirect	100	54,369	54,369
3	Arena Property Kft****	Aug 2017	Hungary	Property-owning	Indirect	100	-	67,710
4	AUPARK Kosice SC, s.r.o.	Nov 2008/Dec 2014	Slovakia	Services	Indirect	100	3,235	3,235
5	AUPARK Kosice, spol. s.r.o.	Jan 2004/Dec 2014	Slovakia	Property-owning	Indirect	100	11,167	11,167
6	AUPARK Piestany SC, s.r.o.	Nov 2008/ Aug 2016	Slovakia	Services	Indirect	100	1,225	1,225
7	AUPARK Piestany, spol. s.r.o.	Apr 2004/ Aug 2016	Slovakia	Property-owning	Indirect	100	5,037	5,037
8	AUPARK Tower Kosice, s.r.o.	Nov 2008/Dec 2014	Slovakia	Property-owning	Indirect	100	3,401	3,401
9	AUPARK Žilina SC a.s.	Oct 2008/ Aug 2013	Slovakia	Services	Indirect	100	900	900
10	AUPARK Žilina spol. s.r.o.	Dec 2003/ Aug 2013	Slovakia	Property-owning	Indirect	100	16,963	16,963
11	Aurora Mall Buzau SRL	Oct 2012	Romania	Property-owning	Indirect	100	2	2
12	Białystok Property sp. z.o.o.-	Apr 2017/Jul 2017	Poland	Property-owning	Indirect	100	1	3
13	Bonarka City Center sp.z.o.o. -	May 2014/Jul 2017	Poland	Property-owning	Indirect	100	78,435	86,101
14	Braila Promenada Mall SRL	Sep 2009	Romania	Property-owning	Indirect	100	8,300	8,300
15	Brasov Shopping City SRL	Jun 2011	Romania	Property-owning	Indirect	100	10	10
16	Bulfeld EOOD	Apr 2007/ Dec 2017	Bulgaria	Property-owning	Indirect	100	132,345	130,894
17	CEE Property Bulgaria EOOD	Jul 2008/ Aug 2017	Bulgaria	Property-owning	Indirect	100	17,927	17,927
18	City Park Constanta SRL	Feb 2005/ Nov 2013	Romania	Property-owning	Indirect	100	33,120	33,120
19	Cluj Business Centre SRL **	Jul 2012	Romania	Property-owning	Indirect	50	*	*
20	Constanta Shopping City SRL	Mar 2013	Romania	Property-owning	Indirect	100	2	2
21	Deva Shopping City SRL	Jul 2005/ Aug 2013	Romania	Property-owning	Indirect	100	2	2
22	Energit sp.z.o.o. -	Dec 2007/Jul 2017	Poland	Services	Indirect	100	345	345
23	E-power Supply Czech sro	Jul 2017	Czech Republic	Services	Indirect	100	*	*
24	E-Power Supply d.o.o. Beograd	Jul 2017	Serbia	Services	Indirect	100	*	*
25	E-power supply EOOD	Nov 2017	Bulgaria	Services	Indirect	100	*	*
26	E-power supply management doo	Sep 2017	Croatia	Services	Indirect	100	3	3
27	E-Power Supply s.r.o.	Nov 2015	Slovakia	Services	Indirect	100	155	105
28	FDC Braila B.V.	Sep 2009	Netherlands	Holding	Indirect	100	7,875	7,875
29	Festival Shopping Center SRL	Jun 2008/Feb 2018	Romania	Property-owning	Indirect	100	12,870	-
30	Floreasca Business Park SRL	Dec 2010	Romania	Property-owning	Indirect	100	*	*
31	Floreasca Center SRL	Apr 2011/Nov 2014	Romania	Property-owning	Indirect	100	27,044	27,044
32	FORUM Usti s.r.o.	Jan 2005/ Feb 2016	Czech Republic	Property-owning	Indirect	100	37,840	37,840
33	Galati Shopping City SRL	Jun 2012	Romania	Property-owning	Indirect	100	2	2
34	General Building Management SRL	Aug 2004/ Jan 2008	Romania	Property-owning	Indirect	100	1,402	1,402



No	Subsidiary/ joint venture	Incorporation/ date became subsidiary or joint venture	Country of incorporation	Principal activity	Investment	Effective interest (%)	Immediate parent investment 31 Dec 2018	Immediate parent investment 31 Dec 2017
35	General Investment SRL	Mar 2003/ Jan 2008	Romania	Property-owning	Indirect	100	19,708	19,708
36	Gontar sp.z.o.o. -	Mar 2013/Jul 2017	Poland	Property-owning	Indirect	100	11,521	11,521
37	HANSA Imobillien EOOD	Oct 2008/ Aug 2017	Bulgaria	Property-owning	Indirect	100	3,970	3,360
38	IGI Exclusive sp.z.o.o. -	Oct 2007/Jul 2017	Poland	Property-owning	Indirect	100	2,104	2,104
39	Ingen Europe B.V.	Dec 2010	Netherlands	Holding	Indirect	100	18,273	18,273
40	INLOGIS VI s.r.o.	Jun 2011/Dec 2014	Slovakia	Property-owning	Indirect	100	8,345	8,045
41	Iris Titan Shopping Center SRL	Apr 2005/Jul 2015	Romania	Property-owning	Indirect	100	43,078	43,078
42	Karolinka Property sp.z.o.o. -	Jul 2014/Jul 2017	Poland	Property-owning	Indirect	100	36,751	36,751
43	Lakeview Office Building SRL	Jul 2004/ Jan 2013	Romania	Property-owning	Indirect	100	13,529	13,529
44	Liberec Property s.r.o. -	Jan 2007/Jul 2017	Czech Republic	Property-owning	Indirect	100	7,754	7,754
45	Mammut Zrt	Aug 2011/ Sep 2018	Hungary	Property-owning	Indirect	100	47,184	-
46	Mammut Management Kft	Aug 2017/ Sep 2018	Hungary	Services	Indirect	100	10	-
47	Marapi sp.z.o.o. -	Apr 2017/Jul 2017	Poland	Property-owning	Indirect	100	1	2
48	Marketing Advisers SRL	Apr 2014	Romania	Services	Indirect	100	10	10
49	Mega Mall Bucuresti SRL	Feb 2007/ Aug 2013	Romania	Property-owning	Indirect	100	10,000	10,000
50	Milvus sp.zo.o	Aug 2008/ May 2018	Poland	Property-owning	Indirect	100	1,096	-
51	Mlyny a.s.	Mar 2006/ Aug 2018	Slovakia	Property-owning	Indirect	100	81,535	-
52	Modatim Business Facility SA	Nov 2015	Romania	Property-owning	Indirect	100	34,036	34,036
53	Monarda sp.z.o.o.	Jul 2015/Jul 2017	Poland	Property-owning	Indirect	90	29,791	91
54	NE Property BV (previously named NE Property Coöperatief U.A.)	Oct 2007	Netherlands	Holding	Indirect	100	827,067	827,067
55	NEPI Bucharest One SRL	Sep 2007	Romania	Property-owning	Indirect	100	3,845	3,845
56	NEPI Bucharest Two SRL	Dec 2007	Romania	Property-owning	Indirect	100	2,756	2,756
57	NEPI Croatia Management d.o.o.	Jan 2017	Croatia	Services	Indirect	100	3	3
58	NEPI Czech Management s.r.o.	Sep 2016	Czech Republic	Services	Indirect	100	*	*
59	Nepi Fifteen Real Estate Administration SRL	Jan 2014	Romania	Property-owning	Indirect	100	10	10
60	Nepi Four Real Estate Solutions SRL	Mar 2013	Romania	Property-owning	Indirect	100	10	10
61	Nepi Holdings Ltd	Apr 2012	Isle of Man	Holding	Direct	100	180,148	180,148
62	NEPI Investment Management Ltd (BVI)***	Jul 2007/Jun 2010	British Virgin Islands	Holding	Direct	100	6,826	6,826
63	NEPI Investment Management Ltd (liquidated in 2018)	Aug 2007/Jun 2010	Cyprus	Holding	Indirect	100	-	2
64	NEPI Investment Management SRL	Jun 2010	Romania	Services	Indirect	100	7,280	7,280
65	Nepi Investments Ltd	Apr 2012	Isle of Man	Holding	Direct	100	10	10
66	NEPI Project Four EOOD	Nov 2017	Bulgaria	Property-owning	Indirect	100	*	*

No	Subsidiary/ joint venture	Incorporation/ date became subsidiary or joint venture	Country of incorporation	Principal activity	Investment	Effective interest (%)	Immediate parent investment 31 Dec 2018	Immediate parent investment 31 Dec 2017
67	NEPI Project One EOOD	Mar 2017	Bulgaria	Property-owning	Indirect	100	*	*
68	NEPI Project Three EOOD	Nov 2017	Bulgaria	Services	Indirect	100	*	*
69	NEPI Project Two EOOD	May 2017	Bulgaria	Holding	Indirect	100	*	*
70	NEPI Real Estate Development d.o.o.	Nov 2014	Serbia	Services	Indirect	100	10	10
71	NEPI Real Estate Project One d.o.o.	Jan 2016	Serbia	Property-owning	Indirect	100	6,001	1
72	Nepi Real Estate Project Three d.o.o.	Oct 2016	Serbia	Property-owning	Indirect	100	1	1
73	NEPI Real Estate Project Two d.o.o.	Jan 2016	Serbia	Property-owning	Indirect	100	1	1
74	NEPI Rockcastle Hungary Kft.	Oct 2017	Hungary	Services	Indirect	100	10	10
75	NEPI Rockcastle Lithuania UAB	Oct 2018	Lithuania	Services	Indirect	100	5	-
76	NEPI Rockcastle Securities B.V	Dec 2018	Netherlands	Services	Indirect	100	10,000	-
77	Nepi Seventeen Land Development SRL	Jul 2014	Romania	Property-owning	Indirect	100	10	10
78	NEPI Six Development SRL	May 2012	Romania	Property-owning	Indirect	100	10	10
79	Nepi Sixteen Real Estate Investment SRL	Jul 2014	Romania	Property-owning	Indirect	100	10	10
80	Nepi Slovak Centres One a.s.	Jul 2014	Slovakia	Services	Indirect	100	25	25
81	NEPI Slovakia Management s.r.o.	Jun 2013/ Aug 2013	Slovakia	Services	Indirect	100	335	335
82	NEPI Ten Development Solutions SRL	Jun 2012	Romania	Property-owning	Indirect	100	2	2
83	Nepi Three Building Management SRL	Mar 2013	Romania	Property-owning	Indirect	100	10	10
84	Nepi Twenty Real Estate Development SRL	Jul 2018	Romania	Services	Indirect	100	*	-
85	Nepi Twenty-One Investment Estate SRL	Jul 2018	Romania	Services	Indirect	100	*	-
86	NEPIOM Ltd	Sep 2012	Isle of Man	Services	Direct	100	78,553	78,553
87	New Energy Management SRL	Jan 2014	Romania	Services	Indirect	100	2	2
88	New Europe Property (BVI) Ltd***	Jul 2007	British Virgin Islands	Holding	Direct	100	*	*
89	Nobilia sp. z o.o. -	May 2017/Jul 2017	Poland	Services	Indirect	100	388	3
90	NRE Sibiu Shopping City SRL	Jan 2007/ Mar 2016	Romania	Property-owning	Indirect	100	35,377	35,377
91	NRP Shopping Centre Project Two s.r.o.	Jun 2018	Slovakia	Holding	Indirect	100	8,705	-
92	Olsztyn Property sp.z.o.o.-	Feb 2011/Jul 2017	Poland	Property-owning	Indirect	100	42,546	42,546
93	Otopeni Warehouse and Logistics SRL	Sep 2010	Romania	Property-owning	Indirect	100	1,807	1,807
94	Piotrków Property sp.z.o.o. -	Feb 2011/Jul 2017	Poland	Property-owning	Indirect	100	1	1
95	Platan Property sp.z.o.o. -	Jul 2015/Jul 2017	Poland	Property-owning	Indirect	100	15,401	15,401
96	Ploiesti Shopping City SRL **	Dec 2010/Feb 2012	Romania	Property-owning	Indirect	50	5,693	5,693
97	Plovdiv Project 1 EOOD	Feb 2018/Apr 2018	Bulgaria	Property-owning	Indirect	100	14,500	-



No	Subsidiary/ joint venture	Incorporation/ date became subsidiary or joint venture	Country of incorporation	Principal activity	Investment	Effective interest (%)	Immediate parent investment 31 Dec 2018	Immediate parent investment 31 Dec 2017
98	Pogoria Property sp.z.o.o.-	Jun 2014/Jul 2017	Poland	Property-owning	Indirect	100	19,401	19,401
99	Promenada Mall Bucuresti SRL	Oct 2005/Oct 2014	Romania	Property-owning	Indirect	100	67,349	67,349
100	Ramnicu Valcea Shopping City SRL	Aug 2014	Romania	Property-owning	Indirect	100	20	14
101	Real Estate Asset Management SRL	Jul 2014	Romania	Services	Indirect	100	10	10
102	Retail Park Pitesti SRL	Jan 2010	Romania	Property-owning	Indirect	100	13,010	13,010
103	Rockcastle Europe Limited-	May 2014/ Jul 2017	Mauritius	Holding	Direct	100	*	*
104	Rockcastle Global Real Estate Company UK Limited-	Sep 2014/ Jul 2017	UK	Services	Indirect	100	196,999	196,999
105	Rockcastle Global Real Estate Holdings BV-	Oct2013/ Jul 2017	Netherlands	Holding	Indirect	100	196,776	196,776
106	Rockcastle Global Securities Limited-	Oct 2016/ Jul 2017	Mauritius	Services	Indirect	100	*	*
107	Rockcastle Poland sp.z.o.o. -	Jul 2015/Jul 2017	Poland	Services	Indirect	100	1	1
108	Rockcastle UK Property SPV Limited-	Oct 2014/ Jul2017	Mauritius	Property-owning	Direct	100	926	926
109	SCP s.r.o.	Apr 2006/ Jul 2016	Slovakia	Property-owning	Indirect	100	6,879	5,379
110	SEK d.o.o.	Jul 2007/Oct 2014	Serbia	Property-owning	Indirect	100	18,798	18,573
111	Serenada Property sp. z o.o. -	Apr 2017/Jul 2017	Poland	Property-owning	Indirect	100	1	3
112	Severin Shopping Center SRL	Oct 2012	Romania	Property-owning	Indirect	100	8,002	8,002
113	Shopping City Piatra Neamt SRL	Jan 2014	Romania	Property-owning	Indirect	100	13,510	13,510
114	Sibiu Shopping City 2 SRL	Aug 2008/ Mar 2016	Romania	Property-owning	Indirect	100	6,637	6,637
115	Shopping City Timisoara SRL	Jun 2012	Romania	Property-owning	Indirect	100	17,302	17,302
116	Sofia Commercial Centre EOOD	Dec 2013	Bulgaria	Holding	Indirect	100	11	11
117	Symmetry Arena Kft****	Apr 2004/Sep 2017	Hungary	Property-owning	Indirect	100	67,710	*
118	Targu Jiu Development SRL	Oct 2012	Romania	Property-owning	Indirect	100	2	2
119	Targu Mures Shopping City SRL	Feb 2016	Romania	Property-owning	Indirect	100	10	10
120	Timisoara City Business Center One SRL	Jan 2012	Romania	Property-owning	Indirect	100	12,324	12,324
121	Timisoara Office Building SRL	Jan 2012	Romania	Property-owning	Indirect	100	15,456	15,456
122	Tummam Kft	Dec 2016 / Sep 2018	Hungary	Property-owning	Indirect	100	3,036	-
123	Uždaroji akcinė bendrovė Ozantis	Oct 2003 / May 2018	Lithuania	Property-owning	Indirect	100	29,003	-
124	Victoriei Office Building SRL	Aug 2011	Romania	Property-owning	Indirect	100	4,795	4,795
125	Vulcan Residential Park SRL (previously named Nepi Eighteen Property Services SRL)	Feb 2016	Romania	Property-owning	Indirect	100	3,368	10
126	Vulcan Value Centre SRL	Apr 2012/ Sep 2013	Romania	Property-owning	Indirect	100	5,002	5,002
127	Zielona Góra Property sp.z.o.o.-	Dec 2011/Jul 2017	Poland	Property-owning	Indirect	100	23,001	23,001

\* less than €1 thousand

\*\* joint venture companies

\*\*\* dormant companies, in process of liquidation

\*\*\*\* Arena Property Kft merged with Symmetry Arena Kft in 2018

-Subsidiaries acquired as a result of the merger between NEPI and Rockcastle in 2017

The Company's investments in subsidiaries, being the total of direct investments shown in the table above, are summarised below:

Company Dec-18	Nepi Holdings Ltd	NEPI Invest-ment Man-agement Ltd (BVI)***	Nepi Invest-ments Ltd	NEPIOM Ltd	Rockcastle Europe Limited	Rockcastle UK Property SPV Limited	Total
Investments in subsidiaries - gross	180,148	6,826	10	78,553	300,385	926	<b>266,463</b>
Less: Impairment provision	-	-	-	-	(300,385)	-	-
<b>Investments in subsidiaries - net of provision for impairment</b>	<b>180,148</b>	<b>6,826</b>	<b>10</b>	<b>78,553</b>	-	<b>926</b>	<b>266,463</b>

Company Dec-17	Nepi Holdings Ltd	NEPI Investment Management Ltd (BVI)***	Nepi Investments Ltd	NEPIOM Ltd	Rockcastle Europe Limited	Rockcastle UK Property SPV Limited	Total
Investments in subsidiaries - gross	180,148	6,826	10	78,553	300,385	926	<b>566,848</b>
Less: Impairment write-off	-	-	-	-	(300,385)	-	<b>(300,385)</b>
<b>Investments in subsidiaries - net of provision for impairment</b>	<b>180,148</b>	<b>6,826</b>	<b>10</b>	<b>78,553</b>	-	<b>926</b>	<b>266,463</b>

The Company has given loans to subsidiaries as summarized below. Accrued interest on the loans amounted to €1,917 thousand (31 December 2017: €3,575 thousand).

Company Dec-18	NEPIOM Limited	Rockcastle Europe Limited	Rockcastle Global Real Estate Holdings BV	Total
Loans granted to subsidiaries - gross	1,734,146	1,958,362	2	<b>3,106,750</b>
Less: Impairment provision	(484)	(582,142)	-	<b>(586,626)</b>
<b>Loans granted to subsidiaries - net of provision for impairment</b>	<b>1,733,662</b>	<b>1,372,220</b>	<b>2</b>	<b>3,105,884</b>

Company Dec-17	NEPIOM Limited	Rockcastle Europe Limited	Rockcastle Global Real Estate Holdings BV	Total
Loans granted to subsidiaries - gross	1,764,428	2,186,413	2	<b>3,950,843</b>
Less: Impairment write-off	-	(585,760)	-	<b>(585,760)</b>
<b>Loans granted to subsidiaries - net of provision for impairment</b>	<b>1,764,428</b>	<b>1,600,653</b>	<b>2</b>	<b>3,365,083</b>

## 7 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Group has exposure to the following risks due to its use of financial instruments: credit, liquidity, and market, including currency and interest rate. This note presents information about the Group's exposure to each, as well as its objectives, policies and processes for measuring and managing risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has delegated the responsibility for developing this framework to the Risk Committee. This Committee reports to the Board of Directors on its activities, oversees how management monitors compliance policies and procedures, and reviews the adequacy of the framework with regard to the risks faced.

The Group's policies are established to identify and analyse the risks it may encounter by performing its activities, to set appropriate limits and controls, and to monitor risks and adherence to limits. These policies and systems are reviewed regularly to reflect changes in market conditions and Group activities.

The fair value of all financial instruments is substantially in line with their carrying amounts as reflected on the Statement of Financial Position, except for the bonds. The fair value of bonds is not considered relevant, its liability towards bonds holders does not vary in line with the market price of its listed notes. However, for reference, as at 31 December 2018, the €400,000 thousand bonds issued in 2015 were trading on the market at 94% (31 December 2017: 107%) and the €500,000 thousand bonds issued in 2017 were trading on the market at 83% (31 December 2017: 94%).



## 7.1 Credit risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from tenants, investments in listed securities of property companies, financial assets arisen from equity swaps and cash and cash equivalents and equity derivative collateral.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is set out below.

Credit exposure on financial instruments	Note	Group 31 Dec 2018	Group 31 Dec 2017	Company 31 Dec 2018	Company 31 Dec 2017
Loans granted to subsidiaries	6	-	-	3,107,801	3,368,658
Loans granted to joint ventures	34	21,311	25,792	-	-
Trade and other receivables	15	80,750	60,793	55,902	3,225
Cash and cash equivalents	16	96,924	195,544	1,257	510
Equity derivative collateral	14	27,784	265,541	-	-
<b>TOTAL</b>		<b>226,769</b>	<b>547,670</b>	<b>3,164,960</b>	<b>3,372,393</b>

The balance of loans to participants in the Current Share Scheme is not considered to present credit risk as these are guaranteed with shares (see details in Note 19). As at 31 December 2018 the marked-to-market value of derivative asset positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. Changes in counterparty credit risk had no material effect on the fair value of the derivatives and other financial instruments recognised at fair value through profit or loss.

Trade and other receivables relate mainly to the Group's tenants. When monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, the industry they work in, business size and previous financial difficulties.

The exposure to credit risk is mainly influenced by the tenant's individual characteristics. The Group's widespread customer base reduces credit risk. The majority of rental income is derived from type A tenants (large international and national tenants; large listed tenants; government and major franchisees and companies with assets and/or turnovers exceeding €200 million), but there is no concentration of credit risk with respect to trade debtors.

Management has established a credit policy where new customers are analysed individually for creditworthiness before standard payment terms and conditions are offered. When available the evaluation includes external ratings.

The Group establishes an allowance for impairment based on a simplified expected credit loss model in respect of trade and other receivables and investments. The carrying value of financial assets approximates their fair value.

The Group's exposure to credit risk associated to equity derivative collateral and cash and cash equivalents is limited through the use of financial institutions of good standing for investment and cash handling purposes.

Analysis by credit quality of financial assets is as follows:

	Note	Group 31 Dec 2018	Group 31 Dec 2017
Trade receivables - gross	15	52,062	42,182
Less: Impairment provision	15	(7,117)	(8,185)
<b>TRADE RECEIVABLES - NET OF PROVISION FOR IMPAIRMENT</b>		<b>44,945</b>	<b>33,997</b>

The expected loss rates are based on the payment profiles of tenants over a period of 12 months before 31 December 2018 or 1 January 2018, respectively, and the corresponding historical credit losses experienced within this period. On that basis, the impairment provision as at 31 December 2018 and 1 January 2018 (on adoption of IFRS 9) was determined as follows for trade receivables:

31 December 2018	Current	0-30 days	31-60 days	61-90 days	>90 days	Total
Expected loss rate	0%	0%	3%	6%	93%	
Gross carrying amount - trade receivables	35,787	7,250	1,122	333	7,570	52,062
<b>Impairment provision</b>	<b>-</b>	<b>-</b>	<b>(33)</b>	<b>(21)</b>	<b>(7,063)</b>	<b>(7,117)</b>

1 January 2018	Current	0-30 days	31-60 days	61-90 days	>90 days	Total
Expected loss rate	0%	0%	9%	25%	84%	
Gross carrying amount - trade receivables	26,684	4,866	746	410	9,476	42,182
<b>Impairment provision</b>	<b>(47)</b>	<b>(24)</b>	<b>(69)</b>	<b>(102)</b>	<b>(7,943)</b>	<b>(8,185)</b>

By using the simplified expected credit loss model, the Group assessed its receivables for impairment and concluded that a net amount of €738 thousand was considered unlikely to be recovered in respect of revenues for 2018, therefore an allowance for doubtful debts, including receivables write-offs, was charged to the Statement of comprehensive income (31 December 2017: €291 thousand).

While cash and cash equivalents and loans granted to joint ventures are also subject to the impairment requirements of IFRS 9, the expected credit losses are immaterial.

For purposes of cash management, the Group has deposit accounts with a number of banks. The arrangements in place result in a favourable mix between flexibility and interest earnings. The banks' credit ratings, as well as exposure per each bank are constantly monitored. At 31 December 2018, 92% of the Group's cash was held with investment-grade rated banks (31 December 2017: 99%).

## 7.2 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations when due. The Group's approach to managing this risk ensures, as far as possible, it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation. To ensure this occurs, the Group prepares budgets, cash flow analyses and forecasts, which enable the Directors to assess the level of financing required for future periods. Budgets and projections are used to assess any future potential investments and are compared to existing funds held on deposit to evaluate the nature, and extent of any future funding requirements.

The Group receives rental income on a monthly basis. Typically, the Group ensures it has sufficient cash on demand to meet expected operational expenses. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Further reference to bank loan maturity analysis is made in Note 20.

The table below presents undiscounted cash flows for all financial liabilities, computed at the contractual rates.

Group 31 Dec 2018	Note	under 3 months	3-12 months	1-5 years	over 5 years	Total
Bonds and bank loans (including interest)	20	131,553	290,036	1,284,693	620,809	2,327,091
Interest rate derivatives financial liabilities at fair value through profit or loss	21	-	-	2,725	-	2,725
Trade and other payables (excluding tenant deposits)	22	31,226	124,904	-	-	156,130
Other long-term liabilities	23	-	-	-	44,981	44,981
<b>TOTAL</b>		<b>162,779</b>	<b>414,940</b>	<b>1,287,418</b>	<b>665,790</b>	<b>2,530,927</b>

Group 31 Dec 2017	Note	under 3 months	3-12 months	1-5 years	over 5 years	Total
Bonds and bank loans (including interest)	20	23,813	33,155	1,118,454	619,801	1,795,223
Interest rate derivatives financial liabilities at fair value through profit or loss	21	-	-	4,678	-	4,678
Financial liabilities at fair value through profit or loss	14	-	10,934	-	-	10,934
Trade and other payables (excluding tenant deposits)	22	22,119	88,477	-	-	110,596
Other long-term liabilities	23	-	-	-	37,089	37,089
<b>TOTAL</b>		<b>45,932</b>	<b>132,566</b>	<b>1,123,132</b>	<b>656,890</b>	<b>1,958,520</b>

## 7.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates or equity prices will affect the Group's fair value or future cash flows of financial instruments. The objective of market risk management is to manage market risk exposures within acceptable parameters, while optimising returns. The carrying value of financial assets and liabilities approximates their fair value.



### 7.3.1 Currency risk

Group's current assets and liabilities are exposed to foreign currency risk on purchases and receivables denominated in Romanian leu (RON), Great British pound sterling (GBP), Polish zloty (PLN), Bulgarian Lev (BGN), Hungarian forint (HUF), Serbian dinar (RSD), Czech crown (CZK), Croatian kuna (HRK) and South African rand (ZAR). Cash inflows received in other currencies than Euro are converted to Euro using the spot rate available on the collection date. The amount converted to Euro is the net amount of cash inflow in a foreign currency and the estimated cash outflow in the same currency. The Group applies this policy to control its exposures in respect of monetary assets and liabilities denominated in currencies other than the one cash inflows are received in.

### 7.3.2 Interest rate risk

The Group is exposed to interest rate risk on loans, borrowings and cash balances held. Group policy is to hedge this risk through the use of derivative financial instruments. As at 31 December 2018 and 31 December 2017, the Group held interest rate swaps and interest rate caps as further disclosed in Notes 20 and 21.

	Group 31 Dec 2018	Group 31 Dec 2017
Bank loans*	967,795	516,455
— Rate capped	215,000	185,924
— Rate swapped	346,155	330,531
— Rate variable**	406,640	-

\*The remaining balance relates to loans and borrowings with fixed interest rate.

\*\*The balances exposed to variable rates relate to the outstanding revolving facilities and short-term loans (further details in Note 20).

#### Sensitivity analysis for interest bearing financial instruments

A change of 100 Basis Points (bps) in interest rates would have increased/(decreased) equity and profit for the year as shown below. Calculations are based on the cash and loans and borrowings balances outstanding at the respective balance sheet dates. Cash and loans and borrowings balances are subject to change over the year. This analysis assumes that all other variables, particularly foreign currency rates, remain constant. All sensitivity analysis calculations presented below are before tax.

Loans and borrowings with fixed or swapped interest rates are not affected by market changes in interest rates.

	Group 31 Dec 2018	Group 31 Dec 2017	Company 31 Dec 2018	Company 31 Dec 2017
Loans to participants in Current Share Scheme (including accrued interest)	16,758	27,932	16,758	27,932
Loans and borrowings (variable or capped rate)	(621,640)	(113,054)	-	-
<b>TOTAL</b>	<b>(604,882)</b>	<b>(85,122)</b>	<b>16,758</b>	<b>27,932</b>

Group 31 Dec 2018	Profit or loss 100bps increase	Profit or loss 100bps decrease	Equity 100bps increase	Equity 100bps decrease
Loans to participants in Current Share Scheme (including accrued interest)	168	(168)	168	(168)
Loans and borrowings (variable or capped rate)	(6,216)	6,216	(6,216)	6,216
<b>TOTAL</b>	<b>(6,048)</b>	<b>6,048</b>	<b>(6,048)</b>	<b>6,048</b>

Group 31 Dec 2017	Profit or loss 100bps increase	Profit or loss 100bps decrease	Equity 100bps increase	Equity 100bps decrease
Loans to participants in Current Share Scheme (including accrued interest)	279	(279)	279	(279)
Loans and borrowings (variable or capped rate)	(1,859)	1,859	(1,859)	1,859
<b>TOTAL</b>	<b>(852)</b>	<b>852</b>	<b>(852)</b>	<b>852</b>

Company 31 Dec 2018	Profit or loss 100bps increase	Profit or loss 100bps decrease	Equity 100bps increase	Equity 100bps decrease
Loans to participants in Current Share Scheme (including accrued interest)	168	(168)	168	(168)
<b>TOTAL</b>	<b>168</b>	<b>(168)</b>	<b>168</b>	<b>(168)-</b>

Company 31 Dec 2017	Profit or loss 100bps increase	Profit or loss 100bps decrease	Equity 100bps increase	Equity 100bps decrease
Loans to participants in Current Share Scheme (including accrued interest)	279	(279)	279	(279)
<b>TOTAL</b>	<b>279</b>	<b>(279)</b>	<b>279</b>	<b>(279)</b>

### 7.3.3 Market risk for financial investments at fair value through profit or loss (direct investments in listed securities)

A change of 100 basis points in the market values of the direct investment in listed property shares held by the Group would have increased/(decreased) equity and profit or loss by the amounts shown below. The calculations are based on the market values of the listed property shares' outstanding balances as at 31 December 2018 and 31 December 2017. These balances are subject to changes over the year, therefore the calculations are not representative of the year as a whole. This analysis assumes that all other variables remain constant.

Group 31 Dec 2018	Profit or loss 100bps increase	Profit or loss 100bps decrease	Equity 100bps increase	Equity 100bps decrease
Financial investments at fair value through profit or loss	1,683	(1,683)	1,683	(1,683)
<b>TOTAL</b>	<b>1,683</b>	<b>(1,683)</b>	<b>1,683</b>	<b>(1,683)</b>

Group 31 Dec 2017	Profit or loss 100bps increase	Profit or loss 100bps decrease	Equity 100bps increase	Equity 100bps decrease
Financial investments at fair value through profit or loss	3,266	(3,266)	3,266	(3,266)
<b>TOTAL</b>	<b>3,266</b>	<b>(3,266)</b>	<b>3,266</b>	<b>(3,266)</b>

### 7.3.4 Market risk for financial assets/liabilities at fair value through profit or loss (equity swaps)

The Group entered into equity swap derivatives with a gross exposure of €39,311 thousand as at 31 December 2018, (31 December 2017: €851,261 thousand) (Note 14).

A change of 100 basis points in the market values of gross exposure to listed securities obtained through the equity swaps, the Group would have increased/(decreased) equity and profit or loss by the amounts shown below.

Group 31 Dec 2018	Profit or loss 100bps increase	Profit or loss 100bps decrease	Equity 100bps increase	Equity 100bps decrease
Financial assets/(liabilities) at fair value through profit or loss	393	(393)	393	(393)
<b>TOTAL</b>	<b>393</b>	<b>(393)</b>	<b>393</b>	<b>(393)</b>

Group 31 Dec 2017	Profit or loss 100bps increase	Profit or loss 100bps decrease	Equity 100bps increase	Equity 100bps decrease
Financial assets/(liabilities) at fair value through profit or loss	8,513	(8,513)	8,513	(8,513)
<b>TOTAL</b>	<b>8,513</b>	<b>(8,513)</b>	<b>8,513</b>	<b>(8,513)</b>



8 INTERNAL CONTROLS TO MANAGE RISKS

The Board is responsible for the Group’s system of internal control and for reviewing its effectiveness. This system is designed to mitigate rather than eliminate the risk of failure to meet business objectives, and can only provide reasonable, not absolute, assurance against material misstatement or loss.

The key features of the Group’s system of internal control include:

- Strategic and business planning: the Group produces, and agrees, a business plan each year, to which the performance of the business is regularly monitored;
- Investment appraisal: capital projects, major contracts and business and property acquisitions are reviewed in detail and approved by the Investment Committee, and/or the Board where appropriate, in accordance with delegated authority limits;
- Financial monitoring: profitability, cash flow and capital expenditure are closely monitored and key financial information is reported to the Board regularly, including explanations of variances between actual and budgeted performance, and
- Systems of control procedures and delegated authority: clearly defined guidelines and approval limits exist for capital and operating expenditure and other key business transactions and decisions.

9 CAPITAL MANAGEMENT

The primary objective of the Group’s capital management is to ensure it complies with its quantitative banking covenants and maintains a strong credit rating. No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 31 December 2017.

Capital is primarily monitored using the gearing ratio, computed as interest bearing debt less cash divided by investment property and net listed securities, which increased to 33% (31 December 2017: 26%).

The Group’s policy is to maintain a strong capital base of equity so as to maintain investor, creditor and market confidence and to sustain future business development. The Board of Directors also monitors the level of distributions to shareholders. Neither the Company, nor its subsidiaries, are subject to externally imposed capital requirements.

The Group will retain comfortable levels of access to liquidity to finance the Group’s development pipeline and to pursue further investment opportunities.

10 INVESTMENT PROPERTY IN USE

Movement in investment property at fair value	Group 31 Dec 2018	Group 31 Dec 2017
Carrying value at beginning of year	4,725,093	2,370,760
Additions from business combinations and asset deals (Note 33A)	593,199	2,045,286
Transferred from Investment property under development (Note 11)	267,922	151,135
Fair value adjustments (Note 29)	104,123	157,912
Investment property reclassified as held for sale	(1,727)	-
<b>CARRYING VALUE</b>	<b>5,688,610</b>	<b>4,725,093</b>

Investment property is carried at fair value and is assessed on a semi-annual basis.

All investment property in use is valued by the Income Method. For the year ended 31 December 2018, the applied method used for all investment property in use was discounted cash flow (DCF). For the year ended 31 December 2017, the applied approach was either discounted cash flow (DCF) or the capitalisation method.

The discounted cash flow method (DCF) uses explicit assumptions regarding the benefits and liabilities of ownership over the asset’s life, including an exit, or terminal, value. As an accepted method within the income approach to valuation, the DCF method involves the projection of a series of cash flows onto a real property interest. To these projected cash flow series, an appropriate, market-derived discount rate is applied to establish the present value of cash inflows associated with the real property.

The duration of cash flow, and the specific timing of inflows and outflows, are determined by events such as rent reviews, lease renewal and related lease-up periods, re-letting, redevelopment or refurbishment. The appropriate duration is typically driven by market behaviour. In the case of investment properties, periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance costs, agent and commission fees, and other operating and management expenses. The series of periodic net cash inflows, combined with the estimated terminal value anticipated at the end of the projection period, is then discounted.

The capitalisation method works on the basis of capitalising the passing income for the duration of the term and the reversionary market rental value into perpetuity. Explicit adjustments are made for letting voids, empty service charge, letting fees, fit-out contributions and irrecoverable operating costs. Income is capitalised at an equivalent yield, which is the constant capitalisation rate applied to all cash flows.

For the year ended 31 December 2018 the Group commissioned independent year-end appraisal reports on its investment property from Cushman&Wakefield, Cushman&Wakefield Affiliate Partners and Jones Lang LaSalle, and for the year ended 31 December 2017, the Group commissioned independent year-end appraisal reports on its investment property from Cushman&Wakefield, Cushman&Wakefield Affiliate Partners and Colliers International, all members of the Royal Institution of Chartered Surveyors (RICS). The fair value of investment property is based on these reports. The Group provides all information necessary for the valuations and all assets are valued on a semi-annual basis, as at 30 June and 31 December. Detailed tenancy schedules are made available, including information on occupied and vacant units, unit areas and numbers, lease commencement and expiry dates, break options, indexation clauses. All properties have been inspected by representatives of external valuers for the purpose of 31 December 2018 valuations. Valuations are prepared in accordance with the RICS Valuation – Global Standards 2017 (the “Red Book”). The Group’s investment property is classified Level Three on the fair value hierarchy as defined in IFRS 13.

For all investment properties, their current use equates to the highest and best use. The Group’s Finance department includes a team that reviews the valuations performed by the independent valuers for financial reporting purposes. This team reports directly to the Chief Financial Officer (CFO) and the Audit Committee (AC). Discussions of valuation processes and results are held between the CFO, AC, the valuation team and the independent valuers twice a year.

At each financial year-end the finance department:

- verifies all major inputs to the independent valuation report;
- assesses property valuation movements when compared to the prior year valuation report;
- holds discussions with the independent valuer; and
- reports to the Audit Committee on the results of the valuations.

As at 31 December 2018, the investment property at fair value portfolio had a vacancy rate of 2.8% (31 December 2017: 3.6%).

At the end of the reporting period, the Group’s portfolio included retail, office and industrial properties.

IFRS 13 defines fair value as the price that would be received for selling an asset or paid for transferring a liability in an orderly transaction between market participants at the measurement date. The Group currently discloses fair values according to a ‘fair value hierarchy’ (as per IFRS 13) which categorises the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority (Level 1) to quoted prices in active markets for identical assets or liabilities and the lowest priority (Level 3) to unobservable inputs. The fair value hierarchy is explained below:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at measurement date;
- Level 2: use of a model with inputs (other than quoted prices included within Level 1) that are directly, or indirectly, observable market data, and
- Level 3: use of a model with inputs not based on observable data.

The Group’s investment property is categorised as Level 3. There were no transfers between hierarchy levels during the year.

The yield resulting from the market value and passing rent of the portfolio is between 5.11% and 13.10% (31 December 2017 between 5.32% and 14.19%). The Group’s resulting weighted average yield was 6.84% for the entire property portfolio (retail: 6.74%; office: 7.89%; industrial: 12.80%). For the period ended 31 December 2017, the Group’s resulting weighted average yield was 6.75% for the entire property portfolio (retail: 6.66%; office: 7.53%; industrial: 11.73%).

An increase/decrease of 25bps to the yield of 6.84% from above would result in a €200,735 thousand decrease/increase in the Group’s property portfolio (2017: yield of 6.75%, increase of 25bps would have resulted in a €168,800 thousand decrease).

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the Group’s property portfolio, together with the impact of significant movements in these inputs on the fair value measurement, are detailed below:

Unobservable input	Impact on fair value of increase in input
Estimated rental value	Increase
Discount rate	Decrease
Capitalisation rate for terminal value	Decrease



Information relating to fair value measurement using significant unobservable inputs (Level 3) for 2018 is presented in the table below:

Segment	Valuation technique	Estimated rental value (yearly amount in '000 €)	Discount rate (%)	Capitalisation rate for terminal value (%)
Retail	Discounted cash flow	196 - 21.343 (12,038*)	6.9% - 10.30% (8.11*)	5.10% - 8.50% (6.86*)
Office	Discounted cash flow	1,524 - 10,580 (5,054*)	8.00% - 9.55% (8.75*)	6.50% - 8.075% (7.56*)
Industrial	Discounted cash flow	400 - 1,112 (903*)	10.30% - 10.80% (11.65*)	8.50% - 9.00% (8.85*)

Information relating to fair value measurement using significant unobservable inputs (Level 3) for 2017 is presented in the table below:

Segment	Valuation technique	Estimated rental value (yearly amount in '000 €)	Discount rate (%)	Capitalisation rate for terminal value (%)
Retail	Discounted cash flow/ Capitalisation	196 - 19,945 (10,838*)	5.10 - 11.00 (7.96*)	5.10 - 9.50 (6.94*)
Office	Discounted cash flow	1,625 - 9,744 (5,916*)	8.00 - 9.50 (9.00*)	6.50 - 8.00 (7.50*)
Industrial	Discounted cash flow	504 - 1,316 (910*)	11.00 - 11.50 (11.25*)	9.00 - 10.50 (9.75*)

\* Amounts or percentages represent weighted averages

## 11 INVESTMENT PROPERTY UNDER DEVELOPMENT

Movement in Investment property under development Retail	Group 31 Dec 2018	Group 31 Dec 2017
Carrying value at beginning of year	202,416	144,082
Additions from business combinations (Note 33A)	575	10,819
Additions from asset deals and construction in progress	282,236	157,040
Fair value adjustments (Note 29)	4,514	4,943
Assets which became operational and were transferred to Investment property in use (Note 10)	(267,281)	(114,468)
<b>CARRYING VALUE</b>	<b>222,460</b>	<b>202,416</b>

Movement in Investment property under development Office	Group 31 Dec 2018	Group 31 Dec 2017
Carrying value at beginning of year	-	31,930
Additions from asset deals and construction in progress	641	4,860
Fair value adjustments (Note 29)	-	-
Assets which became operational and were transferred to Investment property in use (Note 10)	(641)	(36,667)
Investment property under development reclassified as held for sale (Note 17)	-	(123)
<b>CARRYING VALUE</b>	<b>-</b>	<b>-</b>

Land included in Investment property under development is carried at fair value and is assessed on semi-annual basis. For the year ended 31 December 2018, the Group commissioned independent year-end reports from Cushman&Wakefield, Cushman&Wakefield Affiliate Partners and Jones Lang LaSalle, based on which the fair value of investment property was adjusted. For the year ended 31 December 2017, the Group commissioned independent year-end reports from Cushman&Wakefield, Cushman&Wakefield Affiliate Partners and Colliers International, based on which the fair value of investment property was adjusted. Land included in Investment property under development is classified Level Three on the fair value hierarchy as defined in IFRS 13.

The valuation technique is sales comparison or residual approach.

Additions from asset deals include land purchased for development of retail projects.

Borrowing costs capitalised in 2018 amount to €5,790 thousand (2017: €4,350 thousand) and were calculated using an average annual interest rate of 2.3% (2017: 2.2%).

Balance of investment property under development	Group 31 Dec 2018	Group 31 Dec 2017
Retail	222,460	202,416
Office	-	-
<b>TOTAL</b>	<b>222,460</b>	<b>202,416</b>

The balance of Investment property under development divided by land carried at fair value and additions from construction works held at cost is detailed below.

Investment property under development	Group 31 Dec 2018	Group 31 Dec 2017
Land (at fair value)	149,783	137,106
Construction works (at cost)	72,677	65,310
<b>TOTAL</b>	<b>222,460</b>	<b>202,416</b>

## 12 OTHER LONG-TERM ASSETS

Other long-term assets are classified below:

	Group 31 Dec 2018	Group 31 Dec 2017	Company 31 Dec 2018	Company 31 Dec 2017
Loans to participants in the Current Share Scheme and management incentive (Note 19)	16,758	27,932	16,758	27,932
Non-current receivables	-	6,151	-	-
Property, plant and equipment and intangible assets	2,281	2,092	-	-
<b>TOTAL</b>	<b>19,039</b>	<b>36,175</b>	<b>16,758</b>	<b>27,932</b>

## 13 GOODWILL

The Group recognised goodwill for the following business acquisitions:

	Segment	Balance at 1 Jan 2017	Additions	Impairment of goodwill	Balance at 31 Dec 2017	Additions	Balance at 31 Dec 2018
Pitesti Retail Park	Retail	1,671	-	-	1,671	-	1,671
Floreasca Business Park	Office	1,664	-	-	1,664	-	1,664
Internalisation of NEPI Investment Management	Corporate	5,882	-	-	5,882	-	5,882
City Business Centre	Office	4,747	-	-	4,747	-	4,747
The Lakeview	Office	3,899	-	-	3,899	-	3,899
Aupark Kosice Mall	Retail	5,189	-	-	5,189	-	5,189
Iris Titan Shopping Center	Retail	934	-	-	934	-	934
Forum Usti nad Labem	Retail	5,646	-	-	5,646	-	5,646
Shopping City Sibiu	Retail	9,850	-	-	9,850	-	9,850
Korzo Shopping Centrum	Retail	2,899	-	-	2,899	-	2,899
Aupark Shopping Center Piestany	Retail	2,497	-	-	2,497	-	2,497
Arena Centar	Retail	13,512	-	-	13,512	-	13,512
NEPI Rockcastle Merger	Corporate	-	886,167	(886,167)	-	-	-
Energit	Retail	-	6,976	-	6,976	-	6,976
Paradise Center	Retail	-	9,311	-	9,311	-	9,311
Arena Mall	Retail	-	7,905	-	7,905	-	7,905
Galeria Mlyny	Retail	-	-	-	-	10,488	10,488
<b>TOTAL</b>		<b>58,390</b>	<b>910,359</b>	<b>(886,167)</b>	<b>82,582</b>	<b>10,488</b>	<b>93,070</b>

No impairment charge arose as a result of the impairment test except for goodwill arising from NEPI Rockcastle Merger in 2017 (note 33B). The recoverable amounts of the CGUs, except for NEPI Investment Management and Energit, were



based on their fair value less costs of disposal. The fair values of the properties were assessed based on reports by external valuers. The external valuations are determined using discounted cash flow (DCF) projections and capitalisation method based on significant unobservable inputs. For more information on the unobservable input used in the external valuation, reference is made to Note 10. The most relevant assumption is the terminal value capitalisation rate.

Goodwill arising as a result of internalisation of NEPI Investment Management is monitored at the level of this subsidiary, which employs part of the Group's key management and charges management fees to property operating companies. The recoverable amount of the CGU was based on its value in use, which requires the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated cash flow of year 5. The discount rate used is 8%.

#### 14 INVESTMENTS IN LISTED SECURITIES AND NET RESULT FROM FINANCIAL INVESTMENTS

	31 Dec 18	31 Dec 17
Financial investments at fair value through profit or loss	168,339	326,565
Equity derivative collateral	27,784	265,541
Financial assets at fair value through profit or loss related to financial investments	831	11,923
Financial liabilities at fair value through profit or loss related to financial investments	-	(10,934)
	<b>196,954</b>	<b>593,095</b>

##### A. Financial investments at fair value through profit or loss

The Group obtains exposure to listed real estate companies by holding directly listed securities.

As at 31 December 2018, the Group held a portfolio of listed securities fair valued at €168,339 thousand (2017: €326,565 thousand). The portfolio is focused towards liquid counters in developed markets, with a strong emphasis on companies which dominate regionally. The entire balance of the portfolio as at 31 December 2018 represented physical listed securities held in two listed real estate companies, Unibail-Rodamco-Westfield and Klepierre (31 December 2017: over 95% of the investments in physical listed securities were held in Unibail-Rodamco, Westfield and Klepierre).

The highest holding of financial investments was in Unibail shares, which represented 0.9% of the respective entity's equity (31 December 2017: Unibail shares, which represented 1.1% of the respective entity's equity). The percentage of holding does not meet the definition of control as defined by IFRS, therefore it does not meet the requirement to consolidate the entity.

The listed securities measured at fair value being the quoted closing price at the reporting date and are categorised as Level 1 investments, according to IFRS 13 - Fair value measurement. Realised and unrealised gains and losses arising from changes in the fair value of these investments are recognised in profit or loss in the period in which they arise.

Attributable transaction costs are recognised in the Statement of Comprehensive Income as incurred.

##### B. Financial assets and financial liabilities at fair value through profit or loss

In addition to directly, physically held listed securities, the Group utilizes equity swap derivatives to obtain exposure mainly to listed real estate companies.

An equity swap is an exchange of future cash flows between two parties. The principal counterparty, the prime broker, is Morgan Stanley. The streams of payments in an equity swap are known as the legs. One leg is the payment stream of the performance of an equity security over a specified period, which is based on the specified notional value or a number of shares. The second leg contains a funding leg which serves as the determinant of the cost associated with the underlying exposure. The funding leg accrues interest based on the notional exposure underlying the equity swap at the benchmark rate plus a spread agreed for the particular currency and with the respective prime broker.

The Group is required to place cash as collateral (named "Equity derivative collateral" in the financial statements) under the equity swaps that is held with prime broker.

As the equity swaps qualify as derivatives, the gross investment and liability exposures are not separately recognised and only the net fair value is recognised in the statement of financial position. The Group's equity swap derivatives position is presented below:

31 December 2018	Financial assets	Financial liability	Total
Gross exposure – value of underlying listed investments	39,311	-	<b>39,311</b>
Funding leg	(38,480)	-	<b>(38,480)</b>
Fair value in the statement of financial position	831	-	<b>831</b>

31 December 2017	Financial assets	Financial liability	Total
Gross exposure – value of underlying listed investments	401,438	449,823	<b>851,261</b>
Funding leg	(389,515)	(460,757)	<b>(850,272)</b>
Fair value in the statement of financial position	11,923	(10,934)	<b>989</b>

The financial investments are not considered as long-term strategic investments and are expected to be sold in short term; therefore these and their related financial assets/liabilities have been accounted as financial assets/liabilities at fair value through profit or loss and classified as current assets/liabilities.

##### C. Equity derivative collateral

Equity derivative collateral comprises cash required to be held with prime broker in relation to equity swaps as described in Section b) above. The equity derivative collateral is split by currency as follows:

Details of equity derivative collateral by currencies	31 Dec 2018	31 Dec 2017
EUR	27,784	256,497
AUD	-	5,491
USD	-	1,905
GBP	-	1,644
PLN	-	4
<b>TOTAL</b>	<b>27,784</b>	<b>265,541</b>

##### D. Net result from financial investments

Income from financial investments at fair value through profit or loss relates to dividend income on physical listed security investments as well as returns related to equity swap derivatives.

The Income from financial investments at fair value through profit or loss of €29,132 thousand (2017: €18,084 thousand) includes finance costs of €1,327 thousand (2017: €7,192 thousand) on the funding leg of the equity swaps.

The Fair value and net result on sale of financial investments shows the change in fair value of the financial instruments as well as the net result on sales of such instruments. During 2018, the net capital and realized losses from the sale of investment in listed securities amounted to €152,047 thousand (2017: €24,112 thousand).

#### 15 TRADE AND OTHER RECEIVABLES

	Group 31 Dec 2018	Group 31 Dec 2017	Company 31 Dec 2018	Company 31 Dec 2017
VAT receivable	23,392	14,965	9	6
Tenant receivables	44,945	33,997	-	-
Other receivables	1,687	4,875	55,800	3,219
Prepaid property expenses	10,343	6,689	-	-
Other prepaid fees	383	267	93	-
<b>TOTAL</b>	<b>80,750</b>	<b>60,793</b>	<b>55,902</b>	<b>3,225</b>



**16 CASH AND CASH EQUIVALENTS**

Details of cash and cash equivalents by currencies	Group 31 Dec 2018	Group 31 Dec 2017	Company 31 Dec 2018	Company 31 Dec 2017
EUR	45,163	137,005	1,028	457
RON	15,859	24,523	-	-
PLN	15,039	12,376	-	-
BGN	3,638	7,497	-	-
HUF	6,229	5,611	-	-
HRK	5,573	4,679	-	-
CZK	2,029	2,967	-	-
RSD	1,670	573	-	-
ZAR	212	38	212	38
USD	131	8	2	-
GBP	1,381	267	15	15
<b>TOTAL</b>	<b>96,924</b>	<b>195,544</b>	<b>1,257</b>	<b>510</b>

Details of cash and cash equivalents by type	Group 31 Dec 2018	Group 31 Dec 2017	Company 31 Dec 2018	Company 31 Dec 2017
Current accounts	88,071	132,627	1,257	510
Restricted cash	7,210	-	-	-
Deposits	984	62,425	-	-
Petty cash and other values	659	492	-	-
<b>TOTAL</b>	<b>96,924</b>	<b>195,544</b>	<b>1,257</b>	<b>510</b>

**17 INVESTMENT PROPERTY HELD FOR SALE**

Investment property held for sale	Group 31 Dec 2018	Group 31 Dec 2017
Carrying value at beginning of year	10,238	15,525
Additions from investment property under development (Note 11)	-	123
Disposals	(636)	(4,577)
Additions from investment property at fair value (Note 10)	1,727	-
Additions from property, plant and equipment	844	-
Additions from held for sale	10	-
Fair value adjustments (Note 29)	(226)	(833)
<b>CARRYING VALUE</b>	<b>11,957</b>	<b>10,238</b>

No properties were sold subsequent to the year end, however the Group is engaged in negotiations and is analysing offers received for the remaining balance, and is committed to disposal of the properties classified as held for sale.

**18 SHARE CAPITAL AND SHARE PREMIUM**

Movement of ordinary shares	Share capital €0.01/share	Share premium
<b>Issued as of 1 January 2017</b>	<b>3,215</b>	<b>1,368,171</b>
— Issued 5,691,549 ordinary shares at €9.88/share <sup>1</sup>	57	(57)
— Issued 9,305,725 ordinary shares at €11.00/share <sup>1</sup>	93	(93)
— Issued 6,849,315 ordinary shares at €10.57/share <sup>2</sup>	68	72,356
— Issued 29,541,215 ordinary shares at €11.10/share <sup>2</sup>	296	296,684
— Issue cost recognised to equity	-	26,706
— Issued 204,926,726 ordinary shares at €11.33/share <sup>3</sup>	2,049	2,320,230
— Reallocation of NEPI reserves to share premium	-	427,720
— Transfer of goodwill impairment on acquisition of Rockcastle Group to share premium	-	(886,167)
— Sale of shares issued under the Initial Share Scheme	-	18
<b>CARRIED FORWARD AS AT 31 DECEMBER 2017</b>	<b>5,778</b>	<b>3,625,568</b>

**Movement of ordinary shares**

Share capital  
€0.01/share

Share premium

<sup>1</sup> The shares were issued in respect of the return of capital: 10 April, 12 October 2017.

<sup>2</sup> The shares were issued as part of the book builds: 10 March, 16 October 2017 pursuant to the general authority to issue shares for cash and a vendor consideration placement.

<sup>3</sup> The shares were issued for the acquisition of Rockcastle Group on 14 July 2017.

<b>CARRIED FORWARD AS AT 31 DECEMBER 2018</b>	<b>5,778</b>	<b>3,625,568</b>
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The Group had no issues of share capital, or options to receive capital return to its shareholders during 2018.

Ordinary shares carry the right to vote at general meetings, to distribution and to the surplus assets of the Group on winding-up.

**19 SHARE-BASED PAYMENTS**

The Group uses incentive plans to reward performance and align the interests of executive directors and key individuals with those of the shareholders.

NEPI Rockcastle's current incentive plan was disclosed in the prospectus of the merger between NEPI and Rockcastle (the "2017 Incentive Plan"). The 2017 Incentive Plan introduced as an incentive to directors and employees to meet the Group's short-term and long-term objectives by giving such participants an opportunity to receive performance-based Awards (in cash or shares) or Purchase Offers (of shares, with loans), on short-term (immediate settlement in cash or shares) or long-term (shares with a vesting component). The Board determines which executive directors are eligible to participate in the Incentive Plan, and the allocation of incentives, based on key performance indicators. The executive directors determine which key employees are eligible to participate in the Incentive Plan, and the allocation of incentives is discretionary, based on key performance indicators and other considerations regarding the employees' performance.

No shares were issued under the 2017 Incentive Plan until 31 December 2018; the accrual for estimated performance Awards in respect of 2018 was included in staff costs (Note 27). All future share issues to directors and employees will be done under the 2017 Incentive Plan.

Following the merger, NEPI Rockcastle assumed the assets and liabilities of NEPI and Rockcastle, including the shares previously issued to directors and employees under NEPI's and Rockcastle's share purchase schemes (the "NEPI SPS" and "Rockcastle SPS"). All loans outstanding were assigned to NEPI Rockcastle and participants in the NEPI SPS and Rockcastle SPS received NEPI Rockcastle shares (as determined with reference to the swap ratio) in respect of all NEPI and Rockcastle shares held by them pursuant to the existing plans. The NEPI Rockcastle shares so received will remain subject to the rules of the NEPI SPS and Rockcastle SPS, on the basis that all the participants' rights and obligations under the existing plans will apply to such NEPI Rockcastle shares.

	Maximum number of shares which could be offered for subscription at 31 December 2018	No of shares outstanding 31 Dec 2018	Loans outstanding 31 Dec 2018	No of shares outstanding 31 Dec 2017	Loans outstanding 31 Dec 2017
2017 Incentive Plan	27,403,086	-	-	-	-
NEPI SPS	-	1,754,145	3,746	2,143,085	6,345
Rockcastle SPS	-	1,656,512	13,012	2,752,498	21,587
<b>TOTAL</b>	<b>27,403,086</b>	<b>3,410,657</b>	<b>16,758</b>	<b>4,895,583</b>	<b>27,932</b>

During 2018 and 2017, no shares were issued under the NEPI SPS or Rockcastle SPS.

The NEPI SPS was based on loans granted to participants in the share purchase schemes to buy shares, the repayment of which could be made in part out of the distribution payable in relation to the shares. Of the shares initially subscribed for, 20% vested annually. NEPI offered each participant the immediate right to subscribe for the permitted number of shares at their then market value, less a maximum discount of 5%, together with a loan to fund the purchase. Each loan carried interest at the weighted average rate that NEPI could borrow money. Loans were payable in full, together with interest, ten years after its subscription date, but could be repaid earlier. NEPI had security interests that ensured the repayment of the principal and interest on the loan given to participants. The NEPI SPS is a full recourse scheme (i.e. recourse in relation to loans granted is not limited to shares issued). Pending repayment of the loan, the distributions on such shares were used to repay loan interest. Any excess distribution after interest payment was used to repay the loan.

The Rockcastle SPS was based on loans granted to participants in the share purchase schemes to buy shares, the repayment of which could be made in part out of the distribution payable in relation to the shares. Rockcastle offered each participant the immediate right to subscribe for the permitted number of shares at their then market value together with a loan to fund the purchase. With effect from 2017, each loan carried interest at the weighted average rate that the Company can borrow money (previously at a fixed rate of 5%). Loans were payable in full, together with interest, ten years after its subscription date, but could be repaid earlier. Rockcastle had security interests that ensured the repayment of the principal and interest on the loan given to participants. The Rockcastle SPS is a full-recourse scheme (i.e. recourse in relation to loans granted is not limited to shares issued). Pending repayment of the loan, the distributions on such shares were used to repay loan interest. Any excess distribution after interest payment was used to repay the loan and any shortfall in interest payable was advanced by Rockcastle as a bonus to the participant.

The accounting policy with respect to Share-Based Payments is described in Note 4.20.

**20 BORROWINGS (BONDS AND BANK LOANS)**

The Group was assigned long-term corporate credit ratings of Baa3 (stable outlook) from Moody's Investors Service, BBB (stable outlook) from Standard & Poor's Rating Services, and BBB (stable outlook) from Fitch Ratings.



In 2018 the Group decreased the interest margin for the three unsecured committed revolving credit facilities, and extended their availability for 2 or 3 years. Also the contracted amount for the revolving credit facility from Raiffeisen Bank International was increased.

As at year-end, the Group had undrawn amounts of €236,000 thousand from the unsecured revolving credit facilities.

The debt's average interest rate, including hedging costs, was approximately 2.3% during 2018, slightly up from 2.2% in 2017. As at 31 December 2018, fixed-coupon bonds represented 43% of NEPI Rockcastle's outstanding debt; out of the remaining long-term debt exposed to Euribor, 30% was hedged with interest rate caps, 48% with interest rate swaps and the difference relates to the outstanding revolving facilities.

The repayment profile for outstanding loans, excluding future interest, is detailed below. In addition to these loans, the Group has loans and borrowings related to its joint ventures presented in Note 34.

Interest bearing borrowings Group, 31 Dec 2018	Type	Payable in less than 1 year	Payable in 1-5 years	Payable over 5 years	Total
Netherlands	Unsecured fixed coupon bonds	-	400,000	500,000	900,000
Netherlands	Unsecured revolving facilities	-	164,000	-	164,000
Netherlands	Unsecured loan	250,000	-	-	250,000
Poland	Secured term loans	3,272	450,954	74,100	528,326
Slovakia	Secured term loans	11,954	202,108	-	214,062
Czech Republic	Secured term loans	308	1,998	38,694	41,000
Accrued interest on loans and deferred loan costs		(528)	(1,806)	-	(2,334)
Accrued interest on bonds		13,527	-	-	13,527
Deferred bond costs*		(1,879)	(3,570)	(440)	(5,889)
Issue discount on bonds		(1,007)	(3,019)	(574)	(4,600)
<b>Total</b>		<b>275,647</b>	<b>1,210,665</b>	<b>611,780</b>	<b>2,098,092</b>

Interest bearing borrowings Group, 31 Dec 2017	Type	Payable in less than 1 year	Payable in 1-5 years	Payable over 5 years	Total
Netherlands	Unsecured fixed coupon bonds	-	400,000	500,000	900,000
Poland	Secured term loans	2,120	454,225	74,100	530,445
Slovakia	Secured term loans	8,301	167,455	-	175,756
Czech Republic	Secured term loans	-	2,307	38,693	41,000
Accrued interest on loans and deferred loan costs		147	(2,286)	-	(2,139)
Accrued interest on bonds		13,527	-	-	13,527
Deferred bond costs*		(1,751)	(4,699)	(782)	(7,232)
Issue discount on bonds		(1,031)	(3,378)	(1,224)	(5,633)
<b>Total</b>		<b>21,313</b>	<b>1,013,623</b>	<b>610,787</b>	<b>1,645,723</b>

\* In the deferred bond costs above, the company incurred NIL (2017: EUR 194,450) for other assurance services rendered by PwC.

#### Debt reconciliation

This section sets out an analysis of debt and the movements in debt for the periods presented.

	Bank loans	Bonds	Total
<b>Debt as at 31 December 2017</b>	<b>745,061</b>	<b>900,662</b>	<b>1,645,723</b>
Cash repayments of principal	(12,165)	-	<b>(12,165)</b>
Cash proceeds from bank loans or bonds	414,000	-	<b>414,000</b>
Cash payments of interest on bank loans or coupon on bonds	(17,153)	(23,750)	<b>(40,903)</b>
Accrued interest or coupon / charge to accrued interest	(2,334)	3,038	<b>704</b>
Bank loans transferred through business combinations	48,353	-	<b>48,353</b>
Interest expense	16,814	24,849	<b>41,663</b>
Other non-cash items	2,478	(1,761)	<b>717</b>
<b>Debt as at 31 December 2018</b>	<b>1,195,054</b>	<b>903,038</b>	<b>2,098,092</b>

	Bank loans	Bonds	Total
<b>Debt as at 31 December 2016</b>	<b>278,592</b>	<b>455,976</b>	<b>734,568</b>
Cash repayments of principal	(113,952)	(50,000)	<b>(163,952)</b>
Cash proceeds from bank loans or bonds	86,000	500,000	<b>586,000</b>
Cash payments of interest on bank loans or coupon on bonds	(8,139)	(15,895)	<b>(24,034)</b>
Accrued interest or coupon / charge to accrued interest	147	10,745	<b>10,892</b>
Bank loans transferred through business combinations	500,625	-	<b>500,625</b>
Other non-cash items	1,788	(164)	<b>1,624</b>
<b>Debt as at 31 December 2017</b>	<b>745,061</b>	<b>900,662</b>	<b>1,645,723</b>

Further details for the Group's loans and bonds are presented below.

#### Secured term loans

The Group has secured term loans contracted by its subsidiaries in Poland, Slovakia and the Czech Republic.

#### Securities

- General security over the properties (fair values as at 31 December 2018), current assets, cash inflows from operating activities, accounts and receivables; and
- General security over the shares in the property-owning entities.

#### Covenants

- Debt service cover ratio of a minimum between 120% and 150%; and
- Loan to value ratio of a maximum between 60% and 80%; and
- Interest coverage ratio of a minimum between 200% and 300%.

#### Unsecured term loan

In August 2018, the Group contracted an unsecured short-term loan which matures in August 2019.

#### Covenants

- Solvency Ratio of maximum 0.60;
- Consolidated Coverage Ratio of minimum 2:1; and
- Unsecured Ratio (Unsecured Consolidated Total Assets / Unsecured Consolidated Total Indebtedness) of minimum 150%.

#### Unsecured committed revolving facilities

In 2014 and 2017 the Group contracted unsecured committed revolving facilities. In 2018 all maturities were extended. At 31 December 2018, there were €236,000 available for drawdown.

#### Covenants

- Solvency Ratio of maximum 0.60;
- Consolidated Coverage Ratio of minimum 2:1; and
- Unsecured Ratio of minimum 150%.

#### Unsecured fixed coupon bonds

In 2015, the Group successfully issued 400,000 thousand of unsecured, 5.25-year Eurobonds. The bonds mature on 26 February 2021 and carry a 3.750% fixed coupon, with an issue price of 99.597%.

In 2017, the Group successfully issued another 500,000 thousand of unsecured, 7-year Eurobonds. The bonds mature on 23 November 2024 and carry a 1.75% fixed coupon, with an issue price of 99.051%.

#### Covenants

- Solvency Ratio (Debt/Assets) of maximum 0.60;
- Consolidated Coverage Ratio of minimum 2:1; and
- Unsecured Ratio of minimum 180% / 150%.



NEPI Rockcastle has complied with all financial covenants of its borrowing facilities during 2018 and 2017. The ratios calculated for all unsecured loans and bonds showed ample headroom compared to the covenants:

- Solvency Ratio: 360% (31 December 2017: 310%);
- Consolidated Coverage Ratio: 738% (31 December 2017: 792%); and
- Unsecured Ratio: 315% (31 December 2017: 421%).

Due to the ongoing extension works in Solaris Shopping Centre (Poland), the leased area has temporarily decreased, and the financing bank waived certain performance covenants until end of June 2019. The extension is scheduled to open early in the second quarter of 2019.

## 21 INTEREST RATE DERIVATIVES FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group uses derivative instruments to hedge variable interest rate (Euribor) exposure. Their fair value is summarised below.

	Group 31 Dec 2018	Group 31 Dec 2017
<b>Financial assets</b>		
— Company	4,314	318
— Subsidiaries	4,331	1,475
<b>TOTAL INTEREST RATE DERIVATIVE FINANCIAL ASSETS</b>	<b>8,645</b>	<b>1,793</b>
<b>Financial liabilities</b>		
— Subsidiaries	2,725	4,678
<b>TOTAL INTEREST RATE DERIVATIVE FINANCIAL LIABILITIES</b>	<b>2,725</b>	<b>4,678</b>

These interest rate caps and fixed interest rate swaps are not designated as cash flow hedges, and are classified as Level Two of the fair value hierarchy as defined by IFRS 13.

## 22 TRADE AND OTHER PAYABLES

	Group 31 Dec 2018	Group 31 Dec 2017	Company 31 Dec 2018	Company 31 Dec 2017
Advances from tenants	41,211	33,757	-	-
Payable for assets under construction	42,673	26,026	-	-
Property related payables	52,609	39,926	-	-
Deferred consideration on business combinations	11,602	5,014	-	-
Accrued administrative expenses	8,035	5,873	1,749	544
Tenant security deposits	3,656	2,957	-	-
<b>TOTAL</b>	<b>159,786</b>	<b>113,553</b>	<b>1,749</b>	<b>544</b>

## 23 OTHER LONG-TERM LIABILITIES

	Group 31 Dec 2018	Group 31 Dec 2017
Tenant security deposits	31,132	24,382
Other long-term liabilities	10,035	10,587
Provisions	3,814	2,120
<b>TOTAL</b>	<b>44,981</b>	<b>37,089</b>

## 24 CORPORATE TAX CHARGE AND DEFERRED TAX

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss, except to the extent they relate to business combination or items recognised directly to equity. Deferred tax assets and

liabilities are measured at the tax rates that are expected to apply to the period when the assets are realised or the liabilities are settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets are recognised to the extent it is probable that future taxable profit will be available against which temporary differences can be utilised.

	Group 31 Dec 2018	Group 31 Dec 2017
Current tax expense	9,482	1,671
Deferred tax expense	45,326	46,199
<b>TAX EXPENSE</b>	<b>54,808</b>	<b>47,870</b>
Deferred tax brought forward	258,615	158,863
Deferred tax acquired in business combinations (Note 33)	33,509	56,955
Other adjustments	(2)	(3,402)
Deferred tax expense	45,326	46,199
<b>NET DEFERRED TAX LIABILITY CARRIED FORWARD, OUT OF WHICH:</b>	<b>337,448</b>	<b>258,615</b>
<b>DEFERRED TAX ASSET</b>	(13,739)	(12,490)
<b>DEFERRED TAX LIABILITY</b>	<b>351,187</b>	<b>271,105</b>

Net deferred tax liability results from the following types of differences:

	Group 31 Dec 2018	Group 31 Dec 2017
Fiscal losses	299,555	220,057
Other deductible temporary differences (*)	48,783	38,955
<b>Deferred tax asset</b>	<b>57,401</b>	<b>43,725</b>
Temporary differences between accounting and fiscal value of investment property	(2,583,061)	(1,883,871)
Other taxable temporary differences (*)	(10,708)	(26,810)
<b>Deferred tax liability</b>	<b>(394,849)</b>	<b>(302,340)</b>
<b>NET DEFERRED TAX LIABILITY</b>	<b>(337,448)</b>	<b>(258,615)</b>

(\*) Other deductible and taxable temporary differences includes mainly prepayments and accruals, deferred income and allowances for doubtful debts.

The deferred tax balance as at 31 December 2018 is the net effect of deferred tax assets resulted from fiscal losses and deferred tax liabilities resulted from differences between the fiscal base and the accounting base of assets and liabilities, mainly investment property. Deferred tax liabilities are not expected to be settled within the following five years from the reporting date.

Deferred tax liabilities, which are a non-cash item, result directly from the fair value valuation of the investment property and other local tax adjustments (e.g. local tax depreciation charges, non-capitalisation or certain items, etc.) which diminish the tax value of the investment property.

	Consolidated statement of financial position		Consolidated statement of comprehensive income	
<b>Deferred tax liability (net)</b>	<b>31-Dec-18</b>	<b>31-Dec-17</b>	<b>31-Dec-18</b>	<b>31-Dec-17</b>
Acquired under business combinations (Note 33)	(28,470)	(53,554)	-	-
Recognised unused tax losses	14,526	7,716	-	-
Deferred tax liability on investment property valuation	(44,679)	(70,152)	-	-
Deductible/taxable temporary differences (net)	1,683	8,882	-	-
Valuation of investment property at fair value	(343,011)	(227,137)	(45,722)	(39,060)
Adjustment of DTL for the amount recovered from seller, deducted from goodwill (no P&L impact)	(5,037)	-	-	-
Recognised unused tax losses	33,649	28,660	(2,727)	(1,649)
Deductible/Taxable temporary differences (incl. corrections)	5,421	(6,584)	3,123	(5,490)
<b>Total</b>	<b>(337,448)</b>	<b>(258,615)</b>	<b>(45,326)</b>	<b>(46,199)</b>



The Group is liable for taxation on taxable profits in the following jurisdictions at the rates below:

Corporate income tax rates	Group 31 Dec 2018	Group 31 Dec 2017
Isle of Man	0%	0%
Netherlands	25% <sup>1</sup>	25%
United Kingdom	19%	19%
Mauritius	15% <sup>2</sup>	15% <sup>2</sup>
Romania	16%	16%
Poland	19%	19%
Slovakia	21% <sup>2</sup>	21% <sup>2</sup>
Serbia	15%	15%
Czech Republic	19%	19%
Croatia	18%	18%
Bulgaria	10%	10%
Hungary	9%	9%
Lithuania	15%	-

- 1) As at 1 January 2011, the rate applying to taxable profits exceeding EUR 0.2 million has been reduced from 25.5% to 25%. Below this amount a 20% tax rate is applicable to taxable profit. For 2019, the corporate income tax rates will decrease from 25% to 21% (second bracket) and from 20% to 16% (first bracket of EUR 0.2 million of taxable income).
- 2) The corporate tax rate in Mauritius is 15%. As the company holds a Category One Global Business License, the Income Tax (Foreign Tax Credit) Regulations 1996 provides for the setting off of any underlying tax, withholding tax or tax sparing credit by the company against the 15% tax or a deemed 80% foreign tax credit on the company's foreign source income where written evidence of foreign tax charged is not presented to the tax authorities in Mauritius. Gains on sale of securities are exempted from tax in Mauritius.

**A reconciliation between the current year income tax charge (current and deferred tax) and the Group consolidated profit before tax as at 31 December 2018 is presented below.**

Profit Before Tax Reconciliation for 2018	EUR thousand
Group consolidated Profit Before Tax	276,513
Group weighted tax rate	25%
Group income tax (charge)/credit based on Group weighted tax rate	(69,128)
<b>Effect in corporate income tax resulting from the following items:</b>	
Group share in earnings from companies accounted for under equity method	1,606
DTA recognized as gain on acquisition of subsidiaries and additional deferred tax liability from newly acquired land	(1,976)
Tax value adjustments in local jurisdictions related to previous years	(2,577)
Tax depreciable goodwill recognised in local subsidiaries and not recognized at Group level	7,806
Fiscal losses expired and/or not utilised in 2018 (release of DTA not related to current year)	(2,896)
New tax losses in the year	11,152
Others	1,207
<b>TOTAL Group tax charge (excluding minimum tax)</b>	<b>(54,808)</b>
<b>Effective tax rate (excluding the effect of minimum tax)</b>	<b>19.82%</b>

The Group uses a conservative accounting method for the treatment of deferred taxes assuming the theoretical future disposals of properties in the form of asset deals, triggering the full corporate income tax rate in each jurisdiction in which the Group owns property. In practice, if the Group would be in the position to dispose of certain assets, these

disposals will most probably be conducted via share deals, as assets are held in separate SPVs, significantly reducing the effective tax rate on potential capital gains.

Group subsidiaries are subject to corporate tax on an annual basis. The Group carries forward aggregate fiscal losses of €299,555 thousand (31 December 2017: €220,057 thousand), which are available for up to seven years to offset against any future taxable profits of the companies in which the losses arose. Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine recognisable deferred tax assets, based on the likely timing and the level of future taxable profits and future tax planning strategies. Deferred tax assets have not been recognised for fiscal losses of €66,780 thousand (31 December 2017: €1,263 thousand) as these could have been used only to offset the taxable profits of certain companies in the Group, and there is uncertainty whether these companies will either generate sufficient taxable profit in the future or the tax legislation introduced starting 1 January 2019 will allow such losses to be recovered.

The Group does not withhold taxes on distribution paid.

## 25 NET ASSET VALUE PER SHARE

	Group 31 Dec 2018	Group 31 Dec 2017
Net Asset Value per the Statement of financial position	3,845,873	3,914,719
Deferred tax liabilities for controlled subsidiaries	351,187	271,105
Deferred tax assets for controlled subsidiaries	(13,739)	(12,490)
Goodwill	(93,070)	(82,582)
Interest rate derivatives financial assets at fair value through profit or loss	(8,645)	(1,793)
Interest rate derivatives financial liabilities at fair value through profit or loss	2,725	4,678
Deferred tax liabilities for joint ventures	10,744	8,856
Interest rate derivatives at fair value through profit or loss for joint ventures	916	1,056
<b>Adjusted Net Asset Value</b>	<b>4,095,991</b>	<b>4,103,549</b>
Net Asset Value per share (euro)	6.66	6.78
Adjusted Net Asset Value per share (euro)	7.09	7.10
Number of shares for Net Asset Value per share (Note 31)	577,800,734	577,800,734
Number of shares for Adjusted Net Asset Value per share (Note 31)	577,800,734	577,800,734

## 26 NET RENTAL AND RELATED INCOME

	Group 31 Dec 2018	Group 31 Dec 2017
Gross rental income	349,907	233,807
Service charge income	151,826	103,170
<b>Gross rental and service charge income</b>	<b>501,733</b>	<b>336,977</b>
Property management, tax, insurance and utilities	(85,079)	(53,809)
Property maintenance cost	(69,252)	(50,139)
Provisions and allowances for doubtful debts	(1,332)	(944)
<b>Property operating expenses</b>	<b>(155,663)</b>	<b>(104,892)</b>
<b>TOTAL</b>	<b>346,070</b>	<b>232,085</b>



Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases are detailed below.

	Group 31 Dec 2018	Group 31 Dec 2017
No later than 1 year	359,574	306,027
Later than 1 year and not later than 5 years	797,838	678,470
Later than 5 years	242,196	203,009
<b>TOTAL</b>	<b>1,399,608</b>	<b>1,187,506</b>

The Company is domiciled in Isle of Man but does not generate revenue there. The Group's revenue is primarily generated from property assets, which are held by Group companies domiciled in the same country as the relevant asset is located. The breakdown of the revenue from external customers by country is disclosed in Note 35.

## 27 ADMINISTRATIVE EXPENSES

	Group 31 Dec 2018	Group 31 Dec 2017	Company 31 Dec 2018	Company 31 Dec 2017
Staff costs*	(10,358)	(8,985)	-	-
Directors' remuneration (Note 37)	(4,596)	(1,727)	(1,847)	(879)
Audit services	(1,092)	(765)	-	-
Advisory services	(2,895)	(2,489)	(1,186)	(361)
Travel and accommodation	(854)	(370)	(356)	(148)
Companies administration	(1,318)	(710)	(2,907)	(3,008)
Stock exchange expenses	(909)	(145)	(909)	(854)
<b>TOTAL</b>	<b>(22,022)</b>	<b>(15,191)</b>	<b>(7,205)</b>	<b>(5,250)</b>

\* Staff costs capitalised as investment property under development in 2018 amount to €2,541 thousand (2017: €1,961 thousand).

Out of the above audit services, fees related to PwC, the Group's auditor represent:

	Group 31 Dec 2018	Group 31 Dec 2017
Audit fees	(845)	(760)
Other assurance services	(187)	-
Other consulting services	(60)	(5)
<b>TOTAL</b>	<b>(1,092)</b>	<b>(765)</b>

## 28 ACQUISITION FEES

The Group incurred acquisition fees in respect of the following:

	Group 31 Dec 2018	Group 31 Dec 2017
Fees for finalised acquisitions	(4,453)	(9,620)
Fees for ongoing acquisitions	(1,421)	(498)
Fees for terminated acquisitions	(205)	(563)
<b>TOTAL</b>	<b>(6,079)</b>	<b>(10,681)</b>

Out of the above acquisition fees, €88 thousand (2017: €24 thousand) were related to advisory services rendered by PwC.

## 29 FAIR VALUE ADJUSTMENTS OF INVESTMENT PROPERTY

	Group 31 Dec 2018	Group 31 Dec 2017
Fair value adjustments of investment property in use (Note 10)	104,123	157,912
Fair value adjustments of investment property under development (Note 11)	4,514	4,943
Fair value adjustments of investment property held for sale (Note 17)	(226)	(833)
<b>TOTAL</b>	<b>108,411</b>	<b>162,022</b>

## 30 NET FINANCE INCOME/(EXPENSE)

	Group 31 Dec 2018	Group 31 Dec 2017	Company 31 Dec 2018	Company 31 Dec 2017
Interest income on loans granted	1,690	2,520	-	-
Interest on Current Share Scheme and management incentive loans	488	572	488	572
Interest on bank deposits	264	(566)	2	-
Interest income from subsidiaries	-	-	34,926	16,711
Interest and penalties on receivables	15	41	-	-
Other finance income from subsidiaries*	-	-	52,177	20,825
<b>Finance income</b>	<b>2,457</b>	<b>2,567</b>	<b>87,593</b>	<b>38,108</b>
Interest expense on financial liabilities measured at amortised cost	(18,343)	(9,146)	(375)	(662)
Interest expense capitalised on developments	5,770	4,350	-	-
Bonds borrowing costs**	(27,744)	(18,983)	-	-
Bank charges	(1,999)	(1,694)	(39)	(10)
<b>Finance expense</b>	<b>(42,316)</b>	<b>(25,473)</b>	<b>(414)</b>	<b>(672)</b>
<b>TOTAL</b>	<b>(39,859)</b>	<b>(22,906)</b>	<b>87,179</b>	<b>37,436</b>

\* Other finance income from subsidiaries represent guarantee fees.

\*\* Bonds borrowing costs include: coupon, amortisation of borrowing costs and debt discount.

## 31 BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the year ended 31 December 2018 was based on the profit attributable to equity holders of €221,855 thousand (31 December 2017: loss of €579,694 thousand) and the weighted average of 577,800,734 (31 December 2017: 436,806,684) ordinary shares in issue during the year.

As the Group recognised a one-off goodwill impairment in 2017 of €886,167 thousand related to the NEPI Rockcastle merger (note 33B), the basic and diluted earnings per share do not show relevant and comparable indicators due to the justifiable loss for the year. The Group has also prepared the same ratios excluding the goodwill impairment.

	Group 31 Dec 2018	Group 31 Dec 2017
(Loss)/Profit for the year attributable to equity holders	221,855	(579,694)
Profit for the year attributable to equity holders excluding impairment of goodwill	221,855	306,473
<b>Weighted average number of shares in issue</b>	<b>577,800,734</b>	<b>436,806,684</b>
<b>Diluted weighted average number of shares in issue</b>	<b>577,800,734</b>	<b>436,809,203</b>
Basic/ diluted (loss)/earnings per share (euro cents)	38.4	(132.71)
Basic/ diluted earnings per share (euro cents) excluding impairment of goodwill	38.4	70.16

Weighted average number of shares (excluding the Initial Share Scheme shares) for basic earnings per share purposes:

2018	Event	Number of shares	% of period	Weighted average
01/01/18	Opening balance	577,800,734	100	577,800,734
31/12/2018	Closing balance			577,800,734

2017	Event	Number of shares	% of period	Weighted average
01/01/17	Opening balance	321,479,204	19	60,056,555
10/03/17	Accelerated book build	328,328,519	9	27,962,044
10/04/17	Return of capital	334,020,068	9	29,364,402
12/05/17	Sales of scheme 1 shares	334,027,068	16	55,059,407
11/07/17	Issue of shares for acquisition of Rockcastle Group	538,953,794	25	137,699,733
12/10/17	Return of capital	548,259,519	1	6,024,830
16/10/17	Accelerated book build	577,800,734	21	120,639,714
31/12/2017	Closing balance			436,806,684



Weighted average number of shares (including the Initial Share Scheme shares) for diluted earnings per share purposes:

2018	Event	Number of shares	% of period	Weighted average
01/01/18	Opening balance	577,800,734	100	577,800,734
31/12/2018	Closing balance			577,800,734

2017	Event	Number of shares	% of period	Weighted average
01/01/17	Opening balance	321,486,204	19	60,057,862
10/03/17	Accelerated book build	328,335,519	9	27,962,640
10/04/17	Return of capital	334,027,068	25	84,424,424
11/07/17	Issue of shares for acquisition of Rockcastle Group	538,953,794	25	137,699,733
12/10/17	Return of capital	548,259,519	1	6,024,830
16/10/17	Accelerated book build	577,800,734	21	120,639,714
31/12/2017	Closing balance			436,809,203

### 32 HEADLINE EARNINGS AND DILUTED HEADLINE EARNINGS PER SHARE

The calculation of headline earnings per share for the year ended 31 December 2018 was based on headline earnings of €119,725 thousand (31 December 2017: €152,898 thousand) and the weighted average of 577,800,734 ordinary shares in issue during 2018 (2017: 436,806,684), excluding those issued under the Initial Share Scheme.

Reconciliation of profit for the year to headline earnings	Group 31 Dec 2018	Group 31 Dec 2017
(Loss)/Profit for the year attributable to equity holders	221,855	(579,694)
Fair value adjustments of investment property in use (Note 29)	(108,411)	(162,022)
(Gain)/Loss on disposal of investment property held for sale	-	(9)
Gain on acquisition of subsidiaries	(6,933)	-
Impairment of goodwill	-	886,167
Tax effects of adjustments for controlled subsidiaries	16,888	27,089
Fair value adjustment of investment property for joint ventures	(4,374)	(20,928)
Tax effects of adjustments for joint ventures	700	2,295
<b>HEADLINE EARNINGS</b>	<b>119,725</b>	<b>152,898</b>
Weighted average number of shares in issue	577,800,734	436,806,684
Diluted weighted average number of shares in issue	577,800,734	436,809,203
Headline earnings per share (euro cents)	20.72	35.00
Diluted headline earnings per share (euro cents)	20.72	35.00

### 33A BUSINESS COMBINATIONS AND SIGNIFICANT ASSET DEALS

During 2018, the Group acquired retail assets in Slovakia, Lithuania, Poland and Hungary. In all cases, 100% of equity interests were acquired. For further details see Note 13.

#### Mlyny

The Group acquired Galeria Mlyny, a modern shopping and entertainment mall having over 32,400m<sup>2</sup> GLA, being the main retail destination in city of Nitra and western Slovakia.

The effective date of acquisition was 31 May 2018 with the transaction being completed in July 2018. The Company's fair value of identifiable assets and liabilities at the acquisition date are detailed below:

Investment property	128,400
Current assets*	4,566
Current liabilities	(3,525)
Non-current liabilities	(50,791)
Deferred tax liabilities	(17,100)
<b>Total identifiable net assets at fair value</b>	<b>61,550</b>
Goodwill arising on acquisition	10,488
<b>Total consideration paid in cash</b>	<b>72,038</b>

\*out of which cash in the subsidiaries acquired in the transaction amounts to €3,865 thousand

#### Ozas Shopping and Entertainment Centre

The Group acquired Ozas Shopping and Entertainment Centre, a shopping mall in Vilnius the capital city of Lithuania with 62,400m<sup>2</sup> GLA, enjoying a strong fashion and entertainment-oriented tenant mix.

The transaction effective date was 31 May 2018, and the Company's fair value of identifiable assets and liabilities at the acquisition date are detailed below:

Investment property	124,828
Investment property under development	575
Current assets*	2,395
Current liabilities	(3,131)
Non-current liabilities	(560)
Deferred tax liabilities	(1,893)
<b>Total consideration paid in cash</b>	<b>122,214</b>

\*out of which cash in the subsidiary acquired in the transaction amounts to €2,117 thousand

#### Aura Centrum

The Group acquired Aura Centrum, a prominent shopping and entertainment destination in heart of Olsztyn city centre, with 25,400m<sup>2</sup> GLA, creating regional synergies for NEPI Rockcastle.

The transaction effective date was 30 May 2018, and the Company's fair value of identifiable assets and liabilities at the acquisition date are detailed below:

Investment property	64,935
Current assets*	1,324
Current liabilities	(1,231)
Deferred tax assets	5,117
<b>Total identifiable net assets at fair value</b>	<b>70,145</b>
Bargain purchase revenue	(5,117)
<b>Total consideration payable</b>	<b>65,028</b>
Retained amount	(1,096)
<b>Total consideration paid in cash</b>	<b>63,932</b>

\*out of which cash in the subsidiary acquired in the transaction amounts to €909 thousand

#### Mammut Shopping Centre

The Group acquired 100% of Mammut 2 and 81% of Mammut 1, which jointly form Mammut Shopping Centre, one of the largest and most successful shopping and entertainment destination in Budapest, with 56,100m<sup>2</sup> GLA (weighted for control).

The transaction effective date was 11 September 2018, and the Company's fair value of identifiable assets and liabilities at the acquisition date are detailed below:

Investment property	275,036
Current assets*	7,001
Current liabilities	(7,135)
Non-current liabilities	(247)
Deferred tax liabilities	(19,633)
<b>Total identifiable net assets at fair value</b>	<b>255,022</b>
Bargain purchase revenue	(871)
<b>Total consideration paid in cash</b>	<b>254,151</b>

\*out of which cash in the subsidiary acquired in the transaction amounts to €4,711 thousand

From the effective date of acquisition, the following contributions were made to profit after tax and to revenues from rent and recoveries:

	Mlyny	Ozas Shopping and Entertainment Centre	Aura Shopping Centre	Mammut Shopping Centre	Total
Profit after tax	4,717	6,918	3,707	4,917	<b>20,259</b>
Recoveries and contractual rental income	6,599	8,167	4,456	6,321	<b>25,543</b>



### 33B IMPAIRMENT

In relation to comparative amounts for 2017, the Group has recorded a significant amount of impairment in relation to the Rockcastle business combination. At the time of the merger, Rockcastle shares were trading at a premium to fair value of net asset value, generating a difference of €886,167, which was recognised as goodwill.

According to the Accounting policies set out in Note 4, goodwill is measured at cost less any accumulated impairment losses and is tested annually for impairment. Goodwill is allocated to cash-generating units (“CGU”) for impairment testing which are represented by individual properties and listed securities business. The allocation is made to those CGUs that are expected to benefit from the business combination in which the goodwill arose.

In accordance with IFRS 3 – Business combination, the acquirer should finalise the accounting of the acquisition (including any adjustments to the goodwill) in one year from the date of combination. Thus, NEPI Rockcastle completed this purchase price allocation of the acquired business (Rockcastle) at 31 December 2017. The recoverable amount for the CGUs has been determined based on the net assets of each CGU, as difference between total assets and total liabilities. The most significant assumption was the valuation of its investment property portfolio, which was based on independent experts’ valuation reports. As the assets and liabilities of the property portfolio acquired through the Rockcastle merger were measured at fair value, the goodwill resulting from this transaction could not be allocated to the CGUs at 31 December 2017 and was therefore impaired.

After the goodwill impairment through profit and loss, NEPI Rockcastle has transferred the loss arising from the goodwill impairment to share premium, off-setting the effect of the impairment charge within accumulated profit.

This impairment of goodwill does not impact any of the key indicators: recurring earnings per share, adjusted net asset value per share, cash flow, distributable earnings, overall financial profile, synergies from the merger or the forecasted earnings per share. Consequently, the Group’s balance sheet includes almost exclusively tangible assets, marked to market every six months, in line with the industry practice.

At the Company level, NEPI Rockcastle Plc issued 538,953,857 shares in aggregate, to acquire the assets and liabilities of both New Europe Property Investments plc and Rockcastle Global Real Estate Company Limited parent companies.

In accordance with IFRS 13, the transaction price (Rockcastle market capitalisation) represents the best evidence of fair value of assets acquired (“Investments in subsidiaries” and “Loans granted to subsidiaries”). As the fair value of “Investments in subsidiaries” and “Loans granted to subsidiaries” cannot be measured using solely observable inputs, IFRS 13 prohibits to recognize differently than at the fair value of consideration paid.

At the Company level, in accordance with the Accounting policies set out in Note 4, non-financial assets are carried at cost less impairment. The impairment test of investment in subsidiaries is similar to the one for the goodwill at consolidation level: the carrying value of the investment in subsidiaries is compared to the recoverable value, being the net asset of the CGU. Further to the impairment test conducted, the Company recognised a write-off of €300,385 thousand relating to investment in subsidiaries.

In accordance with IAS 39, the Company assessed that the carrying value of the loans to subsidiaries were impaired on the grounds that the recoverable value of the financed CGUs was lower than the balance of the intercompany loans. The loans to subsidiary in an amount of €585,782 thousand were written off as there was no reasonable expectation of recovery of this amount. After the write-off of investment in subsidiaries and loans granted to joint ventures, the Company has transferred the impairment loss to share premium, off-setting the effect of the impairment charge within accumulated profit.

### 34 JOINT VENTURES

The summarised financial statements of the joint ventures are presented below at 100%. “Investments in joint ventures” line on the Statement of financial position represents 50% of the line “Equity attributable to equity holders” shown below and “Share of profit of joint ventures” line on the Statement of comprehensive income represents 50% of the line “Profit for the year attributable to equity holders” presented below.

#### Statement of financial position

31 Dec 2018	Ploiesti Shopping City	The Office Cluj-Napoca	Total
Non-current assets	106,643	129,875	236,518
Current assets	11,049	4,209	15,258
<b>TOTAL ASSETS</b>	<b>117,692</b>	<b>134,084</b>	<b>251,776</b>
Non-current liabilities	(77,135)	(66,653)	(143,788)
Current liabilities	(3,722)	(5,896)	(9,618)
<b>Total liabilities</b>	<b>(80,857)</b>	<b>(72,549)</b>	<b>(153,406)</b>
<b>Equity attributable to equity holders</b>	<b>(36,835)</b>	<b>(61,535)</b>	<b>(98,370)</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>(117,692)</b>	<b>(134,084)</b>	<b>(251,776)</b>

31 Dec 2017	Ploiesti Shopping City	The Office Cluj-Napoca	Total
Non-current assets	103,964	122,560	226,524
Current assets	7,776	14,456	22,232
<b>TOTAL ASSETS</b>	<b>111,740</b>	<b>137,016</b>	<b>248,756</b>
Non-current liabilities	(75,257)	(82,287)	(157,544)
Current liabilities	(3,257)	(6,243)	(9,500)
<b>Total liabilities</b>	<b>(78,514)</b>	<b>(88,530)</b>	<b>(167,044)</b>
<b>Equity attributable to equity holders</b>	<b>(33,226)</b>	<b>(48,486)</b>	<b>(81,712)</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>(111,740)</b>	<b>(137,016)</b>	<b>(248,756)</b>

#### Statement of comprehensive income

31 Dec 2018	Ploiesti Shopping City	The Office Cluj-Napoca	Total
Revenue from rent and recoveries	11,067	12,765	23,832
Property operating expenses	(3,195)	(2,377)	(5,572)
Administrative expenses	148	(80)	68
Fair value adjustment investment property	955	7,793	8,748
Foreign exchange loss	(14)	(328)	(342)
<b>Profit before net finance expense</b>	<b>8,961</b>	<b>17,773</b>	<b>26,734</b>
<b>Net finance expense</b>	<b>(4,413)</b>	<b>(1,914)</b>	<b>(6,327)</b>
Finance income	68	-	68
Finance expense	(4,481)	(1,914)	(6,395)
Fair value adjustment of interest rate derivatives financial assets and liabilities	241	41	282
<b>Profit before income tax</b>	<b>4,789</b>	<b>15,900</b>	<b>20,689</b>
Tax release/(charge)	(1,178)	(2,850)	(4,028)
<b>PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS</b>	<b>3,611</b>	<b>13,050</b>	<b>16,661</b>

31 Dec 2017	Ploiesti Shopping City	The Office Cluj-Napoca	Total
Revenue from rent and recoveries	14,440	10,108	24,548
Property operating expenses	(6,981)	(1,799)	(8,780)
Administrative expenses	(21)	(71)	(92)
Fair value adjustment investment property	11,938	16,750	28,688
Foreign exchange loss	(174)	(26)	(200)
<b>Profit before net finance expense</b>	<b>19,202</b>	<b>24,962</b>	<b>44,164</b>
<b>Net finance expense</b>	<b>(4,359)</b>	<b>(2,741)</b>	<b>(7,100)</b>
Finance income	12	3	15
Finance expense	(4,371)	(2,744)	(7,115)
<b>Fair value adjustment of interest rate derivatives financial assets and liabilities</b>	<b>754</b>	<b>124</b>	<b>878</b>
<b>Profit before income tax</b>	<b>15,597</b>	<b>22,345</b>	<b>37,942</b>
Tax release/(charge)	(2,538)	(3,268)	(5,806)
<b>PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS</b>	<b>13,059</b>	<b>19,077</b>	<b>32,136</b>

Shareholder loans to Ploiesti Shopping City and The Office Cluj-Napoca were granted by NE Property BV (former NE Property Cooperatief UA). All shareholder loans are subject to interest at 8% per annum (2017: 8% per annum). Interest income from joint ventures in 2018 amounted to €1,660 thousand (2017: €2,274 thousand).



31 Dec 2018	Ploiesti Shopping City	The Office Cluj-Napoca	Total
Long-term loans granted to joint ventures	21,311	-	<b>21,311</b>

31 Dec 2017	Ploiesti Shopping City	The Office Cluj-Napoca	Total
Long-term loans granted to joint ventures	19,636	6,156	<b>25,792</b>

Included within the balances above from the Statement of financial position are the following:

31 Dec 2018	Ploiesti Shopping City	The Office Cluj-Napoca	Total
Cash and cash equivalents	9,666	3,421	<b>13,087</b>
Bank loans (non-current liabilities)	(23,737)	(54,767)	<b>(78,504)</b>
Bank loans (current liabilities)	(2,146)	(3,808)	<b>(5,954)</b>

31 Dec 2017	Ploiesti Shopping City	The Office Cluj-Napoca	Total
Cash and cash equivalents	6,685	13,660	<b>20,345</b>
Bank loans (non-current liabilities)	(25,878)	(58,575)	<b>(84,453)</b>
Bank loans (current liabilities)	(2,152)	(3,937)	<b>(6,089)</b>

#### Secured term loans

The Group has secured term loans contracted by its subsidiaries in joint-ventures.

#### Securities

- General security over the properties (fair values as at 31 December 2018), current assets, cash inflows from operating activities, accounts and receivables

#### Covenants

- Debt service cover ratio of a minimum between 120% and 125%, and
- Loan to value ratio of a maximum between 50% and 60%, and
- Interest coverage ratio of a minimum 170% (only applicable to the secured term loan agreement of one of the joint-ventures).

### 35 SEGMENT REPORTING

Reporting segments are retail, office, industrial and corporate, and the Group primarily manages operations in accordance with this classification.

There are no sales between segments. Segment results, assets and liabilities include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets. Segment assets represent investment property. Segment liabilities represent loans and borrowings, as these are the only liabilities reported on a segmental basis.

Segment results 31 Dec 2018	Retail	Office	Industrial	Corporate	Total
<b>Net rental and related income</b>	<b>314,229</b>	<b>29,946</b>	<b>1,895</b>	<b>-</b>	<b>346,070</b>
Gross rental income	318,498	29,510	1,899	-	349,907
Service charge income	140,488	11,118	220	-	151,826
Property operating expenses	(144,757)	(10,682)	(224)	-	(155,663)
Administrative expenses	(12,994)	(1,383)	(38)	(7,607)	(22, 022)
<b>EBITDA*</b>	<b>301,235</b>	<b>28,563</b>	<b>1,857</b>	<b>(7,607)</b>	<b>324,048</b>
<b>Net result from financial investments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(122,915)</b>	<b>(122,915)</b>
Income from financial investments at fair value through profit or loss	-	-	-	29,132	29,132
Fair value and net result on sale of financial investments at fair value through profit or loss	-	-	-	(152,047)	(152,047)
Acquisition fees	(6,079)	-	-	-	(6,079)
Fair value adjustments of investment property	120,665	(11,640)	(614)	-	108,411
Foreign exchange gain/(loss)	(1,162)	(134)	68	305	(923)
Gain on acquisition of subsidiaries	6,933	-	-	-	6,933
<b>Profit before Net finance expense</b>	<b>421,592</b>	<b>16,789</b>	<b>1,311</b>	<b>(130,217)</b>	<b>309,475</b>

\* EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) represents the Group's Operating profit, defined as Net rental and related income less Administrative expenses.

Segment results 31 Dec 2017	Retail	Office	Industrial	Corporate	Total
<b>Net rental and related income</b>	<b>204,246</b>	<b>26,041</b>	<b>1,798</b>	<b>-</b>	<b>232,085</b>
Gross rental income	206,595	25,382	1,830	-	233,807
Service charge income	93,267	9,707	196	-	103,170
Property operating expenses	(95,616)	(9,048)	(228)	-	(104,892)
Administrative expenses	(7,547)	(1,359)	(30)	(6,255)	(15,191)
<b>EBITDA*</b>	<b>196,699</b>	<b>24,682</b>	<b>1,768</b>	<b>(6,255)</b>	<b>216,894</b>

<b>Net result from financial investments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(6,028)</b>	<b>(6,028)</b>
Income from financial investments at fair value through profit or loss	-	-	-	18,084	18,084
Fair value and net result on sale of financial investments at fair value through profit or loss	-	-	-	(24,112)	(24,112)

Acquisition fees	(5,946)	(175)	-	(4,560)	(10,681)
Fair value adjustments of investment property	148,889	12,674	459	-	162,022
Foreign exchange gain/(loss)	973	(137)	(22)	(2,069)	(1,255)
Gain/(Loss) on disposal of investment property	(531)	540	-	-	9
<b>Profit before Net finance expense</b>	<b>340,084</b>	<b>37,584</b>	<b>2,205</b>	<b>(18,912)</b>	<b>360,961</b>

\* EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) represents the Group's Operating profit, defined as Net rental and related income less Administrative expenses.

Segment assets and liabilities 31 Dec 2018	Retail	Office	Industrial	Corporate	Total
<b>SEGMENT ASSETS</b>					
<b>Non-current assets</b>	<b>5,642,265</b>	<b>425,414</b>	<b>15,620</b>	<b>32,760</b>	<b>6,116,059</b>
Investment property	5,513,358	382,092	15,620	-	5,911,070
— Investment property in use	5,290,898	382,092	15,620	-	5,688,610
— Investment property under development	222,460	-	-	-	222,460
Goodwill	76,878	10,310	-	5,882	93,070
Deferred tax assets	11,495	2,244	-	-	13,739
Investments in joint ventures	18,417	30,768	-	-	49,185
Long-term loans granted to joint ventures	21,311	-	-	-	21,311
Other long-term assets	806	-	-	18,233	19,039
Interest rate derivatives financial assets at fair value through profit or loss	-	-	-	8,645	8,645
<b>Current assets</b>	<b>142,509</b>	<b>14,276</b>	<b>617</b>	<b>217,226</b>	<b>374,628</b>
Trade and other receivables	69,205	9,634	107	1,804	80,750
Financial investments at fair value through profit or loss	-	-	-	168,339	168,339
Equity derivative collateral	-	-	-	27,784	27,784
Financial assets at fair value through profit or loss	-	-	-	831	831
Cash and cash equivalents	73,304	4,642	510	18,468	96,924
<b>Investment property held for sale</b>	<b>1,430</b>	<b>10,527</b>	<b>-</b>	<b>-</b>	<b>11,957</b>
<b>TOTAL ASSETS</b>	<b>5,786,204</b>	<b>450,217</b>	<b>16,237</b>	<b>249,986</b>	<b>6,502,644</b>

Segment assets and liabilities 31 Dec 2018	Retail	Office	Industrial	Corporate	Total
<b>SEGMENT LIABILITIES</b>					
<b>Non-current liabilities</b>	<b>1,121,425</b>	<b>39,326</b>	<b>2,288</b>	<b>1,058,299</b>	<b>2,221,338</b>
Bank loans	756,582	9,466	-	164,000	930,048
Bonds	-	-	-	892,397	892,397
Deferred tax liabilities	326,499	24,110	578	-	351,187
Other long-term liabilities	36,421	5,750	1,710	1,100	44,981
Interest rate derivatives financial liabilities at fair value through profit or loss	1,923	-	-	802	2,725
<b>Current liabilities</b>	<b>149,249</b>	<b>12,725</b>	<b>234</b>	<b>273,225</b>	<b>435,433</b>
Trade and other payables	133,788	12,104	234	13,660	159,786
Financial liabilities at fair value through profit or loss	-	-	-	-	-
Bank loans	15,461	621	-	248,924	265,006
Bonds	-	-	-	10,641	10,641
<b>TOTAL LIABILITIES</b>	<b>1,270,674</b>	<b>52,051</b>	<b>2,522</b>	<b>1,331,524</b>	<b>2,656,771</b>



Segment assets and liabilities 31 Dec 2017	Retail	Office	Industrial	Corporate	Total
<b>SEGMENT ASSETS</b>					
<b>Non-current assets</b>	<b>4,636,132</b>	<b>437,567</b>	<b>16,234</b>	<b>37,264</b>	<b>5,127,197</b>
Investment property	4,516,718	394,557	16,234	-	4,927,509
— Investment property in use	4,314,302	394,557	16,234	-	4,725,093
— Investment property under development	202,416	-	-	-	202,416
Goodwill	66,390	10,310	-	5,882	82,582
Deferred tax assets	10,769	360	-	1,361	12,490
Investments in joint ventures	16,613	24,243	-	-	40,856
Long-term loans granted to joint ventures	19,636	6,156	-	-	25,792
Other long-term assets	5,927	1,941	-	28,307	36,175
Interest rate derivatives financial assets at fair value through profit or loss	79	-	-	1,714	1,793
<b>Current assets</b>	<b>124,713</b>	<b>15,461</b>	<b>672</b>	<b>719,520</b>	<b>860,366</b>
Trade and other receivables	50,618	5,815	91	4,269	60,793
Financial investments at fair value through profit or loss	-	-	-	326,565	326,565
Equity derivative collateral	-	-	-	265,541	265,541
Financial assets at fair value through profit or loss	-	-	-	11,923	11,923
Cash and cash equivalents	74,095	9,646	581	111,222	195,544
<b>Investment property held for sale</b>	<b>1,528</b>	<b>8,710</b>	<b>-</b>	<b>-</b>	<b>10,238</b>
<b>TOTAL ASSETS</b>	<b>4,762,373</b>	<b>461,738</b>	<b>16,906</b>	<b>756,784</b>	<b>5,997,801</b>

Segment assets and liabilities 31 Dec 2017	Retail	Office	Industrial	Corporate	Total
<b>SEGMENT LIABILITIES</b>					
<b>Non-current liabilities</b>	<b>1,000,715</b>	<b>39,965</b>	<b>2,175</b>	<b>894,427</b>	<b>1,937,282</b>
Bank loans	724,407	10,086	-	-	734,493
Bonds	-	-	-	889,917	889,917
Deferred tax liabilities	245,274	25,329	502	-	271,105
Other long-term liabilities	30,505	4,550	1,673	361	37,089
Interest rate derivatives financial liabilities at fair value through profit or loss	529	-	-	4,149	4,678
<b>Current liabilities</b>	<b>102,332</b>	<b>13,111</b>	<b>392</b>	<b>29,965</b>	<b>145,800</b>
Trade and other payables	92,384	12,491	392	8,286	113,553
Financial liabilities at fair value through profit or loss	-	-	-	10,934	10,934
Bank loans	9,948	620	-	-	10,568
Bonds	-	-	-	10,745	10,745
<b>TOTAL LIABILITIES</b>	<b>1,103,047</b>	<b>53,076</b>	<b>2,567</b>	<b>924,392</b>	<b>2,083,082</b>

The Group's geographical breakdowns per country are detailed below.

Country results 31 Dec 2018	Net rental and re-lated income	Profit before tax	Investment property
Romania	146,847	189,395	2,134,158
Poland	73,670	76,404	1,372,021
Bulgaria	33,176	45,218	507,752
Slovakia	32,570	42,542	550,884
Hungary	23,042	43,720	588,000
Croatia	15,836	17,572	264,909
Czech Republic	10,665	7,977	174,300
Lithuania	5,434	5,439	128,580
Serbia	4,867	15,227	190,466
United Kingdom	(37)	167	-
Holding	-	(167,148)	-
<b>Total</b>	<b>346,070</b>	<b>276,513</b>	<b>5,911,070</b>

Country results 31 Dec 2017	Net rental and related income	Profit before tax	Investment property
Romania	133,259	284,870	1,993,943
Poland	32,465	12,203	1,232,225
Bulgaria	7,297	10,385	476,180
Slovakia	26,633	47,894	405,065
Hungary	5,270	5,903	289,900
Croatia	15,679	20,685	245,275
Czech Republic	8,137	13,492	171,470
Serbia	3,313	5,206	111,724
United Kingdom	32	(1,080)	1,727
Holding	-	(931,102)	-
<b>Total</b>	<b>232,085</b>	<b>(531,544)</b>	<b>4,927,509</b>

\*The Holding segment represents management and holding entities in Isle of Man, The Netherlands, Mauritius, and United Kingdom

RECONCILIATION OF PROFIT FOR THE YEAR TO DISTRIBUTABLE EARNINGS	Group 31 Dec 2018	Group 31 Dec 2017
<b>Profit/(loss) for the year attributable to equity holders</b>	<b>221,855</b>	<b>(579,694)</b>
<b>Reverse indirect result</b>	<b>58,876</b>	<b>776,019</b>
Foreign exchange loss	923	1,255
Acquisition fees	6,079	10,681
Fair value adjustments of investment property for controlled subsidiaries	(108,411)	(162,022)
Gain on disposal of investment property	-	(9)
Gain on acquisition of subsidiaries	(6,933)	-
Fair value and net result on sale of financial investments at fair value through profit or loss	152,047	24,112
Income from financial investments at fair value through profit or loss	(29,132)	(18,084)
Fair value adjustment of Interest rate derivatives financial assets and liabilities for controlled subsidiaries	1,432	(500)
Deferred tax expense for controlled subsidiaries	45,326	46,199
Impairment of goodwill	-	886,167
Adjustments related to joint ventures		
Fair value adjustments of investment property for joint ventures	(4,374)	(14,344)
Fair value adjustment of Interest rate derivatives financial assets and liabilities for joint ventures	(141)	(439)
Deferred tax expense for joint ventures	1,889	2,903
Foreign exchange loss for joint ventures	171	100
<b>Company specific adjustments</b>	<b>24,682</b>	<b>17,004</b>
Amortisation of financial assets	(2,292)	(1,807)
Realised foreign exchange loss for controlled subsidiaries	(912)	(769)
Realised foreign exchange (loss)/gain for joint ventures	(1)	3
Accrued dividend for financial investments	28,122	19,803
Fair value adjustment of Investment property for non-controlling interest	(350)	(392)
Deferred tax expense for non-controlling interest	115	166
Antecedent dividend	-	6,861
Antecedent dividend - Rockcastle distribution Jun 2017	-	49,531
<b>Distributable earnings</b>	<b>305,413</b>	<b>269,721</b>
Less: Distribution declared	(305,413)	(269,721)
Interim distribution*	(153,041)	(126,438)
Final distribution	(152,372)	(143,283)
<b>Earnings not distributed</b>	<b>-</b>	<b>-</b>
Number of shares entitled to interim distribution*	577,800,734	538,953,794
Number of shares entitled to final distribution	577,800,734	577,800,734
<b>Distributable earnings per share (euro cents)</b>	<b>52.86</b>	<b>48.26</b>
Less: Distribution declared per share (euro cents)	(26.49)	(48.26)
Interim distribution per share (euro cents)*	(26.37)	(23.46)

\* Interim distribution, interim distribution per share and number of shares entitled to interim distribution computed on a combined basis for H1 2017.



### 36 CONTINGENT ASSETS AND LIABILITIES

#### Guarantees

Group policy is to provide financial guarantees to subsidiaries to the extent required in the normal course of business.

As at 31 December 2018, the Group had received letters of guarantee from tenants worth €109,920 thousand (31 December 2017: €89,528 thousand) and from suppliers worth €31,577 thousand (31 December 2017: €23,273 thousand) related to ongoing developments.

The Company has an intercompany agreement with one of its subsidiaries pursuant to which it acts as Guarantor on all issued bonds and unsecured committed revolving facilities. In its capacity as Guarantor, the Company charges its subsidiary for a yearly fee. Borrowings are presented in Note 20.

### 37 RELATED PARTY TRANSACTIONS

#### Identity of related parties with whom material transactions have occurred

The subsidiaries and Directors are related parties for the Company. The subsidiaries of the Company are detailed in Note 6. The Directors are related parties for the Group. Directors are presented in the 'Board of Directors' section.

#### Material related party transactions

For the Company, loans to, and investments in, subsidiaries are set out in Note 6. Fees paid to Directors during the current and previous year are detailed in the table below. NEPI and Rockcastle have paid bonuses to the Executive Directors for periods preceding the merger. No other payments were made to Directors by NEPI Rockcastle, except reimbursements for travel and accommodation.

Transactions with joint ventures are presented in Note 34.

Directors' fees	Total Group 31 Dec 18	Company 31 Dec 18	Subsidiaries 31 Dec 18	Total Group 31 Dec 17	Company 31 Dec 17	Subsidiaries 31 Dec 17
Alex Morar <sup>2</sup>	480	420	60	413	353	60
Spiro Noussis <sup>2</sup>	655	-	655	320	-	320
Mirela Covasa	370	292	78	315	212	103
Nick Matulovich	505	-	505	247	-	247
Marek Noetzel	247	-	247	118	-	118
Robert Emslie <sup>3</sup>	78	78	-	51	51	-
Dan Pascariu <sup>3</sup>	55	55	-	50	50	-
Michael Mills <sup>4</sup>	43	43	-	49	49	-
Antoine Dijkstra	60	60	-	48	48	-
Desmond de Beer	57	57	-	47	47	-
Andre van der Veer <sup>4</sup>	66	66	-	23	23	-
Sipho Vuso Majija <sup>1</sup>	23	23	-			
George Aase <sup>5</sup>	23	23	-			
Jeffrey Zidel*	-	-	-	23	23	-
Nevenka Pergar*	-	-	-	23	23	-
<b>Total</b>	<b>2,662</b>	<b>1,117</b>	<b>1,545</b>	<b>1,727</b>	<b>879</b>	<b>848</b>

\* Jeffrey Zidel and Nevenka Pergar have been Directors only until the Merger date in July 2017.

<sup>1</sup>Mr. Sipho Vuso Majija as a Non-Independent Non-Executive Director of the Company with effect from 6 June 2018.

<sup>2</sup>Mr. Alex Morar has been appointed as sole Chief Executive Officer with effect from 12 June 2018. Mr. Spiro Noussis has retired from his position as Executive Director with effect from 31 December 2018.

<sup>3</sup>Mr. Dan Pascariu has retired from his position as Independent Chairman of the Board of Directors of NEPI Rockcastle by not standing for re-election at the annual general meeting of shareholders to be held on 28 August 2018. The Board has appointed Mr. Robert Reinhardt Emslie as the new Independent Non-Executive Chairman of the Company, with effect from the date of the AGM.

<sup>4</sup>Mr. Michael Mills has retired from his position as Independent Non-Executive Director of the Company and Chairman of the Audit Committee with effect from the date of the AGM held on 28 August 2018. Mr. Andre van der Veer has been appointed Chairman of the Audit Committee, with effect from the date of the AGM.

<sup>5</sup>Mr. George Aase was appointed as an Independent Non-Executive Director of the Company with effect from the date of the AGM.

Name of Director	Bonuses paid for executive directors for 2017 performance	Company 31 Dec 18	Subsidiaries 31 Dec 18
Spiro Noussis	560	-	560
Alex Morar	407	407	-
Nick Matulovich	438	-	438
Mirela Covasa	323	323	-
Marek Noetzel	206	-	206
<b>TOTAL</b>	<b>1,934</b>	<b>730</b>	<b>1,204</b>

#### Shares held under the purchase schemes by the Directors or by entities in which they have an indirect beneficial interest

Name of Director	Number of shares held as at 31 Dec 2018
Spiro Noussis	889,788
Alex Morar	23,000
Mirela Covasa	25,000
Marek Noetzel	84,721
<b>TOTAL</b>	<b>1,022,509</b>

*\*There were no changes to the Directors' holdings from 31 Dec 2018 to the approval of the annual audited financial statements.*

Name of Director	Number of shares held as at 31 Dec 2017
Spiro Noussis	1,507,000
Alex Morar	101,000
Nick Matulovich	713,198
Mirela Covasa	75,000
Marek Noetzel	80,349
<b>TOTAL</b>	<b>2,476,547</b>

### 38 SUBSEQUENT EVENTS

The Directors are not aware of any other subsequent events from 31 December 2018 and up to the date of signing these financial statements which are likely to have a material effect on the financial information contained in this report, except for the advanced negotiations to repay over €100 million out of the debt maturing in 2019.



Schedule of properties

All properties located in Romania, Poland, Hungary and Lithuania have been fair valued by Cushman and Wakefield. All properties located in Slovakia, Bulgaria, Croatia, Czech Republic and Serbia have been fair valued by Jones Lang La Salle.

Crt no	Property name	Year opened/ acquired	Type	Location	Ownership	GLA m <sup>2</sup>	Valuation/ Cost to date €m	Passing rent €m	Average rental €/m <sup>2</sup> /month	EPRA Occupancy-
INCOME PRODUCING PROPERTIES						2 024 300	5 688.6	389.0	16.0	97.2%
RETAIL						1 837 700	5 290.0	356.8	16.2	97.2%
1	Bonarka City Center ^	2009/ 2016	Super-Regional Mall	Poland	100%	72 600	378.1	20.2	24.2	95.8%
2	Arena Mall	2007/ 2017	Super-Regional Mall	Hungary	100%	65 800	307.6	20.4	25.9	99.5%
3	Mega Mall	2015	Super-Regional Mall	Romania	100%	75 800	307.3	20.0	22.1	99.3%
4	Mammut Shopping Centre^^	1998-2001/2018	Regional Mall	Hungary	100%	56 100	276.4	16.1	26.7	92.3%
5	Paradise Center**	2013/ 2017	Super-Regional Mall	Bulgaria	100%	81 600	263.6	16.3	19.1	97.7%
6	Arena Centar	2010/ 2016	Super-Regional Mall	Croatia	100%	65 700	242.9	16.0	21.2	97.9%
7	Promenada Mall	2013/ 2014	Lifestyle Centre	Romania	100%	39 400	198.5	12.9	27.8	97.2%
8	City Park	2008/ 2013	Regional Mall	Romania	100%	52 100	185.3	13.0	21.2	96.7%
9	Aupark Kosice Mall	2011/ 2014	Regional Mall	Slovakia	100%	34 100	172.7	10.1	26.0	95.3%
10	Serdika Center	2010/ 2017	Regional Mall	Bulgaria	100%	51 400	166.5	12.8	21.0	99.3%
11	Galeria Warminska	2014/ 2016	Regional Mall	Poland	100%	42 700	159.9	10.5	20.5	99.9%
12	Karolinka Shopping Centre	2008/ 2015	Regional Mall	Poland	100%	70 500	152.5	9.6	11.6	95.9%
13	Shopping City Sibiu	2006/ 2016	Super-Regional Mall	Romania	100%	79 400	132.2	9.9	10.5	96.2%
14	Promenada Novi Sad	2018	Regional Mall	Serbia	100%	49 200	129.1	9.6	16.8	98.2%
15	Aupark Zilina	2010/ 2013	Regional Mall	Slovakia	100%	24 900	129.1	8.1	27.2	99.9%
16	Shopping City Timisoara	2015-2016	Regional Mall	Romania	100%	56 900	128.9	9.1	13.4	98.6%
17	Galeria Mlyn Shopping Centre	2009/2018	Regional Mall	Slovakia	100%	32 400	128.4	8.0	21.0	99.3%
18	Ozas Shopping and Entertainment Centre	2009/2018	Regional Mall	Lithuania	100%	62 400	128.3	9.9	13.8	98.0%
19	Focus Mall Zielona Gora	2008/ 2016	Regional Mall	Poland	100%	28 900	123.5	7.4	22.4	97.8%
20	Shopping City Galati	2013	Regional Mall	Romania	100%	49 100	108.8	8.1	14.3	96.8%
21	Alfa Centrum Bialystok	2008/ 2017	Regional Mall	Poland	100%	36 900	98.6	6.7	16.7	96.7%
22	Iris Titan Shopping Center	2008/ 2015	Community Centre	Romania	100%	45 000	98.0	8.5	15.8	99.3%
23	Forum Ústi nad Labem	2009/ 2016	Regional Mall	Czech Republic	100%	27 800	90.6	5.4	16.4	98.6%
24	Forum Liberec Shopping Centre	2009/ 2016	Regional Mall	Czech Republic	100%	46 500	83.7	5.7	12.7	84.0%
25	Shopping City Deva	2007/ 2013	Regional Mall	Romania	100%	52 500	80.4	6.7	10.6	100.0%
26	Platan Shopping Centre	2003/ 2015	Regional Mall	Poland	100%	39 400	80.4	4.4	10.2	93.6%
27	Braila Mall	2008/ 2009	Regional Mall	Romania	100%	55 300	80.1	6.4	9.8	96.6%
28	Pogoria Shopping Centre	2008/ 2015	Regional Mall	Poland	100%	36 700	79.3	5.1	11.7	99.7%
29	Aura Centrum	2005/2018	Regional Mall	Poland	100%	25 400	65.7	6.0	20.3	971%
30	Galeria Wolomin *	2016	Regional Mall	Poland	90%	30 700	61.2	4.1	11.3	97.0%
31	Solaris Shopping Centre***	2009/ 2015	Regional Mall	Poland	100%	17 100	60.7	3.1	17.4	90.5%
32	Vulcan Value Centre	2014	Community Centre	Romania	100%	24 600	58.2	4.2	14.2	100.0%
33	Focus Mall Piotrkow Trybunalski	2009/ 2016	Regional Mall	Poland	100%	35 200	52.1	4.5	11.4	91.6%
34	Shopping City Piatra Neamt	2016	Regional Mall	Romania	100%	28 000	51.8	3.7	11.0	99.8%
35	Shopping City Satu Mare	2018	Regional Mall	Romania	100%	29 200	48.4	3.4	10.2	97.3%
36	Shopping City Targu Jiu	2014	Regional Mall	Romania	100%	27 100	46.8	3.5	10.8	99.5%
37	Shopping City Râmnicu Vâlcea	2017	Regional Mall	Romania	100%	28 200	45.2	3.6	11.0	96.8%
38	Kragujevac Plaza	2012/ 2014	Regional Mall	Serbia	100%	22 300	44.2	3.6	13.5	99.4%
39	Aupark Shopping Center Piestany	2010/ 2016	Community Centre	Slovakia	100%	10 300	41.9	2.5	20.6	971%
40	Korzo Shopping Centrum	2010-2011/ 2016	Community Centre	Slovakia	100%	16 100	41.5	3.0	15.5	98.4%
41	Severin Shopping Center	2009/ 2013	Regional Mall	Romania	100%	22 600	35.6	2.6	9.6	100.0%
42	Galeria Tomaszow *	2016	Regional Mall	Poland	85%	18 400	33.0	2.7	12.4	98.4%
43	Pitesti Retail Park	2007/ 2010	Community Centre	Romania	100%	24 800	31.0	4.0	13.4	98.7%
44	Aurora Shopping Mall	2008/ 2014	Regional Mall	Romania	100%	17 900	23.2	2.4	11.5	84.7%
45-51	Regional strip centres	2007-2014	Strip Centres	Romania	100%	28 700	38.8	3.0	8.7	99.7%
OFFICE						158 800	383.0	30.2	15.8	97.7%
52	Floreasca Business Park	2009/ 2010	Office	Romania	100%	36 300	105.1	7.8	18.2	96.5%
53	City Business Centre	2007-2015/ 2015	Office	Romania	100%	47 800	94.2	8.2	14.4	96.9%
54	The Lakeview	2010/ 2013	Office	Romania	100%	25 600	69.1	5.3	17.4	99.5%
55	Serdika Office	2011 / 2017	Office	Bulgaria	100%	28 500	52.5	4.3	12.7	99.5%
56	Victoriei Office	2017	Office	Romania	100%	7 800	40.8	2.8	29.9	97.7%
57	Aupark Kosice Tower	2012/ 2014	Office	Slovakia	100%	12 800	21.3	1.8	11.7	96.9%
INDUSTRIAL						27 800	15.6	2.0	6.0	98.3%
58	Rasnov Industrial Facility	2007	Industrial	Romania	100%	23 000	11.0	1.4	5.2	97.6%
59	Otopeni Warehouse	2010	Industrial	Romania	100%	4 800	4.6	0.6	10.4	100.0%

\* The Group holds 90% interest in Galeria Wolomin and 85% in Galeria Tomaszow. Galeria Wolomin and Galeria Tomaszow are accounted for at 100% in the IFRS financial statements and a corresponding 10% and 15% non-controlling interest is included in Equity.

\*\* Operating GLA of 7,500m² was subject to refurbishment works as at 31 December 2018 and excluded for the purpose of EPRA vacancy computation.

\*\*\* The operating GLA of the property as at 31 December 2018 was 17,100m² out of which 3,200m² are subject to refurbishment works.

^ Auchan, a major tenant, owns their premises of 20,600m². Total GLA of the property including this premises is 93,200m².

^^ The centre offers 61,300m² of total GLA, out of which 56,100m² owned by the Group.

- EPRA Occupancy ratio = 1 - EPRA Vacancy ratio

The Schedule of properties excludes joint ventures properties valued at €116.6 million, generating a passing rent of €9.1 million, and non-core properties held for sale with a market value of €12m, generating a passing rent of €0.9 million.

Crt no	Property name	Type	Location	Ownership	GLA m <sup>2</sup>	Valuation/ Cost to date €m	Estimated Rental Value €m
TOTAL DEVELOPMENTS AND LAND BANK						267 800	222.5
DEVELOPMENTS UNDER CONSTRUCTION						93 700	82.7
60	Festival Sibiu	Development	Romania	100%	42 200	35.0	8.0
19	Focus Mall Zielona Gora	Extension and Refurbishment	Poland	100%	15 000	7.9	5.1
6	Arena Centar (Retail Park)	Extension	Croatia	100%	8 300	9.5	2.2
31	Solaris Shopping Centre	Extension and Refurbishment	Poland	100%	8 900	16.1	2.1
44	Aurora Shopping Mall	Extension and Refurbishment	Romania	100%	6 000	6.9	1.3
61	Retail park Krusevac - Phase I	Development	Serbia	100%	8 500	3.3	0.9
13	Shopping City Sibiu - Phase II	Extension and Refurbishment	Romania	100%	3 700	2.8	0.8
28	Pogoria Shopping Centre	Extension and Refurbishment	Poland	100%	1 100	1.2	0.2
DEVELOPMENTS UNDER PERMITTING AND PRE-LEASING^						174 100	78.3
7	Promenada Mall	Extension	Romania	100%	62 300	35.7	
62	Shopping City Targu Mures	Development	Romania	100%	41 300	16.9	
63	Promenada Plovdiv	Development	Bulgaria	100%	59 500	25.2	
40	Korzo Shopping Centrum	Extension	Slovakia	100%	11 000	0.5	
Land held for future developments and extensions							61.5

^ The developments under permitting and pre-leasing's GLA depends on permitting.

The schedule of developments excludes land held for developments related to joint ventures valued at €1.7 million.



# GLOSSARY

**Collection rate:** operational performance indicator computed as the allowance for doubtful debt (as recognized in the Statement of Comprehensive Income) divided by the gross rental income and service charge income

**Committed projects:** projects currently under construction, for which the group owns the land or building rights and has obtained all necessary authorizations and permits

**Like-for-like:** operational measure that computed based on the investment property excluding acquisitions, divestments, transfers to and from investment property under development and all other changes resulting in significant change to the square meters of a property

**Loan-to-value (LTV):**  $(\text{Debt} - \text{Cash}) / (\text{Investment property} + \text{net listed securities}^*)$ .

\*Net listed securities presented under the following lines:

Financial investments at fair value through profit or loss

+ Equity derivative collateral

+ Financial assets at fair value through profit or loss

-Financial liabilities at fair value through profit or loss

**Occupancy cost ratio (Effort ratio):** Annual Base rent and, overage rent, service charge and marketing contribution, divided by tenant sales; excludes sales reported by hypermarkets common charges and all other related costs, divided by tenant sales

**(Weighted) average cost of debt:** a mathematical measure of the finance expense divided by the periodical average outstanding debt.

**Adjusted net asset value** is calculated by adjusting the Equity with the non-monetary items, adding back the net deferred tax liability and subtracting goodwill

EPRA measures

**EPRA Earnings:** Underlying operational performance of a real estate company, computed as profit after tax attributable to the equity holders of the Company, excluding non-controlling interest, fair value adjustments of investment property, profits or losses on investment property disposals and related tax adjustment , acquisition costs, fair value and net result on sale of financial investments at fair value through profit or loss and deferred tax expense

**EPRA Net Assets (EPRA NAV):** Net assets per the statement of financial position, excluding the goodwill, deferred taxation net balance and mark-to-market of interest rate derivatives.

**EPRA Triple Net Asset Value (EPRA NNNAV):** EPRA NAV adjusted to include the fair values of i financial instruments, debt and deferred taxes.

**EPRA Net Initial Yield:** annualized rental income based on passing cash rents, less non-recoverable property operating expenses, divided by the market value of the property/portfolio.

**EPRA ‘topped-up’ Yield:** EPRA Net Initial Yield adjusted to reflect rent after the expiry of lease incentives such as rent free periods and rental discounts

**EPRA Vacancy Ratio:** vacancy ratio computed based on estimated rental value of vacant space compared to the estimated rental value of the entire property.

**EPRA Occupancy Ratio:** 1 - EPRA Vacancy ratio



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