NEPI ROCKCASTLE

2019 ANNUAL REPORT

NEPI ROCKCASTLE

EXCELLENCE. INNOVATION. EXPERIENCE.

Visit our website
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

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PHOTO: MAMMUT SHOPPING CENTRE, HUNGARY

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Performance and operations

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 €6.3 billion (including Romanian office portfolio held for sale).

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 efficiently, benefiting from a strategic advantage in the acquisition, development and management of properties.

NEPI Rockcastle owns and operates 53 retail properties (excluding joint venture) which attracted 325 million visits in 2019. 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"), Euronext Amsterdam ("Euronext") and A2X. The Group distributes 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.

EPRA

Silver Prize awarded after the first year of EPRA membership

SUSTAINALYTICS

ESG Risk rated as **Low**

MSCI

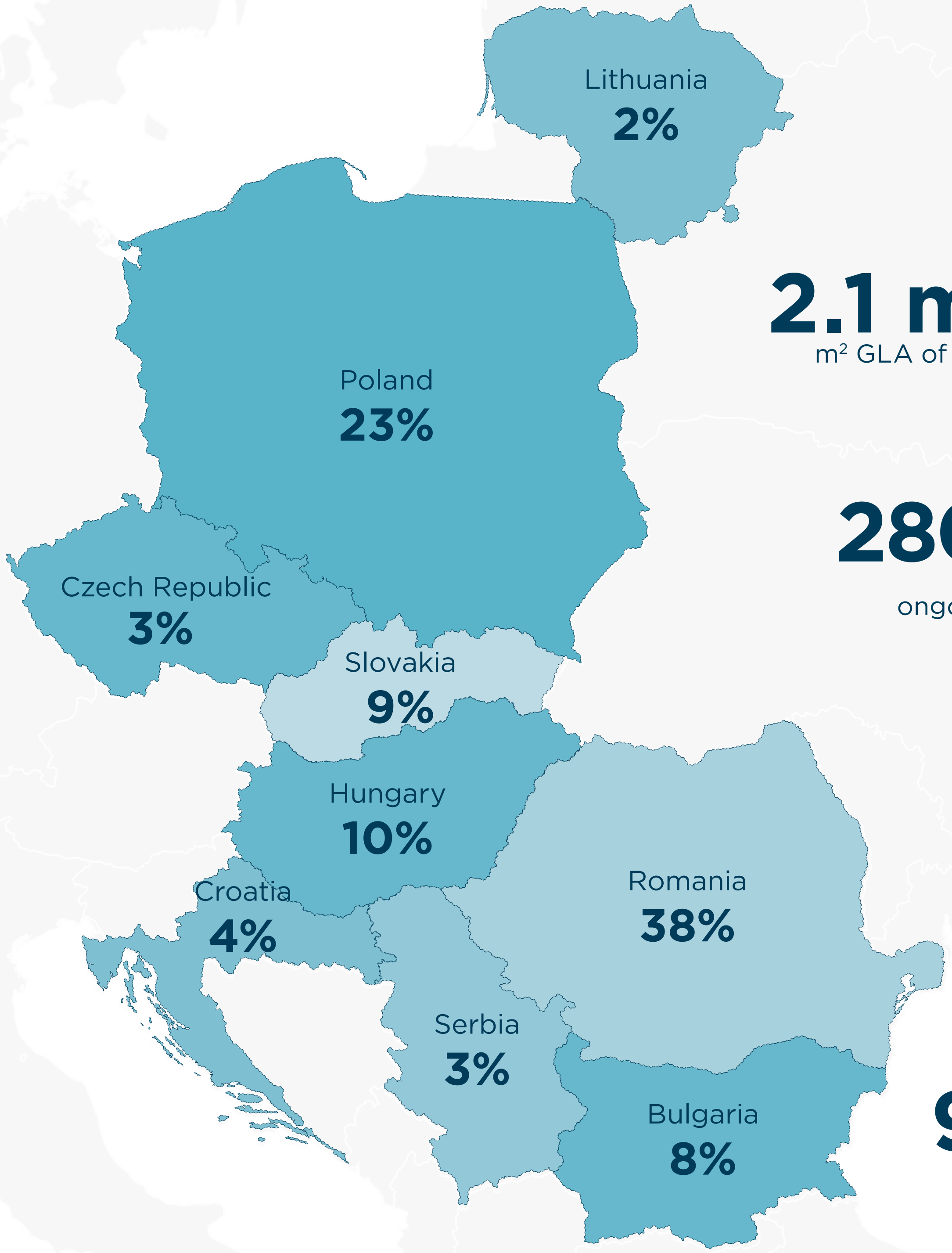
AA
ESG rating

"leader"
among 86 companies in the real estate management & services industry

€6.3 billion*

investment property portfolio

PROPERTY PORTFOLIO BY COUNTRY
(by market value)



325 million
visits in 2019

2.1 million
m² GLA of income-producing properties

280,000
m² GLA of ongoing developments and extensions

99.9%
collection rate

97.9%
EPRA occupancy rate

over
440
professionals

* *Includes Romanian office portfolio held for sale*

CEO's statement

The Group achieved a solid growth in earnings per share of 6.6% in 2019, in line with guidance, reflecting the high quality of the underlying asset base. NEPI Rockcastle's talented team played a key role in achieving these results through their efforts to enhance and maintain our assets' attractiveness to tenants and visitors.

Twelve years since inception and three since the successful merger, NEPI Rockcastle's assets continue to outperform. Capitalising on its dominance in the Central and Eastern European real estate markets, the Company intensified its focus on expanding, re-designing and re-tenanting its shopping centres during 2019. Shopping environments were improved with differentiating retailers and new leisure and entertainment activities, which resulted in the overall growth of retail sales and footfall.

In the current market context, the Group's strong presence in capital and primary cities of CEE provides an appealing platform for international retailers, and the unique partnerships with top brands ensure the long-term sustainability of the Group's centres. The team is focused on understanding the consumption and technological trends, as well as new demographical dynamics, and adapt the feel of the centres and range of services on offer to customers' needs.

Our robust business enabled the strong access to funding of NEPI Rockcastle, having issued €1 billion in unsecured bonds and €161 million in new equity. The Group had a €861 million liquidity at year-end, out of which €575 million in undrawn revolving facilities, which provides a strong base for pursuing new opportunities in 2020.

As part of the focus to streamline the asset base, the Group proceeded with the announced divestment of its Romanian office portfolio in December 2019. The transaction is expected to complete in April 2020. The disposal proceeds will be used for financing the significant development pipeline, a key source for future growth, and new investments aimed to maintain or increase the overall quality of our portfolio.

The Company increased its focus on Environmental, Social and Corporate Governance (ESG) initiatives, and was assigned a low ESG risk by Sustainalytics, while also entering FTSE4Good index. NEPI Rockcastle is committed to further improve its environmental performance, social impact and strong adherence to best Corporate Governance practices.

Building on its strengths, the Group envisages to focus on retail in 2020, while also pursuing complementary mixed-use developments and working on further consolidating its business model to maximise long-term sustainability and performance. NEPI Rockcastle's position, in the medium- and long-term, is unrivalled due to an exceptional team, high-quality asset base and strong markets fundamentals.

Further to the market events which have unfolded since the publication of the 2019 financial statements, the management team is currently focused on driving the business smoothly through the turmoil generated by COVID-19. The strategic positioning of the Group as lowly geared, with adequate liquidity, and the geographically diversified and high-quality asset base, are advantages which will contribute significantly to the Group's ability to weather this storm well. Priorities include focusing on our staff, business continuity and stability of the communities where NEPI Rockcastle is present, while ensuring the most suitable allocation of capital in the coming period. Management is coordinating the numerous on-the-ground teams in the nine countries of our operations, to ensure relevant and adequate measures in each one of our locations for preserving the safety of our staff and customers. We remain confident that we are best placed among our peers to continue with a strong performance in 2020 and the years to come.

17 March 2020

ALEX MORAR
Chief Executive Officer

Chairman's statement

NEPI Rockcastle continued to thrive in 2019, reaffirming itself as the leading retail property investor in Central and Eastern Europe ('CEE'). The Group delivered robust growth, in line with guidance, in a competitive environment. The CEE as a region once again outperformed the rest of the European Union and looks set to continue showing superior growth rates in both retail and the wider economy. All nine markets where NEPI Rockcastle is present have strong potential for sustainable growth. The convergence to Western Europe levels of consumption and GDP per capita is a structural phenomenon and will continue to play out in the economic environment, ensuring long-term increase in both traditional and online retail.

In the past year, NEPI Rockcastle continued to implement its strategy of delivering sustainable long-term growth through active asset management of its properties and successful development of new projects. The Group is firmly focused on commercial retail in CEE, sector and region which continue to provide attractive growth opportunities. There are headwinds for sure, including the challenge of integrating offline with online commerce (albeit to much less extent than in Western Europe and US), that management are proactively dealing with through property selection and repositioning. Fundamentally, we are confident in the long-term viability of the Group's business model and management's ability to seize the opportunities available.

The Board together with the management team are constantly assessing new strategic options. The ultimate focus is on creating sustainable value for stakeholders and there is a great degree of flexibility as to the means of achieving that goal.

The business has a strong management team in place, capably led by Alex Morar. The competence and skill of the management team has been constantly proven by the Group's increasingly established position as CEE's largest and most successful retail property investor, as well as a track record of outperforming peers in delivering shareholder value. At Board level, we aim to further strengthen the quality of governance by co-opting experienced professionals who can contribute fresh insights and independent views. Andreas Klingen, a highly qualified professional with decades of experience in finance, investment, real estate and retail across Europe, Russia and Central Asia, was appointed as independent non-Executive Director in April 2019. Additional independent candidates are being considered, to further strengthen the Board. An independent professional firm was recently appointed to evaluate the design and effectiveness of the internal control environment, related to Corporate Governance, to ensure that it is suitable for a business of the size and complexity that NEPI Rockcastle has achieved; this review is ongoing, with no significant findings to date. Considering the above, the completion of all investigations regarding NEPI Rockcastle by South Africa's Financial Sector Conduct Authority and finding all allegations made against the Company as ungrounded was the expected outcome.

Looking forward, NEPI Rockcastle will continue to build on a strong foundation. New challenges are emerging at all times, as we are currently witnessing during this period, and businesses must be able to adapt and thrive in the most unexpected circumstances.

The Board is in close communication with the management team as it works to determine the risks related to the COVID-19 impact on the business environment, as well as mitigate the negative impact on the Group's activities and determine the actions that can be implemented to assist the communities where NEPI Rockcastle operates. At this report is published, events are unfolding rapidly, and market and operational information is being assessed continuously. The Board is confident that the Group will overcome these challenges and continue to outperform its peers. This will be the result of a long-held commitment to sustainability and resilience, as shown by the Group's strong balance sheet, prudent investment philosophy and high-quality, diversified portfolio, combined with the management team's agility and skill.

17 March 2020

ROBERT EMSLIE
Chairman

Directors' report

HIGHLIGHTS*

STRONG GROWTH IN DISTRIBUTABLE EARNINGS

- Distributable earnings per share for the second half of 2019 (H2 2019) of 27.31 eurocents.
- Combined with interim distribution of 29.02 eurocents, produces an annual distribution of 56.33 eurocents.
- Distributable earnings are 6.6% higher than 2018 (52.86 eurocents), slightly above previously issued guidance of 6.5%.

OPERATIONAL PERFORMANCE

- Net rental and related income (referred to as Net Operating Income or 'NOI') of €401 million, 16% growth compared to €346 million in 2018.
- NOI increase for retail sector 6.2% on a like-for-like ('LFL') basis, with total rent increase 4.9%, driven by successful lease revisions and vacancy reduction.
- Lease agreements indexed on average by 1.7%.
- Turnover (variable) rent and overage rent (on top of fixed rent) represent 5.5% and 3.3% of gross rental income respectively.
- 325 million visits, 5.9% increase compared to 2018 and 1.5% increase LFL.
- Tenant turnover increased 6.8% LFL (excluding hypermarkets).
- Tenant turnover/m^2 increased 6.4% LFL (excluding hypermarkets).
- Collection rate remained 99.9%, with €0.8 million net expected credit losses and no significant retail failures.
- Sustainable occupancy cost ratio ('OCR') 11.9% on a total basis and 12.2% on a LFL basis (excluding hypermarkets), similar to 2018.
- EPRA vacancy rate across income-producing portfolio 2.1% as of December 2019, excluding 14,000m^2 Gross Lettable Area ('GLA') under refurbishment at Focus Mall Zielona Gora, Shopping City Buzau and Forum Liberec Shopping Centre. All properties have an EPRA occupancy of over 90%.

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


PHOTO: AUPARK ZILINA, SLOVAKIA

ROBUST BALANCE SHEET

- Portfolio valued at €6.3 billion, including Romanian offices held for sale and excluding carrying value of right-of-use asset related to leased land areas recognised as per IFRS 16, compared to €5.9 billion at the end of 2018.
- EPRA Net Asset Value ('EPRA NAV') per share of €7.32 and International Financial Reporting Standards ('IFRS NAV') per share of €6.83 compared to €7.09 and €6.66 in the previous year, respectively.
- Significant liquidity of €861 million, including cash, unused revolving facilities and a €77 million net listed securities portfolio (comprising Unibail-Rodamco-Westfield shares less related debt).
- Unsecured revolving facility increased from €400 million to €575 million (the new facility is Environmental, Social and Governance 'ESG'-linked).
- Fair value gains from the property portfolio of €135 million, mostly arising from higher NOI, while average portfolio yield is 6.82%, similar to the 6.84% average yield in 2018.
- Agreement signed to dispose of Romanian offices at IFRS NAV.
- Loan-to-value ratio ('LTV') 32%, below 35% strategic target and comfortably within 60% unsecured debt covenant (including investment property held for sale and excluding immaterial impact from IFRS 16).
- Investment grade ratings by Standard & Poor's and Fitch Ratings (BBB, stable outlook).
- Corporate Governance continuously improved.
- Developing a green framework, aimed at improving asset efficiency and attracting environmentally friendly (green) financing.
- Weighted average cost of debt 2.4%.
- Long-term interest rate exposure 100% hedged (excluding revolving facilities, fully available at year-end), with a remaining weighted average hedge term of 4.6 years.

Directors' report
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EXCELLENT TENANT PERFORMANCE

Tenants' turnover grew strongly during 2019, illustrating high-performance of assets and strength of the Central and Eastern Europe ('CEE') economies.

COUNTRY HIGHLIGHTS (LFL)

Retail Performance Review 2019	NOI growth	Tenant sales growth	Footfall growth	OCR^
	%	%	%	%
Retail LFL	**6.2**	**6.8**	**1.5**	**12.2**
Romania	6.3	10.5	1.3	12.2
Poland	5.2	2.7	2.7	11.0
Bulgaria	8.2	4.8	4.3	12.7
Slovakia	2.5	5.3	0.6	14.0
Hungary	9.9	5.8	(4.5)	13.4
Czech Republic	5.5	8.4	2.0	12.8
Serbia	9.7	13.7	3.2	11.9

^ Occupancy cost ratio

**Croatia and Lithuania are excluded due to non-LFL portfolios.*

Romania: Very strong turnover reported by tenants as more items sold per purchase, due to more relevant retail mix, enhanced dominance and increased consumption.

Poland: Despite fewer trading days compared to the previous year, NOI improved due to increased footfall and turnover and rising rental income. Vacancy rose temporarily as a result of the strategy of substituting low-performing tenants for successful brands and new facilities. The Group will continue that strategy going forward. For example, in Bonarka City Center, Leroy Merlin will be replaced with fashion and fitness tenants and in Karolinka Shopping Centre, Agata Meble with Helios Cinema.


PHOTO: PROMENADA SIBIU, ROMANIA

Bulgaria: NOI increased faster than tenant turnover, as temporarily empty units were leased during Paradise Center refurbishment: vacancy will gradually decrease until third quarter ('Q3') 2020 when work is estimated to complete. Additionally, the centre has introduced higher parking charges, following increased public parking taxes.

Slovakia: NOI growth lags behind average, despite increase in tenant turnover, because renewal cycles at Aupark Kosice Mall and Aupark Zilina have not yet commenced.

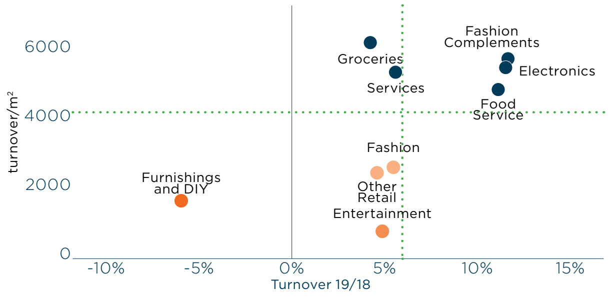
Hungary: Recently introduced parking charges, which typically decrease passive footfall in the short term, led to a reduction in footfall, further affected by Budapest's ongoing work on road infrastructure. NOI grew rapidly, mainly due to tenancy reviews.

OCR, comparing tenant costs (rent, service charges and marketing) with tenant turnover, is similar to 2018, although operating charges have generally risen due to increasing cost of utilities and labour throughout CEE. Current OCR levels are sustainable and healthy.

RETAIL SEGMENTS PERFORMANCE

Retail performance (tenant turnover/m² versus turnover growth LFL)

RETAIL CATEGORIES GROWTH*
2019 VS 2018 (LFL basis)



** Excluding Non-GLA & Hypermarkets, including joint ventures*

··· LFL retail portfolio average

The fastest growing segments are Fashion Complements (jewellery, cosmetics, perfumeries, eyewear and fashion accessories), and Electronics, illustrating a change of shopping habits and an increase in disposable income across CEE. Food service (cafes, restaurants and fast food outlets) had the third biggest growth, highlighting an increase in socialising and leisure activities. The Group continuously monitors segment and tenant performance, developing strategies for individual properties. Refurbishment of Mega Mall and Forum Liberec Shopping Centre food courts illustrates active asset management initiatives aimed at maintaining or improving appeal.

Furnishing and DIY account for 6.5% of the total retail GLA. The turnover decrease is due to the replacement of Agata Meble with an entertainment operator, Helios Cinema, in Karolinka Shopping Centre.

Entertainment and wellness options include cinemas, bowling alleys, fitness clubs, kids' zone or children's areas, outdoor square for events, skating rinks, spa services, hair and nails salon services, massage therapy. Groceries had a slower growth than other segments despite maintaining high turnover/m², as neighbourhood convenience stores are increasingly popular across CEE at the expense of super and hyper-markets. The segment retains relevance as it drives footfall, and the Group is actively attracting smaller outlets, such as Kaufland in Promenada Sibiu.

Leisure and entertainment options such as cinemas, bowling, gyms, kids' playgrounds, spas and beauty salons and sit-down restaurants add significant value, by transforming the Group's centres into lifestyle destinations in their catchment areas.


PHOTO: ALFA CENTRUM BIALYSTOK, POLAND

Directors' report
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ADAPTING TO THE CHANGING RETAIL ENVIRONMENT

BEST LOCATIONS IN RAPIDLY GROWING ECONOMIES

The Group's retail strategy is to own dominant malls in prime locations within the EU's fastest growing economies, in unsaturated markets.

97% of the portfolio is located in cities with catchment areas of over 150,000 inhabitants, while 45% of the portfolio is located in capital cities (and Krakow, considered similar to a capital city). Purchasing power in NEPI Rockcastle's catchment areas generally exceeds the national average. Additionally, investments in smaller cities are based on market factors, such as tenant demand and limited competition.

The vast majority of the properties are located centrally in those cities, at the intersection of main traffic arteries, with good access and visibility. Over 95% of NEPI Rockcastle's properties are accessible by public transportation, while more environmentally friendly amenities, such as bikes racks or electrical car charging stations are available or extended across the portfolio.

HIGH-QUALITY, DOMINANT CENTRES

During 2019, the Group enlarged its portfolio by 83,700m^2 through its developments and extensions completed in Romania, Poland, Croatia and Serbia. The Group's expansion is ongoing with 9 projects (developments and extensions) totaling more than 280,000m^2 GLA across four CEE countries.

The Group focuses on modern, high-quality assets, with 94% of the properties being less than 15 years old. Long-term, strong relationships with tenants lead to being the destination of choice for international retailers entering the Group's respective markets. The comprehensive offering and tenant mix drive rental growth, and extension options deter future competition.

NEPI Rockcastle has continually increased the quality of its portfolio by active asset management, and also by acquiring and developing dominant assets. In 2017, after merger, the Group operated in six countries, owning 34 retail assets (excluding strip centres) with an average GLA of 36,600m^2; by the end of 2019 the Group was present in 9 countries with 46 malls (excluding strip centres) averaging 41,000m^2.

Total retail GLA has increased by 642,800m^2 since the merger, with €701 million investment in developments and €1.4 billion investment in acquisitions.

MIXED USE

The Group continues to invest in the development of mixed-use properties providing synergies with its shopping malls. For example, NEPI Rockcastle is committed to the development of the office component of the Promenada Mall extension in Bucharest, for an estimated cost (including additional parking) of €55 million. The Group is also planning residential developments adjacent to its shopping malls. These developments are currently in the design and permitting phase, have an estimated construction cost of €83 million, and the first units are expected to be completed in two years.


PHOTO: MAMMUT SHOPPING CENTRE, HUNGARY


PHOTO: SHOPPING CITY BUZAU, ROMANIA

ONGOING STRATEGIC REVIEW

In May 2019, the Group sold its 50% stake in The Office Cluj-Napoca at a premium to IFRS NAV. Also, during December 2019 the Group entered into an agreement for the disposal of the Romanian office portfolio. The unconditional approval of the Romania Competition Council was obtained and the formalities with Trade Registry were successfully implemented in February 2020; the transaction is scheduled to close in April 2020. Proceeds from disposals will fund the acquisition and development pipeline, which is estimated to have higher growth potential than offices. The new investments will continuously improve overall portfolio quality. The Group is constantly reviewing the portfolio performance, and non-core assets will be considered for disposal.

ACTIVE ASSET MANAGEMENT

The Group developments and extensions take into consideration the latest trends. Emphasis is placed on creating a modern, yet comfortable and friendly atmosphere, and ensuring sufficient entertainment options, the main factor attracting customers. The Group focuses on improving lighting, using quality materials and attractive colours, creating enticing and memorable entrances, raising ceiling height and designing attractive shopfronts. Similarly, improving accessibility and visibility is essential.

Particular attention is paid to the food and entertainment facilities, creating social and entertainment hubs. Typically, this involves improving tenant space quality and size, favouring full-service, sit-down restaurants and popular local cuisine, enlarging seating areas, adding terraces and maximising natural light. These initiatives produce measurable results. Footfall increase for recently completed refurbishments, extensions and redevelopments, ranges from 12% (Arena Centar) to 32% (Platan Shopping Centre). At Arena Centar, Zagreb, the partial refurbishment and extension raised tenant turnover by 12.2%. Similarly, the Mega Mall food court refurbishment (completed July 2019) improved turnover by 23.1% (64% higher than Romanian growth average). The Group also modernised food courts in Forum Liberec Shopping Centre, Shopping City Sibiu and Shopping City Buzau, increasing area and upgrading tenant mixes.

Opened in November 2019, Promenada Sibiu has a 3,500m^2 outdoor terrace while the dining and entertainment area accounts for 18% of total GLA. Given Sibiu's appeal to tourists, and changes in visitor expectations, the new mall includes a large selection of full-service, sit-down restaurants, of which almost 30% are local operators, providing a wide variety of local, national and international flavours.

Similarly, Shopping City Targu Mures, opening in the second quarter ('Q2') 2020, will have sizeable food court and entertainment facilities, combining renowned brands such as Cineplexx, Chopstix, KFC, Mesopotamia and Salad Box as well as an arcade, a playground and a pub.

OMNICHANNEL FOCUS

NEPI Rockcastle's omni-channel strategy includes: (i) all centres adopting all delivery methods; (ii) adding successful omnichannel and online-only retailers to tenant mix, and (iii) building a platform enabling retailers to communicate with the catchment area community. Integration of omni-channel into the Group's activities is ongoing, and partnership with delivery companies and online retailers is already established.

Lower CEE e-commerce penetration, highly popular shopping centres and less high street outlets provide the perfect opportunity to successfully combine off and online retail, providing customers with the best of both worlds. The Group's collaboration with online retailers continued throughout 2019, with several new openings across the portfolio, including eobuwie, eMag and Notino. Notino has cross-border cooperation with NEPI Rockcastle and opened its first shops in Bulgaria, Hungary, Poland and Romania. Similarly, eobuwie extended its Polish portfolio, opening stores in Galeria Warminska and Karolinka Shopping Centre, while eMag, Romania's largest online marketplace operator, with a presence in Bulgaria and Hungary, relocated Sibiu's high-street showroom to the new Promenada Sibiu.

The assimilation of online delivery into the physical retail environment, click-and-collect, delivery points, integrates retailers' operations with customers' habits, resulting in higher footfall and increased sales due to up-selling.

Throughout 2019, the Group's portfolio hosted significant events and campaigns, such as light shows, educational lectures (including TEDx), stand-up comedy, fashion shows, rooftop parties, food truck events, culinary performances and live, national television broadcasts, which increased community integration. Children were treated to stimulating and educational presentations, including an interactive PAW Patrol exhibition, LEGO festival, science fairs and virtual reality (VR) contests.

Directors' report
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DYNAMIC LEASING

LEASING STRATEGY

Leveraging the Group's strategic position and knowledge, all 2019 completed developments and extensions opened with over 93% letting.

In the past two years NEPI Rockcastle completed five greenfield retail projects totalling 137,500m^2 GLA, and 14 asset management initiatives resulting in extensions or refurbishments, of 243,000m^2 GLA, together representing 20% of the total portfolio. This demonstrates the Group's commitment to upgrading the portfolio and reacting to the latest trends.

In 2019, 715 new leases were signed (excluding extensions), of which 483 (9% of total active leases at portfolio level) were for existing properties, illustrating the Group's pro-active approach to improving tenant mix and offering customers the most successful concepts. In 2019, 165,000m^2 of new leases were secured. This extensive activity created a lower EPRA vacancy rate of 2.1% including temporary vacancies that allow new entries and improvements in the tenant mix. High occupancy is consistent throughout portfolio.

Electronics segment turnover is growing rapidly (11.5% LFL increase in 2019). During the past two years, the Group has attracted high-tech retailers, such as Hewlett-Packard, Garmin, Lenovo, Miele, Sony and Xiaomi, and right-sized the multi-brand concepts such as Altex, Elipso and Technopolis.

Lease terms have not changed significantly in recent years: the majority of tenants pay fixed rent plus turnover (on top of fixed rent), all leases are in euros, with rent and marketing fees annually indexed with consumer prices indices, and the vast majority of service charges are recoverable.

NEPI Rockcastle monitors tenant sales and replaces underperforming tenants in order to increase customer attractiveness and boost income potential. In Bulgaria, Forever 21 was replaced with the latest concept of the German shoe store, Humanic (929m^2), in Paradise Center, and with Turkish retailer DeFacto (1,400m^2), a market entry in the country, in Serdika Center (currently being furbished). Also, two underperforming cinemas were replaced with Cinema City in Mammut Shopping Centre and with Cineplexx in Iris Titan Shopping Center.

ANCHOR TENANTS

Top 10 tenants by passing rent*	
LPP Fashion (Cropp Town, House, Mohito, Reserved, Sinsay)	3.8%
Auchan	3.5%
Inditex (Bershka, Massimo Dutti, Oysho, Pull and Bear, Stradivarius and Zara)	3.1%
Carrefour	2.7%
H&M	1.9%
New Yorker	1.6%
CCC	1.4%
Peek&Cloppenburg	1.3%
Deichmann	1.1%
C&A	1.1%
TOTAL	**21.5%**

** For turnover only tenants, the percentage above includes the fixed rent advance payments only.*

Key tenant relationships are managed at group level by a dedicated team. Relying on its in-house expertise, the Group maintains direct and constant communication with important tenants and, as the CEE's largest retail landlord, has significant leverage when negotiating leases.

TENANT MIX

The Group ensures that its centres are customers' favourite places where they enjoy spending their time, whether shopping, dining or seeking entertainment. NEPI Rockcastle offers a strong, diversified range of retail and leisure activities, keeping pace with consumer needs and preferences. Management thoroughly assesses every opportunity to improve tenant mix during leasing cycles and to reassert its dominant position via extensions or redevelopments.

Cross-border dialog with anchors leads to constant re-sizing and upgrading of leased areas, thus keeping properties refreshed, while the best and latest concepts always add value. The Group's strong relationship with major tenants has brought notable market entries and new concepts across portfolio throughout 2019.

In **Arena Mall (Budapest, Hungary)**, several new retailers, including Hugo Boss and Tommy Hilfiger, opened mono-brand stores, while online perfumery Notino launched its first Hungarian store. Intimissimi Uomo opened its first Hungarian outlet, while Armani Exchange and Xiaomi joined the tenant mix, securing the centre's position as Budapest's premier retail destination.

In **Arena Centar (Zagreb, Croatia)**, Body Shop launched its first Croatian store, followed by the opening of the capital's first Hugo Boss mono-brand store. The adjacent retail park was joined by LC Waikiki.

At **Bonarka City Center (Krakow, Poland)**, Under Armour launched its second Polish outlet, while Levi's and Distance opened flagships. Monki also opened its first Polish store. Zara launched an enlarged concept, introducing the new branding.

Cocodrillo, Diverse and Top Secret opened new stores in **Focus Mall Piotrkow Trybunalski (Piotrkow Trybunalski, Poland)**.

At **Focus Mall Zielona Gora (Zielona Gora, Poland)**, Starbucks launched its first regional cafe, while YES jewellery and Pizza Hut opened stores.


PHOTO: BONARKA CITY CENTER, POLAND


PHOTO: PARADISE CENTER, BULGARIA

Intimissimi and Tezenis enriched tenant mix at **Galeria Mlyny (Nitra, Slovakia)**.

In **Galeria Warminska (Olsztyn, Poland)**, Pandora opened the first mono-brand outlet in the region.

50 style and Sizeer opened, increasing the variety of sporting goods on offer at **Galeria Wołomin (Wołomin, Poland).**

Several cinemas opened: Cineplexx at **Iris Titan Shopping Center (Bucharest, Romania)**, Cinema City at **Mammut Shopping Centre (Budapest, Hungary)** in December 2019, improving leisure facilities, and Helios is scheduled to open a cinema at **Karolinka Shopping Centre (Opole, Poland)** in the fourth quarter ('Q4') 2020.

In **Mega Mall (Bucharest, Romania)**, new food court tenants, such as Burger King (first in the country), Noodle Pack, Starbucks and Taco Bell opened, increasing the variety of cuisine on offer.

At **Paradise Center (Sofia, Bulgaria)**, Hippoland, the toy retailer, opened a sizeable playground, enhancing the recently remodelled basement level. Technopolis, the market-leading electronics retailer, relocated to the refurbished basement floor. CCC and Nespresso opened their largest Bulgarian outlets, Humanic launched a new shop and Notino opened its first Bulgarian offline store. Burger King, Pizza Lab and OLA joined the food court.

Premium brands, including Bigotti, Lynne and Nissa opened, enhancing the variety of fashions brands on offer in **Promenada Mall (Bucharest, Romania)**.

In **Serdika Center (Sofia, Bulgaria)**, Ginger Layout opened a 330-seat restaurant, out of which 110 are located in a spacious perennial garden. Also, multinational sporting brand ASICS opened a concept store. Kenvelo, Miniso and s.Oliver joined the centre.

Czas na Herbate, home&you, Minty Dot, Semilac and Tatuum opened in **Solaris Shopping Centre (Opole, Poland)**.

Directors' report

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CEE AS AN OPPORTUNITY

CEE economies are demonstrating high potential for growth, with Gross Domestic Product ('GDP') growth outperforming Western Europe, and strong fundamentals in terms of inflation, employment and consumption per capita.

Private consumption per capita in CEE countries is starting from a much lower base, ranging between 20%-61% of the EU15 average. Consumer spending has demonstrated healthy growth in the past 15 years, and is expected to grow at impressive rates over the next ten-year period: from 45%-55% in Czech Republic and Slovakia to 64%-71% in Poland, Romania and Hungary and 89% in Serbia (compared to 32% for EU15). Such impressive growth is expected to attract significant investments in the public and real estate sector, resulting in resilient yields for dominant shopping centres.

Real GDP follows a positive trend in 2019-2024, with an average growth of 3% in Eastern Europe, compared to 1.6% on a European level. On average, the Compound Annual Growth Rate ('CAGR') of real personal disposable income in Bulgaria, Hungary, Poland, Romania and Serbia is set to grow 2.5% between 2020 and 2024, almost double the CAGR average of developed economies such as France, Italy, Germany, Spain and the United Kingdom.

An additional supporting factor is the existence of significant traditional grocery trade in CEE: approximately 40% of the grocery trade in Romania and Poland is still traditional, compared to 3% in Germany; its expected convergence to modern retail will provide additional growth to the Group's assets.

Physical retail's full potential is yet to be reached: the shopping centres per capita quota is lower in CEE than Western Europe represents one tenth of the US supply, while the former's malls are more modern. Furthermore, online penetration in the Group's top five markets is low (5.5%), compared to Western Europe (10%) and North America (13.8%).

Retail stock is more modern in the CEE, with an average of 60% of total stock having been developed between 2007-2017 compared to the overall 40% European average. At the same time, most of the Group's markets are undersupplied compared to the European average; countries such as Bulgaria, Serbia and Romania are heavily undersupplied, with a density almost three times lower than continental averages.

Selective macroeconomic indicators in NEPI Rockcastle's main markets compared with Western Europe and US:

	RO	PL	BG	HU	SK	*WE*	*US*
GDP growth	3.8%	4%	3.8%	4.8%	2.4%	1.2%	2.3%
Inflation	3.9%	2.2%	2.9%	3.2%	2.7%	1.3%	1.8%
Consumption growth per capita (10 years horizon)	71%	64%	60%	71%	54%	32%	48%
Modern retail supply (m^2/'000 inhabitants)	107	281	103	127	227	351	2,000
E-commerce penetration (2019)	4%	7%	2%	6%	6%	10%	14%

Markets not included in table account for 12% of the portfolio, based on the fair value of the NEPI Rockcastle's properties; Sources: GlobalData 2018;

The resilience of the asset base valuations is supported by more prudent yields in CEE than in Western Europe. For example, prime shopping centre yields in CEE capital cities range between 5% and 8%, compared to 3-5% in Western Europe.

PHOTO: OZAS SHOPPING AND ENTERTAINMENT CENTRE, LITHUANIA

Directors' report

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DEVELOPMENTS AND EXTENSIONS

The Group strategically invests in developments contributing to growth in distributable earnings or improving the portfolio's long-term prospects.
NEPI Rockcastle's development pipeline exceeds €1.1 billion (including redevelopments and extensions, estimated at cost), of which €201 million was spent by December 2019. Of the capital, only 16% has been committed, providing flexibility with regard to prioritising and scheduling projects.

COMPLETED DEVELOPMENTS AND EXTENSIONS

SHOPPING CITY SIBIU EXTENSION AND REFURBISHMENT

Sibiu, Romania
Opening date: 4 April 2019

With 83,200m^2 GLA, this is the region's largest shopping centre, catering to diverse tastes with numerous fashion brands and two hypermarkets. The Group finalised a 3,800m^2 GLA extension and 56,100m^2 refurbishment in April, including a new level dedicated to dining and entertainment, with an open-air terrace. Several fashion anchors were added, such as Cropp, DeFacto (first Romanian store), House, LC Waikiki, Mohito, Reserved and Smyk. Some existing stores were refurbished and extended, for instance CCC, Douglas, Humanic and Noriel. The new food court combines international brands like KFC and Taco Bell with successful national tenants such as Insieme, Pepp&Pepper and Salad Box. Based on the updated schedule, the cinema will be operational in Q1 2020.

BRAILA MALL FOOD COURT REFURBISHMENT

Braila, Romania
Opening date: 20 April 2019

The newly refurbished food court with additional seating and new fast food outlets, plus a new playground, refreshed this mall in Braila, the county capital and a Danube port with 205,000 residents.

POGORIA SHOPPING CENTRE EXTENSION

Dabrowa Gornicza, Poland
Opening date: 30 April 2019

Pogoria Shopping Centre, located in the city centre, is the largest shopping and entertainment destination for 121,000 residents. The extension involved extending CCC and Deichmann with limited impact on operations, and generated an increase in tenant turnover.

SOLARIS SHOPPING CENTRE

Opole, Poland
Opening date: 9 May 2019

Solaris Shopping centre, located in central Opole, is the city's main fashion and lifestyle destination, boasting the latest facilities in entertainment and the only cinema. It appeals to a broad range of customers and is a popular venue for shopping, business and socialising. Opole is the historic capital of Upper Silesia with 128,000 residents, 275,000 within 30-minutes drive. The 9,000m^2 GLA extension was completed in May 2019, and boasts a new multi-storey underground car park and new town square abutting the main thoroughfare. The extension unlocks the centre's full potential, providing additional space for tenants' latest concepts, attracting new brands, creating a modern food court and improving cinema access. The design visually and functionally integrates the existing centre with the new extension. Not only were common areas refurbished, but most shops were also renovated.

PHOTO: SOLARIS SHOPPING CENTRE, POLAND

PHOTO: PROMENADA SIBIU, ROMANIA

ARENA PARK

Zagreb, Croatia
Opening date: 17 May 2019

NEPI Rockcastle opened a fully-occupied retail park, in excess of 8,000m^2, in Zagreb, the Croatian capital with 802,000 residents, raising the total area of the Arena retail scheme to 75,200m^2 GLA and consolidating its position as the country's premier retail destination.

KRUSEVAC SHOPPING PARK

Krusevac, Serbia
Opening date: 26 September 2019

This 8,600m^2 completed construction was fully-let at opening, housing seventeen well-known national and international brands such as CCC, DeFacto, Deichmann, dm, LC Waikiki, LPP, New Yorker, Tom Tailor.

PROMENADA SIBIU

Sibiu, Romania
Opening date: 14 November 2019

This 42,500m^2 GLA mall, within walking distance of the historical centre and next to the train station, opened with 99% occupancy after 16-months' construction.
It has 140 tenants, open-air terrace, three floors of retail and leisure and a three storey car park.

SHOPPING CITY BUZAU EXTENSION AND REFURBISHMENT

Buzau, Romania
Opening date: 4 December 2019

Already the city's star attraction, due to its location and unrivalled infrastructure, this mall was refurbished and extended to include a Cinema City, food court and several new fashion brands, with work commencing in October 2018. Buzau is a city with 133,000 residents and the capital of a county with approximately 430,000 inhabitants. The first phase successfully opened at the beginning of August 2019, fully let. The second phase, including the food court, was opened on 4 December 2019. The final phase, the refurbishment of the existing ground floor, construction of an outdoor terrace, adjacent to the food court, and a cinema is planned for Q2 2020. When completed, the centre will have 23,700m^2 GLA.

Directors' report

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DEVELOPMENTS AND EXTENSIONS PIPELINE

ARENA MALL
Budapest, Hungary

Extension and refurbishment designs are progressing, with the Environmental Impact Assessment application submitted on 5 December 2019.

BONARKA CITY CENTER
Krakow, Poland

Following previous extension, which involved opening larger, refurbished Zara, Reserved and Peek & Cloppenburg, the next extension phase continues, adding more GLA, improving vertical communication and upgrading communal areas. Units have been available from February 2020 and 70% of structural works have been completed by mid-March 2020.

FORUM LIBEREC SHOPPING CENTRE
Liberec, Czech Republic

In Q4 2019, the food court was refurbished, dm-drogerie was extended and renovated and vertical communication was upgraded, significantly improving access and visibility between floors. The full refurbishment of the shopping centre is scheduled to be completed by May 2020.

FOCUS MALL ZIELONA GORA
Zielona Gora, Poland

Extension and refurbishment are progressing smoothly. In the extension, earthworks, foundations and two floors are complete, with only two parking levels remaining unfinished. Renovation of existing common areas, food court and new toilets will be completed by November 2020.

PROMENADA MALL
Bucharest, Romania

Planning permission was obtained in October 2019, and the building permit is estimated to be obtained during 2020. Procurement commenced, and the updated schedule includes an estimated completion for the retail extension in Q2 2022 and the offices in Q3 2022. The extension of this centrally located mall, will add a multiplex cinema, hypermarket and a selection of trendy restaurants and fashion brands.

The mall is located in Bucharest's main office district, and this extension has always included an integrated office tower working in synergy with the retail component.

RENDER: PROMENADA MALL, ROMANIA

RENDER: PROMENADA PLOVDIV, BULGARIA

PROMENADA CRAIOVA
Craiova, Romania

The Group is planning to construct a 56,500m^2 GLA modern retail and entertainment destination in Craiova, one of Romania's major cities. An innercity development, with more than 300,000 inhabitants, the mall will have a diverse tenant mix, including regional and international fashion and beauty brands, leisure and entertainment areas and over 2,500 parking bays. Planning permission is ongoing, and opening is scheduled for Q3 2021.

OZAS SHOPPING AND ENTERTAINMENT CENTRE
Vilnius, Lithuania

Basement refurbishment and extension commenced, creating additional GLA, while leases were signed with Adventica, Lithuania's biggest children's playground provider (opening April 2020) and Pet City (opening November 2020).

PROMENADA PLOVDIV
Plovdiv, Bulgaria

After receiving zoning approval the building permit is being completed, and work is scheduled for completion in Q3 2021.

SHOPPING CITY BUZAU
Buzau, Romania

After the successful extension opening, the refurbishment is scheduled for completion in Q2 2020.

SHOPPING CITY TARGU MURES
Targu Mures, Romania

Shopping City Targu Mures, in the south-eastern part of Targu Mures, the capital of Mures County, is near completion. Vibrant and multicultural, with 149,000 inhabitants, Targu Mures is home to one of the largest urban Hungarian community in Romania. The project is scheduled to open in Q2 2020, and tenants include Carrefour, CCC, Cineplex, Flanco, eMag, Hervis, Intersport, KFC, LC Waikiki, LPP (Cropp, House, Reserved, Sinsay) and New Yorker.

Directors' report
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CASH MANAGEMENT AND DEBT

The Group strengthened its liquidity profile consisting of €209 million in cash, €575 million in available unsecured revolving facilities and €77 million in net-listed securities. An ESG-linked €175 million three-year unsecured revolving credit facility (RCF) with two one-year extension options was signed during December 2019, and includes a non-committed accordion clause allowing the increase of the facility by up to an additional €150 million. The facility's interest margin varies based on the Group's credit and ESG rating.

NEPI Rockcastle's LTV was 32% on 31 December 2019, below the 35% strategic target and comfortably within the 60% unsecured debt covenant. The Group has complied with all financial covenants during the year. The ratios calculated for all unsecured loans and bonds continue to show ample headroom compared to the covenants:

- Solvency Ratio: 37% (maximum 60%);
- Consolidated Coverage Ratio: 6.58 (minimum 2); and
- Unsecured Ratio: 290% (minimum 150%/180%).

In May and October 2019, after roadshows with European fixed-income investors, NEPI Rockcastle issued a total of €1 billion unsecured Eurobonds. These successful issues enable the Group to compete more effectively long-term in CEE real estate markets. Part of the proceeds were used for refinancing of secured and unsecured loans and the repurchase of €200 million nominal value of the bonds due in February 2021. The remaining 2021 bond outstanding amount of €197.8 million was fully repurchased in January 2020.

The active liability management approach has increased the average debt maturity, which further to these bond issues and full repurchase of the February 2021 bonds reached 4.1 years. Currently, NEPI Rockcastle has no outstanding loans or bonds due in 2020, and only €243 million due in 2021 (12% of total debt).

On 31 December 2019, fixed-coupon bonds represented 74% of outstanding debt, and, of the remaining long-term debt exposed to Euribor, 68% was hedged with interest rate caps and 32% with interest rate swaps.

During the year, 50% of shareholders elected to receive their dividend as a return of capital, by way of an issue of new shares instead of cash, leading to a €161 million equity issue. The significant support from its shareholders empowers NEPI Rockcastle to further invest in its acquisition and development pipeline.

The Company continually evaluates its financing options, including debt and equity capital raising alternatives, to support its future growth and will assess market opportunities as they arise, while keeping in mind the strategic objective to broaden its shareholder base and maintain an optimal capital structure. Depending on market conditions, the Group may initiate a repurchase of issued bonds or shares during the following reporting periods.

ACCOUNTING, AUDIT AND VALUATION MATTERS

VALUATION

NEPI Rockcastle fair values its portfolio bi-annually. 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 assessed.

Appraiser	Locations	Percentage of total portfolio
Jones Lang LaSalle (JLL)	Bulgaria, Croatia, Czech Republic, Hungary, Serbia, Slovakia	32%
Cushman & Wakefield	Hungary, Lithuania, Poland	31%
Colliers International	Romania	32%
DTZ (Cushman & Wakefield affiliate partners)	Romania	5%
Total		**100%**

The fair value gain on investment property during 2019 was €135 million, mainly due to increases in NOI. The average yield resulting from the fair value of the Group's portfolio and its passing rent was 6.82% (including the Romanian office portfolio held for sale), similar to the average yield for 2018 of 6.84%. The constant level of valuation yield supports the sustainable valuation of the Group's high-quality portfolio.

NEPI Rockcastle's yield sustainability is well supported by the two disposal transactions entered into by the Group, at a premium or at the IFRS NAV of the respective properties: the disposal of NEPI Rockcastle's 50% stake in The Office Cluj-Napoca was completed in May 2019 at a premium to IFRS NAV, and the disposal of its Romanian office portfolio, to be finalised in April 2020, is expected to be completed for an estimated cash consideration in line with the IFRS NAV of the properties (final price will be determined on the basis of the financial statements at the completion date; please refer to Note 16 in the Consolidated Financial Statements).

Country	Segment	Prime Yield*	NEPI Rockcastle Capitalization rate 2019 **
Romania	Retail	6.50%	7.25%
Romania	Office	7.25%	7.25%
Romania	Industrial	8.25%	9.75%
Poland	Retail	4.75%	6.00%
Slovakia	Retail	5.75%	6.50%
Slovakia	Office	5.75%	7.50%
Czech Republic	Retail	4.90%	6.50%
Bulgaria	Retail	7.25%	7.25%
Bulgaria	Office	8.00%	8.00%
Serbia	Retail	8.00%	8.25%
Hungary	Retail	5.00%	6.25%
Croatia	Retail	7.00%	7.50%
Lithuania	Retail	6.75%	7.25%

** Source: JLL, Colliers, Cushman & Wakefield, Q4 2019*

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

IMPACT OF ADOPTION OF IFRS 16 LEASES

The IFRS 16 Leases Standard has replaced the IAS 17 standard, effective from 1 January 2019. The standard provides reporting entities with instructions on the accounting treatment of leases in the lessee's financial statements, changes the definition of leasing and sets the principles regarding the recognition of leases in the balance sheet, both as a right-of-use asset and a lease liability. The application of the standard did not result in any changes to the accounting treatment of leases where the Group acts as the lessor.

For the majority of the Group's leases where NEPI Rockcastle acts as the lessee, the Consolidated Financial Statements present assets and liabilities pertaining to these leases. NEPI Rockcastle recognised right-of-use assets from leases of land areas as part of investment property, in the amount of €32.5 million on 1 January 2019. The lease liability has been valued to a similar amount, by discounting the lease payment liabilities of the leases to their present value, using as the discounting factor the incremental borrowing rate on 1 January 2019 in the market where the lease agreement was concluded. The impact on the Consolidated Statement of Comprehensive Income and on the Consolidated Statement of Cash Flows is immaterial. Further details are presented in Note 3 to the Consolidated Financial Statements.

EXTERNAL AUDIT

The audit report on the Group's Consolidated Financial Statements has been issued by PricewaterhouseCoopers Isle of Man, after having reviewed and obtained the necessary comfort from PwC local offices in the jurisdictions where the Group operates through its subsidiaries. The local PwC offices audit the stand alone IFRS financial statements of the respective subsidiaries and issue their interoffice audit reports to PricewaterhouseCoopers Isle of Man.


PHOTO: AUPARK ZILINA, SLOVAKIA

Directors' report

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EPRA INDICATORS

The Group became a member of EPRA in 2018, and already in the first year of reporting according to its guidelines it has received the BPR Silver award for the first year of EPRA membership. The Group is committed to continuously improving its disclosures, in alignment with best practices.

EPRA indicators	2019	2018
NAV per share (€)	7.32	7.09
Earnings (€million)	330.6	308.7
Earnings per share (eurocents)	55.12	53.43
Net Initial Yield (NIY) (%)	6.65	6.74
Topped-up NIY (%)	6.71	6.82
Vacancy rate (%)	2.1	2.8
Cost ratio (including direct vacancy costs) (%)	8.1	8.9
Cost ratio (excluding direct vacancy costs) (%)	8.0	8.8

ESG FOCUS

Corporate Governance is an integral part of the Group's strategy and continues to be a priority. NEPI Rockcastle is actively monitoring its compliance with the King IV Report on Corporate Governance in South Africa, and voluntarily implements selected principles recommended in the UK and Dutch codes. The Board nominated the Audit Committee to support this compliance and advise on best practice, which resulted in a comprehensive review of various internal policies. PricewaterhouseCoopers has been engaged to review the design effectiveness of the internal controls regarding corporate governance.

In April 2019, Sustainalytics, a leading independent global provider of ESG research and rating, appraised the Group's risk as Low, concluding that there is a small risk of experiencing material financial impact from such factors, due to low exposure to, and average management of, relevant issues. NEPI Rockcastle is noted for its strong corporate governance, reducing overall risk, and is committed to being a responsible corporate citizen focused on long-term sustainable growth. NEPI Rockcastle was also included in the FTSE4Good index (founded by FTSE Russell) measuring the performance of companies demonstrating strong ESG.

The Financial Services Conduct Authority (FSCA) in South Africa closed all pending investigations related to NEPI Rockcastle: namely, insider trading, false or misleading reporting and prohibited trading practices. The FSCA found no substance in the allegations raised and closed the investigations with no claims against the Group.

In April 2019, the Group welcomed its newest independent non-executive director, Mr. Andreas Klingen, an experienced professional with strong expertise in financial markets, investments, real estate and retail.

NEPI Rockcastle is increasing its long-term commitment to sustainability by setting up a Green Framework, enhancing the portfolio and the transparency of its business operations, as well as disclosures.

On 31 December 2019, 51% portfolio was certified BREEAM Very Good or Excellent. The Group intends to have more than 60% of assets BREEAM certified at least Very Good by mid-2020, and 75% by the end of the year.

During 2019, the Group initiated a Centralised Building Operation System, integrating individual properties into a single Building Operations Centre, allowing coordinated asset management. Phase One, system implementation across at least 33% of the portfolio, will be completed by the end of 2020. Phase Two will extend the implementation to the rest of the portfolio by 31 December 2021.

NEPI Rockcastle's shopping centres hosted over 90 social responsibility campaigns, including educational, anti-pollution or environmentally sustainable initiatives, providing positive benefits for involved communities.

Further information is included in Corporate Governance and Sustainability Report sections.

DISTRIBUTABLE EARNINGS

The Group achieved 27.31 eurocents in distributable earnings per share for the second half of 2019, which, aggregated with the 29.02 eurocents distribution for the six months ended 30 June 2019, resulted in a total distribution of 56.33 eurocents for the year ended 31 December 2019. The 2019 distribution is 6.6% higher than 2018's 52.86 eurocents, and slightly above previously issued guidance. The strong results reflect the solid performance of assets and management, and the quality of developments completed.

The Board of Directors declares a distribution of 27.31 eurocents per share for the second half of 2019.

Shareholders can elect to receive the distribution either in cash or as an issue of fully-paid shares based on a ratio between the distribution declared and the reference price. The reference price equals EPRA NAV per share of €7.32 per share. The reference price for NEPI Rockcastle shares traded on the JSE is ZAR126.3725 (being the reference price of €7.32 converted to ZAR at the exchange rate of EUR1.00:ZAR17.2640), which includes a 13.15% premium to the five-day volume-weighted average traded price, less distribution, of NEPI Rockcastle shares on the JSE as at 2 March 2020. The Group reserves the right to limit the total allocation of shares as a percentage 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, A2X and Euronext Amsterdam was issued on 21 February 2020.

PHOTO: PROMENADA MALL, ROMANIA

PROSPECTS AND EARNINGS GUIDANCE

The following guidance was provided on 20 February 2020, at the publication of the 2019 financial statements: Distributable earnings per share for 2020 are expected to be approximately 6% higher than the 2019 distribution. This guidance is based on the assumptions that acquisitions are concluded as planned, developments are delivered as scheduled, a stable macroeconomic environment prevails and no major corporate failures occur.

Further to the market events generated by COVID-19 which have unfolded since the publication of the 2019 financial statements, the Board and management team have focused on the safety of its staff and the communities it operates in, and the most appropriate allocation of capital in the coming period. NEPI Rockcastle benefits from a geographically diversified portfolio and a strong liquidity which includes significant cash balances and access to undrawn committed revolving facilities.

In the current circumstances it is difficult to estimate the impact on the Group's distributable earnings for 2020. Management will continue to operate the business in a prudent manner, positioning itself to maximise long term value generation, and further updates will be provided in due course.

This forecast has not been audited or reviewed by NEPI Rockcastle's auditors and is the responsibility of the Board of Directors.

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 a 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 Group 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 325 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 2019, the LTV ratio was 32%, while 83% of total assets were unencumbered**.

PHOTO: AURA CENTRUM, POLAND

Strong operational and financial performance

OPERATIONAL PERFORMANCE INDICATORS

Net Rental and Related Income (NOI)	€401m
NOI growth (like-for-like)	6.2%
Weighted average remaining lease term	4 years
Collection rate	99.9%
EPRA vacancy ratio	2.1%
Turnover/m² increase (like-for-like)*	6.4%
Tenants turnover growth (like-for-like)*	6.8%
Occupancy cost ratio**	11.9%

** Like-for-like and exclude hypermarkets' sales, as they don't consistently report turnover data across portfolio.*
*** Base rent, service charge and marketing contribution, divided by tenant sales; on a total basis; excluding hypermarket sales, which if included would have a decreasing impact.*


PHOTO: PROMENADA NOVI SAD, SERBIA


PHOTO: ARENA CENTAR, CROATIA

FINANCIAL PERFORMANCE INDICATORS

Loan-to-value (LTV)*	32%
Unencumbered assets (% of investment property)**	83%
Cost of debt	2.4%
Average remaining debt maturity	4.1 years
Long-term interest rate hedge coverage	100%
Distributable earnings per share (eurocents)	56.33
EPRA earnings per share (eurocents)^	55.79
EPRA NAV per share (euro)	7.32
EPRA net initial yield	6.65%
EPRA 'topped up' net initial yield	6.71%
EPRA Cost ratio (including direct vacancy costs)	8.1%
EPRA Cost ratio (excluding direct vacancy costs)	8.0%

** Interest bearing debt less lease liabilities (IFRS 16) less cash, divided by investment property (including investment property held for sale) less right of use assets (IFRS 16) plus, listed securities.*
*** Including investment property held for sale*
^ Reconciliation of profit for the period to EPRA earnings and distributable earnings is presented on page 33.

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. Silver Prize was awarded to the Group after the first year of EPRA membership, as a recognition of the Group's commitment to transparency in reporting and compliance with best practices recommendations.

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

	2019	2018
EPRA Earnings (€ million)	330.6	308.7
EPRA Earnings per share[1] (€cents per share)	55.12	53.43
EPRA Earnings per share[2] (€cents per share)	55.79	53.43
EPRA NAV per share (€)	7.32	7.09
EPRA NNNAV per share (€)	6.61	6.68
EPRA Net Initial Yield (NIY)	6.65%	6.74%
EPRA 'topped-up' NIY	6.71%	6.82%
EPRA vacancy rate	2.1%	2.8%
EPRA cost ratio (including direct vacancy costs)	8.1%	8.9%
EPRA cost ratio (excluding direct vacancy costs)	8.0%	8.8%

1. not adjusted for interim and final number of shares
2. adjusted for interim and final number of shares

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, deferred tax 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 2019	Dec 2018
Earnings in IFRS Consolidated Statement of Comprehensive Income	**416 235**	**221 855**
Fair value adjustments of investment property for controlled subsidiaries	(134 709)	(108 411)
Fair value and net result on sale of financial investments at fair value through profit or loss	(11 091)	152 047
Gain on acquisition of subsidiaries	(446)	(6 933)
Profit on disposal of assets held for sale	(123)	-
Profit on disposal of joint ventures	(3 588)	-
Impairment of goodwill	5 956	-
Fair value adjustment of derivatives and losses of extinguishment of financial instruments	23 743	1 432
Transaction fees	5 411	6 079
Deferred tax expense for controlled subsidiaries	31 370	45 326
Adjustments above in respect of joint ventures	(2 272)	(2 455)
Non-controlling interests	137	(236)
EPRA Earnings (interim)	**168 077**	**164 104**
EPRA Earnings (final)	**162 545**	**144 600**
EPRA Earnings (total)	**330 623**	**308 704**
Number of shares for interim distribuition	**585 838 887**	**577 800 734**
Number of shares for final distribution	**599 797 201**	**577 800 734**
EPRA Earnings per Share[1] (euro cents)	**55.12**	**53.43**
EPRA Earnings per Share (EPS interim) (euro cents)	**28.69**	**28.40**
EPRA Earnings per Share (EPS final) (euro cents)	**27.10**	**25.03**
EPRA Earnings per Share[2] (EPS total) (euro cents)	**55.79**	**53.43**
Company specific adjustments:		
Amortisation of financial assets	(1 533)	(2 291)
Reverse foreign exchange loss	907	923
Add back realised foreign exchange loss	(37)	(913)
Reverse income from financial investments at fair value through profit or loss	(12 560)	(29 132)
Accrued income from financial investments at fair value through profit or loss*	12 349	28 122
Antecedent dividend	4 062	-
Distributable Earnings (Interim)	**170 031**	**153 041**
Distributable Earnings (final)	**163 780**	**152 372**
Distributable Earnings (total)	**333 811**	**305 413**
Distributable Earnings per Share (interim) (euro cents)	**29.02**	**26.49**
Distributable Earnings per Share (final) (euro cents)	**27.31**	**26.37**
Distributable Earnings per Share (total) (euro cents)	**56.33**	**52.86**

1. not adjusted for interim and final number of shares
2. adjusted for interim and final number of shares
** Dividends from financial investments are recognised on IFRS when the company's right to receive payment is established and the amount of the dividend can be measured reliably. For distribuition 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 income 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 2019	Dec 2018
Equity as per consolidated financial statements	**4 096 880**	**3 845 873**
Derivative financial (assets)/liabilities at fair value through profit or loss*	4 621	(5 004)
Net deferred tax liabilities**	374 120	348 192
Goodwill	(87 114)	(93 070)
Net Asset Value (EPRA NAV)	**4 388 507**	**4 095 991**
Number of shares	599 797 201	577 800 734
EPRA NAV per share (€)	**7.32**	**7.09**

** The items above include joint ventures effect. Derivative financial liabilities at fair value through profit or loss for joint ventures amount to €810 thousand as at 31 December 2019 (2018: €916 thousand).*
***The deferred tax liabilities for joint ventures amount to €5,302 thousand as at 31 December 2019 (2018: €10,744 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 2019	Dec 2018
EPRA NAV	**4 388 507**	**4 095 991**
Derivative financial assets/(liabilities) at fair value through profit or loss*	(4 621)	5 004
Difference between the secondary market price and accounting value of debt	(42 671)	106 102
Net deferred tax liabilities**	(374 120)	(348 192)
Triple Net Asset Value (EPRA NNNAV)	**3 967 095**	**3 858 905**
Number of shares	599 797 201	577 800 734
EPRA NNNAV per share (€)	**6.61**	**6.68**

** The items above include joint ventures effect. Derivative financial liabilities at fair value through profit or loss for joint ventures amount to €810 thousand as at 31 December 2019 (2018: €916 thousand).*
***The deferred tax liabilities for joint ventures amount to €5,302 thousand as at 31 December 2019 (2018: €10,744 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[1]	Dec 2019	Dec 2018
Investment property as per consolidated financial statements	6 022 600	5 911 070
Investment property under joint ventures (on a pro-rata basis)	55 064	116 590
Investment property held for sale	317 204	11 957
Less investment property under development	(221 841)	(222 460)
Total investment property in use, including joint ventures (on a pro-rata basis)	**6 173 027**	**5 817 157**
Estimated purchasers' costs	30 865	29 086
Gross up value of the investment property in use, including joint ventures (on a pro-rata basis)	**6 203 892**	**5 846 243**
Annualised cash passing rental income	418 665	398 172
Non-recoverable property operating expenses	(6 279)	(3 903)
Annualised net rents	**412 386**	**394 269**
Notional rent expiration of rent free periods or other lease incentives	3 750	4 570
Topped-up net annualised rent	**416 136**	**398 839**
EPRA Net Initial Yield (EPRA NIY)	**6.65%**	**6.74%**
EPRA "topped-up" NIY	**6.71%**	**6.82%**

EPRA Performance measures » continued

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 2019	Dec 2018
Estimated Rental Value of vacant space	9 694 517	11 233 501
Estimated Rental Value of the entire portfolio	459 680 754	408 266 308
EPRA Vacancy Rate	**2.1%**	**2.8%**

** Excluding joint ventures.*

The EPRA vacancy rate decreased up to 2.1% as at 31 December 2019 (from 2.8% as at 31 December 2018). This level of vacancy excludes non-core properties and 14,000m^2 GLA of existing income-producing properties in Poland, Romania and Czech Republic, on which extensive refurbishment works are ongoing.

The positive impact on vacancy rate resulted from the dynamic leasing activity of the Group during the year, especially in Romania (decreasing EPRA vacancy from 2.2% to 0.6%) and Lithuania (decrease from 2% to 0%). EPRA vacancy reported for Czech Republic was affected by an improved operational occupancy and the exclusion of the area under refurbishment from the computation of the rate.

The increasing vacancy rate in Poland and Hungary was due to the management of non-performing tenants and time gap associated to their replacement.

All properties have an EPRA occupancy of over 90%.

Country	EPRA Vacancy Rate Dec 2019	EPRA Vacancy Rate Dec 2018
Bulgaria	1.4%	1.6%
Croatia	2.0%	2.1%
Czech Republic	1.5%	8.7%
Hungary	5.1%	3.9%
Lithuania	0%	2.0%
Poland	4.8%	3.6%
Romania	0.6%	2.2%
Serbia	1.2%	1.5%
Slovakia	1.2%	2.2%
EPRA Vacancy Rate	**2.1%**	**2.8%**

EPRA COST RATIO

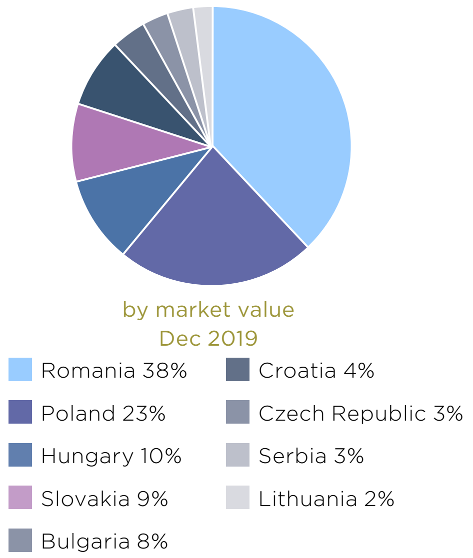
EPRA Cost Ratios reflect the relevant administrative and operating costs of the business and provide a recognised and understood reference point for analysis of a company's costs.
The EPRA Cost Ratio (including direct vacancy costs) includes all administrative and operating expenses in the IFRS statements including the share of joint ventures' administrative and operating expenses (net of any service fees).
The EPRA Cost Ratio (excluding direct vacancy costs) is calculated as above, but with an adjustment to exclude vacancy costs.
Both EPRA Cost Ratios are calculated as a percentage of Gross Rental Income including a share of joint venture Gross Rental Income. The ground rent costs are NIL for the Group and for its joint ventures.

EPRA Cost Ratio	Dec 2019	Dec 2018
Administrative expenses (line per IFRS consolidated financial statements)	21 550	22 022
Acquisition costs	5 411	6 079
Net service charge costs	6 401	3 837
Share of Joint Ventures expenses	17	32
EPRA Costs (including direct vacancy costs)	**33 379**	**31 970**
Direct vacancy costs	376	337
EPRA Costs (excluding direct vacancy costs)	**33 003**	**31 633**
Gross Rental Income (line per IFRS consolidated financial statements)	**407 139**	**349 930**
Less: service fee and service charge costs components of Gross Rental Income (if relevant)	-	-
Add: share of Joint Ventures (Gross Rental Income less ground rents)	6 370	9 196
Gross Rental Income	**413 509**	**359 126**
EPRA Cost Ratio (including direct vacancy costs)	**8.1%**	**8.9%**
EPRA Cost Ratio (excluding direct vacancy costs)	**8.0%**	**8.8%**

PHOTO: PROMENADA MALL, ROMANIA

Portfolio at a glance

GEOGRAPHICAL PROPERTY PORTFOLIO PROFILE

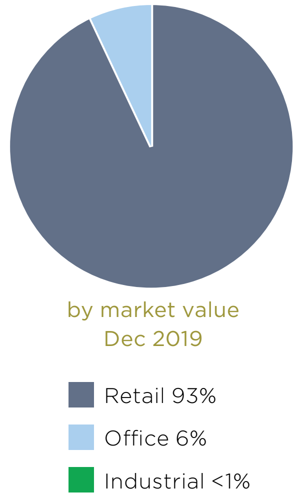


by market value
Dec 2019

Geographical property portfolio profile by gross rentals: Romania - 40%, Poland - 21%, 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



by market value
Dec 2019

Sectoral property portfolio profile by gross rentals: Retail - 92%, Office - 7% and Industrial - <1%.

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

KEY PROPERTY INFORMATION*

	Group 31 Dec 2019	Group 31 Dec 2018
Total number of properties	**64**	**63**
Income-producing properties	61	59
Greenfield developments	3	4
Extensions to existing properties	8	8
Fair value of income-producing properties (€ million)	6,330	5,911
Annualised property yield (by passing rent)	6.8%	6.8%
Lettable area (thousand m²)	**2,382**	**2,292**
Income-producing properties	2,103	2,024
Greenfield developments and extensions (estimated)	279	268
Weighted average remaining lease term	**4.0**	**4.0**
Weighted average rent (€/m²/month)	**16.4**	**16.0**

** Excludes non-core properties held for sale and joint ventures. Includes Romanian office portfolio held for sale. Detailed property schedule is included in this report at pages 236-237.*

OVERVIEW OF VALUATION YIELDS

Country	Segment	Number of properties	Prime yield*	Capitalisation rate**
Romania	Retail	25	6.50%	7.25%
Romania	Office	4	7.25%	7.25%
Romania	Industrial	2	8.25%	9.75%
Poland	Retail	12	4.75%	6.00%
Slovakia	Retail	5	5.75%	6.50%
Slovakia	Office	1	5.75%	7.50%
Czech Republic	Retail	2	4.90%	6.50%
Bulgaria	Retail	2	7.25%	7.25%
Bulgaria	Office	1	8.00%	8.00%
Serbia	Retail	3	8.00%	8.25%
Hungary	Retail	2	5.00%	6.25%
Croatia	Retail	1	7.00%	7.50%
Lithuania	Retail	1	6.75%	7.25%

** Source: JLL, Colliers, Cushman & Wakefield, Q4 2019*

*** 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 2019. Out of the total operational GLA as at the year end, the weighted average rental escalation by rentable area is presented below:

TOTAL	**1.8%**
Retail	1.9%
Office	1.4%
Industrial	1.1%

VACANCY PROFILE

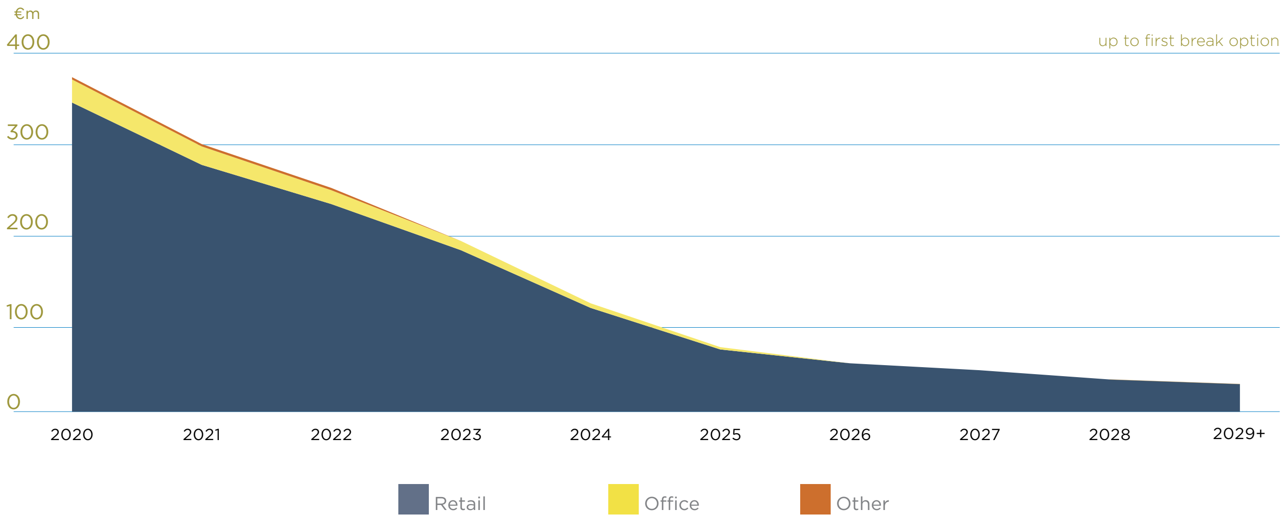
EPRA vacancy rate is calculated by dividing the estimated rental value of vacant space (€/annum) by estimated rental value of the property (€/annum).

The EPRA vacancy rate for income-producing properties at the end of 2019 was 2.1% (excluding non-core properties and 14,000m² GLA under refurbishment at Focus Mall Zielona Gora, Shopping City Buzau and Forum Liberec Shopping Centre), split as follows: retail 2.2%, office 0.4% and industrial 4.5%.

Portfolio at a glance

» continued

CONTRACTUAL GROSS RENTALS



EXPIRY PROFILE

by gross rentals

Year	% of expiry
2020	8.4%
2021	18.4%
2022	12.0%
2023	14.2%
2024	17.2%
2025	12.6%
2026	4.0%
2027	2.3%
2028	2.1%
>=2029	8.8%
Total	**100%**

by rentable area

Year	% of expiry
2020	6.3%
2021	11.8%
2022	11.7%
2023	14.3%
2024	16.7%
2025	13.3%
2026	5.8%
2027	3.3%
2028	3.2%
>=2029	13.6%
Total	**100%**

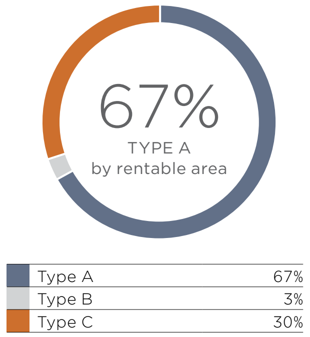

PHOTO: GALERIA WARMINSKA, POLAND

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).

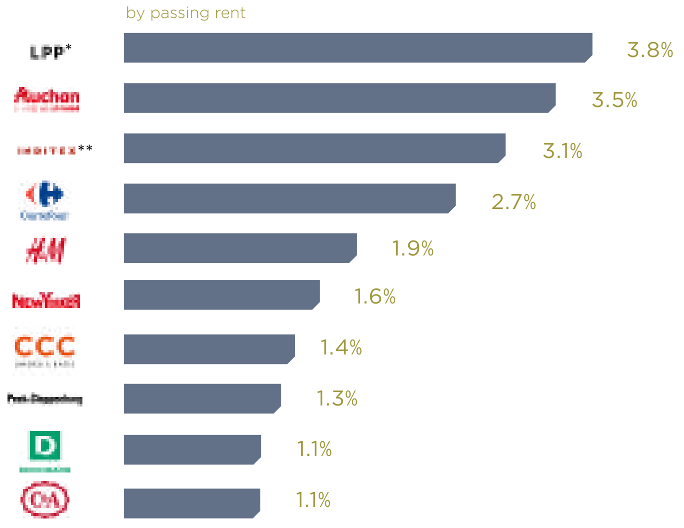
Type B: Smaller international and national tenants, smaller listed tenants and medium to large professional firms (companies with assets and/or turnovers ranging from €100 to €200 million).

Type C: Other tenants (3,042 total number)



TOP 10 RETAIL TENANTS

The top 10 retail tenants accounted for 22% of the annualised passing rent of the Group as at 31 December 2019. 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

Romania

RETAIL

With a total of 25 regional malls and community centres, the Group is the largest owner of retail space in the country.

In 2019, the Group successfully completed the construction of the 42,500m² GLA modern retail and entertainment destination in Sibiu. The mall is located within walking distance of the historical centre and next to the train station and opened with 98.8% occupancy after 16-months' construction. It has 140 tenants, an open-air terrace, three floors of retail and leisure and a three storey car park.

PHOTO: PROMENADA SIBIU, SIBIU

786,000
m² GLA of retail income-producing properties

€1,950m
property value

99.4%
EPRA occupancy rate

€140m
passing rent

10.5%
increase in tenants turnover*

*like-for-like

25
retail income-producing properties

Mega Mall

Bucharest

Ownership	100%
GLA	75,800m^2
Valuation	€320.4 million
Passing rent	€20.5 million
EPRA Occupancy	99.0%

Promenada Mall

Bucharest

Ownership	100%
GLA	39,400m^2
Valuation	€209.3 million
Passing rent	€13.7 million
EPRA Occupancy	100%

City Park

Constanta

Ownership	100%
GLA	52,200m^2
Valuation	€196.3 million
Passing rent	€13.8 million
EPRA Occupancy	99.8%

Shopping City Sibiu

Sibiu

Ownership	100%
GLA	83,200m^2
Valuation	€146.5 million
Passing rent	€11.3 million
EPRA Occupancy	98.8%

Shopping City Timisoara

Timisoara

Ownership	100%
GLA	56,900m^2
Valuation	€135.8 million
Passing rent	€9.5 million
EPRA Occupancy	99.4%

Shopping City Galati

Galati

Ownership	100%
GLA	49,200m^2
Valuation	€120.6 million
Passing rent	€8.6 million
EPRA Occupancy	99.7%

Iris Titan Shopping Center

Bucharest

Ownership	100%
GLA	43,000m^2
Valuation	€107.7 million
Passing rent	€8.5 million
EPRA Occupancy	99.7%

Promenada Sibiu

Sibiu

Ownership	100%
GLA	42,500m^2
Valuation	€103.6 million
Passing rent	€7.9 million
EPRA Occupancy	98.8%

Shopping City Deva

Deva

Ownership	100%
GLA	52,500m^2
Valuation	€89.7 million
Passing rent	€6.8 million
EPRA Occupancy	99.8%

Braila Mall

Braila

Ownership	100%
GLA	53,000m^2
Valuation	€84.2 million
Passing rent	€6.4 million
EPRA Occupancy	97.4%

Vulcan Value Centre

Bucharest

Ownership	100%
GLA	24,600m^2
Valuation	€68.8 million
Passing rent	€4.4 million
EPRA Occupancy	100%

Shopping City Satu Mare

Satu Mare

Ownership	100%
GLA	29,200m^2
Valuation	€54.6 million
Passing rent	€4.1 million
EPRA Occupancy	99.0%

Shopping City Piatra Neamt

Piatra Neamt

Ownership	100%
GLA	28,000m^2
Valuation	€53.4 million
Passing rent	€3.9 million
EPRA Occupancy	100%

Shopping City Targu Jiu

Targu Jiu

Ownership	100%
GLA	27,100m^2
Valuation	€52.8 million
Passing rent	€3.7 million
EPRA Occupancy	100%

Shopping City Ramnicu Valcea

Ramnicu Valcea

Ownership	100%
GLA	28,200m^2
Valuation	€50.1 million
Passing rent	€3.9 million
EPRA Occupancy	99.4%

Shopping City Buzau

Buzau

Ownership	100%
GLA	23,700m^2
Valuation	€49.2 million
Passing rent	€3.6 million
EPRA Occupancy*	100%

** excludes GLA under refurbishment*

Severin Shopping Center

Turnu Severin

Ownership	100%
GLA	22,600m^2
Valuation	€36.6 million
Passing rent	€2.6 million
EPRA Occupancy	99.6%

Pitesti Retail Park

Pitesti

Ownership	100%
GLA	24,800m^2
Valuation	€28.3 million
Passing rent	€4.0 million
EPRA Occupancy	100%

PHOTO: SIGHISOARA STRIP CENTRE

Regional strip centres

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

Ownership	100%
GLA	30,100m^2
Valuation	€42.6 million
Passing rent	€3.2 million
EPRA Occupancy	100%

Ploiesti Shopping City (joint venture)

Ploiesti

Ownership	50%
GLA	46,000m^2
GLA weighted by ownership	23,000m^2
Valuation weighted by ownership	€55.1 million
Passing rent weighted by ownership	€4.0 million
EPRA Occupancy	97.1%

PHOTO: CITY PARK, CONSTANTA

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 2019, NEPI Rockcastle completed a 9,000m^2 GLA extension of Solaris Shopping Centre, including the development of a multi-level underground car park. The extension unlocks the centre's full potential, providing additional space for tenants' latest concepts, attracting new brands, creating a modern food court and improving cinema access. The design visually and functionally integrates the existing centre with the new extension.

PHOTO: BONARKA CITY CENTER, KRAKOW

467,700
m^2 GLA of retail income-producing properties

€1,406m
property value

95.2%
EPRA occupancy rate

€86m
passing rent

2.7%
increase in tenants turnover*

**like-for-like; Poland tenant sales were affected by Sunday ban policy (only one tranding Sunday per month in 2019); Karolinka Shopping Centre turnover decreased due to the replacement of Agata Meble with an entertainment operator, Helios Cinema.*

12
retail income-producing properties

Bonarka City Center

Krakow

Ownership	100%
GLA	74,400m^2
Valuation	€393.6 million
Passing rent	€20.8 million
EPRA Occupancy	94.0%

Galeria Warminska

Olsztyn

Ownership	100%
GLA	42,800m^2
Valuation	€167.0 million
Passing rent	€9.9 million
EPRA Occupancy	99.4%

Karolinka Shopping Centre

Opole

Ownership	100%
GLA	70,700m^2
Valuation	€155.1 million
Passing rent	€9.6 million
EPRA Occupancy	90.1%

Focus Mall Zielona Gora

Zielona Gora

Ownership	100%
GLA	29,300m^2
Valuation	€125.5 million
Passing rent	€6.7 million
EPRA Occupancy*	100%

** excludes GLA under refurbishment*

Alfa Centrum Bialystok

Bialystok

Ownership	100%
GLA	36,900m^2
Valuation	€99.7 million
Passing rent	€6.6 million
EPRA Occupancy	93.8%

Solaris Shopping Centre

Opole

Ownership	100%
GLA	26,400m^2
Valuation	€88.5 million
Passing rent	€5.5 million
EPRA Occupancy	94.1%

Platan Shopping Centre

Zabrze

Ownership	100%
GLA	39,900m^2
Valuation	€84.1 million
Passing rent	€4.5 million
EPRA Occupancy	93.0%

Pogoria Shopping Centre

Dabrowa Gornicza

Ownership	100%
GLA	37,700m^2
Valuation	€81.1 million
Passing rent	€5.3 million
EPRA Occupancy	98.6%

Aura Centrum

Olsztyn

Ownership	100%
GLA	25,400m^2
Valuation	€69.3 million
Passing rent	€5.8 million
EPRA Occupancy	94.8%

Galeria Wolomin

Wolomin

Ownership	90%
GLA	30,700m^2
Valuation	€61.2 million
Passing rent	€4.2 million
EPRA Occupancy	99.3%

Focus Mall Piotrkow Trybunalski

Piotrkow Trybunalski

Ownership	100%
GLA	35,100m^2
Valuation	€48.5 million
Passing rent	€4.4 million
EPRA Occupancy	92.0%

Galeria Tomaszow

Tomaszow Mazowiecki

Ownership	85%
GLA	18,400m^2
Valuation	€32.4 million
Passing rent	€2.7 million
EPRA Occupancy	96.9%

PHOTO: GALERIA WARMINSKA, OLSZTYN

PHOTO: ARENA MALL, BUDAPEST

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.

2
retail
income-producing
properties

122,200
m^2 GLA of retail income-producing properties

€600m
property value

94.9%
EPRA occupancy rate

€37m
passing rent

5.8%
increase in tenants turnover*

*like-for-like;

Arena Mall

Budapest

Ownership	100%
GLA	65,800m^2
Valuation	€316.2 million
Passing rent	€20.9 million
EPRA Occupancy	99.3%

Mammut Shopping Centre

Budapest

Ownership	100%
GLA	56,400m^2
Valuation	€283.6 million
Passing rent	€16.1 million
EPRA Occupancy	90.1%

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.

PHOTO: AUPARK PIESTANY, PIESTANY

116,800
m² GLA of retail income-producing properties

€518m
property value

98.8%
EPRA occupancy rate

€33m
passing rent

5.3%
increase in tenants turnover*

*like-for-like;

5
retail income-producing properties

Aupark Kosice Mall

Kosice

Ownership	100%
GLA	33,000m²
Valuation	€172.1 million
Passing rent	€10.4 million
EPRA Occupancy	98.0%

Galeria Mlyny

Nitra

Ownership	100%
GLA	32,400m²
Valuation	€131.0 million
Passing rent	€8.4 million
EPRA Occupancy	98.5%

Aupark Zilina

Zilina

Ownership	100%
GLA	25,000m²
Valuation	€130.1 million
Passing rent	€8.2 million
EPRA Occupancy	99.9%

Aupark Shopping Center Piestany

Piestany

Ownership	100%
GLA	10,300m²
Valuation	€42.7 million
Passing rent	€2.6 million
EPRA Occupancy	97.6%

Korzo Shopping Centrum

Prievidza

Ownership	100%
GLA	16,100m²
Valuation	€41.9 million
Passing rent	€3.1 million
EPRA Occupancy	99.4%

PHOTO: AUPARK KOSICE MALL, KOSICE

PHOTO: PARADISE CENTER, SOFIA

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.

2
retail
income-producing
properties

132,800
m² GLA of retail income-producing properties

€435m
property value

98.6%
EPRA occupancy rate

€32m
passing rent

4.8%
increase in tenants turnover*

*like-for-like;

Paradise Center

Sofia

Ownership	100%
GLA	81,300m²
Valuation	€267.5 million
Passing rent	€18.8 million
EPRA Occupancy	97.5%

Serdika Center

Sofia

Ownership	100%
GLA	51,500m²
Valuation	€167.4 million
Passing rent	€13.0 million
EPRA Occupancy	99.9%

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 the 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 2019, the Group opened an over 8,000m² fully-occupied retail park in Zagreb. The Arena retail scheme now totals 75,200m² GLA and consolidates its position as Croatia's premiere shopping destination.

75,200
m² GLA of retail income-producing properties

€266m
property value

98.0%
EPRA occupancy rate

€18m
passing rent

*like-for-like;

PHOTO: ARENA CENTAR AND PARK, ZAGREB

PHOTO: ARENA CENTAR, ZAGREB

PHOTO: FORUM USTI NAD LABEM, USTI NAD LABEM

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.

2
retail
income-producing
properties

74,300
m² GLA of retail income-producing properties

€183m
property value

98.5%
EPRA occupancy rate

€11m
passing rent

8.4%
increase in tenants turnover*

*like-for-like;

Forum Usti nad Labem

Usti nad Labem

Ownership	100%
GLA	27,700m²
Valuation	€93.0 million
Passing rent	€5.9 million
EPRA Occupancy	99.2%

Forum Liberec Shopping Centre

Liberec

Ownership	100%
GLA	46,600m²
Valuation	€89.9 million
Passing rent	€4.9 million
EPRA Occupancy*	97.8%

* excludes GLA under refurbishment

PHOTO: PROMENADA NOVI SAD, NOVI SAD

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.

In 2019, the Group completed Krusevac Shopping Park, a 8,600m² GLA centre which was fully-let at opening, housing seventeen well-known national and international brands.

3
retail
income-producing
properties

80,100
m² GLA of retail income-producing properties

€187m
property value

98.8%
EPRA occupancy rate

€14m
passing rent

13.7%
increase in tenants turnover*

*like-for-like;

Promenada Novi Sad

Novi Sad

Ownership	100%
GLA	49,200m²
Valuation	€129.7 million
Passing rent	€9.9 million
EPRA Occupancy	98.6%

Kragujevac Plaza

Kragujevac

Ownership	100%
GLA	22,300m²
Valuation	€45.8 million
Passing rent	€3.6 million
EPRA Occupancy	99.1%

Krusevac Shopping Park

Krusevac

Ownership	100%
GLA	8,600m²
Valuation	€11.3 million
Passing rent	€0.9 million
EPRA Occupancy	100%

Lithuania

RETAIL

In 2018 the Group entered the Lithuanian market through the acquisition of Ozas Shopping and Entertainment Centre, a 61,700m² GLA mall with a strong fashion and entertainment-oriented tenant mix, benefiting from an excellent location in Vilnius.

61,700
m² GLA of retail income-producing properties

€132m
property value

100%
EPRA occupancy rate

€10m
passing rent

PHOTO: OZAS SHOPPING AND ENTERTAINMENT CENTRE, VILNIUS

PHOTO: OZAS SHOPPING AND ENTERTAINMENT CENTRE, VILNIUS

PHOTO: THE LAKEVIEW, ROMANIA

Office

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

159,100
m² GLA of office income-producing properties

€383m
property value

99.6%
EPRA occupancy rate

€30m
passing rent

Serdika Office

Sofia, Bulgaria

Ownership	100%
GLA	28,500m²
Valuation	€52.8 million
Passing rent	€4.4 million
EPRA Occupancy	99.5%

Aupark Kosice Tower

Kosice, Slovakia

Ownership	100%
GLA	12,800m²
Valuation	€21.7 million
Passing rent	€1.8 million
EPRA Occupancy	100%

PHOTO: SERDIKA OFFICE, BULGARIA

HELD FOR SALE

In December 2019 the Group entered into an agreement to dispose of the Romanian office portfolio, consisting of four type A office buildings, to AFI Europe NV, a wholly owned subsidiary of Africa Israel Properties Limited. The transaction is expected to complete in April 2020.

Floreasca Business Park

Bucharest, Romania

Ownership	100%
GLA	36,300m²
Valuation	€105.3 million
Passing rent	€8.0 million
EPRA Occupancy	99.9%

City Business Centre

Timisoara, Romania

Ownership	100%
GLA	48,000m²
Valuation	€92.4 million
Passing rent	€8.1 million
EPRA Occupancy	99.7%

The Lakeview

Bucharest, Romania

Ownership	100%
GLA	25,700m²
Valuation	€69.3 million
Passing rent	€5.3 million
EPRA Occupancy	98.6%

Victoriei Office

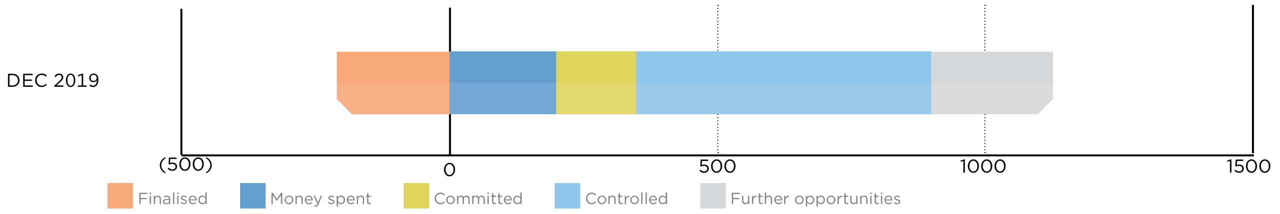
Bucharest, Romania

Ownership	100%
GLA	7,800m²
Valuation	€40.8 million
Passing rent	€2.9 million
EPRA Occupancy	100%

Development and extensions pipeline

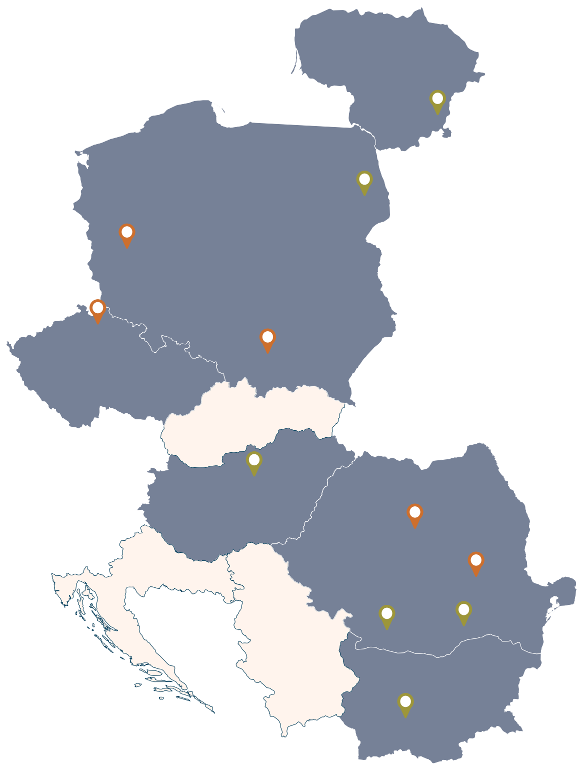
The Group will continue to invest strategically in developments that contribute to growth in distributable earnings per share or improve long-term prospects for its portfolio. NEPI Rockcastle is pursuing a development pipeline which exceeds €1.1 billion (including redevelopments and extensions, estimated at cost), of which €201 million was spent until 31 December 2019. Of the capital, only 16% has been committed, providing flexibility with regard to prioritising and scheduling 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
Developments under construction	**59 000**
Shopping City Targu Mures	39 800
Focus Mall Zielona Gora	15 600
Bonarka City Center	3 600
Shopping City Buzau	-
Forum Liberec Shopping Centre	-
Developments under permitting and pre-leasing	**219 650***
Promenada Mall	62 300
Promenada Plovdiv	58 300
Promenada Craiova	56 500
Arena Mall	25 900
Ozas Shopping and Entertainment Centre	15 450
Alfa Centrum Bialystok	1 200

** GLA depends on permitting.*

PHOTO: SHOPPING CITY TARGU MURES, ROMANIA

UNDER CONSTRUCTION

Shopping City Targu Mures

Targu Mures, Romania

Shopping City Targu Mures, in the south-eastern part of Targu Mures, the capital of Mures County, is near completion. Vibrant and multicultural, with 149,000 inhabitants, Targu Mures is home to one of the largest urban Hungarian community in Romania. The project is scheduled to open in Q2 2020, and tenants include Carrefour, CCC, Cineplex, Flanco, eMag, Hervis, Intersport, KFC, LC Waikiki, LPP (Cropp, House, Reserved, Sinsay) and New Yorker.

Development	
Ownership	100%
Estimated lettable area	39,800m^2
Targeted opening	Q2 2020

Focus Mall Zielona Gora

Zielona Gora, Poland

Extension and refurbishment are progressing smoothly. In the extension, earthworks, foundations and two floors are complete, with only two parking levels remaining unfinished. Renovation of existing common areas, food court and new toilets will be completed by November 2020.

Extension and Redevelopment	
Ownership	100%
Lettable area - property in use	29,300m^2
Estimated lettable area - extension	15,600m^2
Targeted opening	Q4 2020

UNDER CONSTRUCTION

Bonarka City Center

Krakow, Poland

Following a previous extension, which involved opening larger, refurbished Zara, Reserved and Peek & Cloppenburg, work continues, adding more GLA, improving vertical communication and upgrading communal areas. Units have been available from February 2020 and 70% of structural works have been completed by mid-March 2020.

Redevelopment	
Ownership	100%
Lettable area - property in use	74,400m^2
Estimated lettable area - redevelopment	3,600m^2
Targeted completion	Q3/Q4 2021

Shopping City Buzau

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.

After the successful extension opening, the refurbishment is scheduled for completion in Q2 2020.

Redevelopment	
Ownership	100%
Lettable area - property in use	23,700m^2
Targeted opening	Q2 2020

UNDER CONSTRUCTION

Forum Liberec Shopping Centre

Liberec, Czech Republic

In Q4 2019, the food court was refurbished, dm-drogerie was extended and renovated and vertical communication was upgraded, significantly improving access and visibility between floors. The full refurbishment of the shopping centre is scheduled to be completed by May 2020.

Redevelopment

Ownership	100%
Lettable area - property in use	46,600m^2
Targeted opening	Q2 2020

UNDER PERMITTING AND PRE-LEASING

Promenada Mall

Bucharest, Romania

Extension

Ownership	100%
Lettable area - property in use	39,400m^2
Estimated lettable area - retail	31,600m^2
Estimated lettable area - office	30,700m^2
Targeted opening	Q2 2022

Promenada Plovdiv

Plovdiv, Bulgaria

Development

Ownership	100%
Estimated lettable area	58,300m^2
Targeted opening	Q3 2021

UNDER PERMITTING AND PRE-LEASING

Promenada Craiova

Craiova, Romania

Development

Ownership	100%
Estimated lettable area	56,500m^2
Targeted opening	Q3 2021

Arena Mall

Budapest, Hungary

Extension

Ownership	100%
Lettable area - property in use	65,800m^2
Estimated lettable area - extension	25,900m^2
Targeted opening	Q4 2022

Ozas Shopping and Entertainment Centre

Vilnius, Lithuania

Extension and Redevelopment

Ownership	100%
Lettable area - property in use	61,700m^2
Estimated lettable area - extension	15,450m^2
Targeted opening	Q2 2022

Alfa Centrum Bialystok

Bialystok, Poland

Redevelopment

Ownership	100%
Lettable area - property in use	36,900m^2
Estimated lettable area - redevelopment	1,200m^2
Targeted opening	Q2 2022

PHOTO: SERDIKA OFFICE, BULGARIA

Corporate insights

2

Executive Board of Directors

ALEX MORAR (36)
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 was initially involved in operational and reporting activities. He later assumed leadership of NEPI's investment programme throughout CEE. He was appointed Executive Director in 2013 and Chief Executive Officer in August 2015.

During his tenure, NEPI's portfolio grew significantly and diversified across many CEE geographies, while the asset quality has improved. NEPI's merger with Rockcastle in 2017 further consolidated the competitive position in CEE by accessing the large Polish market. Mr. Morar has managed NEPI Rockcastle through further expansion, while ensuring that the asset management platform is enhanced to match portfolio growth.

MIRELA COVASA (37)
Chief Financial Officer

BCom, ACCA, CAFR

With over 18 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 with PricewaterhouseCoopers, most recently as a Senior Manager, where she was responsible for audit assignments in various industries in Romania, Slovenia and India. She joined NEPI in February 2012 as Finance Manager and became Chief Financial Officer in February 2015.

During her tenure, the Group shifted its financing approach from asset-based borrowing to capital markets funding and group-level unsecured debt, which resulted in significantly lower cost of funding. NEPI Rockcastle also maintains an adequate capital structure and a conservative gearing ratio, which are key to maintaining and further improving its investment grade rating.

MAREK NOETZEL (41)
Executive Director

MSc, MRICS

Marek Noetzel has been active on the Polish retail real estate market since 2002, gaining his professional experience in Cushman & Wakefield. As Head of the Retail Department, he was responsible for commercialization, development, asset management, investment and financial consultancy services working for multiple international and national clients.

Mr. Noetzel joined Rockcastle Global Real Estate in 2016 and played an important role in establishing the structure of the office in Poland and expanding it abroad.

He was appointed as an Executive Director of NEPI Rockcastle on 15 May 2017 and he is currently responsible for asset management of the Western portfolio and supports the acquisition of properties in Poland, Hungary, Slovakia and Czech Republic.

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 that good governance enables the Group to maintain an ethical culture, to deliver good performance and to achieve effective control and legitimacy.

The Board particularly recognises the need to manage the Group with integrity and to provide effective leadership based on strong ethical foundations. This includes:

- delivering timely, relevant and meaningful reporting to shareholders and other stakeholders, that provides a proper and objective overview on the Group and its activities;
- directing the strategy and operations of the Group with the intention of building a sustainable long-term business; and
- considering the short, medium and long-term impact of the Group strategy and operations on the economy, society and the environment.

To serve the interests of shareholders and other stakeholders, the Group’s corporate governance system is subject to ongoing review, assessment and improvement. The Board voluntarily adopts best practice governance policies and practices designed to align the interests of the Board and management with those of shareholders and other stakeholders, and to promote the highest standards of ethical behaviour and risk management at every level in the organisation.

Corporate governance covers the allocation of authority and responsibility by which the business and affairs of the Group are carried out by its Board and management team, including how they:

- oversee the Group’s strategy and set its objectives;
- align corporate culture, corporate activities and behaviour with the expectation that the Group will operate in a safe and sound manner, with integrity and in compliance with applicable laws and regulations and as a good corporate citizen;
- establish control and assurance functions and implement an effective combined assurance model;
- ensure availability of adequate resources and oversee personnel;
- monitor operations and performance management.

As NEPI Rockcastle shares are listed on stock exchange markets, the Board of Directors recognises the importance of good corporate governance, endorses and monitors compliance with King IV Report on Corporate Governance in South Africa, Johannesburg Stock Exchange Limited Listings Requirements, as well as with Euronext Amsterdam and A2X guidelines. A register with the applicable King IV principles, filled in based on the ‘apply and explain’ approach, is available on the Company website, www.nepirockcastle.com. The summary of the King IV principles coverage is further presented below.

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.


PHOTO: ARENA CENTAR, CROATIA

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

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 of its short, medium and long-term prospects.

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, of its chair and of its individual members, supports continuous improvement in its performance and effectiveness.

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

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 in 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 for the organisation's external reports.

Stakeholder relationship management

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.

Corporate governance

» continued

Considering the Group was already materially in line with the 16 King IV governance principles, intending to enhance its approach to corporate governance, adhere to best practices and go beyond mere compliance with King IV, the Group voluntarily decided to observe also other relevant governance practices implemented in the jurisdictions it operates in. To this end, during 2018, the Group launched a complex analysis process to determine the most relevant best practice corporate governance codes. PricewaterhouseCoopers LLC ('PWC') in the Isle of Man was thus engaged to provide advice on other corporate governance frameworks and best practices.

Following careful consideration of the available codes in Europe (given that the Group's operations are in Europe in their entirety), the Group concluded that the UK and the Dutch Corporate Governance Codes are the most relevant benchmarks. The Group therefore commissioned a comparison of the three governance codes (including King IV), to identify the most suitable requirements per area.

A cross-functional internal self-assessment and analysis was further performed in order to embed relevant best practice principles from the UK and Dutch governance codes into the company's governance framework. As a result, during 2019, the Group devoted a fair amount of time reviewing, aligning and implementing revised governance practices, under the close supervision of the Audit Committee, and with Board endorsement. This initiative covered all major governance areas:

- Board and Committees governance;
- Strategy, performance and reporting monitoring by the Board;
- Governance of operations and delegation of authority to management;
- Policies and procedures, internal controls, risk management, compliance and assurance model;
- Leadership principles, ethics and good corporate citizenship;
- Stakeholder relationship management.

The Company further commissioned PricewaterhouseCoopers LLC in the Isle of Man to independently assess the design and operating effectiveness of the resulting corporate governance framework. PricewaterhouseCoopers LLC's undertaking in this regard is to be conducted across two phases:

1. The first phase, which is substantially complete, consists of assessing the design effectiveness of the key components of each of the 6 pillars of the Company's corporate governance framework:

Board and Committees

Group Governance

Management

Compliance & Ethics

Internal Audit

Risk Management

Significant enhancement has been made to the Group's corporate governance framework during 2019. At the date of the Annual Report, in accordance with their staged advisory approach, PWC issued draft findings for discussion with the Company. Based on PWC draft findings, the Group noted there are no significant design deficiencies to be further addressed. PWC made certain improvement observations, the implementation of which would serve to enhance an otherwise robust and comprehensive corporate governance framework, and further align the Corporate Governance Framework with the three comparative corporate governance codes.

Once the design of the remaining key components has been approved and adopted by the Board and assessed by PricewaterhouseCoopers LLC, the Group is confident that it will have a comprehensively designed corporate governance framework.

2. The second phase, to be conducted mid-2020, will assess the operating effectiveness of all entity level controls implemented by the Group to cover proper governance.

The list of outstanding measures, the progress of implementation, as well as the design and operating effectiveness assessment are closely monitored by the Board of Directors in each Board meeting, where progress is discussed. The Board is satisfied with the corporate governance processes in the Company.

STRATEGY STEERING

The Group has a robust strategic framework for long term value creation, which has been reviewed and endorsed by the Board. The Board is essential in helping the company articulate and pursue its purpose, with a focus on addressing issues increasingly important to investors, communities it operates in and consumers. The Board strongly believes that a company's ability to design a strong long-term strategy and to manage environmental, social and governance matters, demonstrates the leadership and good governance that are ultimately required to achieve sustainable growth.

The Group's strategy is designed by the management team and adopted in the Board. It is structured around five major strategic directions, with each of the directions further drilled down to more granular strategic objectives. The Board takes an active role in monitoring how the company is achieving its strategic objectives.

Strategic directions
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

PHOTO: VICTORIEI OFFICE, ROMANIA

Corporate governance » continued

CORPORATE GOVERNANCE FRAMEWORK

Role of the Board

The Board comprises a mix of non-Executive and Executive Directors. In order to ensure that the Directors' varied backgrounds and experience provide NEPI Rockcastle with an appropriate combination of knowledge and expertise that is necessary to manage the business effectively, the Group prepared a Board Profile Paper.

This describes in detail the competences, expertise and background expected from Board members individually, the Committees and the Board collectively. It also sets out principles for diversity, independence and representation of Executive versus non-Executive Directors.

A clear division of responsibilities at Board level is in place to ensure a balance of power and authority, including between the roles of Chairman and Chief Executive Officer, which are clearly defined and segregated. This was designed to ensure that, at either Board or management level, no individual can hold single and unlimited power or control over significant decision-making processes.

The Board meets regularly, at least four times a year and is responsible for setting the Group's strategy, approving major matters, governing risk management processes and monitoring the overall company performance. The Board oversees the overall effectiveness of the internal control framework, which is designed to ensure that assets are appropriately safeguarded, operations are run efficiently, proper accounting records are maintained and the published financial information is reliable. There are no external advisers who regularly attend or are invited to attend Board meetings.

The Board assumes collective responsibility for directing, governing and controlling the Group, while providing effective corporate governance, promoting an ethical corporate culture and ensuring that the organisation is, and is seen to be, a responsible corporate citizen. Furthermore, the Board acts as a link between the stakeholders and the Group and ensures that there is a transparent and effective communication with stakeholders on both positive and negative aspects of the business.

The Board's role consists of two fundamental elements: **decision-making** and **oversight**.

The **decision-making role** is exercised through the formulation or approval of fundamental policies and strategic goals and the approval of significant actions in relation to implementing the Group's strategy.

The **oversight** role concerns the review of selected management decisions, monitoring the adequacy of systems and internal controls and reviewing the implementation of aligned policies and procedures across the Group.

Based on the above, the Board makes major policy decisions, participates in strategic planning, delegates to management the authority and responsibility for day-to-day affairs and reviews management's performance and effectiveness.

The Chairman of the Board is an independent non-Executive Director who acts as a link between the Board and the executive management. The Chairman:

- cannot be appointed as member or Chair of the Audit Committee or of the Risk Committee;
- cannot chair the Remuneration Committee;
- must be a member of the Nomination Committee and can act as its Chair;
- cannot be appointed as Chief Executive Officer or any other Executive Director.

The **Chairman** has the following main responsibilities:

- set the ethical tone;
- foster a proper corporate governance set-up;
- participate in the selection of Board members;
- oversee a formal succession plan for the Board members;
- set the Board work plan;
- oversee the performance evaluation process, the onboarding of new Directors and the continuous development of the Board members;
- take a lead role in removing non-performing Directors;
- ensure that any material misconduct amongst the members of the Board is investigated and responded to properly and in a timely manner;
- ensure that Directors are mindful of their duties and responsibilities and foster proper functioning of the Board sub-Committees;
- see that Board members are kept up to date with significant relevant laws, regulations and codes;
- ensure that a Lead Independent Director is nominated in order to guarantee proper back up;
- ensure that the Board is involved closely, and at an early stage, in any merger or takeover process;
- ensure that amicable relationships are maintained with major shareholders and stakeholders.

Lead Independent Director

The Board appoints one of its independent non-Executive members as the Lead Independent Director. The Lead Independent Director has the following main responsibilities:

- lead in the absence of the Chairman;
- serve as a sounding board or trusted adviser of the Chairman;
- act as an intermediary between the Chairman and other members of the Board, if necessary;
- chair discussions and decision-making by the Board on matters where the Chairman may have a conflict of interest;
- lead the performance appraisal of the Chairman with the other non-Executive Directors, without the Chairman present.

The appointment of the Lead Independent Director is currently ongoing, and the Board expects to finalise such process by mid-2020.

The **Executive Directors** are the Chief Executive Officer (CEO), the Chief Financial Officer (CFO) and other Executive Directors, as the Board may decide. Subject to the provisions of the applicable regulations, the Board may appoint Executive Directors, specify their duties and delegate powers to them.

PHOTO: PARADISE CENTER, BULGARIA

The Board has established that the CEO and the CFO have the following roles:

CEO

- ensure that a long-term strategy, in line with the Group mission and vision, is developed, advanced to the Board and then deployed;
- steer the development and the processes of the Group, establish performance goals and allocate resources to ensure future growth, achievement of strategy, compliance with applicable laws and regulations, responsible citizenship;
- ensure that financial and operating goals and objectives are achieved;
- ensure that a positive and ethical working environment exists and that the ethics policies approved by the Board are implemented;
- act as chief spokesman of the Group;
- manage the communication between the Executive Directors/ Senior Management and non-Executive Directors;
- maintain investor relations.

The CEO does not have other professional commitments and is not a member in governing bodies outside the Group, except for private companies managing personal investments.

CFO

- establish and manage the accounting and financial functions of the Group, including establishing policies and practices that ensure effective accounting and financial performance monitoring are maintained;
- take responsibility for financial and fiscal compliance, as well as general reporting of business performance;
- create realistic budgets and oversee their implementation, including limiting expenses and managing variations between projected and actual performance indicators;
- identify funding needs and ensure that these are met in a cost-effective manner;
- supervise fiscal research, projections, analysis and optimisation;
- interact and maintain relationships with external auditors, regulators, analysts and rating agencies.

The CFO does not have other professional commitments and is not a member in governing bodies outside the Group, except for private companies managing personal investments.

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

Corporate governance» continued

The Board, directly or through its sub-Committees, performed the following activities aimed at steering and governing the company in 2019:

Strategy

- Advised management and provided guidance on strategic direction, objectives and action plans, while considering business opportunities and the Group's risk appetite;
- Actively engaged in setting the long-term strategic goals for the organisation, reviewing and approving business strategies, corporate financial objectives and funding plans;
- Monitored Group's performance by closely reviewing the timely execution of investment and development strategies as well as the Group's ability to meet set objectives.

Operational performance

- Steered the Group toward delivering on its core objectives;
- Monitored the Group's operational performance compared to budget and forecasts;
- Fostered the completion according to schedule of the retail developments and extensions in Romania, Poland, Croatia and Serbia.

Financial performance

- Monitored the financial performance of the business;
- Monitored and confirmed the going concern and viability of the business;
- Concluded that the Annual Report and accounts, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the company's position, performance, business model and strategy;
- Supported intensive financing activities such as refinancing and issuance of bonds.

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

- Supported the enhancement and alignment of the corporate governance framework to King IV and fostered the implementation of best practice principles from UK and Dutch governance codes;
- Monitored independent review of the newly revised governance principles;
- Considered the independence of non-Executive Directors in accordance with the governance framework and included the assessment in the Annual Report;
- 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 and revised the membership, to ensure that committees comprised a majority of non-Executive Directors with an independent non-Executive Chairman, where required, and that their skillset is appropriate and sufficient to fulfil their purpose;
- Monitored compliance with laws and regulations across all jurisdictions, based on detailed reports provided by management;
- Reviewed the effectiveness of the system of internal controls and information technology capabilities;
- Reviewed the effectiveness of second-line-of-defence functions and of the overall combined assurance model.

Leadership, management and employees

- Oversaw the continued alignment and streamlining of Group's operations;
- Reviewed the Group's approach to developing people and identifying potential talents, including succession planning for key positions and Senior Management, and also reviewed the performance evaluation process.

Board appointments

Directors are appointed by the Board or by shareholders, as per the provisions of the Articles of Association of NEPI Rockcastle plc. Board appointed Directors need to be re-appointed by the shareholders at the next annual general meeting.

In addition to the power of shareholders to remove Directors, the Board is entitled to remove any Director without shareholder approval, in accordance with the provisions of the Articles of Association.

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.

The Board appointments are conducted in a formal and transparent manner following recommendations made by the Nomination Committee to the Board. The candidates' profiles are carefully analysed and new appointments take into account the necessary mix of background, experience competences, independence requirements and diversity principles, as set out in the Board Profile Paper. High profile and experienced recruitment agencies may be used to identify and assess new Director candidates, based on the decision of the Nomination Committee. The background and references of the candidates are carefully checked and multiple sources are used. Any new Director appointment happens only after an extensive interviewing process and approval by the Board.

The independence of each newly proposed Director will be assessed formally by the Nomination Committee and presented to the Board when the Director is proposed to be appointed, as well as reassessed annually, based on clear criteria defined in the Corporate Governance Framework

A non-Executive member of the Board may continue to serve in an independent capacity for longer than nine years only if, upon an assessment by the Board, conducted every year after the nine years, it is concluded that the member exercises objective judgement and there is no interest, position, association or relationship which, when judged from the perspective of a reasonable and informed third party, is likely to influence unduly or cause bias in decision-making.

Independence is re-assessed formally on an annual basis by the Nomination Committee for all the Directors, and any changes or updates are discussed by the Board and disclosed in the Annual Report.

As formal onboarding programme is in place for newly appointed Directors, under the close coordination of the Chairman of the Board and with support from the CEO. The onboarding programme is designed to help the new Director become familiar with the Group's business, strategy, policies, structure, as well as Board and Committee operational approach. The programme covers general financial, social and legal affairs, financial reporting, any specific aspects that are unique to the company and its business activities, company culture, the Corporate Governance Framework, and the Group's compliance policies: Code of Ethical Conduct, Whistleblowing policy and Group Dealing Policy.

Composition of the Board

The Board structure was rather stable during 2019, with only a few notable changes. Andreas Klingen joined the company in April 2019 as a non-Executive Independent Director, while in September 2019, Andries de Lange retired from his role as alternate Director to Desmond de Beer.
In 2019, the Directors were elected by shareholders, at the Annual General Meeting ('AGM') held on 21 August 2019, as follows:

- Robert Emslie was re-elected as an independent non-Executive Director and was appointed as Chairman of the Board, with 94.67% of the votes;
- Antoine Dijkstra was re-elected as an independent non-Executive Director, with 99.94% of the votes;
- Mirela Covasa was re-elected as Chief Financial Officer with 99.82% of the votes;
- Andreas Klingen was re-elected as an independent non-Executive Director with 99.99% of the votes;

The members of the Audit Committee were appointed at the AGM as follows:

- Andre van der Veer was appointed member and Chairman of the Audit Committee, with 93.97% of the votes;
- George Aase was appointed member of the Audit Committee, with 99.96% of the votes;
- Antoine Dijkstra was appointed member of the Audit Committee, with 99.95% of the votes;
- Andreas Klingen was appointed member of the Audit Committee, with 99.99% of the votes.

Corporate governance » continued

Details of the non-Executive Directors background and expertise are set out below:

ROBERT EMSLIE (61)
BCom, Hons Acc, CA (SA)

Appointments at 31 December 2019

NEPI Rockcastle

Chairman
Chairman of Nomination Committee
Member of Remuneration Committee
Member of Investment Committee

Other listed companies

Chairman of the Board at SilverBridge Holdings Ltd
Chairman of the Board at Transcend Residential Property Fund Ltd

Career

Robert Emslie is a Chartered Accountant, with more than 30 years experience in the financial services and property management sectors.

He held various positions within the ABSA Group 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 appointed non-Executive Director of NEPI in 2016 and the Chair of the Remuneration Committee. He was appointed as independent non-Executive Director of NEPI Rockcastle on 15 May 2017 and Chairman of the Board on 28 August 2018.

GEORGE AASE (57)
BSc, CPA

Appointments at 31 December 2019

NEPI Rockcastle

Member of Audit Committee
Member of Remuneration Committee
Member of Risk Committee

Other listed companies

-

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 over 12 years' experience in the real estate sector. He led three major initial public offerings 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. Mr. Aase was appointed as independent non-Executive Director on 28 August 2018.

DESMOND DE BEER (59)
BProc, MAP

Appointments at 31 December 2019

NEPI Rockcastle

Chairman of Investment Committee
Member of Nomination Committee

Other listed companies

CEO at Resilient REIT Limited

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 is Managing Director of Resilient REIT Limited, a South African property company listed on the JSE.

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

ANTOINE DIJKSTRA (56)
MSc, COL (INSEAD)

Appointments at 31 December 2019

NEPI Rockcastle

Chairman of Social and Ethics Committee
Member of Audit Committee
Member of Nomination Committee
Chairman of Risk Committee

Other listed companies

-

Career

Antoine Dijkstra started his career at Credit Agricole in Rotterdam, Paris and Frankfurt. Mr. Dijkstra has extensive experience in banking and investment management, with a focus on public sector related entities and financial institutions. He held various board and managing roles within AIG, NIBC (Netherlands), Harcourt Investment Management (Zurich), JPMorgan/Bear Stearns (UK) and Gulf International Bank (Bahrain). Currently he is senior advisor to several companies, member of the board of trustees of SMU University and member of the executive committee of Cox School of business in Texas, USA. Mr. Dijkstra was appointed as independent non-Executive Director of NEPI in 2016 and independent non-Executive Director of NEPI Rockcastle on 15 May 2017.

ANDREAS KLINGEN (55)
MBA Rotterdam School of Management

Appointments at 31 December 2019

NEPI Rockcastle

Member of Audit Committee
Member of Risk Committee

Other listed companies

Deputy Chairman of the Supervisory Board of NLB d.d.
Member of the Supervisory Board of Credit Bank of Moscow PJSC

Career

Mr. Klingen has more than 25 years of experience in the financial services sector, most of which in Banking in Central Eastern Europe and CIS. He held various senior positions within Investment Banking at Lazard, Frankfurt and JPMorgan, London. Thereafter, he became Head of Group Development of Erste Group, Vienna and Deputy CEO of Erste Bank, Kiev. He has been working as an independent adviser since 2013.

Since 2005 Mr. Klingen served as a Supervisory Board member or a non-Executive Director in 14 institutions in 11 different countries in Central Eastern Europe and the Commonwealth of Independent States (CIS). He was appointed as an independent non-Executive director of NEPI Rockcastle on 17 April 2019.

SIPHO VUSO MAJIJA (40)
BSc (Hons) Property Studies,
Diploma in Civil Engineering,
MBA (GIBS)

Appointments at 31 December 2019

NEPI Rockcastle

Member of Risk Committee
Member of Social and Ethics Committee
Member of Investment Committee

Other listed companies

Executive Director at Fortress REIT Limited

Career

Sipho Vuso Majija has been part of the Fortress REIT Limited ("Fortress") team since 2009 and joined the Fortress board of directors as Executive Director in May 2017. He has extensive experience in property and asset management of commercial, industrial and retail properties gained over a period of 14 years. Mr. Majija manages Fortress' retail portfolio, including aspects related to developments, re-developments, extensions, national tenant relations, acquisitions and disposals. He obtained an MBA from the Gordon Institute of Business Science in 2016. Mr. Majija is a director of the South African Council of Shopping Centres ("SACSC"). He was appointed as a non-Executive Director of NEPI Rockcastle on 6 June 2018.

ANDRE VAN DER VEER (52)
BPL, MPL

Appointments at 31 December 2019

NEPI Rockcastle

Chairman of Audit Committee
Chairman of Remuneration Committee
Member of Risk Committee
Member of Investment Committee

Other listed companies

-

Career

After completing a Masters' degree in Banking and Economics in 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 listed and private equity markets. He was a non-Executive Director of Rockcastle from 2014 to 2017, and also the Chair of Rockcastle's Investment Committee.

Mr. van der Veer was appointed as independent non-Executive Director of NEPI Rockcastle on 15 May 2017.

Corporate governance » continued

The schedule of meetings of the Board and the Committees during 2019 and the Directors' attendance rate are further depicted in the table below.

	Board	**Investment Committee**	**Audit Committee**	**Risk Committee**	**Remuneration Committee**	**Nomination Committee**	**Social and Ethics Committee**
Date	**5 meetings**	**5 meetings**	**7 meetings**	**3 meetings**	**4 meetings**	**4 meetings**	**1 meeting**
07 Feb 2019						100%	
20 Feb 2019					100%		
21 Feb 2019							100%
22 Feb 2019						100%	
25 Feb 2019		100%	100%				
26 Feb 2019	100%						
11 Mar 2019			100%				
20 Mar 2019					100%	100%	
12 Apr 2019					100%		
21 May 2019		100%					
22 May 2019	100%		100%				
04 Jun 2019				100%			
21 Jun 2019		100%					
08 Aug 2019			100%				
14 Aug 2019		100%					
20 Aug 2019			100%				
21 Aug 2019	100%						
29 Aug 2019				100%			
16 Sep 2019			75%				
15 Oct 2019	100%					100%	
23 Oct 2019					100%		
12 Nov 2019		100%					
18 Nov 2019			100%	100%			
19 Nov 2019	100%						

Board profile, diversity and independence assessment

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 of cultures, know-how and background, as well as the share of independent Directors. The Board is actively recruiting a sixth independent Director, in order to further increase the independence at Board level.

The Board considers that its composition and the composition of its Committees is adequate and that the varied members' qualifications, experience and expertise, age, period of service, other directorships and positions held, are satisfactory to comply with the Corporate Governance Framework and Board Profile Paper.

Independent non-Executive Directors play a crucial role in acting as a sounding panel to the Executives and 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, fully aligned with the corporate governance framework, have been used to assess the independence of the Board of Directors' non-Executive members in 2019:

- Criteria 1: The Director is not a significant provider of funds to the Group;
- Criteria 2: The Director is not an officer, employee or representative of a significant funding provider of the Group;
- Criteria 3: The Director is not a participant in the Group's share incentive scheme;
- Criteria 4: The Director does not own shares in NEPI Rockcastle, which are material to the personal wealth of the Director;
- Criteria 5: The Director has not been an executive of NEPI Rockcastle during the preceding 3 (three) financial years;
- Criteria 6: The Director has not been designated as an external auditor of the Group or a key member of the external audit engagement team during the preceding 3 (three) financial years;
- Criteria 7: The Director is not part of the executive management of another organisation which is a related party of the Group;
- Criteria 8: The Director is not entitled to remuneration contingent on the performance of the Group.

If any of the criteria above is not met, the Director is considered non-independent.

Director	**Criteria 1**	**Criteria 2**	**Criteria 3**	**Criteria 4**	**Criteria 5**	**Criteria 6**	**Criteria 7**	**Criteria 8**	**Overall Assessment**
Robert Emslie	√	√	√	√	√	√	√	√	Independent
Andre van der Veer	√	√	√	√	√	√	√	√	Independent
Antoine Dijkstra	√	√	√	√	√	√	√	√	Independent
George Aase	√	√	√	√	√	√	√	√	Independent
Andreas Klingen	√	√	√	√	√	√	√	√	Independent
Desmond de Beer	√	X	√	X	√	√	X	√	Non-independent
Sipho Vuso Majija	√	X	√	√	√	√	X	√	Non-independent

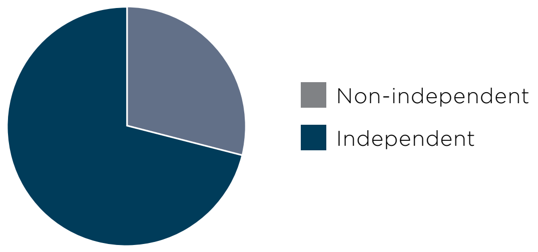
Length of Directors' service in the Board

Director	**Years of service in the Board***
Desmond de Beer	11.2
Alex Morar	6.3
Andre van der Veer	5.6
Mirela Covasa	4.9
Marek Noetzel	4.0
Robert Emslie	3.8
Antoine Dijkstra	3.6
Sipho Vuso Majija	1.5
George Aase	1.3
Andreas Klingen	0.7

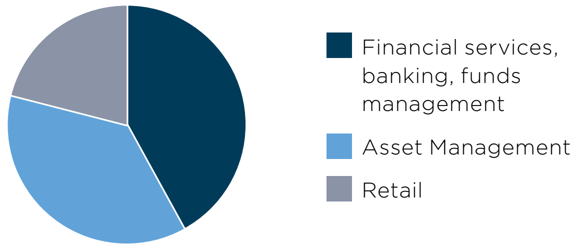
** length of service in both NEPI and Rockcastle before the merger has been included. If a Director served on both Boards, the longest time period was considered.*

Composition of the Board

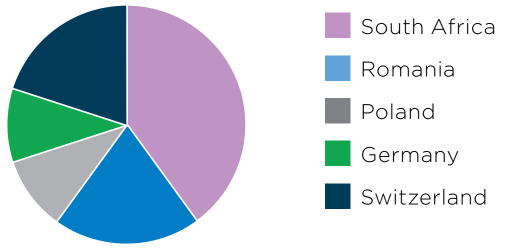
Independence of non-Executive Directors



Board experience by sector



Country of residence



Corporate governance » continued

Delegation to Committees

Without abdicating accountability, the Board delegates certain functions to well-structured committees, comprised of several of its Directors.

The following requirements are considered in setting up Board Committees, fully in line with the governance frameworks of reference:

- an independent non-Executive Director must be the Chairman of the Audit and the Remuneration Committees;
- the Nomination Committee should only consist of non-Executive Directors, and the majority should be independent;
- the Remuneration Committee should consist of non-Executive Directors, of whom the majority should be independent;
- Directors who are not members of a Committee, may attend meetings and participate in their proceedings to gain information, but are not entitled to a vote;
- the CEO will not be a member of the Remuneration, Audit or Nomination committees, but may attend by invitation any meeting, if needed to contribute pertinent insights and information.

The Board considers the allocation of roles and associated responsibilities and the composition of membership across committees holistically, to achieve the following:

- effective collaboration through cross-membership between committees, where required, coordinated timing of meetings and avoidance of duplication or fragmented functioning in so far as possible;
- where more than one committee has jurisdiction to deal with a specific matter, the role and positioning of each committee in relation to such matter are defined to ensure complementarity rather than competing approaches;
- a balanced distribution of power in respect of membership across committees, so that no individual would dominate decision-making, without undue reliance placed on a single individual.

Each Committee, and also the Board, annually assesses its effectiveness to ensure that it has effectively fulfilled its responsibilities as set out in its mandate. The Chair of each committee, in consultation with the committee members and Senior Management (where appropriate), develops work plans for the year, which provide a thematic view of the future agenda and are intended to focus the committee's attention on the most important aspects of its mandate with sufficient frequency.

The governing body and the Committees considered their activity during 2019 and confirmed that they are satisfied that they have fulfilled their responsibilities in accordance with their charters and the corporate governance framework.

Considering its role and responsibilities, the Board decided that the following Committees are necessary to properly discharge some of its duties:

- Audit Committee;
- Investment Committee;
- Remuneration Committee;
- Risk Committee;
- Nomination Committee;
- Social and Ethics Committee.

Each Committee's role, responsibilities, accountabilities and operating guidelines are documented in the Committees Charters. The Committees Charters are approved by the Board as a whole and are reviewed periodically, but at least annually, considering regulatory guidance and industry best practices, to ensure that the Board and its Committees are adaptive and responsive to new requirements and continue to practise strong oversight.

The membership of Committees will be reviewed annually by the Board, to ensure effective discharge of their duties and oversight through an appropriate mix of knowledge, background and independence. The Committees are appointed by the Board, and any of the members may be removed by the Board, except for the Audit Committee.

PHOTO: PROMENADA MALL, ROMANIA

As at 31 December 2019, the Board's Committees composition was as follows:

Audit Committee	Nomination Committee	Remuneration Committee
Independent non-Executive Directors	**Independent non-Executive Directors**	**Independent non-Executive Directors**
Andre van der Veer (Chairman) Antoine Dijkstra George Aase Andreas Klingen	Robert Emslie (Chairman) Antoine Dijkstra	Andre van der Veer (Chairman) Robert Emslie George Aase
	Non-independent non-Executive Director	
	Desmond de Beer	

Risk Committee	Social and Ethics Committee	Investment Committee
Independent non-Executive Directors	**Independent non-Executive Directors**	**Independent non-Executive Directors**
Antoine Dijkstra (Chairman) Andre van der Veer George Aase Andreas Klingen	Antoine Dijkstra (Chairman)	Robert Emslie Andre van der Veer
Non-independent non-Executive Director	**Non-independent non-Executive Director**	**Non-independent non-Executive Directors**
Sipho Vuso Majija	Sipho Vuso Majija	Desmond de Beer (Chairman) Sipho Vuso Majija
	Executive Director	**Executive Director**
	Marek Noetzel	Alex Morar

Subsequent to the year-end, the following changes to the Committees of the Board have been made, upon Board's approval:

Audit Committee:
Andre van der Veer remains a member of the Audit Committee, resigning from the position of Chairman of this Committee and being replaced by George Aase.

Social and Ethics Committee:
Antoine Dijkstra remains a member of the Social and Ethics Committee, resigning from the position of chairman of the Committee, and being replaced by Andreas Klingen.
Mirela Covasa is appointed as a member of the Social and Ethics Committee.
Marek Noetzel resigns from his position as a member of the Social and Ethics Committee.

Investment Committee:
Marek Noetzel is appointed as a member of the Investment Committee.

Corporate governance » continued

Committees at a glance

Audit

The Audit Committee is established to assist the Board in discharging its duties related to overseeing the combined assurance model at group level, respectively:

- ensure the safeguarding of assets;
- monitor the adequacy of the internal control system;
- monitor the preparation of interim and annual financial reports and statements that fairly present the results in compliance with all applicable legal requirements and accounting standards;
- nominate external auditors whose appointment is subject to shareholders' approval;
- interact with internal and external auditors.

Risk

The Risk Committee is established to assist the Board in:

- exercising oversight over enterprise risk management processes;
- ensuring that the Group has implemented an effective approach to risk management that will enhance its ability to achieve its strategy and business objectives.

The Risk Committee will ensure that the enterprise risk management processes are widely disseminated throughout the Group, are integrated into its day-to-day activities, and that risk assessments are performed on a continuous basis.

Social and Ethics

The Social and Ethics Committee is charged with overseeing the Group's compliance processes, organisational ethics, sustainable development practices, stakeholder relationship management and responsible corporate citizenship practices (including the promotion of equality, prevention of unfair discrimination, safeguarding the environment, protecting health and public safety).

The Committee considers the consequences of the Group's activities on its status as a responsible corporate citizen. This oversight is performed against targets included in the sustainability strategy, covering the following areas:

- Environment, looking to minimise the Group's negative impact through responsible use of resources, controlled pollution and waste disposal, a limited carbon footprint and green buildings, protection of biodiversity;
- Economy, including supporting local communities, creating jobs, preventing fraud and corruption, managing a transparent taxation policy;
- Workplace, including employment equity, diversity and inclusion, fair remuneration, health and safety;
- Society, including public health and safety, consumer protection, community development, protection of human rights.

Remuneration

The role of the Remuneration Committee is to support the Board in discharging its responsibilities related to the Group remuneration policy and remuneration approach.

The Remuneration Committee objectives are to:

- oversee the Group's remuneration policy while ensuring that the main principles and performance indicators are aligned to the Board's vision, values and overall business objectives and are designed to motivate the Directors and employees to pursue the Group's growth and success;
- monitor implementation and administration of the remuneration policy;
- annually review and recommend to the Board the remuneration to be paid to non-Executive Board members;
- annually review and recommend to the Board the remuneration for Executive Directors in accordance with the remuneration policy and targets achieved;
- ensure staff and Directors' remuneration is aligned with market trends and the Group's strategy.

Nomination

The Nomination Committee is established to support the Board in discharging the following duties:

- identify suitable Board candidates in order to fill vacancies, based on the criteria defined in the Board Profile Paper to ensure the appropriate mix and diversity;
- ensure that there is a succession plan in place for key Board members;
- formally assess the independence of Non-Executive Directors;
- arrange the evaluation of the performance of the Board and Committees on an annual basis;
- arrange for an appropriate training and development programme for Board members, as well as an induction programme for newly appointed Directors.

Investment

The role of the Investment Committee is to consider potential investments (including mergers and acquisitions, listed securities, capital expenditure for developments or extensions, purchases of land) and disposals, in line with the strategic goals of the Group.

Further to such analysis, the investments or disposals, shall be either approved by the Investment Committee – if within its mandate – or shall be further submitted to the Board for consideration and approval.

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

According to the corporate governance requirements and in full alignment with best practices, the Audit Committee:

- consists of at least three independent non-Executive Directors;
- is chaired by an independent non-Executive Director who is not the Chairman of the Board (the "AC Chair");
- consists of members fully conversant in finance and accounting principles, and who are knowledgeable about the affairs of the Company;
- consists of members who must have a fair understanding of International Financial Reporting Standards, internal controls, external and internal audit processes, corporate law, sustainability issues and information technology, as it relates to integrated reporting and governance processes within the Company.

The Chairman of the Board may attend meetings based on the invitation from the Audit Committee Chair, but cannot be nominated as member of the Audit Committee.

The Audit Committee has the following main responsibilities:

- oversee the integrated accounting and reporting process, including financial reporting;
- review the independence of internal and external auditors;
- evaluate and coordinate the internal and external audit process in order to ensure an efficient combined assurance model;
- nurture and improve communication and contact between relevant stakeholders of the Company;
- monitor implemented controls frameworks to ensure compliance with legal requirements;
- assess the adequacy of the Group's Finance function's expertise, resources and experience;
- deal 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;
- assist 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.

Furthermore, the Audit Committee has the following specific duties:

A. with respect to the **external audit process**:

- nominate for appointment as external auditor of the Company a registered auditor who is independent of the Company;
- review and approve the auditor's fees and terms of engagement;
- ensure that the appointment of the external auditor complies with relevant legislation;
- determine the nature and extent of any non-audit services which the auditor may provide to the Company;
- perform other functions determined by the Board, including the development and implementation of a policy and plan for a systematic evaluation designed to improve the effectiveness of control and governance processes within the Group;
- annually review and discuss with the external auditor all significant relationships they have with the Group to determine their independence and objectivity;
- review external audit reports to ensure that prompt action is taken by management in all relevant areas;
- review any significant disagreement between management and the external auditor relating to any external audit report;
- evaluate the performance of the external auditor and the quality and effectiveness of the audit process;
- develop a process to ensure that the Audit Committee receives notice of any irregularities reported to the Independent Regulatory Board for Auditors.

B. with respect to the **financial reporting processes**:

- evaluate the Annual Report of the Group for reasonableness, completeness, consistency and accuracy prior to issue and approval by the Board;
- evaluate significant management decisions affecting the financial statements, including changes in accounting policy, resolutions requiring a major element of judgement, and the clarity and completeness of proposed financial and sustainability disclosures;
- in consultation with external and internal auditors, review the integrity of the Group's internal and external financial reporting processes;
- consider the external auditor's opinion about the quality and appropriateness of the Company's accounting policies as applied in its financial reporting;
- review complex and/or unusual transactions;
- recommend to the Board whether it should issue a going concern statement or not, based on the assessment provided by the CFO.

C. with respect to **internal controls**:

- gain an understanding of the Group's key risk areas and the internal control structure;
- evaluate whether Senior Management is setting the appropriate "control culture" by communicating the importance of internal control and the management of risk and by ensuring that all employees understand their roles and responsibilities;
- review the effectiveness and efficiency of the internal controls applied in the Group;
- review and assess the reports issued by the internal and external auditors;
- consider how management is held accountable for the security of computer systems and applications, and the contingency plans for processing financial information in the event of a systems breakdown, fraud or misuse;
- gain an understanding of whether internal control recommendations made by internal and external auditors have been implemented by Executive Directors and Senior Management;
- prioritise and direct the audit effort to high-risk areas of the business.

D. with respect to the **internal audit** activity, the Audit Committee:

- reviews and approves the Internal Audit Function Charter;
- reviews the effectiveness of the Internal Audit Function, its staffing and resources 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;
- ensures the independence of the Internal Audit Function;
- ensures that internal audit activities comply with the relevant rules and regulations;
- approves the Annual Internal Audit Plan;
- reviews and approves risk assessment results;
- reviews and approves internal audit reports to Executive Directors and Senior Management, and management's action plans to address risks and control deficiencies noted by the Internal Audit Function;

Corporate governance » continued

- monitors the status of implementation of action plans based on reports provided by the Internal Audit Function;
- may escalate to the Board significant audit findings and control deficiencies which require Board attention and prioritisation.

E. with respect to **ethical and legal** compliance duties:
- oversee controls implemented to address compliance with all applicable laws, regulations and policies;
- review internal audit reports concerning any compliance reviews and investigations;
- review management's monitoring of compliance with the Board's guidelines;
- perform any other activities consistent with this Charter, as the Committee or the Board deems necessary or appropriate.

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 information, including records, property and personnel of the Group. The Committee is provided with the necessary resources to fulfil its responsibilities.

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

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 given 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 given the size and complexity of the Group.

The Audit Committee, following the mandate received at the AGM, approved the External Auditor's terms of engagement, fees and scope of work for 2019. 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.

During 2019, the Audit Committee formalised and approved the Group policy on the provision of non-audit services and preservation of independence by the Group financial auditor. The policy was designed observing the EU Regulation 537/2014 on specific requirements regarding the statutory audit of public interest entities and is applicable to all Group's companies. The policy defines categories of non-audit services which are considered to potentially impair the independence and objectivity of the external auditor, as well as limits the provision of non-audit services to a maximum percentage of the financial audit fees.

In order to fulfil its responsibility to monitor 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 controls, is comfortable that any weakness may not result in a material financial loss, fraud, corruption or error, and that the Company implemented mechanisms to identify such significant weaknesses in due time.

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

Risk Committee

The Risk Committee takes a forward-looking view regarding the risks that the Group may face and aims to enable the effective implementation of mitigating measures and overall enterprise risk management.

The Risk Committee will:
- consist of at least three Directors;
- be chaired by an independent non-Executive Director, who is not the Chairman of the Board;
- include members with sufficient knowledge about the affairs of the Group, qualifications and experience to fulfil their duties effectively.

The Risk Committee assumed during 2019 the following responsibilities:
- oversee the redesign and alignment of the risk management process to COSO for ERM framework and ISO 31000 principles;
- oversee the development and annual review of the risk management policy to recommend for Board approval;
- monitor implementation of the risk management policy, processes and organisation, taking into account market, credit, liquidity, systemic, reputational and non-financial risks, as well as the design and operation of the internal risk management system;
- make recommendations to the Board concerning the levels of risk appetite and risk profile of the Group and monitoring that risks are managed within those levels, as approved by the Board;
- oversee that the risk management plans are widely disseminated throughout the Group and integrated in day-to-day activities;
- ensure that risk management assessment and risks monitoring are performed on a continuous basis;
- acknowledge mitigating action plans implemented by business functions, and review the implementation status for such mitigations concerning major company risks;
- ensure that frameworks and methodologies are implemented to reasonably anticipate unpredictable risks;
- ensure that management considers and implements appropriate risk responses;
- 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 the risk management system;
- review reporting concerning risk management that is to be included in the integrated Annual Report to ensure that it is timely, relevant and comprehensive;
- assess compliance with relevant regulations concerning risk reporting.

Social and Ethics Committee

The Social and Ethics Committee will consist of at least three Directors, with a diverse mix of independent and non-independent directors, to ensure sufficient know how and expertise.

The main function of the Social and Ethics Committee is to monitor the Group's activities, having regard to any relevant legislation, other legal requirements or prevailing codes of best practice, and supports the Board in discharging its responsibilities in the following areas:
- oversee the compliance processes, code of ethics and whistleblowing policy and process;
- ensure that the Group is a good corporate citizen and monitor progress towards meeting the sustainability targets defined by the Group;
- monitor the Group's effects on the environment, health and public safety based on reports provided by management;
- monitor labour and employment relationships;
- ensure comprehensive, timely and relevant sustainability reporting, i.e. evaluate the sustainability section in the Annual Report for reasonability, completeness and accuracy, prior to Board approval of the Annual Report;
- assess regularly the Group's culture, the tone set by management and whether these are in accordance with the Group's mission, vision, values and strategy.

Remuneration Committee

The Remuneration Committee will:
- consist of at least three Directors, the majority of whom must be Independent non-Executive Directors;
- be chaired by an Independent non-Executive Director, who is not the Chairman of the Board.

The Directors serving on the Remuneration Committee will have diverse, complementary backgrounds and will be independent of the management and the Company.

The Remuneration Committee assumed the following responsibilities during 2019:
- oversee the annual review of the remuneration policy and principles;
- monitor implementation and administration of the remuneration policy;
- determine remuneration for Executive Directors in alignment with the remuneration policy;
- monitor remuneration principles implemented to ensure that employees are properly incentivised based on individual and Group performance;
- ensure that the Group's remuneration principles are aligned with strategy and create long-term value for the Group;
- recommend the fees paid to non-Executive Directors and members of the Board Committees.

Nomination Committee

The Nomination Committee will:
- consist of at least three Directors, the majority of whom must be Independent non-Executive Directors;
- be chaired by an Independent non-Executive Director, who may also be the Chairman of the Board of Directors.

The Nomination Committee shall assume the following main responsibilities:
- periodically assess the skill set required to competently discharge the Board's duties, considering the Group's strategic direction, and compile/ review the Board Profile Paper on an annual basis;
- review and make recommendations regarding Board composition, competencies, structure, size and diversity, to ensure that vacancies are filled with suitable candidates, in line with criteria defined in the Board Profile Paper;
- develop strategies to address Board diversity;
- develop and review Board succession plans, Director induction programmes and continuing development programmes, aiming to maintain an appropriate mix of skills, experience, expertise and diversity;
- identify existing Directors who are due for re-election by rotation at AGM;
- arrange the performance evaluation for Board members on an annual basis;
- review and make recommendations regarding Board appointments, re-elections and terminations;
- prepare a description of the role and skill set required for appointments;
- identify suitable candidates to fill Board vacancies and nominating them for Board approval;
- propose any extensions of Board appointments;
- ensure that, upon appointment, all Directors receive a formal letter of appointment that sets out the duration and responsibilities required by the appointment;
- review disclosures made by the Group regarding Board appointments, re-elections and terminations;
- deal with other matters referred to the Nomination Committee by the Board (reviewing or making recommendations to the Board on matters which the Committee considers necessary or are requested by the Board).

Committee members shall not participate either in the review of their own performance or their re-appointment. The Lead Independent Director, after appointment to this role, will participate in and coordinate the performance review of the Chairman of the Board.

Corporate governance» continued

Investment Committee

Members of the Investment Committee must have significant property investment, retail and markets know-how. The Investment Committee Chair must be a non-Executive Director with adequate financial and investment experience.

Senior Management of the Group is responsible for identifying new investment opportunities, optimising the performance of existing assets (for example, through refurbishments, alterations and re-tenanting), and where necessary, working on the disposal of assets which no longer contribute to the Group's income growth strategy. The CEO will coordinate and monitor all acquisitions, capital expenditures and disposal processes and will recommend those which exceed his mandate, to the Investment Committee.

The Committee is responsible for formulating the overall investment policies and strategy of the Group and for establishing investment guidelines. The Committee monitors investment portfolio management to ensure compliance with investment policies and guidelines, so that 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 issued by relevant local and international bodies.

The purpose and function of the Investment Committee is to:
- consider management recommendations for mergers, acquisitions, investments, capital expenditure and disposals, and make proposals to the Board for approval;
- authorise transactions that fall within its mandate and analyse and recommend to the Board those transactions that fall outside its mandate;
- evaluate investment performance over time.

PHOTO: TIMISOARA BUSINESS CENTRE, ROMANIA

Development, evaluation, succession planning

The Board must evaluate and ensure that its own performance, profile, composition, competencies and expertise and those of its committees, its chair and its individual members, support continued improvement in its performance, effectiveness and proficiency in exercising their duties.

Keeping up to date with trends, market evolutions, industry-specifics and legal and regulatory developments is a constant priority and the Directors' annual development programme includes dedicated sessions delivered by highly qualified experts. The Board and its Committees may, whenever they consider appropriate, seek independent professional advice concerning the Company's affairs and gain access to any information they may need in discharging their duties as directors.

The performance of the Board, its Committees, its Chairman and of the individual Directors is formally evaluated annually. The process is driven by the Nomination Committee under the direct supervision of the Chairman of the Board, based on a detailed evaluation methodology approved in advance and subsequently endorsed by the Board. The process may be run internally or with support and facilitation from external advisers, as the Board may decide. The performance and effectiveness of the Chairman of the Board is evaluated collectively by its members.

The evaluation process for 2019 covers the following overall dimensions:
- Structure and composition of Board and Committees, including diversity and mix of skills;
- Efficiency and transparency of operations, processes and routines;
- Governance and compliance;
- Board contribution to strategy definition and performance steering;
- Board contribution to risk management and internal controls framework;
- Board contribution to performance evaluation and compensation.

A formal Board succession process is in place to ensure the effective and orderly succession of Directors. The succession framework must ensure that sufficient knowledge, skills and experience are available for the Board to effectively govern the Group. The objectives of the succession planning process include:
- identifying the knowledge, skills and experience the Board should possess to effectively fulfil the Board's legal role and responsibilities, based on the defined Board Profile Paper;
- ensuring an appropriate balance in terms of diversity, expertise and know-how among the Directors;
- identifying qualified individuals suitable for Director nomination and recommending them to the shareholders' AGM;
- achieving continuity through a smooth succession of Directors (including Board and Committees leadership) that balances perspective and independence with experience and historical knowledge; and
- satisfying best practice within the legal and regulatory framework applicable to the Group; in particular, compliance with the JSE, A2X and Euronext listing requirements and with statutory obligations which exist in the various jurisdictions where the Group operates.

The Nomination Committee leads the Board succession planning and employs any required processes and procedures to fulfil the committee's objectives.

Directors dealings and related parties transactions

Dealing in Company securities by Directors, their associates and key Group employees is regulated and monitored in accordance with the applicable stock exchange listing requirements, guidelines, legislation, regulations and directives.

To prevent the risk of insider trading and to ensure that all restricted persons do not abuse, and do not place themselves under suspicion of abusing inside information, the Group has adopted a formal Dealing Code, available and communicated to all its employees and Directors. The Dealing Code sets out obligations of Group managers, employees and people closely associated with them under the Market Abuse Regulation and stock exchange listing requirements and guidelines, regarding clearance to deal and notifications of transactions in the Group's securities. Through its Dealing Code, the Group prohibits all Directors and employees from using confidential information, not generally known or available to the public, for personal benefit.

NEPI Rockcastle maintains a closed period from the end of a financial period until publication of the financial results for that period, as well as when sensitive information not yet available publicly is known by the company's employees or Directors. 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 announces publicly all dealings of its Executive and non-Executive Directors in the Company's securities through SENS (Stock Exchange News Service). Directors' securities holdings as of year-end are also disclosed in the Annual Report.

According to the Group Code of Ethical Conduct, Board members are alert to conflicts of interest and unethical conduct and are required to refrain from the following:
- engaging in personal business that may compete with the Group;
- demanding or accepting substantial gifts from the Group or from any of its employees or partners, for themselves or their spouse, registered partner or other life companion, foster child or relative by blood or marriage up to the second degree;
- providing unjustified advantages to third parties at the Group's expense;
- taking personal advantage of business opportunities that the Group would be entitled to;
- allowing in any other way the influence of third parties to compromise or override independent judgement;
- using confidential information related to the Group for their own personal benefit.

Corporate governance » continued

At each Board meeting, potential conflicts related to specific topics on the agenda are checked before the meeting. Any potential conflict of a Director is declared and discussed in the Board. The Board decides on the measures to be implemented and the degree of further involvement of the respective Director in the matter at hand.

Any conflict of interest deemed significant by the Board during the year would be disclosed in the Annual Report. Such information considers but is not limited to related party transactions and cross-shareholdings.

Stakeholders engagement and relationship management

The Board oversees stakeholder relationship management, while responsibility for the implementation and execution of effective relationship management has been delegated to the Executive Directors and further on to line management. During 2019, management focused on ensuring fair, timely, complete communications with the Group's stakeholders.

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

The Group's Corporate Governance Framework, in full alignment with the relevant governance codes of reference, fosters equal treatment and open dialogue with stakeholders, based on an aligned understanding of objectives. The Executive Directors have regular discussions on operational trends and financial performance with stakeholders, where they believe this to be in the Group's best interests. However, no information is shared preferentially to some stakeholders, while not being available to all generally. Detailed feedback from these interactions is discussed at Board level.

The Group's non-Executive and Executive Directors ensure that all shareholders are treated equally, and that management seeks to recognise, protect and facilitate the exercise of all shareholders' rights, through constant, open and timely communication. The interests of minority shareholders are protected and the Dealing Code has strict provisions designed inclusively to ensure such protection.

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;
- Reviewed Interim Financial Statements and Interim Condensed Consolidated Financial Results are published in August of each year, outlining performance for the six months ended 30 June. The results announcements are followed by Results Presentations and conference calls. The presentation and the reports are made available on the Group's website;
- Audited Consolidated Financial Statements and Condensed Consolidated Financial Results 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 (including the Audited Consolidated Financial Statements) is 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 Consolidated 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 is the principal means of communicating with existing stakeholders 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.

Key investor relation activities and communications during 2019	
February	Audited consolidated financial results and distribution
	Results Presentations
March	Annual Report
	Closure of FSCA insider trading investigation
April	First sustainability rating received by the Group
May	Business update
	Investor roadshow, bookbuild and unsecured corporate bond issue
	Closure of FSCA possible false or misleading reporting investigation
June	Listing on A2X
July	Announcement of intention to dispose of the Romanian office portfolio
August	Unsecured corporate bond listed on Bucharest Stock Exchange
	Annual General Meeting of shareholders
	Publication of reviewed financial results for six months and dividend payment timetable
	Results Presentations
October	Investor roadshow, bookbuild and unsecured corporate bond issue
November	Business update
December	Announcement of disposal of the Romanian office portfolio

The Group actively manages its relationship with all categories of stakeholders using approaches considered most appropriate for each stakeholder category.

Shareholders	The Group is committed to providing all shareholders with timely and equal access to relevant information through open, honest and transparent communication. The Group engages 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 financing agreements.
Analysts	NEPI Rockcastle holds semi-annual results presentations and participates in conferences. Information is provided through analyst presentations, road shows, annual reports and interim reporting. NEPI Rockcastle openly addresses analysts' questions concerning 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 discloses on the Group's website (via a Q&A section in the Investor Relations section) 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 governments in the jurisdictions where the Group operates, acknowledging that the Group is a major taxpayer and 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 its employees fully understand the performance and governance standards and requirements.
Communities and environment	NEPI Rockcastle is committed to be a good corporate citizen and frequently considers 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 140-175.
Suppliers	NEPI Rockcastle maintains professional relationships with all its suppliers and ensures they 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

INTERNAL CONTROLS AND COMPLIANCE MANAGEMENT SYSTEM

The Group implemented an internal controls approach consisting of three lines of defence, as follows:

- the first line of defence, line management (Senior Management, Local management), is the function that owns risks and is responsible for operational processes within the Group. Line management defines guidelines, implements and executes internal controls, embeds risk management in day-to-day operations, compares performance against targets and KPIs and monitors achievement of those KPIs;
- the second line of defence has an oversight and compliance monitoring role, and consists of functions such as Compliance, Risk Management, Data Privacy. These functions are primarily charged with monitoring new laws, regulations and emerging risks and with providing support to management in ensuring compliance with laws and regulations. They 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 second line of defence functions recommend controls or risk mitigating measures to be embedded in the Group's processes, procedures and practices;
- the third line of defence, Internal Audit, provides 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 arm's length;
- confidentiality and observance of professional secrecy;
- incomplete financial reporting or communications;
- 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.

A risk-based approach, the proportionality principle and segregation of duties are embedded in all the policies and procedures rolled out at group level.

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

The Group rolled out a Leasing Policy, to ensure that tenant relationships are managed with professionalism and at high standards across the Group, and that internal controls are implemented, fostering transparency and enabling the achievement of the company's financial objectives. A risk assessment and diligence process is applied when onboarding new tenants, and periodical revisions are performed thereafter.

The Board is responsible for the governance and ongoing oversight of internal controls, including information and technology, and its management. The Board confirms that processes exist ensuring timely, relevant, accurate and accessible reporting, communication and data storage. The Board oversees IT processes in relation to compliance with relevant laws and risks related to the outsourced IT services, ensuring business resilience, continuity and disaster recovery. The Board has delegated the responsibility for IT and security to the CEO, through the Management Mandate.

Some IT processes are outsourced to third-party service providers and are governed by strict service level agreements. Compliance with service level agreements is monitored by management and terms are reviewed on a regular basis. Risks and controls concerning IT assets and data are considered by the Risk Committee. Audits of supplier performance and compliance with contract terms are performed to identify potential weaknesses and implement timely corrective measures.

The Board ensures that the Group's IT processes and systems are integrated with the overall business strategy and processes. For this purpose, regular reports are provided by management to the Board monitoring that:

- processes, people and information technology are integrated seamlessly across the Group;
- information technology hard and soft infrastructure support the achievement of the Group's strategy;
- proper arrangements are being implemented for business continuity and disaster recovery;
- proper security measures have been implemented to ensure that confidential data is securely safeguarded and easily accessible while complying with the relevant cybersecurity, data protection or other applicable laws and regulations;
- investments in information technology are made with a view to enabling the above.

NEPI Rockcastle designed a comprehensive Security Policy to ensure the risk of cybersecurity and other types of security risks are properly addressed, and organised sustained group-wide awareness campaigns during 2019, which will continue in 2020. Following the requirements of the Security Policy, the Group implemented a comprehensive cybersecurity programme during 2019, focusing on awareness, prevention and security by design. The Group implemented and communicated a clear escalation mechanism where any suspected attack can be reported and analysed. The Group was the target of several cybersecurity attacks during the year, none of which had serious consequences, due to measures implemented to prevent, detect and deter such attacks in due time. None of these attacks led to significant leakage, loss or unavailability of personal data or business secrets.

Intending to enhance internal controls, increase efficiency, transparency and traceability, and operate in a paperless environment (to the extent possible and within current legal constraints in various jurisdictions where the Group operates), the Group is working on digitalisation and process automation tools across various areas and processes, as a key strategic direction.

The Board appointed a dedicated Group Compliance Officer and further strengthened the compliance management system structured around three pillars: (1) build awareness and enable prevention, (2) deploy sufficient detection and investigation mechanisms, and (3) implement appropriate response, mitigation and consequence management actions.

Compliance approach, Organisation, Annual risk assessment

Awareness & Prevention	**Detection**	**Response**
Compliance Policies and Procedures		
Annual training and build awareness	Whistleblowing	
Monitor laws and regulations	Investigations	Consequence management
Monitor operational compliance	Internal Audits	Implementation of controls and mitigating measures
Monitor legal and regulatory compliance	Report compliance issues	
Conflict of interest statement		

Reporting & Communication

The Compliance Officer has the following responsibilities:

- assists the Board of Directors and management in fulfilling their compliance risk oversight responsibilities;
- develops and periodically reviews compliance risk management frameworks, methodology and operational processes at group level, seeking to prevent Group exposure to financial and reputational risks;
- develops the annual Compliance Programme and reports periodically, to management and to relevant committees assisting the Board of Directors, on the compliance risk management status;
- advises regarding the impact of legal and regulatory changes and of the best practices and legislative trends on group activities, and coordinates required alignment;
- ensures deployment of training and awareness programmes for Group's personnel, on a risk-based approach, focusing on developing a compliance risk culture;
- deploys periodical compliance checks seeking to ensure that the implemented processes are aligned to internal guidelines and legal frameworks, and that the appropriate controls are in place in order to prevent the occurrence of compliance risks;
- identifies any insufficiency of appropriate resources for compliance risk management, based on compliance risk appetite and on results of the periodical compliance risk assessment exercises.

NEPI Rockcastle implemented privacy policies and procedures across the Group, based on zero tolerance to major information loss or leakage, and these are deployed and monitored by an experienced Data Protection Officer. The Group's approach to privacy includes:

- embedding privacy-by-design principle in core processes;
- embedding data privacy stipulations in supplier and customer contracts;
- providing clear and relevant information to all data subjects regarding their rights and the coordination of processing;
- making sure that data is processed only for the purpose it has been collected;
- following the data minimisation principle as well as the applicable data retention periods;
- properly protecting personal data from loss or unauthorised access.

The Group's policies and procedures are available to all employees in a shared location. Training and awareness programmes were organised on various compliance-related topics during 2019.

The Group would disclose if it were to incur material or repeated regulatory penalties, sanctions or fines for breaches of, or non-compliance with, statutory obligations. As at the date of this report, there were no material regulatory penalties, sanctions or fines for breach or non-compliance with statutory obligations imposed on Group companies or any of its directors or officers. The key compliance risks the Group is facing and the mitigating measures and controls implemented are included in the Risk Management – Key Risk Areas section of this Report.

Corporate governance» continued

EXTERNAL AUDIT

The Group's audit rotation policy is to organise tenders for audit services every three years, to ensure auditors' independence, as well as verify that audit fees are in line with the market.

The current external auditor was appointed in 2018, following a tender where top audit firms (Big 4) were invited and evaluated based on their knowledge, experience, capacity to carry out a multinational audit and compliance with strict reporting deadlines.

PwC's 2019 appointment was proposed by the Audit Committee, approved by the Board, and endorsed by shareholders, at the Annual General Meeting, with 99.95% of the total number of present votes. 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 selected NEPI Rockcastle's subsidiaries, prepared in accordance with local accounting principles.

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:

€ thousand	**31 Dec 2019**	**31 Dec 2018**
Audit fees	(1,117)	(845)
Other assurance services	(23)	(187)
Other consulting services	(42)	(60)
TOTAL	**(1,182)**	**(1,092)**

During 2019, the Audit Committee approved the Group Policy on the provision of non-audit services and preservation of independence by the Group financial auditor. The principles laid out are in accordance with the EU Regulation 537/2014 on specific requirements regarding the statutory audit of public interest entities.

To safeguard the independence and objectivity of the financial auditor, the policy defines the types of non-audit services that the financial auditor may provide to the Group and the principles to be applied by management. Non-audit services are defined as any type of professional services which could be provided by the financial auditor of the Group, besides the audit of the financial statements of the Group and its companies (statutory and consolidated financial statements). The following non-audit services are considered prohibited and may not be provided by the financial auditor, except if otherwise approved by the Audit Committee, in advance of the commitment:

A. Tax services

1. Preparation of tax forms;
2. Support with payroll taxes;
3. Support with customs duties;
4. Identification of public subsidies and tax incentives unless support from the statutory auditor or audit firm in respect of such services is required by law;
5. Support regarding tax inspections by tax authorities unless support from the statutory auditor or audit firm in respect of such inspections is required by law;
6. Calculation of direct and indirect tax and deferred tax;
7. Provision of tax advice.

B. Services that involve participating in the management or decision making of any Group company

C. Bookkeeping and preparing accounting records and financial statements

D. Payroll services

E. Designing and implementing internal controls or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial IT systems

F. Valuation services, including valuations performed in connection with actuarial services or litigation support services

G. Legal services, with respect to:

1. the provision of general counsel;
2. negotiating on behalf of the audit entity;
3. acting in an advocacy role in the resolution of litigation.

H. Services related to the audit entity's internal audit function

I. Services linked to the financing, capital structure and allocation, and investment strategy of the audited entity, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the audited entity

J. Promoting, dealing in or underwriting shares in the audited entity

K. Human resources services with respect to:

1. management in a position to exert significant influence over the preparation of the accounting records or financial statements that are the subject of the statutory audit, where such services involve: a. searching for or seeking out candidates for such positions; or b. undertaking reference checks of candidates for such positions;
2. structuring the organisation design;
3. cost control.

Besides the non-audit services listed above which may create a direct conflict of interest with the financial audit processes, the auditor's independence may be impaired when consultancy/non-audit service fees are material, compared to the fees incurred for the financial audit. The acceptable non-audit service fees cumulated at group level will be limited to 70% of the average of audit services fees at group level during the previous 3 years.

Whenever contracting audit and non-audit services, management will comply with the following principles:

- arm's length principle should always be followed for establishing the fee;
- a competitive supplier selection process should be organised whenever feasible;
- deliverables should be clearly defined in the contract and the responsible contract owner should make sure performance is trackable and deliverables are kept;
- no contingent or success fees shall be included in the fee structure, for both audit and non-audit services.

The arm's length principle will always be followed if the external auditor becomes a tenant in any of the Group's SPVs. The rent and any incentives or reductions will be established in accordance with the principles set out in the Group's Leasing guidelines and approved accordingly.

The incurred and committed audit and non-audit service fees will be reported annually to the Audit Committee, who will review the types of non-audit services provided and will assess the balance between audit and non-audit service fees.

The policy also requires that the audit firm partner in charge provide annually a statement to the Audit Committee confirming the independence and objectivity of the financial auditor, and that those are not impaired by non-audit services.

During 2019, 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 charge 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, at audit firm and 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
- 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 auditors also held private meetings with the Audit Committee, without any member of the management team present and had unrestricted access to communicate privately to the Audit Committee any issue they may consider.

The external auditor confirmed their independence to the Audit Committee 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. The external auditor also confirmed there had been no contingent fees, no services granted by PwC to Directors and/or Senior Management of the Group, no gifts or 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 audit partner in charge, are independent of the Company and of the Group.

Corporate governance» continued

INTERNAL AUDIT

The Group has 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. The Charter is endorsed by the Audit Committee and approved by the Board.

In accordance with the Audit 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 performance and effectiveness of the Internal Audit function and its capacity to carry out the annual audit plan;
- reviews the scope of work and organisational structure of the Internal Audit function and ensures no unjustified restrictions or limitations exist;
- guarantees the independence of the Internal Audit function, through the direct reporting line;
- ensures Internal Audit activities comply with the relevant rules and regulations;
- reviews and approves the results of risk assessment and the proposed Annual Audit Plan;
- reviews and approves the Internal Audit reports and evaluates 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 performing ad-hoc engagements and investigations, based on the request of the Audit Committee or following up on red flags identified.

Internal Audit is centralised at group level, has unrestricted access to company's resources, information and people to effectively discharge its responsibilities. No restrictions are placed upon the scope of the Internal Audit work. Internal Audit is entitled through its Charter to receive complete information and explanations they consider necessary to fulfil their responsibilities towards the Group.

Internal Audit reviews aim to determine the effectiveness of the Group's governance and internal controls (including safeguarding of assets, efficiency and effectiveness of operations) and of processes implemented to ensure adherence to applicable laws and regulations, to preserve reliability of financial and operational reporting, and to assess the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives.

Specifically, the scope of Internal Audit includes, but is not restricted to:

- appraising the effective conduct of Group's operations;
- evaluating the economy and efficiency with which financial, human and other resources are employed;
- reviewing the reliability and integrity of the processes used to generate financial and operational information and the means used to identify, measure, classify, and report such information;
- reviewing the systems established to ensure compliance with policies, plans, procedures, laws, and regulations which could have a significant impact on operations, and reporting on whether the organisation complies with those;
- ascertaining the extent to which assets are being properly controlled and safeguarded from losses of any kind;
- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned;
- reviewing specific operations at the request of management, as appropriate;
- evaluating the effectiveness of the organisation's risk management system;
- performing investigations of various compliance-related matters, including but not limited to tip offs received through the whistleblowing channels.

During 2019, based on the scope of work performed, Internal Audit concluded that the system of internal controls further matured and is adequate to prevent material misstatements in financial reports. Management continued its focus on aligning practices, policies and procedures and integrating operations across the Group. Management also strengthened risk management processes by embedding risk management in strategic processes and defining a robust Risk Appetite Statement meant to facilitate identification of key risks and prioritisation of mitigating measures. This led to closer monitoring of emerging risks in key areas, real time planning of measures, escalation to appropriate bodies and monitoring of risk response. For 2020, management set out action plans, which were deemed appropriate by Internal Audit, to remediate risks previously raised and to further align principles for delegation of responsibility within the Group's portfolio.

PHOTO: GALERIA WARMINSKA, POLAND

Risk management

RISK OVERVIEW

The Group recognises the importance of enterprise risk management and considers risk in both the strategy-setting process and in driving and controlling performance. The Group further acknowledges that risk management is an increasingly important business driver. In the context of increasing volatility, complexity and ambiguity of the political, environmental and economic context, organisations need to enhance their approach to managing risk, in order to meet the demands of an evolving socio-economic environment.

RISK MANAGEMENT STRATEGY AND RISK GOVERNANCE

Ensuring the Group's Board of Directors provides oversight of risk management, as well as alignment and embedding of risk management in strategy and objectives setting are of paramount importance for the Group's attitude towards risk management. The Group maps every risk identified to one or more of the strategic goals and this mapping is revisited annually, once the strategy for the next year has been set, in order to ensure its applicability. The mapping helps the Group to better assess the risks and be mindful of which of the risks may deter achievement of a certain strategic goal as well as detect correlations between risks.

The responsibility for managing risk is shared between management and the Board of Directors assisted by the Risk Committee which is established to support the Board in exercising oversight over enterprise risk management processes. However, the authority and responsibility to decide whether to proceed with mitigation strategies and implement contingency actions, especially those that have an associated cost or resource requirement, rests with management, while the Board of Directors directly and through the Risk Committee shall exercise overall risk management oversight.

The risk management oversight role of the Board of Directors and the Risk Committee is enhanced by the directors' independence and mix of skills, expertise and business knowledge. This role includes scrutinising management's activities when necessary, presenting alternative views, offering sound judgement, challenging organisational biases, and acting in the face of wrongdoing. In fulfilling its role of providing risk oversight, the Board challenges management without assuming the operational role of management.

The Risk Committee establishes direct oversight of the enterprise risk management processes and advises the Board of Directors regarding the effectiveness of the risk management system and processes.

The detailed responsibilities and duties of the Board of Directors and the Risk Committee are defined in their respective charters and the Group's Corporate Governance Framework.

A Risk Officer, reporting to the Risk Committee, is mandated by the Board of Directors with overseeing enterprise risk management as a second line of accountability. The Risk Officer's responsibilities are set forth in its mandate from the Board of Directors.

The Group's management, under the authority of the CEO and with the support of the Risk Officer, is responsible for the development and implementation of risk management practices within their respective functional or operating unit and to ensure that these practices are applied consistently. More specifically, within each functional or operating unit, the leaders have specific responsibilities, while at the individual level, each employee has its own responsibilities.

- Build risk aware culture within the unit
- Agree risk management performance targets
- Ensure implementation of risk management recommendations
- Identify and report incidents, changed circumstances / risks

OPERATING UNIT LEADERS

- Understand, accept and implement the risk management processes
- Report inefficient, unnecessary or unworkable controls
- Report loss events and near miss incidents
- Co-operate with management on incident investigations

INDIVIDUAL RESPONSIBILITIES

Whereas the Group operates in multiple jurisdictions and has a complex structure comprising a holding and financing entity, operational subsidiaries and management company subsidiaries, the Risk Officer, in consultation with both management and the Risk Committee has prepared a structure of roles and responsibilities at Group's management level for ensuring an effective framework for managing risks for each entity and local jurisdictions it operates in.

RISK APPETITE

The Group has defined in its Risk Appetite policy the nature and extent of the risks and opportunities it is willing to take in pursuit of its strategy and business objectives.

To certain risks the Group takes a firm zero tolerance position and these include:
- Health and safety of the staff and visitors such as but not limited to risks related to structural integrity of the properties, fire security, serious pollution;
- Fraud and corruption;
- Doing business with clients/partners not carrying out legal and legitimate activities or rejecting transparency;
- Money laundering and terrorism financing;
- Serious violation of the Code of Ethics by employees, collaborators or directors;
- Damage to its reputation materially affecting its ability to attract funding, personnel or its relations with business partners;
- Non-compliance with material regulatory requirements (such as those concerning competition and data privacy);
- Exposing the Group and its employees, collaborators or directors to any criminal liability;
- Any failure in being fully compliant with financial reporting standards;
- Any practices that present a risk of market abuse as defined under the rules and regulations of the markets where the Group's shares are trading.

NEPI Rockcastle closely monitors any risks assessed as high in accordance with its risk assessment procedures that may impact the strategic goals of the Group.

Additionally, the Group has developed and approved a set of criteria defining its risk appetite in respect of the critical activities undertaken in the process of creating, preserving and realising value. Such critical activities, processes and topics include: asset management, investments, treasury operations, data privacy, human talents and development works.

The criteria used include both quantitative and qualitative elements, such as:
- a duration of at least 3 years, at any given time, in relation to the weighted average debt maturity;
- the majority of the property portfolio should be kept unencumbered (at least 70% of the property portfolio to be maintained unencumbered);
- LTV ratio should be <=35%.

Risk management » continued

RISK MANAGEMENT PROCESS AND RESPONSIBILITIES

The process used to manage and control events that could have a negative impact on or may present an opportunity for the Group entails the following steps:

The table below details specific responsibilities for the risk management process:

Risk activity	Responsibility
Risk identification	Management
Risk Register	Risk Officer
Risk assessment	Management & Risk Officer
Risk reports	Management (preparation) & Risk Officer (review)
Risk response option identification	Management
Risk response management / follow up	Management & Risk Officer (consultation)
Risk contingency planning	Management & Risk Officer (consultation)
Risk reporting to the Risk Committee	Risk Officer
Risk reporting to the Board of Directors	Risk Committee

RISK MANAGEMENT IN 2019

KEY ACTIVITIES PERFORMED IN 2019 TO ENHANCE RISK MANAGEMENT

During 2019, the Group undertook an internal review of its enterprise risk management for the purpose of aligning its policies, procedures and processes with the principles and best practices provided under COSO ERM Framework, as well as ISO 31000. During this process, the Group's Risk Policy, Risk Appetite, Risk Committee Charter and Risk Mandate were revised and updated, considering relevant guidance provided under the aforesaid frameworks. This process was integrated in the wider endeavour of further enhancing the Group's corporate governance framework.

COSO ERM is an US-based framework, developed by the Committee of Sponsoring Organizations of the Treadway Commission. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is dedicated to providing leadership through the development of guidance on internal control, enterprise risk management and fraud deterrence, designed to improve organisational performance and oversight and to reduce the extent of fraud in organisations. COSO is a private sector initiative, jointly sponsored and funded by well recognised professional organisations.

ISO 31000 is an internationally recognised risk management framework, compiled by UK-based professional organisations. The standard places emphasis on alignment between risk management and strategy, in congruence with COSO ERM framework and describes risk as a negative event but also as a possible opportunity, therefore both risk and opportunities need to be tracked and addressed.

ACTIONS TAKEN TO MONITOR THE EFFECTIVENESS OF RISK MANAGEMENT

In order to monitor the effectiveness of its risk management process, the Group's Risk Committee meets at least twice a year, in addition to ad-hoc meetings that are held whenever needed to consider special matters. The Group uses several reporting and monitoring risk management tools to ensure an effective identification and mitigation process: risk register, heat map, incidents report, etc. Any incidents and matters which are relevant in determining the level of the effectiveness of the Group's risk management are raised by the management, through the Risk Officer, to the attention and consideration of the Risk Committee. Ultimately, the Internal Audit function, as the third line of defence in risk management framework, assesses and investigates the effectiveness of the risk management carried out by first two lines of defence.

Any identified incidents, misalignments between the decision, actions and activities of the Group and the Group's Risk Appetite or dysfunctional or ineffective processes have been addressed through appropriate measures, such as revisions of existing or implementation of additional policies or procedures as well as specific actions and individual measures.

PLANNED AREAS OF FUTURE FOCUS

Embedding risk management in strategy and business objectives setting as well as in the execution process of these objectives, is key to a successful and effective enterprise risk management. The Group recognises the importance of this goal and has made this objective a top priority.

Instilling a risk awareness culture critically impacts the ability of the Group to successfully achieve its strategy and business objectives. This process may be impeded when the behaviours and decisions of the organisation do not align with its mission, vision and core values. Misalignment may result in the Group experiencing a loss of confidence from stakeholders and even underperformance. Thus, in close connection with aligning and integrating risk management in the setting and execution of its business objectives, the Group views risk awareness culture as another top priority in its approach to enterprise risk management.

As regards the measures and actions considered for achieving the above objectives, following the revisions of its risk management framework undertaken in 2019, the Group's risk management function plans on focusing in 2020 on the implementation of measures such as extensive roll out of a Group-wide training programme for all management levels and intensifying communication and interaction between the risk management function and management of the Group.

One particular area of attention in terms of risk and opportunities is online commerce. Even though the fundamentals of the markets the Group is operating in, are different and far more favourable than those existing in countries where physical retail has been already impacted by the rapid expansion of the on-line commerce, the Group closely monitors evolution, draws lessons learned and considers not only mitigating actions but also taking advantage of the opportunities brought by the e-commerce, such as the benefits of merging the off-line and on-line environment to enhance customer experience through multichannel approach.

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.

Strategic directions

- 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

The Group has a low risk appetite regarding certain risk factors, and consequently it considers them as highly relevant, even though their impact is not in any way imminent or being satisfied with 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.

The Group expresses its openness in disclosing relevant information and events that would significantly challenge its risk management framework and/or the set key mitigation actions, while reasonably preserving information sensitivity and observing confidentiality principle.

The key risk areas listed below include the risks and opportunities the organisation is willing to take and that it encounters, as well as the key risks factors together with the most relevant mitigating actions. 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 have not been included in the list below despite being monitored by the Company, as their occurrence is not considered likely or their impact material.

Risk management » continued

Risk description	Strategic goal impacted	Business impact	Key mitigating actions	Stakeholders impacted
Strategic				
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. 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.				
Difficulties in finding appropriate property investment targets due to scarcity of quality products available. Delays in executing appropriate property investment and development strategy or executing in less favourable conditions.	€ 📈 🏢	Net asset 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
Negative sentiment towards bricks and mortar retail puts pressure on properties' valuation	€	Should the negative sentiment towards retail continue to evolve, the net asset value may be negatively impacted by the increase in yields.	A conservative valuation process for existing assets and a prudent business acquisition policy in place for new investments.	Shareholders Financing partners
Political climate risks in the various jurisdictions may lead to uncertainty, delays in executing the Group's strategy.	€ 📈 📊	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
Limitations on new capital available arising from: - shortage of financing or of re-financing at an acceptable cost, - adverse changes in macroeconomic conditions.	€ 📈 🏢 🤝 📊	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 32%.	Shareholders Financing partners Employees
Rapid growth in on-line retail with a negative impact on traditional brick and mortar retail	€ 📈 📊	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. The dialogue with leading online retailers which has led to high-profile online brands within the region opening brick and mortar shops in several of the Group's properties, has continued throughout 2019.	Shareholders Tenants
Sector and geographical risk due to concentration of assets	€ 📈 📊	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 Financing Partners
Financial				
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. Also, 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.				
An increase in interest rates could have a significant adverse effect on the Group's results.	€	Increased cost of borrowing and hedging may result in reduced distributable income and lower total property returns.	The Group uses instruments such as interest rate swaps and caps to hedge at least 90% of its long-term debt (as at December 2019 the level is at 100%). Bank loan maturity is monitored and refinancing options together with liability management actions 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). 83% of the Group's portfolio is currently unencumbered.	Shareholders Financing partners
Risk of losses due to currency fluctuations.	€	Distributable income for the period is reduced due to foreign exchange rates fluctuation.	The Group keeps the majority of its cash resources in euro. The majority of the Group's current assets and liabilities are denominated in euro. 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.	Shareholders

Risk management » continued

Risk description	Strategic goal impacted	Business impact	Key mitigating actions	Stakeholders impacted
Insufficient liquidity leading to the Group's inability to finance its short-term needs.	€ 📈 🏢 🤝 📊	Continued short position on liquidity would endanger the Group's ability to achieve its strategic objectives, meet its payments schedule, increase cost of borrowing.	High levels of liquidity to cover at least 12 months of operating and financial current obligations are maintained. Any temporary shortfalls, can be covered by existing revolving facilities. 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.	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.	€ 📈	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.	The Group's interest rate position, liquidity, availability of cash resources and counterparty exposure is closely monitored. The Board, supported by the Risk Committee, provides the framework for dealing with financial counterparties, including the requirement to diversify. The vast majority of the counterparties in the interest rate hedges and deposits contracted by the Group are investment-grade rated financial institutions.	Shareholders Financing partners
Volatility in the share price arising from market sentiment.	€ 📈 📊	Changes in market sentiment can reduce NEPI Rockcastle's share price and its ability to raise equity.	The Group has 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
International tax risk given the Group's multijurisdictional presence.	€	Loss of tax efficiency in the structure. Non-compliance with regulatory requirements could lead to fines, penalties and censures.	The Group has a sound tax strategy consistent with normal practice of internationally active property groups. The local economic substance of transactions is aligned with fiscal regulations and documented annually . Local fiscal legislations are closely monitored and processes and controls are implemented to ensure fiscal compliance. The Group has employed Tax specialists with extensive know-how of international regulations, and also works with tax advisers to ensure compliance. The Organization 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.	Shareholders Local authorities

Risk description	Strategic goal impacted	Business impact	Key mitigating actions	Stakeholders impacted
Operational				
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.	€ 📈 🏢 🤝	Reduction in rental income and operating cash flows, resulting in a decrease of distributable income. Empty unit costs resulting in decreased return on property investment.	Management and the Board monitor that the development and refurbishment activities are carried out according to approved plans. Leasing Function keeps in close contact with the potential tenants and triggers discussions and negotiations even before the development or extension is started.	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).	€ 📈 🏢 🤝	Initial yield resulting from the feasibility study based on which the investment was undertaken may not be achieved. Legal, safety and compliance risks.	Development projects approval by the Board entails comprehensive analysis. 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. 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. 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. Appropriate insurance coverage is in place for both NEPI Rockcastle, the architects, external project managers and contractors.	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.	€ 🤝 📊	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.	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. 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. There are various firewalls and anti-virus software solutions in place and outside access to the servers / cloud is controlled. Part of the IT processes is outsourced but monitored internally. Relevant security measures have been implemented in 2019 to support sound IT Security environment and raise personnel awareness: devices encryption, backup solution for all servers to Microsoft Backup Datacenter, Disaster Recovery Solution for critical servers, risk assessment applied to third-party IT companies, penetration tests.	Shareholders Tenants Employees

Risk management » continued

Risk description	Strategic goal impacted	Business impact	Key mitigating actions	Stakeholders impacted
Risk of tenants' default.	€ 🤝	Tenants default would lead to bad debts, high vacancy and in the end a reduction in distributable earnings.	Detailed creditworthiness reviews are performed before signing lease agreements with the tenants. All tenants are required to provide cash deposits or bank letters of guarantee, covering rent and operating costs, based on exposure. 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. 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.	Shareholders Tenants
Pandemic/epidemic episodes might impact activity in commercial centres and/or cause business interruptions.	€ 📈 🏢 🤝 📊	Visitors number might decrease, impacting tenants' sales volume. Tenants might be forced to reduce or even close their business in the Group's locations. Authorities might decide temporary closure of malls. Suppliers of critical services might suffer activity disruption, lack of material and/or human resources, thus being unable to honour partially/fully their contractual obligations.	The Group focuses on business continuity planning and periodically reviews the business impact analysis. Such exercises are aimed at identifying critical processes, both internal and external, dependencies, mitigation measures, so that to ensure business continuity and prompt activity recovery. Adequate crisis management cover efficient internal and external communication strategy, suppliers and tenants relationship management. Also, hygienic measures and information campaigns are ensured in the Group's physical locations, so that to prevent spread of infectious disease.	Shareholders Tenants Suppliers Employees Local authorities
Legal, Regulatory and Compliance				
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.				
Non-compliance with laws, regulations and non-adherence to good governance practices. 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.	€ 🤝 📊	Non-compliance with regulatory requirements could lead to fines, penalties, censures, and reputational damage.	The Group engages experienced and reputable in-house and external legal and specialised advisors. Management continuously monitors compliance with legal requirements. As well, appropriate operational compliance management is ensured (continuous monitoring of permits and authorisations required by law, covering all properties, operations and jurisdictions). The Company currently conducts a centralised quarterly review of compliance status. Appropriate policies and procedures set the tone from the top for ethical culture within the Group. Know-your-customer/partner policies and procedures aim to mitigate the money laundry/terrorism financing and prevent corruption. The Company has zero-tolerance towards risk related to the following items in legal/regulatory area: • Fraud and corruption • Doing business with clients/partners not carrying out legal and legitimate activities or rejecting transparency • Money laundering and terrorism financing • Non-compliance with material regulatory requirements (such as those concerning competition and data privacy) • Any failure in being fully compliant with financial reporting standards • Any practices that present a risk of market abuse as defined under the rules and regulations of the markets where the Group's shares are trading. The Compliance status is reported regularly to the Board.	Shareholders Financing partners Employees Tenants Suppliers Local authorities
Non-compliance with EU General Data Protection Regulation, within complex jurisdictions and local specificities.	€ 🤝	Non-compliance with regulatory requirements could lead to fines, penalties, censures, and reputational damage.	The Group has set up a structure and has employed an experienced DPO (Data Privacy Officer) to coordinate data privacy compliance. Responsibilities for data privacy have been assigned in each jurisdiction. 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.	Tenants Shareholders Employees Local authorities

During 2019, the Group undertook active risk management and mitigating actions in dealing with the consequences of the short sellers' attack campaign which took place at the end of 2018. This attack campaign triggered various consequences including an investigation into the affairs of the Group, opened by the South African Financial Sector Conduct Authority which was closed in 2019 and cleared the Group of any liability. This positive outcome confirms the Group's strong and categorical rebuttal of all allegations made against it by short sellers.

Another risk of particular relevance and consideration in 2019 was the risk related to carrying out its operations outside EU, in respect of which the Group has experienced difficulties in relation to the operational permitting process concerning one of its properties, process which was prolonged into 2020 and still ongoing at the publishing date of this Report.

With the exception of the aforesaid, the Group has not faced any unexpected or unusual material risks and did not undertook any material risk outside its tolerance levels.

Remuneration review

1. Key principles of remuneration

The Remuneration Report aims to provide insight into the Group's remuneration strategy and policy for directors and staff. The report has been approved by the Remuneration Committee, which ensures that NEPI Rockcastle'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 policies and implementation are of strategic importance for the human capital, as they serve to align the objectives and targets of the firm with the objectives and strategic priorities of individual directors and staff. Moreover, the remuneration and incentive 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 2019 and planned strategic changes starting 2020. The Group's philosophy is that a well-defined, flexible, transparent and fair remuneration strategy and its implementation are essential drivers for driving achievement of business results, and attracting, engaging and retaining the best professionals. Moreover, it is a joint commitment of the Remuneration Committee and the Group's management to ensure that the remuneration policy is market competitive and sustainable, provides a healthy balance of performance pressure and motivation, while supporting the business and people strategy.

The remuneration policy is aimed at creating a performance-driven corporate culture, strong enough to compete in a rapidly developing market characterised by high labor turnover combined with low unemployment, 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 Group's remuneration policy and implementation serves as a differentiator on the market.

The key remuneration principles set out by the Group remain unchanged from the previous year, as they position the Group's policy competitively on the market and serve the business strategy:

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. The objective setting process is structured along two important pillars, which are aimed to ensure that business targets and adherence to values and professional conduct are drivers of strong performance. Hence, each employee and director have pre-set annual objectives structured as:

- Business objectives: Key Performance Indicators ('KPIs) and strategic priorities;
- Personal development objectives: professional behavior, management skills, adherence to the Group's values and expected management competencies.

Competitive pay – The Group 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 performers.

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 Group's Incentive plan approved by shareholders in 2017;
- individual and collective benefits.

Variable Pay as a differentiator – the Group's remuneration policy emphasizes variable pay structures as enhancers of differentiated total pay, in line with performance, seniority and complexity of the role, pre-set objectives and expected impact on the business, measured in terms of results delivered and managerial capabilities to develop, lead and motivate people.

Fair Pay – When setting pay levels and packages, the Group targets to observe and achieve internal fairness (similar pay for similar roles, levels of complexity and experience) and external fairness (pay determined considering the market levels and dynamics).

Annual pay review process – remuneration reviews are held yearly, in connection with performance reviews, to ensure the remuneration process is serving the business and results directly from the performance review process. The Group's objective is that the annual review process considers the business and individual results achieved, while reviewing positioning compared to the market. Connecting the annual pay review to performance reviews enhances a process that is well adapted to internal and external factors, business-driven 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.

Streamlining the structure and operating model
The main priorities of 2019 were to refine the operating model in the core areas of business and define an effective and efficient top management structure that is lean, flexible and brings together the appropriate skillset.

A workforce efficiency analysis was developed across all of the Group's core functions in 2019 to assess workforce planning, processes and activities roll-out, to determine how efficiently the business is being operated and decide over actions to be implemented.

The internal workforce dynamic during 2019 was relatively stable, at the expected levels of turnover. The key priority in relation to human capital was to identify management and professional competency areas where the Group's employees needed development or the business needed inflow of external competence; the Group implemented programmes to address such needs.

Engagement with stakeholders and implementing feedback
A key priority for the Remuneration Committee and executive management is to remain open to shareholders' feedback and understand their expectations or concerns in relation to the Group's policies and practices. The Board is committed to providing feedback and ensuring that the Group maintains transparency in the process.

Executive and non-Executive Directors meet investors and discuss economic context, market factors and challenges, the Group'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 shareholders and request feedback.

During 2019, the Group, through its executive management and Remuneration Committee, ensured that shareholders' feedback related to remuneration matters was properly addressed. Transparency and disclosure had been significantly increased in the 2018 Annual Report, which detailed all relevant aspects of the remuneration policy, processes and implementation details. The Group is committed to further increasing transparency in relation to how it determines and implements remuneration, and how interests of management and stakeholders are aligned.

During 2019, Group's management continued working on implementing an improved remuneration policy, with the aim to better align its principles and structure to the best guidance provided by international bodies and corporate governance frameworks. Moreover, adjustments made to the remuneration policy and implementation were also triggered by the feedback received from shareholders during 2018 (as presented in the 2018 Annual Report). To illustrate the above, some of the changes made during 2019 were:

- introducing sliding scales and specific ranges for KPIs achievement on Executive Directors' pay, to allow for more transparency and motivate for stronger performance; sliding scales align in a more direct manner performance delivered to reward, while ensuring that shareholders' return is preserved;
- differentiating more significantly KPIs weights to reflect different roles and areas of responsibility for Executive Directors;
- introducing specific measures to reflect performance of geographical areas of business;
- introducing new KPIs and measurement algorithm for determining the long-term incentive awards for Executive Directors.

During the 2019 Annual General Meeting, the Remuneration Policy obtained a 81% vote of support, increasing from 66% in 2018; the Implementation Report received a 85% approval rate, similar to the 83% approval rate in 2018 (both resolutions passed, as the minimum 75% approval rate was met). Although these votes are non-binding, the directors are committed to continuing to seek and respond to direct feedback on the remuneration policy.

Wider external factors
Workforce trends remained relatively similar in 2019 to 2018. The Group operates in competitive markets which are influenced by challenging and diverse factors. Elements related to the remuneration policy are workforce dynamics, availability of skillset and variance of remuneration in specific geographies. Central and Eastern Europe is increasingly affected by migration of skilled professionals towards Western Europe or other regions.

Also, fiscal and remuneration related changes adopted by the local governments in the CEE markets where the Group operates may be unpredictable or challenging, therefore pay structures must be sufficiently flexible in design and implementation to maintain competitiveness. For example, considering the high levels of workforce migration from CEE and especially SEE to Western Europe, Romania's fiscal code introduced specific fiscal measures for the construction and real estate development functions during 2019, to allow employers fiscal benefits on the respective industries' employees pay structures.

As CEE market leader in commercial real estate, NEPI Rockcastle must set the standard in terms of its teams' professionalism, which involves maintaining an incentivization policy in line or ahead of market.

3. Remuneration Committee priorities

During 2019, the Remuneration Committee's priorities were set around:

- maintaining and monitoring adherence to the agreed remuneration principles; and
- further driving changes to the remuneration policy, as initiated in the previous year.

The Remuneration Committee and management had decided in 2018 to undertake a thorough process of remuneration review at all levels, considering the structural changes that the Group had experienced. The Group has then engaged independent, 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.
During 2019, the Group continued this process and consulted independent remuneration experts.

Remuneration review» continued

The Remuneration Committee's objectives, processes and plans remain aligned to the business and aimed to address the internal and external influencing factors, the needs and expectations of stakeholders, including employees. These are outlined below:

Remuneration Committee's Priorities	Approach	Processes implemented during 2019
1. Group's Remuneration related priorities		
Ensure remuneration ***motivates*** people for performance while driving ***value*** delivery to ***shareholders***	The Group reviews remuneration on an annual basis both variable and fixed. Performance of the business and individual professionals is being assessed. Variable pay is linked to KPIs and overall annual individual performance, while the fixed pay is linked to the complexity of the role.	The Group's performance is connected to individual and Group's performance. In 2019 variable pay allocation was determined on similar principles across all countries, and the basis for decision of specific pay levels was the overall annual performance, against the pre-agreed objectives, KPIs, strategic priorities and display of capabilities. Specific budgets have been set at business function level, allocation of bonuses at team and asset level was agreed based on performance of a specific business function or team, geography and roles. Emphasis is placed on determining performance fairly, as this links into variable pay. Decision upon specific level of bonuses is taken at top management level (i.e. Directors of business functions), while every team leader is encouraged to assess performance and make relevant recommendations to reflect the contribution of individual team members.
Ensure Group's **remuneration is aligned** to the relevant market and provides internal fairness	The Group is constantly consulting international independent remuneration experts to ensure proper understanding of the benchmarks and determine actions to be implemented during the annual remuneration review processes.	Independent benchmarking survey data on pay levels and by country/industry/position was used in the 2019 salary review. For all staff, except Executive Directors, reports from Mercer International were consulted. For the Executive Directors' pay a specific benchmark analysis was delivered by Korn Ferry.
Ensure **transparency** of Group's remuneration policy, pay structures, pay levels, objectives and link between pay and business performance	The principles and details of Group's remuneration policies, including any changes made or anticipated are publicly presented in the Annual Report. Meetings with management teams are held annually within the remuneration and performance review process to outline, explain and clarify aspects of the Group's remuneration review decisions and rationale.	The 2019, changes to the remuneration framework for Executive Directors are presented in this Annual Report. Allocation of staff cost budgets was done at business function level, allowing the top management team to take a wider responsibility over managing the process of reward review. Individual discussions with team leaders were held by the HR Director for budget allocation, as well as for the start of the performance management process, to discuss principles of remuneration, reward review and link to performance of teams and individuals.
2. Alignment of Ethics of pay		
Ensure alignment of all staff remuneration principles, pay structures across all countries in which the Group operates	The same remuneration review process is conducted at Group level and in all countries where NEPI Rockcastle is present. The HR Director ensures the roll out of the process is aligned and the same principles apply across all countries. The Remuneration Committee is informed and approves annually the performance and reward review approach.	The HR function is a centralised function which ensures HR services across the Group. Determination of specific remuneration at the level of a team is done upon consultation with HR reward specialist who provides, for each position within the company, an analysis of the job level, benchmarking against specific functions and geographies and makes recommendations in respect of appropriate pay levels and expected dynamic during the first performance cycle. This process ensures that same principles of pay are consistently applied across all grades, functions and countries.
Ensure remuneration is determined without discrimination	The HR Director, as mandated by the Executive Management and Remuneration Committee ensures through detailed reviews of the reward processes that pay levels are set free from any discriminating considerations: gender, age, race, religion or other.	Fixed remuneration is only determined based on role, responsibilities, level of competence and experience, while variable remuneration is determined based on performance. There is no consideration given in the hiring or reward review process to any other element that could lead to discrimination, such as gender, race, religion or other. The Remuneration Committee is also reviewing the principles, mechanisms and implementation of reward review, to ensure that only role and performance elements are considered in reward determining decisions. The HR department monitors relative pay within staff to ensure fairness and ethical pay principles are observed.
3. Shareholders' engagement and Corporate Governance		
Ensure shareholders' feedback is observed and discussed	Regular meetings are held with shareholders upon presentation of financial results, where questions received and addressed by executive and non-executive management cover the entire range of topics, including remuneration. The Remuneration Committee maintains contact with shareholders and discusses feedback put forward to the Board upon voting at the AGM. The Remuneration Committee Chairman has engaged in detailed discussions and consultations on remuneration related matters with major shareholders. Feedback from shareholders has been further discussed in Remuneration Committee meetings; several of the decisions made during the year address such feedback and consultations on remuneration.	
Comply with King IV requirements and other relevant corporate governance frameworks	The Board is actively promoting and encouraging management to continuously improve Corporate Governance and its alignment to relevant corporate governance frameworks. A review process of the Group's Corporate Governance framework started to assess the alignment with King IV, and the incorporation of the best practices provided by the UK and Dutch Codes. Several actions have already been implemented as a result of this review and additional changes are planned for 2020.	

Remuneration review» continued

4. Key decisions and considerations going forward

The Remuneration Committee and management implemented several changes in the remuneration policy in 2019, in line with the insights from the comprehensive analysis of the market and shareholders' feedback, as announced in the 2018 Remuneration review report. The measures not yet implemented remain a priority for 2020.

The main changes delivered during 2019 and priorities for 2020 are presented below:

Areas of change	2019 changes
Staff remuneration	
Fixed pay	Most fixed salaries across the Group have reviewed, in order to be positioned at or above market median. The Group's consideration for positioning salaries above market median up to the 3rd quartile corresponds to specific areas of business and roles where retention is critical and the market is scarce. This is aimed at ensuring that the Group is able to attract and retain the needed resources for delivering results.
Introducing a salary and bonus pool	Budget allocation and monitoring Starting 2019, staff costs budgets have been allocated at the level of business function to allow for more flexibility and accountability over remuneration related decisions. Such an approach allows business functions directors to assess and take more responsibility over managing people and their remuneration, to respond most effectively to the specific business needs and challenges they face. The HR department and CEO supervise the consistent application of remuneration principles across the business. Variable pay decisions are calibrated at Group level with the CEO and HR Director, ensuring consistent application of reward principles.
Executive Directors' Remuneration	
Fixed pay	During 2019, upon running an independent benchmark review for executive compensation with an independent international remuneration consulting firm (Korn Ferry), the Remuneration Committee decided to adjust fixed pay for Executive Directors, using the level of pay from close to median to above median, closer to the 3rd quartile. The annual adjusted fixed pay (cost to company) for Executive Directors effective from 1 March 2019 were: Alex Morar – €600 thousand Mirela Covasa – €400 thousand Marek Noetzel – €300 thousand
Variable pay – Short Term Incentive (STI)	Threshold level has been agreed at 75% cumulative achievement of STI KPIs (bonus pool not activated if cumulative achievement rate is below this level). KPI structure, composition and weights have been reviewed to align impact over business and to reward and reflect specificity over area covered (function or geography): • Differentiate between roles – different KPIs for different roles; • Different weights for same KPIs for different roles. Also, discretion of the Board increased.

Variable pay – Short Term Incentive (STI)

Performance measures STIP		*CEO*		*CFO*		*Executive Director*	
	2019 vs 2018	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Financial performance		**40.0%**	**50.0%**	**75.0%**	**50.0%**	**30.0%**	**50.0%**
Growth in distributable earnings per share*	maintained	40.0%	50.0%	50.0%	50.0%	30.0%	50.0%
Maintaining Investment Grade rating	new	0.0%	0.0%	25.0%	0.0%	0.0%	0.0%
Operational performance		**50.0%**	**30.0%**	**0.0%**	**25.0%**	**60.0%**	**30.0%**
NOI organic growth*	new	10.0%	0.0%	0.0%	0.0%	15.0%	0.0%
Increase in retail trading densities over CPI	maintained	10.0%	7.5%	0.0%	6.25%	10.0%	7.5%
Maximum accepted vacancies*	maintained	10.0%	7.5%	0.0%	6.25%	10.0%	7.5%
Maximum tenant arrears written off	maintained	10.0%	7.5%	0.0%	6.25%	10.0%	7.5%
Maximum net property expenses to cost ratio	maintained	10.0%	7.5%	0.0%	6.25%	15.0%	7.5%
Debt risk management		**0.0%**	**10.0%**	**7.5%**	**15.0%**	**0.0%**	**10.0%**
Debt maturity - remaining years (excluding revolving credit facilities)	new	0.0%	10.0%	7.5%	15.0%	0.0%	10.0%
Qualitative factors		**10.0%**	**10.0%**	**17.5%**	**10.0%**	**10.0%**	**10.0%**
Timing (weeks) of financial results publication (from the end of financial period)	maintained	0.0%	5.0%	7.5%	5.0%	0.0%	5.0%
Discretion of the Board	maintained	10.0%	5.0%	10.0%	5.0%	10.0%	5.0%
Total		**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

**For specific KPIs, sliding scales and metrics were set for minimum/target/maximum level of achievement.*

There is still an element of capping the STI, however, it is driven by the maximum level of achievement set for the KPIs which have a sliding scale principle applied (see above). Maximum level of the sliding scale is 200%.

Variable Pay – Long-term incentive (LTI) Determination of quantum of LTI	The review of LTI is ongoing, and during 2020 the Group will continue to review and adapt the LTI scheme. Any changes will be proposed for voting in the 2020 AGM. Determination of the award quantum was reviewed and several improvements have been made: • Differentiation of computation was made to reflect the impact of the Executive Directors appropriately: for the roles covering geographical areas only, the measures applicable have been defined and assessed only for the respective portfolio. Weights of KPIs have been introduced; • For the Western Portfolio Executive Director, a mix of group-based and individual incentives were introduced; • TSR versus peers, which is group based, applies similarly to all executive positions; • The list of peers has been reviewed by the Remuneration Committee. For 2019 awards, no loans were granted to either Executive Directors or staff.

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

- benchmark executive pay against relevant markets every two years;
- encourage management to use benchmark data for employees' remuneration decisions for each annual review;
- monitor the alignment of the remuneration policy with King IV principles, as well as the Dutch and UK codes' 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.

Remuneration review» continued

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

In line with King IV and the JSE Listing Requirements, shareholders will have the opportunity to vote on the Group's Remuneration Policy and the Remuneration Implementation Report. NEPI Rockcastle invites the shareholders to engage with executive management and the Remuneration Committee prior to the 2020 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 shareholders and other stakeholders.

Andre van der Veer
Remuneration Committee Chairman

REMUNERATION POLICY

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

- the achievement and results delivered by each team member, and collectively;
- how the Group develops top professionals, helps them acquire new skills and encourages innovation; and
- the teams' stability 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.

To evaluate the effectiveness and ensure sustainability of both the strategy and principles, the Group is observing specific fundamentals of implementation:

Clarity – The Groups' remuneration policy, frameworks and mechanics are transparent and clear; they allow for effective engagement with shareholders and human capital. Starting 2018, the Group increased transparency, improved disclosures and clarity on remuneration, while continuing to receive feedback on this topic from its shareholders. This approach had a positive impact, as reflected in the voting of the remuneration policy and implementation report (as presented above) at the 2019 AGM.

Simplicity – Pillars of the Group's remuneration structure are straightforward and clear – fixed pay, benefits, variable pay on short and long-term. Determination of variable pay is always linked to individual performance (further to the annual performance review process) and Groups' performance (made public, with shareholders engaging in detailed discussions on performance achieved and impact on the overall business growth and continuity).

Risk – The remuneration policy and processes structured around implementation of policy are set so that any risk of excessive or scarce pay is identified and acted upon. The key controls in identifying and addressing such risks are:

- All remuneration (on review or hiring) is being validated by HR and remuneration specialist, considering internal equity and market data;
- All variable pay determination is linked to performance review. As a process, remuneration review is done only upon completion of performance review process to avoid misalignments between awarded pay and delivered performance;
- Results of performance management are calibrated at Group level, so that to maintain consistency in the way performance is measured and benchmarked for similar roles, impact and seniority;
- Reward reviews and awards of variable pay are done only once a year, and the entire process's principles and outcomes are presented and discussed within Remuneration Committee, with HR Director and CEO;
- KPIs and strategic objectives pre-set at individual level (for both staff and Executive Directors) are aligned to business KPIs and derived from the strategic directions;
- KPIs and strategic objectives are sufficiently wide (and ensure there is a combination of aspects that one needs to maintain focus on). The Group's embedded target is that performance on one area is not achieved by compromising on other areas or on ethical aspects of the business;
- Performance reviews of employees comprise a component of 360 degrees feedback, focused on behaviours, values and ethics. Any possible unethical behaviour would be signaled and acted upon before awarding any component of variable pay.

Predictability – The Group has built the remuneration policy and implementation mechanisms so that total awards for human capital to be predictable – by market moves, by internal decisions on pay, and, most importantly, by the link to Group's and individual performance and role (as determining pay in the Group's policy is linked to market, role and responsibilities and performance).

Starting 2019, sliding scales and performance incentive zones have been defined for core KPIs of the Executive Directors, which allow predicting the range of minimum to maximum variable pay-out.

Proportionality – The remuneration policy and principles are focused on linking individual awards, the delivery of strategy and the long-term performance of the company.

There are specific elements in the Group's policy which ensure poor performance is not rewarded – bonus pools will only be activated if cumulative achievement rates are above a threshold level set by the Group's management and approved by the Remuneration Committee. Also, basic rules of the policy are stating that performance partially meeting expectations and below expectations is not rewarded, and consequence management is enforced.

Alignment to culture – When building the remuneration philosophy and policies, the Group focused on how its four core values reflect the way people behave and drive performance. Group values linked to the remuneration philosophy are set out below:

Philosophy	The Group's remuneration policy was designed to deliver fair, market-related compensation for all employees, whilst ensuring differentiated reward packages as appropriate, in line with each employee's role, competence, performance and behaviour. The variable pay component ensures that excellence and innovation are rewarded. Compensation is anchored at the median of the market, but is structured to exceed market levels where performance in creating value for stakeholders is achieved.				
Principles	Pay for performance	Total Annual Package Approach	Annual Remuneration Reviews	Competitive and Fair Pay	Differentiated Variable Pay
Details	Remuneration is driven by the employees' role and performance review, and the overall performance of the Group. Clear, measurable goals are set for the Group, teams and individual employees.	Remuneration is defined as a total annual package, consisting of fixed pay, variable pay (which can be delivered in cash and shares), and individual and collective benefits.	Remuneration reviews are held annually, with the purpose of assessing performance for the past year and defining remuneration packages (performance bonuses, new levels of fixed pay and benefits).	The group is committed to paying fixed salaries at market level (compared to companies of similar size and complexity), and variable components above market level for high-performing employees. Annual inflation and foreign exchange rate reviews ensure salary levels remain competitive.	The Group has a differentiated variable pay method, based on role, seniority and performance levels.
Company Values	**Excellence** **Innovation** **Development**	**Excellence**	**Integrity** **Development** **Communication**	**Integrity**	**Excellence** **Innovation**

Remuneration review » continued

REMUNERATION DESIGN

Pillar	Description	Purpose and link to strategy
Fixed pay **All staff**	Guaranteed and fixed pay, determined by role and responsibilities, experience, competence, qualifications and expertise. Median of the relevant market is used as a reference point for determining the level of fixed pay. Adjustments can be made for the specific circumstances, achievements, responsibilities. Reviewed annually to ensure internal and external equity, correlation to role and responsibilities (especially in case of role change or competence/qualifications uplift).	The Group aims to remain the dominant commercial real estate investor and operator in CEE. Hence, its teams should comprise top professionals: qualified, experienced, competent and motivated. The Group's target is to attract, motivate and reward specific skillsets needed, especially considering a competitive labour market with high scarcity of property and commercial real - estate skills and qualifications.
Short-term incentive plan ("STIP") **All staff** ***paid in cash***	Variable pay delivered for achievements against short-term objectives set in advance. Variable pay is triggered and influenced by the level of achievement of the Group's objectives Variable pay relates to 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. Under-delivering against objectives leads to no variable pay. Categories of seniority used for staff STIP are: non-managerial, middle management and subject matter experts, and senior management. STIP total variable pay is subject to business targets and budgets.	NEPI Rockcastle aims to remain the best performing company in the industry and continue to deliver best results against challenging targets. Variable pay is designed to incentivize individual contribution to business results. The stronger the performance, the higher the variable pay. Employees are encouraged to focus on the achievement of short-term objectives which are considered vital to long-term value creation.
Long-term incentive plan ("LTIP") **Executive Directors and selected members of staff** ***Shares awards***	Annual awards made to participants based on Group's achievements of 3-year trailing KPIs (internal and external). Quantum of allocation is determined as % of annual fixed pay. Vesting period of 5 years for Executive Directors and 3 years for staff. Awards are typically settled in shares.	NEPI Rockcastle aims to drive achievement of ambitious strategic priorities and keep Senior Management and Executive Directors focused on long-term value creation. The Group's long-term interests should be aligned with those of Senior Management and Executive Directors. A medium to long-term retention of key professionals is essential to the business.
Benefits **All staff**	Medical service based on subscription or medical insurance, the cost of which is partially or fully covered by the Group. Access to sports facilities – cost of subscription partially covered by the Group. Other wellbeing benefits.	Happy, healthy and motivated employees are more efficient and deliver better results. Ensuring stable teams is essential, and the Group can play an important part in educating lifestyle-related habits.


PHOTO: VICTORIEI OFFICE, ROMANIA

Each element of remuneration is described in more detail below.

Fixed pay
The strategy is to position the fixed pay at market median and for specific, critical roles, above the median up to the 3rd quartile. These specific roles are set by assessing scarcity of the market, turnover trends and uniqueness of roles.
In order to best determine the appropriate level of fixed remuneration, the Group is benchmarking salaries of employees 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 compared to relevant market benchmarks;
- internal equity: similar pay for similar roles in similar geographies;
- inflation.

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

Executive Directors' remuneration was reviewed during 2019, based on market assessment and changes in roles. For the purpose of market benchmarks, the Group decided to use the international independent consulting firm Korn Ferry. Remuneration adjustments have been proposed and approved by the Board and entered into force as of 1st of March 2019.

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 achievements compared to the Group's pre-set targets; for 2019 STIP calculations, the main Group's target was 6% growth in distribution per share, fully achieved);

The role, which determines the ***target bonus rate*** (e.g. non-managerial, middle management / 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).
The annual employees' STIP is determined by applying a multiplier, factor of performance and role level, to the annual fixed salary.

The Group achievement rate table is presented below:

Company achievement rate	% adjustment
Less than 75%	0%
75.01%-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 determined based on a clear measurable algorithm, based on the annual fixed salary. The measures comprised by the algorithm of computation are aligned to the business key performance indicators, and structured by categories of performance:

- Financial performance;
- Operational performance;
- Debt risk management;
- Qualitative factors.

Structure of specific KPIs within the above categories, and weights of KPIs in the total scheme is adjusted and different to reflect the specific roles of the executives. This differentiation of weights and KPIs has been refined during 2019 compared to 2018 as set out in the table below.

The objectives are set for the 12 months financial period under review, and the achievement rate is calculated considering the specific weights agreed for each individual measure.

Remuneration review» continued

Variable Pay – LTIP
LTIP awards to staff and Executive Directors are made based on the terms of the NEPI Rockcastle's Incentive Plan. Eligible employees and Executive Directors receive an award of restricted shares which vest equally over three years for staff and five years for Executive Directors. For employees, the quantum of allocation is determined based on the employee's fixed pay and STIP.

The LTIP allocation for 2019 for staff will be finalised in April 2020, upon completion of the performance review for 2019.

Executive Directors' LTIP is based on achievement of internal KPIs, as well as benchmarking against peers.

The internal measure is 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.

In 2019, the 2-year compound annual growth rate of yield on cost relative to inflation-linked benchmark (for the western portfolio) is also factored in the computation of the LTIP of the Executive Director with regional responsibility.

The external measure is determined as total shareholder return compared to peers, with the respective KPI being considered:

- fully met if the Group performed in the top quartile;
- 50% met if the Group performed in the third quartile; and
- not met if the Group performed in the bottom two quartiles.

The resulting factors are multiplied with internally determined multiplier coefficients and annual fixed salary.

LTIP determination for Executive Directors' performance of 2019 has been calculated and approved by Remuneration Committee and will be settled through share awards without attached loans.


PHOTO: THE LAKEVIEW, ROMANIA

Termination of employment
Managing risks related to pay and termination of employment is a priority for Remuneration Committee, CEO and HR Director.
The following considerations apply 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. Notice period for staff does not exceed 6 months in any of the jurisdictions. Termination notice for Executive Directors is 3 months. Termination notice for non-Executive Directors ('NED') is not set specifically in the appointment letter – however, according to the Constitutive Act, third of the NED are resigning and put forward for re-election every year.	Paid over the notice period and ceased at the date of the termination of the contract. Notice period for staff does not exceed 6 months in any of the jurisdictions. Termination notice for Executive Directors is 3 months. Termination notice for NED is not set specifically in the appointment letter – however, according to the Constitutive Act, third of the NED are resigning and put forward for re-election every year.
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.	Benefits are discontinued when collaboration 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 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.

All Executive Directors have appointment agreements which entitle them to participation in the Group's incentive plan.

Non-Executive Directors' fees
The Group's non-Executive Directors ('NED's) 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. No change in NED fees has been made during 2019.

The Company engaged an external reward consultant (Korn Ferry) to conduct an independent market benchmark for NED salaries in December 2019. The latest review of the market had been done in September 2017.

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 schedule shall be in the amount of €1,000 per day (or fraction 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 Group.

Non-Binding Advisory Vote
The remuneration policy is subject to an advisory vote by shareholders at the 2020 AGM.

Remuneration review» continued

IMPLEMENTATION REPORT

Executive Directors' Remuneration
The 2019 Executive Directors' remuneration includes fixed salaries STIP and LTIP awards. The variable pay components (STIP and LTIP) were determined based on performance criteria and overall business results and approved by Remuneration Committee.
LTIP for the 2019 financial period has been approved by Remuneration Committee on 16 March 2020 and will be settled in the next period.

No other salary adjustments or payments (excluding reimbursements for travel and accommodation for business purposes) were made in 2019.

2019 STIP
Calculation of STIP for Executive Directors was done based on the adjusted STIP policy for Executive Directors, as presented in the remuneration report, including specific performance measures defined by the Remuneration Committee.

Details of the 2019 STIP calculations (expressed in € thousand) are presented below:

Performance Measures 2019 STIP					**CEO**	**CFO**	**Executive Director**
		Target		**Result**	**weight**	**weight**	**weight**
Financial performance	min	tgt	max				
Growth in distributable earnings per share*	5.0%	**6.0%**	7.5%	**6.56%**	40.0%	50.0%	30.0%
Maintaining Investment Grade rating				√	0.0%	25.0%	0.0%
Operational							
NOI organic growth*	5.0%	**6.0%**	8.0%	**5.8%**	10.0%	0.0%	15.0%
Increase in retail trading densities over CPI	-	**1.0%**	-	**5.1%**	10.0%	0.0%	10.0%
Maximum accepted vacancies*	3.0%	**2.5%**	1.5%	**2.1%**	10.0%	0.0%	10.0%
Maximum tenant arrears written off	-	**1.0%**	-	**0.1%**	10.0%	0.0%	10.0%
Maximum net property expenses to cost ratio below	-	**15.0%**	-	**13.6%**	10.0%	0.0%	15.0%
Debt risk management							
Debt maturity - remaining years (excluding revolving credit facilities)	-	**over 3 yrs**	-	**4.1**	0.0%	7.5%	0.0%
Qualitative factors							
Timing (weeks) of financial results publication (from the end of financial period)	-	**8**	-	**8**	0.0%	7.5%	0.0%
Discretion of the Board					10.0%	10.0%	10.0%
% Total Achievement					**114.9%**	**118.7%**	**104.2%**
Annual fixed salary (€ thousand)					**600**	**400**	**300**
Total 2019 STIP to be settled during 2020 (€ thousand)					**690**	**475**	**313**

sliding scale and performance incentive zone applies. Sliding scale ranges from 0% for minimum level to 100% for target level and 200% for maximum level.

PHOTO: CITY PARK, ROMANIA

2019 LTIP
LTIP awarded to the Executive Directors for the 2019 performance is set out below:

All amounts in € thousand	**2019**
Alex Morar	1,371
Mirela Covasa	914
Marek Noetzel	364

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 2019:

	Number of shares unvested or subject to a share scheme loan	**Freehold shares**	**Total**
Alex Morar	222,028	919,669	**1,141,697**
Mirela Covasa	173,706	220,668	**394,374**
Marek Noetzel	156,507	23,512	**180,019**

Remuneration review » continued

Single Figure Remuneration

The total remuneration and detail for Executive Directors for 2019 and 2018 is reflected in the table below. This disclosure is aligned to the King IV recommended total single figure disclosures of remuneration.

All amounts in € thousand

Names		Base salary	STIP	LTIP*	Total single figure of remuneration**
Executive Directors					
Alex Morar	2019	580	690	1,371	2,641
	2018	480	344	873	1,697
Mirela Covasa	2019	395	475	914	1,784
	2018	370	266	698	1,334
Marek Noetzel	2019	293	313	364	970
	2018	247	169	334	750

** The values reflect the LTIP awards, payable in shares, in respect of the performance in 2019.*
*** 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 2019 remained unchanged, established in accordance with the amounts and principles approved at the August 2018 AGM. The levels of remuneration for non-Executive Directors participation to the Board of Directors and Board sub-Committees is detailed below:

All amounts in € thousand

	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 fractions thereof), to be approved by the Board on a case-by-case and documented basis, approval which shall not be unreasonably withheld.

The total remuneration paid to non-Executive Directors during 2019 is presented below:

All amounts in € thousand

Participation	Member/ Chairman	Annual remuneration	Andre van der Veer	Antoine Dijkstra	Desmond de Beer	Robert Emslie	Sipho Vuso Majija	George Aase	Andreas Klingen (*)	Total
Board of Directors	Member	35	35	35	35	-	35	35	25	200
Board of Directors	Chairman	70	-	-	-	70	-	-	-	70
Audit Committee	Member	10	-	10	-	-	-	10	7	27
Audit Committee	Chairman	16	16	-	-	-	-	-	-	16
Risk Committee	Member	7	7	-	-	-	7	7	5	26
Risk Committee	Chairman	10	-	10	-	-	-	-	-	10
Investment Committee	Member	10	10	-	-	10	10	-	-	30
Investment Committee	Chairman	16	-	-	16	-	-	-	-	16
Remuneration Committee	Member	7	-	-	-	7	-	7	-	13
Remuneration Committee	Chairman	10	10	-	-	-	-	-	-	10
Nomination Committee	Member	5	-	5	5	-	-	-	-	10
Nomination Committee	Chairman	8	-	-	-	8	-	-	-	8
Social and Ethics Committee	Member	4	-	-	-	-	4	-	-	4
Social and Ethics Committee	Chairman	5	-	5	-	-	-	-	-	5
Adjustment fee related to 2018		-	-	0	-	-	1	-	-	1
Other activities (daily fee) related to 2018 and paid in 2019		1	17	1	4	27	-	-	1	50
										-
Effective paid as at 31 December 2019			**95**	**66**	**60**	**122**	**57**	**59**	**38**	**496**
Other activities (daily fee) to be paid in 2020			14	6	13	19	8	3	10	73
Total remuneration 2019			**109**	**72**	**73**	**141**	**65**	**62**	**48**	**569**

** Andreas Klingen was appointed as member in the Board of Directors starting 17 April 2019. He is also acting as member in the Audit Committee and Risk Committee starting with the same date.*

Termination Payments

During 2019, Mr. Spiro Noussis and Mr. Nick Matulovich were paid exit grants amounting to €640 thousand and €493 thousand respectively.

Non-Binding Advisory Vote on the Implementation Report

This implementation report is subject to a non-binding advisory vote by shareholders at the 2020 AGM.

Key sustainability metrics in 2019

51%	**95%**	**100%**
Of the total number of properties are BREEAM Certified	Share of properties accessible by public transport	Shopping centres offering facilities for bicycles and motorcycles
over 3,500	**28**	**€24 million**
Permanent jobs created in 2019 from new or extended shopping centres	Properties where LED lighting was completely installed to increase energy efficiency	Local taxes paid in the communities the Group is part of

*For the properties where such surveys have been implemented.

Sustainability report

NEPI Rockcastle strongly believes in its duty to be a responsible corporate citizen and achieve the highest standards of sustainability. Under the guidance of the Board of Directors and the permanent coordination from the Social and Ethics Committee, the Group embraces this approach as a driving force of its strategic objectives, influencing significantly its stakeholders relationship management and allowing one unified approach towards customers, local communities, staff, suppliers, investors, analysts, local and central government, peers and non-governmental organizations.

"The definition of NEPI Rockcastle sustainability strategy in 2018 was an important milestone for the Group. During 2019, the Group's efforts focused on implementing the strategy, namely on applying measures and technologies to achieve efficient utilities consumption, responsible waste management, decrease emissions and integrating the assets in the communities through specific activities aimed to make the assets part of the communities' day-to-day life. The implementation of the first STEP-HEAR system, meant to help visually impaired customers to navigate our shopping centres, more mobility to our visitors through electric charging stations, better and more diversified services, are only a few of the measures taken in our portfolio. Sustainability will remain one of the Group's priorities in 2020 and in the years to come, as it is a long-term journey that demands a continuing commitment." - Alex Morar (NEPI Rockcastle's CEO).

SUSTAINABILITY STRATEGY

NEPI Rockcastle continued during 2019 to pursue its focus on sustainability, as outlined in the 2018 Annual Report. With the clear vision of improving the long-term sustainability of its operations, the Group continued to invest in clean and sustainable technologies, adopt policies that address environmental and social risks and engage in more proactive stakeholder discussions,

The Environmental, Social and Governance ('ESG') engagement has naturally been growing in the last years, as the Group expanded and became the strongest retail real estate presence in Central and Eastern Europe ('CEE'). This resulted in analyzing the impact of the ESG factors on its day-to-day activities for all functioning assets, as well as for the pipeline and financing purposes.

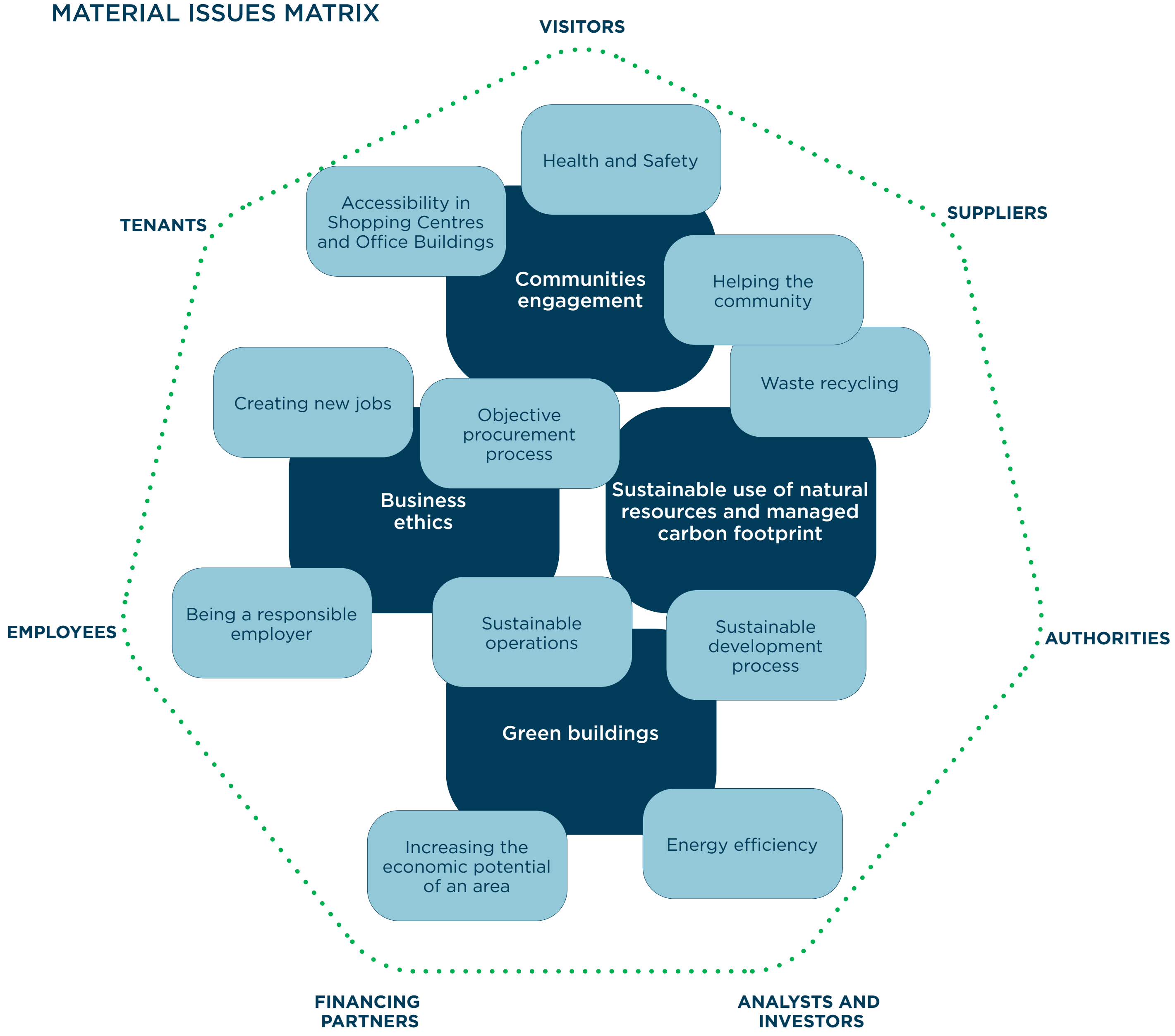
The Company went through a comprehensive analysis to identify all its stakeholders and their needs, with the purpose to engage in a sustainability-focused strategy, addressing its environmental impact as well as the stakeholders' needs and priorities. NEPI Rockcastle considers the following areas for defining its sustainability framework and the measures to be prioritised during 2020:

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

PHOTO: PROMENADA MALL, ROMANIA

Sustainability report » continued

MATERIAL ISSUES MATRIX



As defined in previous years and revised during 2019, the Group's sustainability strategy is based on four major pillars.

1. Sustainable resource management - an initiative that focuses on lowering the negative impact on natural resources and biodiversity, reducing water, energy, gas consumption and emissions, better and sustainable waste management, in the attempt to improve both impact of consumption, as well as efficiency.

2. Sustainability through green buildings – NEPI Rockcastle is applying a continuous improvement process for its buildings and as a result, these are being certified at the highest sustainability standards in the real estate industry. This acknowledges the Group's commitment in having sustainable buildings, both during construction and in the operational stages.

3. Community Engagement – with a view of giving back to the communities and contribute to the sustainable social development, NEPI Rockcastle strongly believes that the cornerstone of its sustainable strategy are the communities: partners, clients, visitors and all catchment areas inhabitants.

4. People and business integrity – As it is an integral part of the Group's culture, integrity is embedded in all its processes, ensuring compliance with laws and regulations and that all operations are being conducted according to the highest standards of business ethics. During 2019, the Group updated its sustainability strategy, in order to reflect also the focus on its employees. NEPI Rockcastle's view is that the major component of running a business with integrity is represented by its people, with an upstanding business having a sustainable and fair approach to its human resources management processes.

PHOTO: PROMENADA NOVI SAD, SERBIA

APPROACH TO SUSTAINABILITY

NEPI Rockcastle is highly committed to drive a sustainable business and be a responsible citizen, and this commitment is endorsed by its Board of Directors. The Company is proactively engaging with various international organizations in the ESG sector, in order to continuously adapt its approach and implement best practices in this area. Seeking to be in line with international standards, the Group has permanently enhanced its ESG approach and disclosure policy, as part of the Annual Report. NEPI Rockcastle adhered to top ESG standards and practices, providing reporting or operational guidelines:

GLOBAL REAL ESTATE SUSTAINABILITY BENCHMARK (GRESB)

The organization's purpose is to lead the environmental and social performance of companies specialised in the real estate sector. The Group participated every year in the benchmark and improved its results year on year.

INTERNATIONAL FINANCE CORPORATION (IFC)

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

EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)

The EBRD invests in private sector projects related to property and adjacent markets. Through its involvement in property and related markets, the EBRD aims to redress the fundamental undersupply of modern, high-quality, energy efficient commercial, logistics and residential real estate. One of the main criteria for investing in such projects is for the project to be consistent with the EBRD's overall investment policy. Moreover, as an issuer of financial instruments where EBRD is investing, NEPI Rockcastle undertakes to comply with ESG criteria as imposed by the EBRD standards.

SUSTAINALITYCS

In 2019, based on the publicly available information relating to the Group and its operations, Sustainalytics, a leading independent ESG and corporate governance research provider, ratings and analytics firm that supports investors around the world with the development and implementation of responsible investment strategies, gave a positive assessment of NEPI Rockcastle's ESG Risk, rating it as LOW, with a score of 16.4. Sustainalytics considers NEPI Rockcastle to have a LOW risk of experiencing material and financial impacts from ESG factors, due to its low exposure and average management of material ESG issues. Following the methodology amendments implemented by Sustainalytics in November 2019, the rating of the Company reached 15.1, remaining in the LOW risk category.

FTSE4GOOD

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

Sustainability report » continued

UNITED NATION SUSTAINABLE DEVELOPMENT GOALS (UN SDGs)
As part of its continuous improvement process and contribution to a better environment, the Group focuses in 2020 on aligning its strategy with UN SDG's. With an aim to contribute in respect with all applicable UN SDGs, the Group has a focused approach on the following goals:

Goal	Description (as per UN public information 1))	Implementation
6 CLEAN WATER AND SANITATION	More efficient use and management of water are critical to addressing the growing demand for water, threats to water security and the increasing frequency and severity of droughts and floods resulting from climate change.	Reduce the water consumption through technology; Monitor discharged water quality; Encourage use of treated/ recycled water and harvest rainwater; Promote efficiency among stakeholders.
7 AFFORDABLE AND CLEAN ENERGY	As per the UN public information, public and private investments in energy also need to be increased and there needs to be more focus on regulatory frameworks and innovative business models to transform the world's energy systems.	Reduce the energy consumption in the Group's operations; Increase the percentage of renewable energy sources for the utilities used in the Group's activity; Implement technologies aimed to improve the efficiency and sustainability of assets construction and operation (involving third parties – tenants and suppliers).
8 DECENT WORK AND ECONOMIC GROWTH	Sustainable economic growth will require societies to create the conditions that allow people to have quality jobs and stimulates the economy, while not harming the environment. Job opportunities and decent working conditions are also required for the whole working age population.	Create new opportunities in cities where the Group develops and operates properties; Deliver predictable distributions to shareholders; Expand countries and locations of operation.
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Technological progress is the foundation of efforts to achieve environmental objectives, such as increased resource and energy-efficiency. Without technology and innovation, industrialization will not happen, and without industrialization, development will not exist.	NEPI Rockcastle promotes and follows responsible construction practices throughout all its developments. The Group's development process gives special attention to: - Structural elements that can impact energy consumption and carbon footprint; - Maximizing daytime light use while minimizing solar heat gains through shading, glass specifications, thus minimizing the use of air conditioning and energy consumption; - Implementing proficient building management systems, which monitor and optimize technical equipment operation.

Goal	Description (as per UN public information 1))	Implementation
11 SUSTAINABLE CITIES AND COMMUNITIES 12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Rapid urbanization's challenges, such as the safe removal and management of solid waste within cities, can be overcome in ways that allow them to continue to thrive and grow, while improving resource use and reducing pollution and poverty. Achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment. Substantially reduce waste generation through prevention, reduction, recycling and reuse.	The Group designed an integrated waste management system to be applied across its core portfolio, leading to increased selective waste collection rate and minimizing landfill. The Group continued to implement the waste reduction strategy across all its properties. 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. All NEPI Rockcastle's properties are equipped with multi-compartment bins in the common areas, also raising awareness about selective sorting among the visitors. Tenants awareness of recycling benefits is also raised through notifications and by detailed tenant manuals which include Waste Management provisions, personalised for each asset.
13 CLIMATE ACTION	Climate change is a global challenge that does not respect national borders. It is an issue that requires solutions that need to be coordinated at the international level to help developing countries move towards a low-carbon economy.	The Group plans to contribute to a greener environment by reducing the carbon footprint of its buildings both during construction and operation. The Group started to build a network of charging stations as a destination for all ECO travelers across NEPI connected countries. The Group also aims to improve its own processes and operations, in order to minimize the impact of its activity on the environment.
15 LIFE ON LAND	Deforestation and desertification – caused by human activities and climate change – pose major challenges to sustainable development and have affected the lives and livelihoods of millions of people in the fight against poverty.	Contribute through developing and acquiring greener buildings. Integrating green areas within its buildings. Assessing sustainability and climate change risks of planned land acquisitions, during the due diligence process.

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1. https://www.un.org/sustainabledevelopment/sustainable-development-goals/

Sustainable financing
In December 2019, NEPI Rockcastle signed an ESG linked unsecured revolving credit facility. The credit facility includes an ESG pricing mechanism linking the margin to NEPI Rockcastle's ESG risk rating score. Should the ESG risk rating score increase, the margin of the RCF will increase, and vice versa. ESG Risk Rating data licensed by Sustainalytics may be used as part of the process of setting an interest rate by a lender.

Sustainability report » continued

GLOBAL REPORTING INITIATIVE IMPLEMENTATION

Compliance with and reporting on the GRI Standards (the organization which has pioneered sustainability since 1997 across the globe, covering a comprehensive range of sustainability disclosures) is one of the ways in which the Group ensures that its sustainability efforts are correctly measured and communicated. In defining the Sustainability strategy the Group ensured the alignment of its approach to GRI guidelines. The Group aims to fully comply with the relevant GRI standards in its ESG reporting and in following up the progress on the strategic pillars, starting 2020.

This 2019 report is prepared *in accordance* with the GRI Standards: Core option and the index with references as to where information is disclosed is set out below:

Standard	**Disclosure**	**Page number**	**Direct Disclosure or Reason for Omission**
GRI 102: General disclosures			
1. Organizational profile			
102-1	Name of the organization	Front cover	
102-2	Activities, brands, products, and services	4	
102-3	Location of headquarters	Back cover	
102-4	Location of operations	5	
102-5	Ownership and legal form	176, 192	
102-6	Markets served	32-81	
102-7	Scale of the organization	30-31, 181	
102-8	Information on employees and other workers	172	
102-9	Supply chain	32-81, 161	Supply chain organisation and related changes are partially covered, further detail is currently not available for public disclosure
102-10	Significant changes to the organization and its supply chain	32-81	
102-11	Precautionary Principle or approach	GRI Content Index	Precautionary Principle or Approach is not applied
102-12	External initiatives	143	
102-13	Membership of associations	4, 143	
2. Strategy			
102-14	Statement from senior decision-maker	6-10	
102-15	Key impacts, risks, and opportunities	114-122	
3. Ethics and Integrity			
102-16	Values, principles, standards, and norms of behavior	131, 170	
102-17	Mechanisms for advice and concerns about ethics	100, 103, 171	
4. Governance			
102-18	Governance structure	84, 93	
102-19	Delegating authority	87, 88, 90, 98	
102-20	Executive-level responsibility for economic, environmental, and social topics	90, 98-104	
102-21	Consulting stakeholders on economic, environmental, and social topics	106-107	
102-23	Chair of the highest governance body	90	
102-24	Nominating and selecting the highest governance body	93	
102-25	Conflicts of interest	105-106	
102-26	Role of highest governance body in setting purpose, values, and strategy	88	
102-27	Collective knowledge of highest governance body	96, 101-105	
102-29	Identifying and managing economic, environmental, and social impacts	101-105, 140-175	
102-30	Effectiveness of risk management processes	118-122	
102-35	Remuneration policies	124-139	
102-36	Process for determining remuneration	124-139	
102-37	Stakeholders' involvement in remuneration	124-139	
GRI 102: General disclosures			
5. Stakeholder engagement			
102-40	List of stakeholder groups	107	
102-41	Collective bargaining agreements	GRI Content Index	No employees are covered by collective bargaining agreements
102-42	Identifying and selecting stakeholders	107	
102-43	Approach to stakeholder engagement	86, 92, 100, 106-107	
102-44	Key topics and concerns raised	86, 92, 100, 106-107	
6. Reporting practice			
102-45	Entities included in the consolidated financial statements	194-197	
102-46	Defining report content and topic Boundaries	141	
102-47	List of material topics	142	
102-48	Restatements of information	GRI Content Index	There have been no restatements of information
102-49	Changes in reporting	GRI Content Index	There have been no significant changes
102-50	Reporting period	Front cover	
102-51	Date of most recent report	Front cover	
102-52	Reporting cycle	Front cover	
102-53	Contact point for questions regarding the report	240	
102-54	Claims of reporting in accordance with the GRI Standards	146	
102-55	GRI content index	146-149	
102-56	External assurance	25, 182-187	
GRI 201: Economic performance			
103-1 103-2 103-3	Management approach	84-97	
201-1	Direct economic value generated and distributed	10, 189	
GRI 302: Energy			
103-1 103-2 103-3	Management approach	154-159	
302-1	Energy consumption within the organization	154-159	
302-4	Reduction of energy consumption	154-159	
302-5	Reduction in energy requirements of products and services	154-159	
GRI 303: Water and Effluents			
103-1 103-2 103-3	Management approach	153	
303-5	Water consumption	153	

Sustainability report » continued

Standard	Disclosure	Page number	Direct Disclosure or Reason for Omission
GRI 305: Emissions			
103-1 103-2 103-3	Management approach	159	
305-2	Energy indirect (Scope 2) GHG emissions	159	No disclosure on Scope 1, 2 or 3 emissions
305-5	Reduction of GHG emissions	159	No disclosure on Scope 1, 2 or 3 emissions
GRI 306: Effluents and waste			
103-1 103-2 103-3	Management approach	152	
306-2	Waste by type and disposal method	152	
306-4	Transport of hazardous waste	GRI Content Index	There is no transport of hazardous waste
GRI 308: Supplier environmental assessment			
103-1 103-2 103-3	Management approach	161	
308-1	New suppliers that were screened using environmental criteria	161	
GRI 401: Employment			
103-1 103-2 103-3	Management approach	170-175	
401-1	New employee hires and employee turnover	174	
GRI 403: Occupational health and safety			
103-1 103-2 103-3	Management approach	100, 142, 151, 162-164	
403-1	Occupational health and safety management system	100, 142, 151, 162-164	
403-6	Promotion of worker health	100, 142, 151, 162-164	
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	100, 142, 151, 162-164	
GRI 405: Diversity and equal opportunity			
103-1 103-2 103-3	Management approach	171-172	
405-1	Diversity of governance bodies and employees	171-172	
405-2	Ratio of basic salary and remuneration of women to men	171-172	
GRI 406: Non-discrimination			
103-1 103-2 103-3	Management approach	127, 170-171	
406-1	Incidents of discrimination and corrective actions taken	171	
GRI 413: Local communities			
103-1 103-2 103-3	Management approach	141, 142, 150-159, 162-168	
413-2	Operations with significant actual and potential negative impacts on local communities	141, 142, 150-159, 162-168	

PHOTO: MEGA MALL, ROMANIA

Sustainability report » continued

UPDATE ON THE STRATEGIC INITIATIVES DURING 2019

PILLAR 1. SUSTAINABLE RESOURCE MANAGEMENT

NEPI Rockcastle continues to focus on the resource management, as a main pillar of its sustainability strategy. In 2018 the Group set medium and long-term targets for its sustainability strategy in each of its strategic pillars, and continued to follow and measure progress of these KPIs during 2019.

Strategic initiatives	Objective /Commitment	KPIs	Term	
			Medium	Long
Sustainable resource management	Increase energy efficiency for Office portfolio by 5%	energy consumption in MWh/ visitor energy consumption in MWh/ m^2 GLA	2022	-
	Increase energy efficiency for Retail portfolio by 10%	energy consumption in MWh/ visitor energy consumption in MWh/ m^2 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/m^2 GLA		2030
	Decrease water consumption for Office portfolio by 5%	water consumption in m^3/visitor water consumption in m^3/m^2 GLA	2022	-
	Decrease water consumption for Retail Portfolio by 10%	water consumption in m^3/visitor water consumption in m^3/m^2 GLA	2022	-

NEPI Rockcastle's Pillar 1 is aligned with the United Nations SUSTAINABLE DEVELOPMENT GOALS

SUSTAINABLE RESOUCES MANAGEMENT				
BIODIVERSITY	WASTE MANAGEMENT	GAS EMISSIONS	ENERGY AND GAS EFFICIENCY	WATER EFFICIENCY
Protecting the ecosystems in which the Group operates	Implement construction efficiency measures and encourage recycling	Identify and respond to climate change risks, by reducing greenhouse gas emissions	Reduce consumption, purchase green energy and invest in renewable energy sources	Reduce water consumption, encourage use of treated/ recycled water and harvest rainwater

11 SUSTAINABLE CITIES AND COMMUNITIES

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

7 AFFORDABLE AND CLEAN ENERGY

6 CLEAN WATER AND SANITATION

To achieve the targets set in Pillar 1, the Group is continuing the same approach outlined in 2018, translated in the following initiatives:

- **Implementation of the Environmental Policy**
  During 2019, the Group gathered best practices from the market and initiated coordination meetings with the most relevant stakeholders on this process: authorities, tenants and suppliers, with a target to roll out its Environmental Policy during 2020.
- **Lighting energy efficiency will be achieved by**:
  - Replacing the traditional lighting sources with LED luminaires;
  - Occupational lighting management, adapted to the areas and use;
  - Instant presence lighting management
- **Optimised HVAC consumption will be achieved by:**
  - Setting back the temperatures during closed hours;
  - Free cooling management;
  - Equipment frequency management.
- **Water consumption management will be achieved by:**
  - Daily consumption monitoring, as a basis for the water conservation practices;
  - Rainwater recovery and reuse;
  - Sensors for all water consumption sources;
  - Industrial equipment for water treatment and recirculation.
- **Pest control**
  - integrated methods based on monitoring and non-toxic preventive measures are used to proactively manage and minimize pest issues.
- **Non-invasive 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.
- **"Less paper, more air", "less plastic, more life" principles:**
  - No paper towels in the toilets, only high efficiency dryers;
  - Less printed contracts for Group's operations, electronic signature implemented;
  - Selective waste management, from source to the final disposal stage;
  - Recycled materials replacing plastic accessories;
  - Ceramics, metal, or recycled paperboard accessories in the food courts.
- **Efficient waste reduction (non – recyclable waste)** achieved through an integrated waste management system applied across the core portfolio. The success of this initiative is highly dependent on the public waste management awareness programs implemented in the communities where the Group's shopping centres are located.
- **Centralised building operating system.** During 2019, the Group started the implementation of a centralised building operating system. The system integrates individual building management systems, life and safety systems and security systems from all buildings, into a single Building Operating Center. The future Building Operating Center will allow consumption optimization, extended equipment lifespan, faster response to weather changes, predictive maintenance, costs predictability and traceability, across all properties in the portfolio. The Group targets an energy consumption reduction, after full implementation and integration, by an average of 14%. The Group aims to implement the system across at least 33% of its portfolio by the end of 2020 and plans to cover 100% of the assets by the end of 2021. As of February 2020, the implementation was progressing as scheduled, with 10 properties fully connected.
- **Responsible operations practices**
  NEPI Rockcastle is committed to ensuring a safe and healthy environment for everyone, therefore it has implemented detailed health and safety procedures and measures:
  - Safety audits are performed regularly and supervised by specialised independent companies, ensuring that NEPI Rockcastle's properties are safe destinations;
  - Emergency procedures are tested by real life simulations (evacuation drills);
  - Suppliers are encouraged to use certified non-harming products and the Group monitors the compliance of these products. Products used are aimed at meeting the requirements of Green Seal, Environmental Choice programs or European Eco-Label programs;
  - Good-quality materials with low emissions of volatile organic compounds and with low content of harmful substances are used. Technical specifications are considered for a large range of products: finishing materials, paints, adhesives, floor coverings, carpets and other largely utilised products;
  - The technical teams ensure that enough fresh air is constantly available in the Group's buildings, through the Building Management Systems. Ventilation ducts 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;
  - Integrated methods based on monitoring and non-toxic preventive measures (site inspection, pest inspection and population monitoring) are used to proactively manage and minimize pest issues.

Facts and figures for sustainable resources management during 2019:

99,763
Trees saved due to paper recycled**

533,496
Energy consumption (MWh)

€770,666
2019 energy savings partially reinvested in efficiency*

8,170
decline in CO2 emissions (tons)*

95,991
Gas consumption (MWh)

€547,924
2019 gas savings partially reinvested in efficiency*

21,786
Non-hazardous waste generated (tons)

1,952,217
Water consumption (m^3)

€29,349
2019 water savings partially reinvested in efficiency*

23.5%
Recycled waste*

**Figures refer to the like-for-like portfolio.*

***Trees saved following recycling of paper: https://www.usi.edu/recycle/paper-recycling-facts/*

Sustainability report » continued

A. BIODIVERSITY

Prior to starting new developments, external experts engaged by the Group always perform the environmental impact assessments on biodiversity, in accordance with applicable local laws. Where protected areas or species are identified, the Group closely monitors the ecosystem and its impact with the help of specialised partners. For new developments, the environmental impact report recommendations 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 independent external experts. In case of a significant, observed and/ or anticipated impact, the Group focuses with priority on avoiding and minimizing it, instead of remediating and compensating for it.

B. WASTE MANAGEMENT

The fast consumer society leads to increased waste generated by people. The Group has a proactive approach to such an issue applying a waste management system across the core portfolio, leading to increased selective waste collection rate and minimizing landfill.
As the main stakeholders of the shopping centres are visitors and tenants, an efficient reduction of non-recyclable waste can be achieved through increasing awareness, continuous communication, advice and enforcement. The Group's management teams are closely following the waste cycle, from the place the waste is generated, up to the final disposal stage. Relevant reports are obtained from the waste disposal companies and reports are regularly provided to the environmental authorities according to applicable laws.

All waste categories are collected separately and delivered to the authorised companies, through the system of collection and waste disposal made available by the Group. At each waste disposal, the confirmation of the loading/ unloading is requested and kept for the elaboration of the waste management program and the records are filled in on a monthly basis.
No property within the Group disposes hazardous waste, main waste categories being household, paper and plastic.

The Company has a rigorous approach towards waste management by setting the following priorities: diminish waste to the extent possible, reuse, recycle, strictly following the applicable legal provisions. Through specific internal rules, all building users are instructed and monitored with regards to the waste disposal process and all waste ramps are properly equipped so that the recycling process is conducted in the most efficient manner.

NEPI Rockcastle understands the importance of recycling and reusing and thus the plan is to reach a 50% recycling rate across the portfolio by 2030. Hence, the Group's commitment is to minimize the volume of household waste and to increase the selective waste collection rate, by:

- redesigning the waste disposal/ sorting area in order to fit recycling specific measures;
- accommodating only recycling bins in the property, including food court area and making sure that efficient visual info campaigns are in place;
- replacing food court accessories (cutlery, plates, glasses) with ceramics, metal, glass, or certified recycled/recyclable materials;
- promoting information campaigns dedicated to the customers by radio and visuals;
- disseminating information campaigns dedicated to the tenants;
- constantly updating Group's House Rules regarding the waste management policy.

The table below shows the split of waste in the Group's portfolio, measured in tons. The increase in total waste relates to the overall increase in footfall and operations, mainly in the retail segment of the Group's portfolio.
On a like-for-like basis, the percentage of recycled waste grew by 23.5% in 2019, as the Group focused its efforts to better manage the entire waste disposal cycle. The results are in line with the targets set by the Group starting 2018.

Generated Waste (tons)

	total		*like-for-like*		
Type of waste	**2019**	**2018***	**2019**	**2018**	**%**
Unrecycled waste	**21,786**	**18,841**	**17,175**	**17,099**	**0.4%**
Household waste	21,786	18,841	17,175	17,099	0.4%
Recycled waste	**6,880**	**5,010**	**4,648**	**3,765**	**23.5%**
Paper waste	6,310	4,680	4,355	3,487	24.9%
Plastic waste	438	262	245	222	10.4%
Other recyclable waste	132	69	48	56	-14.3%
Total	**28,666**	**23,851**	**21,823**	**20,864**	**4.6%**

** figures revised further to the implementation of standardised measurement systems across the portfolio.*

C. UTILITIES CONSUMPTION.

The Group's commitment is to operate its businesses more efficiently, using energy, gas and water more wisely, and make the most of technology and new design techniques to minimize its properties impact on the environment. As part of the efforts to increase the control and monitoring over the utilities consumption, the Group reassessed its utilities consumption measurement system across all portfolio for consistency and alignment across all geographies and technical systems. The utilities consumption is decreasing, as a result of the efforts conducted by the Group, in line or even ahead of the medium and long-term objectives.

Utilities consumption highlights (LFL)

1.47M Water (m^3)	**-1.0%** Water (%)
389K Energy (MWh)	**-1.9%** Energy (%)
65K Gas (MWh)	**-14.4%** Gas (%)

a. WATER EFFICIENCY

Located mainly in urban areas, most of the Group's properties are connected to the city public water/ sewage networks. The food processing tenants and visitors are the main drivers of water consumption.
The water consumption is frequently monitored to identify any system leaks and/or excess consumption, as a water conservation best practice.
By applying the measures set out in the strategy, the Group achieved a 1% decrease in water consumption (LFL). The differences on a country basis are mainly generated by refurbishment and fit-out works in the Group's properties (Croatia – Arena Centar and Slovakia - Galeria Mlyny and Aupark Kosice Tower).

The overall increase in the water consumption is due to the extension of the portfolio, or of the food courts in some properties, as well as a higher need to water the green areas within the properties, during the summer season.

Water Consumption (m^3)

	total			*like-for-like*			
Country	**number of properties 2019**	**2019**	**2018***	**number of properties**	**2019**	**2018**	**VAR %**
Retail	**53**	**1,830,432**	**1,795,370**	**30**	**1,347,935**	**1,366,568**	**-1.4%**
Romania	25	826,090	782,317	14	716,827	700,590	2.3%
Poland	12	325,931	373,453	7	239,145	257,690	-7.2%
Slovakia	5	130,464	96,300	4	90,677	81,654	11.1%
Bulgaria	2	150,222	153,006	2	150,222	153,006	-1.8%
Hungary	2	161,175	173,362	1	96,676	109,603	-11.8%
Serbia	3	76,799	25,262	1	23,787	25,262	-5.8%
Lithuania	1	56,691	52,607	-	-	-	-
Croatia	1	45,356	42,184	-	-	-	-
Czech Republic	2	57,704	96,880	1	30,601	38,763	-21.1%
Office	**6**	**121,165**	**117,826**	**6**	**121,165**	**117,826**	**2.8%**
Romania	4	97,519	95,544	4	97,519	95,544	2.1%
Slovakia	1	4,157	3,347	1	4,157	3,347	24.2%
Bulgaria	1	19,489	18,935	1	19,489	18,935	2.9%
Industrial	**2**	**620**	**-**	**2**	**620**	**-**	**-**
Romania	2	620	-	2	620	-	-
Total	**61**	**1,952,217**	**1,913,196**	**38**	**1,469,720**	**1,484,394**	**-1.0%**

** figures revised further to the implementation of standardised measurement systems across the portfolio.*

NEPI Rockcastle will continue implementing measures for water consumption reduction. Aiming a 10% consumption decrease by 2022, the Group will focus on implementing the following measures across its entire portfolio:

- studies to use underground water instead of the conventional system, for specific operations (e.g. water wells for cooling towers and reverse osmosis system pumps);
- collect rainwater for irrigation and other applicable household activities such as cleaning, landscaping;
- economical water diffusers on water taps;
- water shutoff systems - fit toilets areas with controls that isolate water supply when toilets are unoccupied;
- eliminate any losses from the fire system (water reserve, sprinkler/ hydrants system, etc.) and reduce the impact of water leaks that may otherwise go undetected;
- eliminate any losses from the HVAC system;
- follow a preventive revision program for all pieces of equipment;
- identify and manage any water source that it is not carefully monitored (exterior and common area water sources, tenants for which separate meters have not been installed, etc.).

As the Group is closely following its activity footprint, consistent care is given also to the wastewater. Through regular maintenance programs, high performing equipment and strict internal procedures, the Group manages to be permanently in compliance with the water discharge quality regulations:

- hydrocarbons separators in parking areas;
- grease separators for all properties and individual grease separator for all food processing tenants;
- specific maintenance program for the entire sewage system;
- individual sewage system for both waste- and rainwater;
- water treatment plants for all properties where the used water is discharged into a natural stream of water, river or lake.

For all NEPI Rockcastle properties, the general wastewater sources are:

- domestic wastewater from sanitary groups, offices and showers;
- tenants' technological wastewater from the food processing areas, discharged through grease separators and sedimentary basins;
- rainwater collected from the roofs, conventionally clean;
- rainwater collected from the vehicles parking/ roads platforms and discharged through hydrocarbons separators.

Having implemented a very strict wastewater monitoring procedure, the Group's local management teams are closely testing and monitoring the water quality, ensuring a safe water discharge management across the entire portfolio.
The Group's water discharge process is not considered a pollution factor, all properties being in compliance with the respective laws.

Due to technical restrictions on the public networks takeover capacity, there are properties which could not be connected to the city's public network, but to natural water collectors, based on authorities instructions. Strictly on and around these sites, biogenesis does not include any plant or animal species protected by the regulations in force. Even though the respective natural habitats are not nationally or internationally protected areas, as the laws are highly protective against pollution of any kind, the wastewaters discharge is performed after treatment in wastewater plants, under the supervision of the national environmental authorities. In such locations, the Group constantly measures and monitors the discharged water quality, invested and will continue to invest the necessary resources, with an aim to ensure compliance with environmental laws and reduce the risk of accidental pollution.

Sustainability report » continued

b. ENERGY AND GAS EFFICIENCY

The efficient and appropriate use of energy and gas has a substantial positive impact on the environment in terms of conserving fossil fuels, reducing pollutant air emissions and minimising consumption and waste. Based on the monthly internal energy audit implemented at Group level, the consumption proportion is generally 20%:80% for common areas:tenants occupied area. The Group is setting and implementing direct efficiency measures for the consumption in the common areas. Moreover, NEPI Rockcastle is consistently working on improving tenants' consumption through specific and more restrictive obligations, to be implemented starting 2020, related to leased area fittings, LED lights and sensors. Tenants are requested to submit proofs of the maintenance masterplan implementation in order to ensure that all pieces of equipment are functioning properly, keeping the whole building in a material and safe balance. As a result of the investments done in upgrading lights and equipment (as stated in the strategy) and further to the application of the measures as per best practice manual, during 2019 all properties showed savings in utilities consumption: 1.9% on a LFL basis.

The increase in energy consumption is due to expansion of the portfolio between 2018 and 2019.

Energy Consumption (Mwh)

	total			*like-for-like*			
Country	**number of properties 2019**	**2019**	**2018***	**number of properties**	**2019**	**2018**	**VAR %**
Retail	**53**	**495,435**	**471,752**	**30**	**350,860**	**358,722**	**-2.2%**
Romania	25	178,807	170,384	14	155,141	157,757	-1.7%
Poland	12	118,488	122,111	7	77,105	82,091	-6.1%
Slovakia	5	29,404	29,767	4	25,137	25,412	-1.1%
Bulgaria	2	51,964	53,446	2	51,964	53,446	-2.8%
Hungary	2	41,646	42,748	1	24,014	24,548	-2.2%
Serbia	3	25,017	6,932	1	7,027	6,932	1.4%
Lithuania	1	6,186	6,786	-	-	-	-
Croatia	1	23,606	20,778	-	-	-	-
Czech Republic	2	20,317	18,799	1	10,472	8,535	**22.7%**
Office	**6**	**32,966**	**32,674**	**6**	**32,966**	**32,674**	**-0.9%**
Romania	4	28,611	28,256	4	28,611	28,256	1.3%
Slovakia	1	1,248	1,239	2	1,248	1,239	0.7%
Bulgaria	1	3,107	3,179	2	3,107	3,179	-2.3%
Industrial	**2**	**5,095**	**5,233**	**2**	**5,095**	**5,233**	**-2.6%**
Romania	2	5,095	5,233	2	5,095	5,233	-2.6%
Total	**61**	**533,496**	**509,658**	**38**	**388,921**	**396,628**	**-1.9%**

** figures revised further to the implementation of standardised measurement systems across the portfolio.*

Gas Consumption (Mwh)

	total			*like-for-like*			
Country	**number of properties 2019**	**2019**	**2018***	**number of properties**	**2019**	**2018**	**VAR %**
Retail	**53**	**81,565**	**81,224**	**30**	**50,918**	**63,365**	**-19.6%**
Romania	25	42,436	49,682	14	36,755	46,855	-21.6%
Poland	12	1,835	1,854	7	1,436	1,328	8.1%
Slovakia	5	5,444	5,626	4	1,860	2,183	-14.8%
Bulgaria	2	5,398	6,240	2	5,398	6,240	-13.5%
Hungary	2	11,723	12,343	1	4,264	5,266	-19.0%
Serbia	3	1,205	1,494	1	1,205	1,494	-19.3%
Lithuania	1	928	898	-	-	-	-
Croatia	1	3,017	3,087	-	-	-	-
Czech Republic	2	9,578	-	1	-	-	-
Office	**6**	**14,177**	**12,938**	**6**	**14,177**	**12,938**	**9.6%**
Romania	4	5,301	6,479	4	5,301	6,479	-18.2%
Slovakia	1	8,876	6,459	2	8,876	6,459	37.4%
Bulgaria	1	-	-	2	-	-	-
Industrial	**2**	**250**	**-**	**2**	**250**	**-**	**-**
Romania	2	250	-	2	250	-	-
Total	**61**	**95,991**	**94,162**	**38**	**65,345**	**76,303**	**-14.4%**

** figures revised further to the implementation of standardised measurement systems across the portfolio.*
*** includes only properties where gas consumption was applicable.*

PHOTO: BRAILA MALL, ROMANIA

Constant monitoring leads to identification of poor performance and changes in consumption patterns. This allows taking prompt measures for the minimisation of the performance gap between forecast and actual consumption, efficient cost management, identification of areas of inefficient operations, system deficiencies and building management issues. NEPI Rockcastle strongly believes that operating cost, consumptions and carbon emissions can be optimised through actions implemented such as changing practices/ procedures, reducing waste and managing energy use.

The design of all new developments includes natural lighting, while low-energy bulbs, combined with light sensors, are used if practical. The buildings' skylights are protected with sun reflective film, to reduce solar heat gain during the summer, thus decreasing the use of air conditioning. Escalators are fitted with motion sensors, stopping automatically when not in use. Properties with multiple elevators are using computerised systems to monitor commands and optimise movement.

Sustainability report » continued

One of the most significant energy optimization initiatives across all Group's assets 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	Property type	LED implementation status in 2019	LED implementation status in 2018
Paradise Center	Bulgaria	Retail	Implemented	Implemented
Serdika Center	Bulgaria	Retail	Implemented	Implemented
Arena Centar	Croatia	Retail	Implemented	Implemented
Arena Retail Park	Croatia	Retail	Implemented	Development stage
Forum Liberec Shopping Centre	Czech Republic	Retail	20%	feasibility study and technical solution under review
Forum Ústí nad Labem	Czech Republic	Retail	Implemented	Implemented
Bonarka City Center	Poland	Retail	10%	feasibility study and technical solution under review
Galeria Warminska	Poland	Retail	Implemented	partially implemented in common areas
Karolinka Shopping Centre	Poland	Retail	Implemented	partially implemented in common areas
Aura Centrum	Poland	Retail	10%	partially implemented in common areas
Pogoria Shopping Centre	Poland	Retail	Implemented	Implemented
Focus Mall Piotrkow Trybunalski	Poland	Retail	10%	partially implemented in common areas
Platan Shopping Centre	Poland	Retail	Implemented	partially implemented in common areas
Galeria Wolomin	Poland	Retail	Implemented	partially implemented in common areas
Solaris Shopping Centre	Poland	Retail	Implemented	partially implemented in common areas
Galeria Tomaszow	Poland	Retail	Implemented	partially implemented in common areas
Focus Mall Zielona Góra	Poland	Retail	10%	partially implemented in common areas
Ozas Shopping and Entertainment Centre	Lithuania	Retail	5%	partially implemented in common areas
Mammut Shopping Centre	Hungary	Retail	10%	partially implemented in common areas
Arena Mall	Hungary	Retail	10% (total refurbishment in progress)	partially implemented in common areas
City Park	Romania	Retail	Implemented	39%
Promenada Mall	Romania	Retail	35%	13%
Iris Titan Shopping Center	Romania	Retail	95%	90%
Shopping City Galati	Romania	Retail	Implemented	94%
Shopping City Deva	Romania	Retail	Implemented	partially implemented in common areas
Braila Mall	Romania	Retail	45%	partially implemented in common areas
Vulcan Value Centre	Romania	Retail	45%	partially implemented in common areas
Shopping City Piatra Neamt	Romania	Retail	Implemented	99%
Shopping City Targu Jiu	Romania	Retail	Implemented	80%
Severin Shopping Center	Romania	Retail	60%	43%
Shopping City Sibiu	Romania	Retail	Implemented	partially implemented in common areas
Promenada Sibiu	Romania	Retail	Implemented	Development stage
Kragujevac Plaza	Serbia	Retail	Implemented	Implemented
Promenada Novi Sad	Serbia	Retail	Implemented	Development stage
Krusevac Shopping Park	Serbia	Retail	Implemented	Development stage
Aupark Kosice Mall	Slovakia	Retail	60%	50%
Aupark Zilina	Slovakia	Retail	60%	50%
Aupark Shopping Center Piestany	Slovakia	Retail	65%	50%
Serdika Office	Bulgaria	Office	Implemented	Implemented
City Business Centre	Romania	Office	Implemented	50%
Floreasca Business Park	Romania	Office	Implemented	50%
The Lakeview	Romania	Office	Implemented	50%
Victoriei Office	Romania	Office	Implemented	Implemented
Aupark Kosice Tower	Slovakia	Office	Implemented	50%

Sustainability report » continued

c. ENERGY INTENSITY

NEPI Rockcastle strongly believes that improving the energy efficiency plays an essential role in reducing its impact on the climate. Therefore, it is of great importance to measure energy efficiency effectively, which may facilitate future policymaking in this direction. The Company's studies, reports and year-on-year improved standards play an important role in facilitating its internal policymaking and efforts to upgrade its buildings performance, which directly affect the progress of energy conservation and environmental protection. The increases in 2019 in Serbia, Czech Republic and Slovakia are due to new projects developed or to refurbishments during the year.

Energy intensity MWh/m^2 and Energy intensity MWh/1,000 visitors

Country	2019 Energy Intensity MWh/m^2	2018 Energy Intensity MWh/m^2	(%)	2019 Energy Intensity MWh/1,000 visitors	2018 Energy Intensity MWh/1,000 visitors	(%)
Retail	**0.30**	**0.30**	**0.01%**	**1.77**	**1.70**	**-1.26%**
Hungary	0.44	0.45	-3.13%	2.00	2.04	-1.53%
Bulgaria	0.43	0.45	-3.89%	3.14	3.41	-7.82%
Czech Republic	0.40	0.25	59.88%	1.36	0.86	57.81%
Croatia	0.35	0.36	-2.53%	2.73	2.74	-0.34%
Serbia	0.33	0.12	177.79%	2.23	1.61	38.34%
Slovakia	0.30	0.30	-1.54%	0.90	0.91	-1.79%
Romania	0.28	0.30	-6.07%	1.82	1.92	-5.23%
Poland	0.26	0.27	-5.19%	1.70	1.80	-5.22%
Lithuania	0.12	0.12	-6.51%	1.19	1.46	-18.51%
Office	**0.30**	**0.29**	**3.36%**	-	-	-
Slovakia	0.79	0.60	31.51%	-	-	-
Romania	0.29	0.30	-2.37%	-	-	-
Bulgaria	0.11	0.11	-2.28%	-	-	-
Industrial	**0.19**	**0.19**	**1.79%**	-	-	-
Romania	0.19	0.19	1.79%	-	-	-
Total	**0.30**	**0.30**	**0.30%**	**1.77**	**1.70**	**-1.26%**

Reported data contains 97% of the total energy consumption, as the Group is the energy procurer for all tenants and common areas, except some hypermarkets

d. CARBON FOOTPRINT AND CLIMATE CHANGE

Global warming and climate change are amongst the most important focus topics around the globe. NEPI Rockcastle recognizes the challenges raised, therefore it plans to contribute to a greener environment by reducing the carbon footprint of its buildings during both construction and operation. In 2019, the Group decreased its CO2 footprint with 8,170 metric tons compared to 2018, on a like-for-like basis.

In the scale of global emissions by economic sector, the Group's activity is generating direct emissions mainly through energy consumption (electricity, gas & thermal) for heating and cooling, waste disposal and indirectly by the transportation used by its visitors.

The Group made a long-term commitment to reduce its carbon footprint by 20% until 2030, based on continuous efforts laid down in 2018 and pursued during 2019:

- Measure carbon footprint for all development projects;
- Plan for "eco–friendly" buildings early in the design phase;
- Use alternative low carbon-emission materials;
- Continue efforts to reduce energy consumption through an energy management strategy that promotes better understanding of energy use;
- Replace old equipment with new more energy efficient equipment;
- Invest in green energy sources such as solar panels and electrical chargers for green cars;
- Implement LED lighting and sensors solutions;
- Foster innovation in technology, as incurring a certain cost in the short term, which will contribute substantially to emissions reductions and cost efficiency in the long run;
- Incorporate sustainable drainage systems into new developments;
- Ensure that buildings can cope with rising temperatures, using construction materials and ventilation systems that do not increase carbon emissions;
- Reduce use of paper and ink;
- Encourage electric ride sharing concepts.

CO2 emissions

					like-for-like		
Country	CO2 emissions intensity Country level (kg/MWh)	2019 (metric tons of CO2)	2018 (metric tons of CO2)	(%)	2019 (metric tons of CO2)	2018 (metric tons of CO2)	(%)
Retail		**227,201**	**225,007**	**0.97%**	**162,680**	**170,919**	**-4.82%**
Romania	306.00	67,700	67,340	0.5%	58,720	62,611	-6.2%
Poland	773.00	93,010	95,825	-2.9%	60,712	64,483	-5.8%
Slovakia	132.00	4,600	4,672	-1.5%	3,564	3,642	-2.2%
Bulgaria	470.00	26,960	28,052	-3.9%	26,960	28,052	-3.9%
Hungary	260.00	13,876	14,324	-3.1%	7,352	7,752	-5.2%
Serbia*		-	-	0.0%	-	-	0.0%
Lithuania	18.00	128	138	-7.4%	-	-	0.0%
Croatia	210.00	5,591	5,012	11.6%	-	-	0.0%
Czech Republic	513.00	15,336	9,644	59.0%	5,372	4,379	22.7%
Office		**13,174**	**13,139**	**0.26%**	**13,174**	**13,139**	**0.26%**
Romania	306.00	10,377	10,629	-2.37%	10,377	10,629	-2.37%
Slovakia	132.00	1,336	1,016	31.51%	1,336	1,016	31.51%
Bulgaria	470.00	1,460	1,494	-2.28%	1,460	1,494	-2.28%
Industrial		**1,636**	**1,601**	**2.15%**	**1,636**	**1,601**	**2.15%**
Romania	306.00	1,636	1,601	2.15%	1,636	1,601	2.15%
Total		**242,010**	**239,748**	**0.9%**	**177,490**	**185,660**	**-4.4%**

Calculations based on energy savings 2019 vs 2018, using https://ghgprotocol.org/sites/default/files/standards/Scope%202%20Guidance_Final_Sept26.pdf
** data not available as Serbia is not part of EU.*

The connection to public transportation is a relevant topic in the Group's strategy concerning carbon footprint, thus most of its properties are accessible by public transportation.

In 2019, the Group started the process of extending its electric car charging stations network and, besides the Tesla charging stations installed in properties accross Poland, Slovakia, Hungary and Czech Republic, the Group aims to have electric car charging stations in all relevant assets by the end of 2020.

Sustainability report » continued

PILLAR 2. GREEN BUILDINGS

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

Strategic initiatives	Objective /Commitment	KPIs	Term	
			Medium	Long
Sustainability through green buildings	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	-

The Group continued to invest in BREEAM certification for its buildings as a measure of its commitment to long-term sustainability. As of December 2019, 51% of its properties are certified BREEAM "Very Good" or "Excellent" and 43% are currently under certification. The difference of 6% were less than a year within the Group, therefore the certification or recertification process has not been started yet. The Group's target is by mid-year 2020 to have more than 60% BREEAM certified assets and at year end to have more than 75% BREEAM certified assets, at least "Very Good".

Property	Country	Property type	Status	Scoring obtained/ targeted
Iris Titan Shopping Center	Romania	Retail	Certified	excellent
Shopping City Galati	Romania	Retail	Certified	excellent
Braila Mall	Romania	Retail	Certified	very good
Mega Mall	Romania	Retail	Certified	excellent
Promenada Mall Bucharest	Romania	Retail	Certified	excellent
City Park Mall Constanta	Romania	Retail	Certified	very good
Shopping City Deva	Romania	Retail	Certified	very good
Severin Shopping Center	Romania	Retail	Certified	very good
Shopping City Buzau	Romania	Retail	Certified	very good
Shopping City Sibiu	Romania	Retail	Certified	very good
Promenada Sibiu	Romania	Retail	March 2021	excellent
Pitesti Retail Park	Romania	Retail	Certified	very good
Vulcan Value Centre	Romania	Retail	Certified	excellent
Shopping City Timisoara	Romania	Retail	Certified	excellent
Shopping City Targu Jiu	Romania	Retail	Certified	excellent
Shopping City Piatra Neamt	Romania	Retail	Certified	excellent
Ploiesti Shopping City*	Romania	Retail	Certified	excellent
Shopping City Ramnicu Valcea	Romania	Retail	June 2020	excellent
Satu Mare Shopping City	Romania	Retail	July 2020	excellent
Victoriei Office	Romania	Office	Certified	excellent
The Lakeview	Romania	Office	Certified	excellent
Floreasca Business Park	Romania	Office	Certified	excellent
City Business Centre	Romania	Office	Certified	very good
Aupark Zilina	Slovakia	Retail	Certified	very good
Aupark Kosice Mall	Slovakia	Retail	Certified	very good
Aupark Kosice Tower	Slovakia	Office	Certified	very good
Aupark Piestany	Slovakia	Retail	Certified	very good
Korzo Shopping Centrum	Slovakia	Retail	Certified	very good
Galeria Mlyny	Slovakia	Retail	July 2020	excellent
Kragujevac Plaza	Serbia	Retail	July 2020	very good
Promenada Novi Sad	Serbia	Retail	July 2020	excellent
Arena Centar	Croatia	Retail	Certified	very good
Serdika Center	Bulgaria	Retail	May 2020	excellent
Paradise Center	Bulgaria	Retail	May 2020	excellent
Serdika Office	Bulgaria	Office	May 2020	excellent
Galeria Tomaszow	Poland	Retail	March 2020	excellent
Karolinka Shopping Centre	Poland	Retail	May 2020	excellent
Platan Shopping Centre	Poland	Retail	May 2020	excellent
Pogoria Shopping Centre	Poland	Retail	May 2020	excellent
Bonarka City Center	Poland	Retail	May 2020	excellent
Galeria Warminska	Poland	Retail	March 2020	excellent
Focus Mall Zielona Gora	Poland	Retail	March 2021	excellent
Alfa Centrum Bialystok	Poland	Retail	May 2020	excellent
Solaris Shopping Centre	Poland	Retail	July 2020	excellent
Focus Mall Piotrkow Trybunalski	Poland	Retail	March 2020	excellent
Galeria Wolomin	Poland	Retail	March 2020	excellent
Arena Mall	Hungary	Retail	June 2020	very good
Mammut Shopping Centre	Hungary	Retail	June 2020	very good
Ozas Shopping and Entertainment Centre	Lithuania	Retail	March 2020	excellent
Forum Liberec Shopping Centre	Czech Republic	Retail	May 2020	excellent
Forum Usti nad Labem	Czech Republic	Retail	May 2020	very good

** joint venture*

In 2020, NEPI Rockcastle will start implementing its Sustainable Procurement Policy and its Environmental Policy in relevant significant contractual relationships, aiming to increase social responsibility among all business Partners.

The Group strongly believes that a sustainable procurement process will reduce the adverse environmental, social and economic impacts of purchased products and services throughout their life, like:

- the inputs of natural resources, energy and water in the manufacture, use and disposal of goods;
- the pollution produced from the manufacture, use and disposal of goods;
- all costs of operation and maintenance over the life of the goods;
- labour conditions in the manufacture, use and disposal of goods or delivery of services;
- any loss of flora and fauna resulting from the removal or alteration of natural resources.

The Group is to consider the ESG impact for its major procurement processes as of 2020. The goal is to become a sector leader on sustainable procurement, through:

- having an effective sustainable procurement practice embedded within its processes, ensuring that procurement is recognised as being vital to the delivery of the Group's corporate objectives;
- ensuring that its procurement activity is outcome-focused with well-defined deliverables that cover environmental, social and economic issues, such as reducing CO2 emissions, promoting equal pay and providing opportunities for diverse suppliers;
- complying with targets to reduce the negative impact of materials on environment with special care to the hazardous materials, which should be excluded, or at least reduced;
- special targeting set will be highlighted to reduce the CO2 emissions from materials transport and other sources;
- engaging with its suppliers to ensure they recognize and understand their role in supporting these objectives;
- a track record of sustainability benefits delivered will be in place and publicised to recognize progress and success;
- ensuring sustainable procurement is linked to the responsible individuals key work objectives, through their KPIs and performance assessments;
- procurement of all timber or timber-based products should be based on 'Legally harvested and Legally traded timber';
- prioritization is the essence. Sustainability impacts and risks will be mapped against categories of supply and high priority impacts/categories will be addressed first. This should be done with a wide range of internal stakeholders, also taking into consideration corporate policy and external stakeholder requirements;
- to help drive markets for more innovative and sustainable solutions, the Group aims to set an example to the rest of the sector, industry and consumers, through:
  - adopting (whenever possible) a forward-looking commitment approach to give warning to the market of future requirements. This would enable the market to respond with innovative solutions;
  - working within the Group's business to identify and set future minimum requirements;
  - continuing to work with externally accredited organizations and others on attributing value to sustainable procurement as well as stimulating debate around social issues.

Sustainability report » continued

PILLAR 3. COMMUNITY ENGAGEMENT

As a premier and top developer, owner and operator of commercial real estate in the Central and Eastern Europe, the Group makes every effort for a sustainable growth, maturing together with the local community and its people.

Communities are a key stakeholder for the Group and the Community Engagement approach for 2019 represented a significant step forward, both in terms of investment value, and number of causes supported. The plan surpassed the assumed targets (as laid down in 2018, published in the 2018 Annual Report and displayed below), while continuing previous years' work, with a clear vision to empower people and enrich communities for the world of the future.

Strategic initiatives	Objective /Commitment	KPIs	Term	
			Medium	Long
Community engagement	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 the Group's 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 the Group's properties dedicated to CSR campaigns	permanent	

The Group's strategy is strongly anchored in the public agenda of both policy makers and communities, taking into consideration the most pressing topics that are influencing the world today. NEPI Rockcastle strongly believes in balancing the needs of all the key stakeholders, starting with partners and investors, to tenants, customers and communities. Making the Group's employees advocates of the causes, while being a strong example of responsibility, inspiring and engaging in an authentic way the people from communities, the Group preaches a philosophy where the shopping centres create a halo effect of progress and positive change.

The Community engagement strategy is derived from the Group's core values, and it endeavours to transform the shopping malls network into unique and attractive community centres, boasting an attractive mix of entertainment and leisure. The Group positions its properties as not only the best retail destinations, but also as centres of social interactions.

Priorities of the Community Engagement strategy:

The Group focused on three main pillars that are contributing alltogether to more healthy and responsible ecosystems, thus improving people's lives and lifestyles:

A. Social and Health – NEPI Rockcastle increased the impact of its social and health education programs by developing a series of scalable projects across its network. It focused on rigorously selected community needs that tackled education and health support, from prevention to intervention. NEPI Rockcastle believes a community should be well informed, well connected with its relevant bodies, with strong networks within the respective community, becoming an engaged, responsible and active part of the society. The Group believes it is its role to support the community growth and development, and it chooses to do that in ways that are collaborative, encourage engagement amongst community players, authorities and people. The Group brings all parties together and acts as a facilitator of sustainable engagement.

B. Environment – Climate change and environment protection are not just global priorities and top policy concerns in Europe, but also local and community issues. Tackling environmental matters starts at the level of each person and the community as a whole. The Group believes that it should also be a practice in everyday life of companies and people to bring their contribution. In this respect, environment responsible actions have been implemented across all countries. Moreover, the Group continuously engages with the tenants and business partners to encourage them to join in this initiative, build awareness and boost support.

C. Educating communities – NEPI Rockcastle invested in educational programs for children and parents, as it is the belief of the Group that education is the most powerful tool that one can use to truly create positive impact and change the world to a better place in the long run. The Group aligned educational topics with the local communities, bringing them relevant information from various fields of interest: science, parenting, technology, road safety, safeguarding and keeping traditions.

The Group initiatives are selected taking into account the real needs of the communities, identified in collaboration with key social and institutional partners, that joined the Group in its citizenship efforts. The Group involved in its actions non-governmental organizations partners, such as Save the Children, UNICEF, United Way, the Red Cross, to identify and address relevant local issues. The Group takes great care in the selection of the NGOs that can become partners in various projects, as to have aligned visions and values In this respect, the less fortunate areas /communities and the stakeholders in need, have been a priority when selecting the priorities.

Moreover, the Group welcomed partnerships with other private companies that share similar values and priorities, such as Unilever for the **Empty Shop initiative**, to create a bigger impact of its projects.

In addition to its own developed projects, NEPI Rockcastle consciously provides donations for the causes it supports. In 2019 only, the Group donated 1.5 million EUR to more than 80 NGOs across the group, from healthcare, education, environment and social support, which demonstrated transparency and great commitment, as well as a proven capability of addressing social primary issues in the communities where the Group activates.

Looking forward, NEPI Rockcastle plans to continue this approach and to renew with every project its commitment to enrich people and communities.

A. SOCIAL AND HEALTH ACTIONS

HEALTH

During 2019, the Group has stepped up its efforts to contribute to reducing the occurrence of health issues, thus it continued to support health organizations, medical clinics, while developing new partnerships. For this purpose, the Group developed prevention and screening campaigns to cover issues related to blood demand, cancer, heart diseases, smoking, infertility, dental hygiene, while promoting a healthy and active lifestyle.

Blood donation campaigns: One of the major health concerns, as revealed by the World Health Organization, is that 90% of the people who are eligible, do not donate. In an effort to stimulate the habit of blood donation and as part of the intervention action plan, the Group hosted over 30 blood-donation campaigns within its properties across CEE countries.

- 30 blood donation campaigns across the region
- More than 150 liters of blood collected
- 300 lives saved (0.5l saves one life, according to React blood donation association)

Arena Mall from Hungary alone hosted 8 blood donation campaigns, while Pogoria Shopping Centre from Poland collected a record quantity of 42 liters of blood, during the XI-th edition of the National Blood Donation Action Motorserce, organised in partnership with the motorcyclists from the VC 19-78 MC Poland club. Mega Mall Bucharest sided with HBO and the local NGO React and it hosted two donation campaigns within the international campaign Bleed for the Throne.

Other health-oriented initiatives

Within the overall CSR framework, the Group offered also financial support for various health causes, donating over €60,000 in 2019. For instance, Promenada Novi Sad donated €50,000 to the Children Hospital, while Aupark Zilina donated €6,000 to "Usmevy pre deti" foundation, helping children diagnosed with cancer. Moreover, the centres became a social catalyst, providing the place, the reason and relevant causes, motivating the communities to side up and help the people in need. In this context, Shopping City Piatra-Neamt organised a 7-hour charitable marathon concert aiming at gathering funds for the treatment of a 12-years old girl, suffering from leukaemia.

The Group also invested in raising awareness of health preventive actions, with a clear impact among its visitors. Having this in mind, the centres developed awareness campaigns, while providing medical check-ups. For instance, Serdika Center partnered with the Olympic legend Yordan Yorkov and organised a Street Workout Competition, which encouraged young people to take

PHOTO: "IMPREUNA PT SIGURANTA" EVENT, SHOPPING CITY SATU MARE, ROMANIA

Sustainability report » continued

up sports and to adopt a healthy lifestyle. Bonarka City Center Krakow organised an educational campaign, aiming at encouraging women to do the regular health exams in the Go Healthy Girl program dedicated to preventing STDs. City Park Constanta hosted an information campaign, SOS Infertility, focusing on preventing infertility as well as treatment options, and a program for raising awareness about the importance of breast-testing in order to prevent cancer.

In order to prevent dental issues, Galeria Mlyny Nitra offered free dental check-ups within the gallery, while Karolinka Shopping Centre implemented a campaign aimed at informing people about the harmful effects of sugar, correlated with diabetes and cardiological check-ups.

The Group also partnered with key local authorities to enhance its preventive educational campaigns. Promenada Novi Sad, Shopping City Piatra-Neamt, Shopping City Deva sided with various Health or Emergency Situations authorities, in campaigns targeting non-smoking and first aid in case of emergencies.

Social campaign and initiatives

During 2019, the Group consolidated its partnership with global social institutions such as Save the Children, UNICEF, United Way and the Red Cross, with whom the Group's shopping centres organised or supported more than 30 campaigns.

In this respect, it came in as natural for Promenada Mall Bucharest to develop the second consecutive edition of **The Empty Shop** campaign, in partnership with the Romanian Red Cross and Unilever Group. The global donation campaign introduced by the Group in Romania in 2018 proved to be a success in terms of determining the community to side up and help those in need. Maintaining the goal of providing clothing to families in need, the charity pop-up store was again set up in Promenada Mall and was open to receive donations for an entire month. The store with empty shelves was visited by over 300 people every day, each of them donating at least one piece of clothing. During the 2019 edition, Promenada Mall Bucharest collected 60.7 tons of clothing, out of which 322 kg consisted of brand-new pieces, donated by a total of over 8,600 visitors. The campaign partner, Unilever, provided the cleaning supplies for washing all the pieces of clothing. Red Cross Romania volunteers sorted and then delivered the clothes to people at risk of social exclusion. Encouraged by the success of the Romanian edition, Promenada Novi Sad from Serbia also organised this year the first edition of Empty Shop with a great local impact, where the Serbians donated over 1 tone of clothing items.

- 70 tons of clothes collected in Romania and Serbia
- 6,000 beneficiaries
- 10,000 donors

Another step forward for promoting social inclusion was made by City Park Mall that developed the second edition of the campaign **Building Destinies**, launched first time in 2018. The Group partnered with the Romanian NGO Social Incubator, with the aim to provide better socio-professional inclusion for young institutionalised adults, that reach the legal age and must start providing for themselves. They are offered therapy and career counselling sessions, as well as practical work visits within NEPI Rockcastle's shopping centres. This year there were attendees from 4 counties which have shown in the latest research a very high risk of social and economic vulnerability. 45 young adults have been included in the program and mentored towards gaining professional and psychological perks that will offer them a better chance of obtaining jobs and a decent life.

As part of the Group's goal of promoting equal rights and inclusion, the Serbian centres Kragujevac Plaza and Promenada Novi Sad hosted two family inclusive festivals "Čep za Hendikep", aimed at raising awareness to the challenges faced by disabled people, as well as advocating for social inclusion. Paradise Center partnered up with Cedar foundation and developed the fundraising campaign Together, gathering funds for disadvantaged children and young people.

Another initiative which proves the key role of the community gathered around the centres is the annual **Great Orchestra of Christmas Charity** event. Each NEPI Rockcastle shopping centre in Poland is part of the largest and most famous fundraising event in the country, which reunites together thousands of volunteer and art lovers for various concerts, auctions and shows. The funds raised during the events are used for acquiring medical equipment, which is donated to hospitals and clinics.

- €100,000 collected
- 20,000 donors

Partnering with NGOs has also been a main pillar for the Group's Slovak centres in 2019. By identifying the main social needs in the communities, the malls provided and supported campaigns and fundraisers for the fight against cancer, the blind and partially sighted people and for supporting young artists. Aupark Shopping Center in Piešťany has also been a supporting ground for talented photographers. The "365 faces of Piešťany" exhibition included one photo each day with the face of a community member involved in cultural or urban development.

PHOTO: THE EMPTY SHOP, PROMENADA MALL, ROMANIA

In Poland, a partnership was established with Auchan in Krakow, to develop a unique project aimed at dealing with autism. For people with an autistic spectrum disease sharp sounds and bright light are stress factors. Bonarka City Center Krakow and Auchan implemented a solution through the **Hours of Silence** project. Every Tuesday, for 2 hours, all the lights are dimmed, no messages are broadcasted, while all the TV sets and music are turned off. During the same interval, Auchan opens a special cashier adapted for autistic people. The campaign had a nationwide reach and helped increase awareness on the issue.

Another initiative developed in Poland in partnership with Auchan and DKMS Foundation by the Platan Zabrze aims at increasing the number of potential donors of hematopoietic stem cells. For two days, the commercial centre hosted a 2-days registration and information office and over 1.4M potential donors registered.

- 1.4 million potential donors of hematopoietic stem cells

B. ENVIRONMENT

A greener community is part of the commitment that the NEPI Rockcastle Group has made for its long-term strategy. Focusing on reducing the negative effects of deforestation and urbanization, NEPI Rockcastle has partnered with World Wildlife Fund, specialised in environmental protection and green initiatives. The Fund was offered free online & offline advertising in some of the Group's centres, while the month of March has been dedicated to the **Earth Hour**, a World Wild Fund for Nature (WWF) initiative, meant to raise awareness all around the world regarding eco-friendly lifestyles.

- Earth Hour – façade lights turned off, awareness leaflets

Moreover, the Group considers the power of example to be the correct way of reaching out to the communities. That is why in many of the Group's properties, the regular lighting in the centres has been replaced with LED technology (as detailed above in this report), while in Poland, visitors were offered free reusable cups, for buying "take-away" drinks with a discount.

As climate changes are more visible worldwide, the Group is committed to developing solutions which can have a real impact over reducing its carbon footprint. Having this in mind, the Group partnered with WWF and launched its largest eco initiative **Don't Be Plastic**. Acknowledging the insight that the use of plastic recipients is mostly defined by habit and not real need, each of the 12 NEPI Rockcastle commercial centres in Poland have implemented the first phase of the project, consisting of an awareness campaign, carried out on all available communication channels. The purpose of the first phase is to increase awareness about the serious threats posed by plastic to humans and wildlife. As the first phase was implemented in Poland during the previous year, the goal for 2020 is to implement the project in other centres and other countries as well.

During the second phase of the project, the Group is committed to attract its tenants to the initiative and to develop solutions which will contribute to enhancing the overall recycling initiative, as well as to taking the best course of action which would lead to diminishing the carbon footprint within the Center's ecosystems. To start with, Arena Zagreb is transforming its food court through equipping its tenants with ceramic plates, glass cups and metal forks, knifes and spoons, replacing the plastic ones. This helps both in terms of reducing use of plastic, and in educating and building awareness among its visitors, clients and tenants.

Recycling and upcycling are also initiatives of high importance for the Group but also for the communities in reducing their footprint. The Group's centres have hosted in 2019 events and workshops aimed at teaching children and their parents that valuable materials can also be found in secondary raw materials, such as palletised furniture. Complementary, various trade-ins initiatives have offered visitors the chance to be rewarded eco products in exchange for their old/unused electronic products. A non-stop available electronic waste collection point has been inaugurated in selected centres in Poland, and more than 1 tone of electronic waste has been collected throughout these. In Serbia, more than 500 kg of plastic bottle caps were collected.

- 1 tone of electronic waste
- 500kg of plastic waste collected

Giving back to the community is carved into the Group's philosophy. That is why, in Bulgaria, more than 1.000 tenants and visitors of the Paradise Center volunteered for the largest clean up initiative in the country: **"Let's clean up Bulgaria".**

The partnership with the most important environmental organization in Constanta, Romania - Trees Need People – Constanta Restart has been extended in 2019, with a tree planting initiative, in the park of Ovidius University. Moreover, cleaner air for the next generations is the focus of the Group's centre in Constanta, therefore over 100 trees have also been planted in several kindergartens and schools around the city, as part of the **"Together we go green"** project.

Sustainability report » continued

PHOTO: "WE GO GREEN" CITY PARK,ROMANIA

- 200 trees planted
- 100 children involved

The Group's centre in Croatia applied a different approach in order to support afforestation. With the help of the Scout Alliance of Croatia, visitors of Arena Centar were offered pencils made from burnt trees in the Dalmatia, a region extremely exposed to wildfires caused by human negligence. For every tree the visitors drew, the volunteers of the Scout Alliance, supported by the commercial centre, planted a real one.

Bees play an important, but little recognised role in the world ecosystems, as they are the main insects responsible for the pollination process. The pollination is of economic importance, as the bees contribute approximately 153 billion euros to the global economy, which is 9% of the agricultural production. 70% of the most cultivated plant species are largely based on insect pollination. **"Save the Bees"** is the Group's initiative to raise awareness regarding the need to save bees and the role they play in the ecosystems. Several centres in Poland have, therefore, built bee apiaries that will host over 500.000 bees. The insects are expected to provide around 100 liters of honey in 2020.

- 10 bee apiaries
- 500,000 bees
- 100 liters of honey

C. EDUCATION

The Group places education at the heart of a healthy, developed and modern society, therefore it invests in educational programs for children and parents, because knowledge is be a powerful tool in sustainability. The topics are aligned with the local communities, instilling or enhancing relevant information from present fields of interest: science, medical care, road safety, bullying or parenting. This approach supports young generations grow into ethic, responsible professionals, who will later become part of the business environment in which the company itself operates.

Mega Mall Bucharest hosted the third consecutive edition of the **Science Festival SciKids**, an event aimed at making science accessible and appealing to children of all ages. The festival gathered more than 10,000 visitors during the two days, and it consisted of a wide array of interactive activities, such as workshops, experiments, exhibitions and science shows.

Contacting and working close to community stakeholders provided the Group with knowledge regarding the difficulties that some schools and children face when poverty is a reality. Partnering with key NGOs, provided the Group's centres the opportunities to organize fundraisers or directly donate funds for school materials. The **„Donate your Christmas"** campaign set up by Shopping City Timisoara in partnership with United Way Romania managed to obtain, in just 2 weeks, donations for 100 pupils that received clothing and one warm meal every day of school in 2020. Overall, in 2019, the Group's centres raised and donated over €30,000 for educational purposes.

The Group also sustained its efforts in creating a proper environment for children growth, helping them develop their soft skills and strengthen their interpersonal relationships along with the technical knowledge and abilities. To fulfill this objective, Serdika Center developed the concept Kingdom of Kids: a social awareness campaign with the purpose of reminding children and grown-ups, based on the principles that knights and princesses lived their lives on. The campaign had both online and offline components pushing the message **Be the good you wish to see.**

The Group's commitment to supporting young families and cultivating a healthy, balanced parent-child relationship led to increased efforts, with the goal of providing specialised information to community members. In 2019, 35 parenting seminars were hosted in Serbia and Bulgaria, with an attendance of hundreds of young and future parents. The attendees had access to free lectures on raising and caring for a child and were able to get reliable advice on topics such as pregnancy, childbirth, breastfeeding and new-born care.

- 35 parenting seminaries
- 1,700 parents participants

Serdika Center Sofia has increased its family-oriented programs in 2019, becoming a community hub for people with children, providing them with access to educational activities along with shopping and spending quality time together. For the 7th consecutive year, the shopping centre organised the **Sunday Family** program, which consists of a series of educational workshops and fun activities, with over 60.000 participants.

At the same time, as part of a road safety campaign, the entire atrium of Serdika Center was transformed into a city with streets, traffic lights and road signs. The campaign aimed to educate over 150 children in respecting traffic laws and keeping themselves safe when walking to and from school.

- 7th edition
- 60,000 participants

Due to its international presence in the Eastern European business market, The Group understands the value of cultural diversity. This drives its efforts to initiatives that encourage preserving and nurturing local ethics and traditions into young generations. Starting from this belief, the Group supported a broad variety of cultural actions within its shopping centres, all of them centered around the idea of promoting the local cultural heritage. For instance, Serdika Center hosted **Traditions come alive**, an initiative developed in partnership with Sofia Craft Chamber, aiming at educating people about the typical Bulgarian arts and crafts.

PHOTO: GREAT ORCHESTRA OF CHRISTMAS CHARITY 2020, GALERIA WARMINSKA, POLAND

Sustainability report » continued

PHOTO: BONARKA CITY CENTER, POLAND

The Group stays committed to raising awareness among the members of the communities it serves, covering a diverse spectrum of topics. These range from domestic violence and the consequences of drug and alcohol use, to the benefits of an active lifestyle and a balanced diet, the importance of road safety education or the impact of theatre in children education.

The initiative **My name is Miliard** is a gesture of solidarity towards victims of violence and a way of supporting both the victims and the witnesses of violent acts. The event took place in the Pogoria Shopping Centre and the attendees made a symbolic dance with the purpose of drawing attention to the cause.

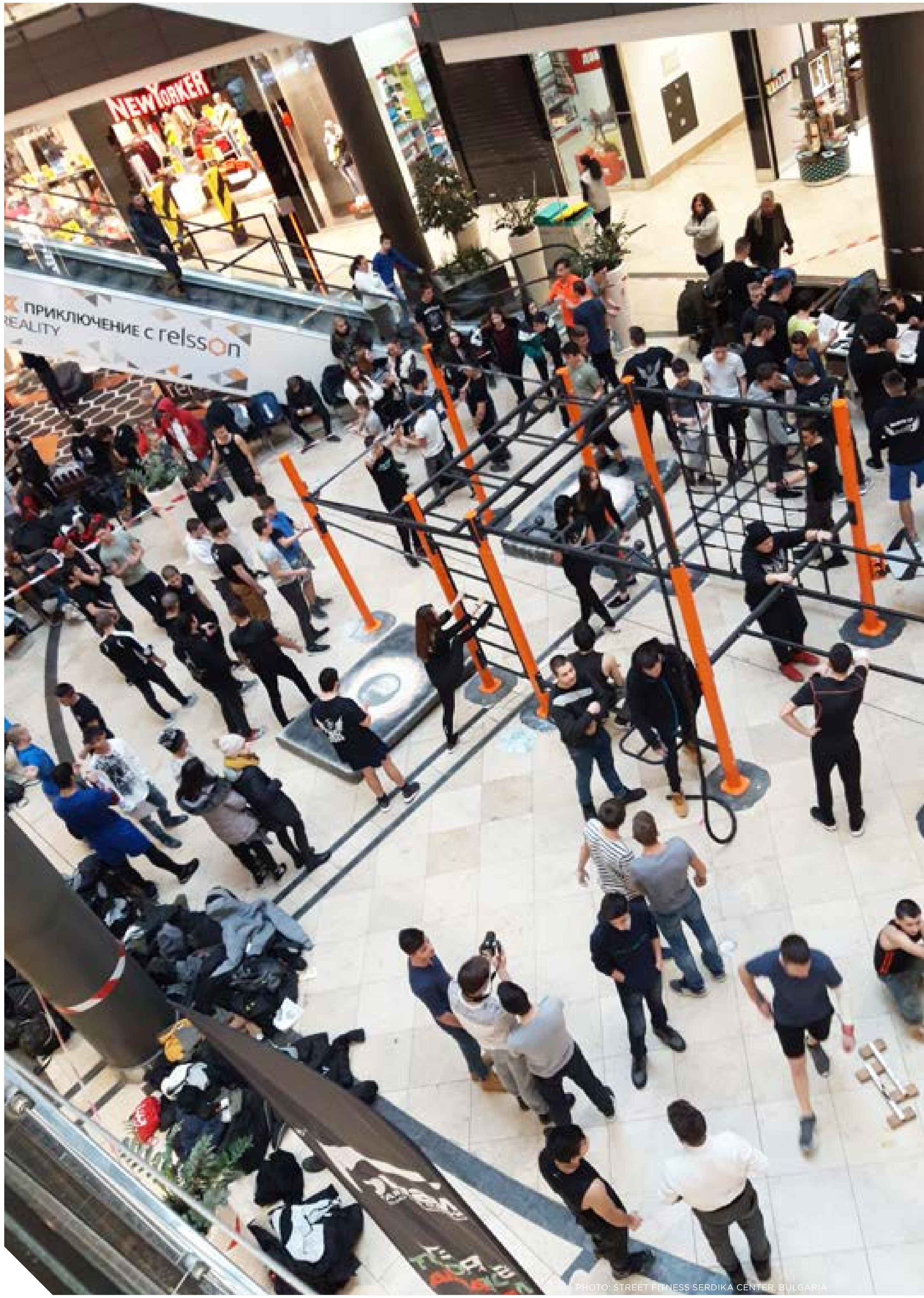


PHOTO: STREET FITNESS SERDIKA CENTER, BULGARIA

Sustainability report » continued

PILLAR 4. PEOPLE AND BUSINESS INTEGRITY

The Group maintains the highest ethical standards and complies with applicable legislation, rules, and regulations in all jurisdictions. 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.

In terms of commitments to measure the progress on its sustainability pillars, the Group continues its approach from 2018, and recognizes good progress.

Strategic initiatives	Objective /Commitment	KPIs	Term	
			Medium	Long
People and business integrity	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	

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 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, **Integrity, Excellence, Teamwork and Communication, Innovation and Learning.** As the Group places paramount importance on ethical behaviour, a specific feedback component is embedded in the performance evaluation process.
Going forward, it is continued to be used in the formal annual evaluation process of all employees. Moreover, the core values are constantly reminded in communications from senior executives, proven in practice based on 'tone from the top' principle and embedded in various training and group gathering concepts.

The Code of Ethical Conduct, 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. Awareness campaigns have been organised throughout 2019, with the collaboration of various functions within the Group, in order to train employees and build or enhance the ethical culture.

The Code defines expected principles and behaviour related to the following:
- Equal employment and non-discrimination
- Environmental compliance
- Health, safety and labour conditions
- Narcotics and alcohol
- Conflicts of interest
- Gifts, entertainment and corruption practices
- Lobbying and political involvement
- Fraud
- Antitrust & competition policy
- Communications and Records, Claims, Statements and Certifications
- Confidentiality principles
- Preserving privacy.

The Code addresses in detail the conflict of interest topic and management conducted annually campaigns in order to raise employees' awareness of risks deriving from conflict of interest and reporting requirements. In 2019, a Group-wide campaign for collecting and advising how to mitigate potential conflict of interest was rolled to cover all employees. 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 in the best interest of the Company. When they consider that a conflict of interest may 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 may 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 Ethical Conduct has strong provisions for the following:
- 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 sets 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, facilitation payments 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;
- the Group's approach towards lobbying and political involvement.

No incidents on non-discrimination or any other breach of Code of Ethical Conduct provisions were registered during 2019.

While the Group recognizes its role in the society which may include sponsorships and donations as part of its responsible corporate citizenship approach, it will never support any political parties (no payments, donations, sponsorships or any other in-kind benefits may be offered in such context) and does not get involved in political issues of the countries where it is present. The Group does not engage in lobbying for political purposes.
The Group considers that all employees and representatives are entitled to their own personal political opinions, however they should be cautious when expressing such opinions, so that these are not viewed as the opinions of the Group.

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 line manager. In order to promote full transparency as well as to provide a mechanism to report concerns, the Company has implemented the Whistleblowing Policy, which also provides reporting channels, while guaranteeing non-retaliation against the whistle-blower and confidentiality.

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. Even though disclosing the whistle-blower identity supports the efficiency and effectiveness of the investigation process, 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 report with 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 presented and discussed in 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. When repeated or gross incompliance is detected, a consequence mechanism is in place in order to deter employees' unethical behaviour.

In relation to its external stakeholders, NEPI Rockcastle strongly believes in collaborating with partners sharing the same values, hence, compliance clauses covering anti-money laundering and anti-corruption, were included in the standard contract templates to be signed with any supplier. Part of the Group's commitment to strong ethics was to emulate its 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 may provide input, any supplier or customer with proven unethical behaviour or with significant adverse media reports, may be excluded from the list of partners that the Group is engaging with.

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 on the Board of female Director(s). Consideration criteria such as expertise, knowledge and competence should be fully met and the candidate should be appropriately qualified for the role.

During 2019 the Nomination Committee initiated two processes of selection of independent non-Executive Directors. In both processes, the shortlist of candidates interviewed by the Chairman of the Nomination Committee included diverse population, in terms of gender, nationality, age and background. This is a result of a strong commitment of the Board to contribute to shaping a Board team that adds value through its complementary skills, backgrounds, cultural insights and perspectives.

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 2019 year-end, a total of 441 employees were active:

Gender	Definite contract	Indefinite contract	Full time	Part time
F	7	283	288	0
M	4	147	152	1
	441		441	

At 2019 year-end, of 441 total employees, 62% were women, 38% men.
All Management layers (top and middle management), 50% women and 50% men.

Sustainability report » continued

Details of distribution is presented below:

Level	Gender	% distribution
Senior Management Team (Functions Leads)	F	45%
	M	55%
Middle Management and Subject Matter Expert	F	49%
	M	51%
Non-managerial	F	68%
	M	32%

Another key measure of diversity and equity is the pay ratio by gender and location.

The Group monitors salary ratio of women and men for each category of management 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 varies between 1:1.11 and 1:1.29.

Collective bargaining

Considering the relatively small number of employees spread across nine different geographies in the region in which the Group operates, together with the HR policies around remuneration, retention, development, selection and all provisions of the Code of Ethical Conduct that governs the business, the Group did not consider organising a collective bargaining agreement at staff level.

Age diversity

The Group encourages diversity across age ranges, considering the experience, maturity, needs and skillset required to deliver the strategy. Therefore, distribution of age is well balanced - more than 60% of Group's staff are experienced professionals, with up to 20 years or more of career. Also, a younger generation of Millenials of up to 30% is growing and developing their careers, allowing the Group to maintain a strong succession pipeline.

Generation	Age range	Headcount at 31 Dec 2019	Average Age	% of Total Headcount at 31 Dec 2019
Generation Z	up to 24 Y	11	22.4	2%
Millennials	25-34 Y	136	30.8	31%
Generation X	35-49 Y	269	40.0	61%
Baby Boomers	50-65 Y	28	55.7	6%
TOTAL		**444**	**37.9**	**100%**

PEOPLE ENGAGEMENT, RETENTION AND DEVELOPMENT

Engagement and Retention fundamentals

Engagement and retention of key staff are two interlinked essential elements for the efficiency and continuity of the business. Retention of staff is a challenging mandate of Group's leadership in the context of a difficult and competitive labour market in CEE, and even more in the southern part of CEE which is faced with big migration of labour force towards western Europe.

The Group's range of initiatives for managing retention has developed during 2019, from reinforcing the need to source appropriate candidates (focusing on internal and external references, professional channels and agencies), to testing them both for competence as well as for personality and commitment and further ensuring their on-boarding is directly coordinated by the managers of the respective joiners. Moreover, during 2019 the Group reinforced, as part of the recruitment process, an efficiency approach which requires management to support decision to hire on business case. This enhanced the Group to reorganise activities, leverage more and better on internal available resources and support career growth of its existing people.

In terms of keeping existing staff engaged, NEPI Rockcastle considers that being transparent, creating opportunities for people to understand the company purpose, strategy, performance, is essential in people's pride to work for the Group. The Group is continuously reinforcing management communication to its teams, in both regular meetings as well as through top management communication, team planning events, strategy discussions, team buildings organised across the business or at particular team levels.

The Group also continued to engage its staff in shopping mall campaigns of charity, sports competitions, celebrating important business milestones or traditional holidays through team social gatherings for staff or staff children's celebrations.

In the past year, NEPI Rockcastle managed to attain a rate of more than 90% retention for joiners in the first 12 months, which in the current market conditions, is a promising rate that the Group will continue to focus on and find ways to improve.

To further support the integration agenda, during 2019 NEPI Rockcastle organised Business Discussions and Team Building events for each function, gathering all people to transparently share key fundamentals of the business, to engage them in discussions about 2020 plans and tactics, but also to celebrate, strenghten collaboration and sharing. More than 350 of the staff were present for 3 days in Poiana Brasov, Romania.

Moreover, strategy discussion events were organised and hosted by the CEO in 2019 – with the aim to connect the key people to the purpose, vision and strategy of the Group, while allowing for cross-sharing and learning between the core business function managers. More than 60 people of top management were attending these events in Sibiu and Snagov, Romania.

Development of staff - key priority now and in the future

In 2019 NEPI Rockcastle continued to promote and implement a consistent development program applied for all lines of staff and management. The HR strategy was to put in place a targeted trainings programs linked with the company's short, medium and long-term objectives, empower people to add value in their current roles and help the organisation adapt more quickly to business environment.

Before designing the approach in learning and development programs, the HR and management team assessed most critical and frequently raised development needs in terms of appropriate competencies, leadership capabilities and skillset.

A key source of information on staff development needs is the performance review process, which provides a good picture of where people are delivering at their best and where there is improvement needed.

Performance review process is an opportunity for the manager and employee to asses achievement of business, commercial and strategic objectives in the previous year and discuss areas for development in the future. For middle management positions and specific key roles - subject matter experts the Group run 360 feedback evaluation structured along its values: Teamwork & Communication, Innovation & Learning, Excellence and Integrity – and leadership skills.

The needs assessment were translated into in several trainings and development programmes being agreed with management team, designed and planned for implementation – both in 2019 and going forward in 2020.

Staff development fundamentals

NEPI Rockcastle's approach to staff development is structured along some fundamentals:

1. Is tailored to teams, to ensure we reflect properly their needs and priorities;
2. Is delivered in blended learning format, ranging from individual and team coaching, to strategy events, classroom trainings, leadership assessments, technical trainings, conferences, market trends updates, structured/facilitated discussions;
3. Is prioritised to needs and teams with most significant impact on business;
4. Is approached top-down – as the Group considers the leadership team, the middle management are critical in deploying the proper competence and behaviour across all organisation;
5. Is an important element in supporting integration of the business.

At a glance, the Group's development and training matrix:

	Leadership development	Talent and Performance Improvement	Coaching	Technical competence	Market trends	Conferences and Events	Strategy and Business events	Social team buildings events
BOARD					●	●	●	
TOP MANAGEMENT	●	●	●		●	●	●	●
SENIOR MANAGEMENT	●	●	●		●	●	●	●
MIDDLE MANAGEMENT	●	●		●	●	●	●	●
PROFFESIONAL QUALIFICATIONS AND CERTIFICATIONS QUALIFIED		●		●		●	●	●

Staff development facts and figures

In facts and figures, the Group's investment in staff development during 2019 was:

Total number of hours of training attended (cumulative for all hours attended by all staff)	10,950
Total number of training participations (cumulative for all participations)	1,180
Average number of training hours per trained employee	9.25
Total training days/employee	1.2
Overall attendance rate	95%
Overall feedback score	4.5 out of 5

2019 development programs at a glance

Key topics covered by the Group's development programmes topics during 2019:

- Public Speaking
- Feedback and Coaching
- Team dynamics
- Excel, Power BI
- Foresight
- Chance Management
- Communication and Impact
- Team coaching
- Effective work routines meetings
- IFRS, Reporting and Accounting
- Market and consumer trends
- Leadership Assessments and Leadership Team Profiles
- Internal systems and procedures – Acquisitions, GDPR, Code of Ethics
- Team Cohesion and Engagement
- Relationship building
- Microsoft Teams
- Digital Marketing
- Managing stress
- Business Integrity and Ethics

Sustainability report » continued

Business and teams integration
A component of the development program strategy during 2019 was to support integration of business and teams across the Group. During 2019, the Group organised a series of events aimed to provide employees with clarity over the Group's progress, results, future strategy while allowing for fruitful strategic discussions on the 2020 priorities and way forward.

Business Integration programme structure:

- Top Management Strategy Event;
- Middle Management Strategy, Planning and Sharing event;
- All staff Integration and Team events.

During these events NEPI Rockcastle managed to achieve productive consultation on strategic and operational priorities, as well as to create a space for cross-sharing, learning and productive debates across different jurisdictions – through focusing on 3 directions:

- Business - Strategic/Operational/Tactical discussions, sharing and buy-in into vision and strategy;
- Development – learning bites were integrated as relevant for the particular groups;
- Social and team engagement – all events had a planned social agenda, aimed at helping teams engage more and better.

Way forward in Staff Development
The programmes the Group started in 2019 will continue being deployed, with focus on identifying further competencies and skills that need to be developed or acquired.

All efforts to build and promote a sustainable development culture, aim to create an environment where talent is well identified and potential is supported. NEPI Rockcastle believes that development and career growth are important aspects in motivating employees, in giving back to its professionals, and in increasing loyalty and commitment.

Retention
In managing retention, the Group continued to support employees in finding the appropriate work-life balance and integrating their professional and personal responsibilities. Such efforts lead to more engaged, motivated and committed employees. Initiatives that continued in this direction include:

- Flexible return-to-work schedule for employees returning from maternity and parental leave;
- One off allowance for parents when a child is born;
- Employee well-being initiatives such as: participation in sport events, subsidising gym subscription, employee health insurance and medical services private subscriptions programme;
- Social gatherings and parties for both employees and their children on Christmas;
- Paid days off on top of annual leave and statutory holidays, to allow people to bridge through longer weekends around Easter, Christmas or New Years' Eve.

Employee turnover
As a measure of people management impact and sustainability from a human resources point of view, monitoring staff turnover is very important.

For 2019, the blended voluntary turnover rate across all jurisdictions was 10.9% voluntary leave, while the non-voluntary was 3.9%. The Group had also a 3.7% of leavers as a result of areas of business being outsourced or discontinued, on selling of specific office building and outsourcing of specific services in property management structure.

The non-voluntary turnover is strongly related to the Group's performance focused approach and, as strong performance and delivery against the role is essential for building a long-term career within the company. NEPI Rockcastle encourages management to empower strong performance and not tolerate lack of commitment, excellence in delivery or compromising on values and business integrity.

Management Level	Number of leavers	Average headcount	% of total
Top Management Business Function Leaders	1	11*	0.2%
Middle Management and Subject Matter Experts	8 9	161	1.7% 2.0%
Non-managerial	41 9 17	286	9.0% 2.0% 3.7%
Total	**85**	**458****	18.6%

** including 3 Executive Directors: CEO, CFO, Executive Director*

*** Average headcount 31 December 2018 - 31 December 2019*

Voluntary | Non Voluntary | Business discontinued/Outsourcing

Recruitment and selection
Having the right number of people and the appropriate skillset in the Group is a business imperative for leadership as well as a core HR responsibility. Moreover, considering the CEE market is very competitive in terms of workforce, recruitment and selection remain a strategic area of focus for the business.

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.

During 2019, a total number of 47 professionals joined the Group on either new positions or replacements.

During 2019, the Group continued implementation of selection tools and introduced for all managerial positions within the Group cognitive abilities tests, along with personality inventories and competency based interviews. NEPI Rockcastle is engaging with independent international professional firms specialised in assessment for both leadership skills and cognitive abilities.

To ensure best professionals are sourced and selected, the Group is using both internal resources to source, screen and select candidates, as well as external consultants for top management positions and strategic roles.

PHOTO: PROMENADA MALL, 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	10 234	365 698 649	60.97
Non-public	2	215 522 449	35.93
Directors and employees	46	12 171 887	2.03
Other*	-	6 404 216	1.07
TOTAL	**10 282**	**599 797 201**	**100.00**

**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	7 934	4 952 559	0.83
2 501 to 10 000 shares	1 210	6 057 309	1.01
10 001 to 100 000 shares	756	26 253 241	4.38
100 001 to 1 000 000 shares	299	99 719 064	16.62
1 000 001 to 3 500 000 shares	51	99 720 987	16.63
More than 3 500 000 shares	32	356 689 825	59.47
Other	-	6 404 216	1.06
TOTAL	**10 282**	**599 797 201**	**100**

Registered shareholders owning 5% or more of issued shares	Number of shares held	Percentage of issued shares
2019		
Fortress REIT Limited	140 000 000	23.3%
Resilient REIT Limited	75 522 449	12.6%
Public Investment Corporation	46 822 045	7.8%
TOTAL	**262 344 494**	**43.7%**
2018		
Fortress REIT Limited	139 990 000	24.2%
Resilient REIT Limited	74 964 444	13.0%
Public Investment Corporation	44 933 845	7.8%
TOTAL	**259 888 289**	**45.0%**

Beneficial shareholding of 5% or more of issued shares	Number of shares controlled	Percentage of issued shares
2019		
Fortress REIT Limited	140 000 000	23.3%
Resilient REIT Limited	75 522 449	12.6%
Public Investment Corporation	46 822 045	7.8%
TOTAL	**262 344 494**	**43.7%**
2018		
Fortress REIT Limited	139 990 000	24.2%
Resilient REIT Limited	74 964 444	13.0%
Public Investment Corporation	44 933 845	7.8%
TOTAL	**259 888 289**	**45.0%**

Beneficial shareholding of Directors

At 31 Dec 2019	Direct Holding	Indirect Holding	Associates	Total Shares Held	Percentage of shares issued (%)
George Aase	-	-	-	-	-
Desmond de Beer~	-	9 394 166	-	9 394 166	1.57
Mirela Covasa	202 413	191 961	-	394 374	0.07
Antoine Dijkstra	4 667	-	-	4 667	-
Robert Emslie	-	-	-	-	-
Andreas Kiingen*	-	-	-	-	-
Sipho Vuso Majija	-	-	-	-	-
Alex Morar	254 484	887 213	-	1 141 697	0.19
Marek Noetzel	180 019	-	-	180 019	0.03
Andre van der Veer~	109 762	-	8 111	117 873	0.02
TOTAL	**751 345**	**10 473 340**	**8 111**	**11 232 796**	**1.88**

**Andreas Klingen - appointed as independent non-Executive Director on 17 April 2019*
~ Between year-end and the publication of this annual report, the Directors changed their beneficial shareholding by making the following disposals:
Desmond de Beer - 500,000 shares;
Andre van der Veer - 7,772 shares.

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

** 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. Andries de Lange served as alternate director to Desmond de Beer until 12 September 2019.*
**** Spiro Noussis served as Executive Director of the Company up to 31 December 2018.*

Financial statements

3

PHOTO: GALERIA WARMINSKA, POLAND

FINANCIAL STATEMENTS

Statement of Directors' responsibilities

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

The Directors have prepared the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs).

In preparing the consolidated financial statements, the Directors are responsible for:

- selecting suitable accounting policies and then applying 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 consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that to the best of their knowledge, the financial statements prepared in accordance with IFRSs give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and that the Directors commentary includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that the Group faces.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group. They are also responsible for safeguarding the assets of the Group 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 Group's website.

The consolidated financial statements on pages 188 to 235 were approved and authorised for issue by the Board of Directors on 20 February 2020 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 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

NEPI Rockcastle plc's consolidated financial statements (the "financial statements") comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement 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.

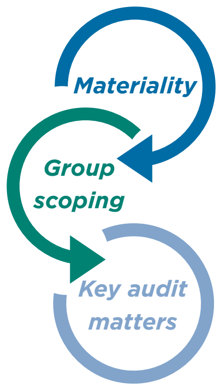
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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



Materiality

Overall materiality: €69.7 million which represents 1% of the Group's total assets.

Specific materiality: €19 million which represents 5% of the Group's EBITDA.

Audit scope

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.

Key audit matter

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.

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.

Independent Auditor's report

to the members of NEPI Rockcastle plc » continued

	Overall materiality	***Specific materiality***
Materiality level	€69.7 million.	€19 million.
How we determined it	1% of total assets per the consolidated statement of financial position for the year ended 31 December 2019.	5% of EBITDA per the consolidated statement of comprehensive income for the year ended 31 December 2019.
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 agreed with the Audit Committee that we would report to them misstatements identified during our audit above €3,487,000, 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 shopping centres 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**
Valuation of investment property 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 are inherently under pressure to achieve certain targets which leads to the risk that the value of property is overstated by the entity. The directors used external appraisers to support their determination of the individual fair values of the investment property semi-annually. For more information on the valuation of the investment property reference is made to notes 4.3, 4.4, 4.5, 5, 9, 10 and 16 from the consolidated financial statements.	Our procedures in relation to the directors' valuation of investment property included: • evaluation of the objectivity, independence and expertise of the external appraisers; • assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the property industry; • 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 • 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.). We found that investment property related data and the key valuation assumptions were supported by available evidence: contracts, rent roll and external market evidence. 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.

Other information

The directors are responsible for the other information. The other information comprises the Statement of Directors' responsibilities and the Directors' Commentary (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the other information to be included in the Annual Report, which is expected to be made available to us after that date.

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 and will 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 on the information that we obtained prior to the date of this auditor's report, 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. When we read the other information to be included in the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors.

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 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 or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Group'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 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 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 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 14 August 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
20 February 2020

Consolidated Statement of financial position

in € thousand	Note	31 Dec 2019	31 Dec 2018
ASSETS			
Non-current assets		**6,169,170**	**6,116,059**
Investment property		6,022,600	5,911,070
— Investment property in use	9	5,800,759	5,688,610
— Investment property under development	10	221,841	222,460
Goodwill	12	76,804	93,070
Deferred tax assets	23	15,209	13,739
Investments in joint ventures	34	22,844	49,185
Long-term loans granted to joint ventures	34	21,220	21,311
Other long-term assets	11	7,590	19,039
Derivative financial assets at fair value through profit or loss	20	2,903	8,645
Current assets		**467,191**	**374,628**
Trade and other receivables	14	89,383	80,750
Financial investments at fair value through profit or loss	13	169,062	168,339
Cash collateral	13	-	27,784
Financial assets at fair value through profit or loss	13	-	831
Cash and cash equivalents	15	208,746	96,924
Assets held for sale	16	**337,739**	**11,957**
TOTAL ASSETS		**6,974,100**	**6,502,644**
EQUITY AND LIABILITIES			
TOTAL SHAREHOLDERS' EQUITY		**4,096,880**	**3,845,873**
Equity attributable to equity holders		**4,090,672**	**3,839,772**
Share capital	17	5,998	5,778
Share premium	17	3,625,348	3,625,568
Other reserves		(3,627)	-
Accumulated profit		462,953	208,426
Non-controlling interest		**6,208**	**6,101**
Total liabilities		**2,877,220**	**2,656,771**
Non-current liabilities		**2,687,397**	**2,221,338**
Bank loans	19	574,112	930,048
Bonds	19	1,677,779	892,397
Deferred tax liabilities	23	354,756	351,187
Other long-term liabilities	22	74,036	44,981
Derivative financial liabilities at fair value through profit or loss	20	6,714	2,725
Current liabilities		**150,785**	**435,433**
Trade and other payables	21	130,411	159,786
Bank loans	19	9,815	265,006
Bonds	19	10,559	10,641
Liabilities held for sale	16	**39,038**	**-**
Total Equity and Liabilities		**6,974,100**	**6,502,644**
Net Asset Value per share (euro)	24	6.83	6.66
EPRA Net Asset Value per share (euro)	24	7.32	7.09
Number of shares for Net Asset Value / EPRA Net Asset Value per share		599,797,201	577,800,734

The Group's financial statements on pages 188 to 235 were approved and authorized for issue by the Board of Directors on 20 February 2020 and signed on its behalf by:

Alex Morar
Chief Executive Officer

Mirela Covasa
Chief Financial Officer

Consolidated Statement of comprehensive income

in € thousand	Note	31 Dec 2019	31 Dec 2018
Gross rental income		407,139	349,907
Service charge income		176,841	151,826
Property operating expenses		(183,242)	(155,663)
Net rental and related income	**25**	**400,738**	**346,070**
Administrative expenses	26	(21,550)	(22,022)
EBITDA*		**379,188**	**324,048**
Net result from financial investments		**23,651**	**(122,915)**
Income from financial investments at fair value through profit or loss	13	12,560	29,132
Fair value and net result on sale of financial investments at fair value through profit or loss	13	11,091	(152,047)
Transaction fees	27	(5,411)	(6,079)
Fair value adjustments of investment property	28	134,709	108,411
Foreign exchange loss		(907)	(923)
Gain on acquisition of subsidiaries		446	6,933
Gain on disposal of assets held for sale		123	-
Gain on disposal of joint venture	34	3,588	-
Profit before net finance expense		**535,387**	**309,475**
Net finance expense	29	**(52,517)**	**(39,859)**
Interest income		1,938	2,444
Interest expense		(52,494)	(40,318)
Other net finance expense		(1,961)	(1,985)
Fair value adjustments of derivatives and losses on extinguishment of financial instruments	30	(23,743)	(1,432)
Share of profit of joint ventures	34	5,872	8,329
Impairment of goodwill	12	(5,956)	-
Profit before tax		**459,043**	**276,513**
Income tax expense		**(42,701)**	**(54,808)**
Current tax expense	23	(11,331)	(9,482)
Deferred tax expense	23	(31,370)	(45,326)
Profit after tax		**416,342**	**221,705**
Total comprehensive income for the year		**416,342**	**221,705**
Profit attributable to:			
Non-controlling interest		107	(150)
Equity holders		416,235	221,855
Total comprehensive income attributable to:			
Non-controlling interest		107	(150)
Equity holders		416,235	221,855
Weighted average number of shares in issue	31	585,511,850	577,800,734
Diluted weighted average number of shares in issue	31	585,511,850	577,800,734
Basic/ diluted earnings per share (euro cents) for profit attributable to equity holders	31	71.09	38.40

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

Consolidated Statement of changes in equity

in € thousand	Share capital	Share premium	Other reserves	Accumulated profit	Non-controlling interest	Total
Balance at 1 January 2018	**5,778**	**3,625,568**	**-**	**282,897**	**476**	**3,914,719**
Transactions with owners	**-**	**-**	**-**	**(296,326)**	**5,775**	**(290,551)**
— Issue of shares	-	-	-	-	5,775	5,775
— Earnings distribution	-	-	-	(296,326)	-	(296,326)
Total comprehensive income	**-**	**-**	**-**	**221,855**	**(150)**	**221,705**
— Profit for the year	-	-	-	221,855	(150)	221,705
Balance at 31 December 2018	**5,778**	**3,625,568**	**-**	**208,426**	**6,101**	**3,845,873**
Balance at 1 January 2019	**5,778**	**3,625,568**	**-**	**208,426**	**6,101**	**3,845,873**
Transactions with owners	**220**	**(220)**	**(3,627)**	**(161,708)**	**-**	**(165,335)**
— Issue of shares	220	(220)	-	-	-	-
— Shares purchased under LTSIP*(note 4.17)	-	-	(3,842)	-	-	(3,842)
— Share based payment expense (note 4.18)	-	-	215	-	-	215
— Earnings distribution	-	-	-	(161,708)	-	(161,708)
Total comprehensive income	**-**	**-**	**-**	**416,235**	**107**	**416,342**
— Profit for the year	-	-	-	416,235	107	416,342
Balance at 31 December 2019	**5,998**	**3,625,348**	**(3,627)**	**462,953**	**6,208**	**4,096,880**

**LTSIP = debt free Long-Term Share Incentive Plan with a vesting component*

Consolidated Statement of cash flows

in € thousand	Note	31 Dec 2019	31 Dec 2018
OPERATING ACTIVITIES			
Profit after tax		416,342	221,705
Adjustments		**(36,693)**	**104,593**
Fair value adjustments of investment property	28	(134,709)	(108,411)
Fair value and net result on sale of financial investments at fair value through profit or loss	13	(11,091)	152,047
Income from financial investments at fair value through profit or loss	13	(12,560)	(29,132)
Foreign exchange loss		907	923
Gain on disposal of joint venture		(3,588)	-
Profit on disposal of assets held for sale		(123)	-
Gain on acquisition of subsidiaries		(446)	(6,933)
Impairment of goodwill	12	5,956	-
Net finance expense	29	52,517	39,859
Fair value adjustments of derivatives and losses on extinguishment of financial instruments		23,743	1,432
Deferred tax expense	23	31,370	45,326
Current tax expense	23	11,331	9,482
Changes in working capital		**(58,031)**	**(46,123)**
Decrease/(increase) in trade and other receivables		2,415	(13,281)
(Decrease)increase in trade and other payables		(748)	15,983
Interest paid on loans and borrowings		(19,034)	(19,145)
Interest paid on lease liabilities (IFRS 16)		(559)	-
Bond coupon paid		(28,414)	(23,750)
Income tax paid		(11,798)	(6,054)
Bank charges paid		(1,460)	-
Interest received		1,567	124
CASH FLOWS FROM OPERATING ACTIVITIES		**321,618**	**280,175**
INVESTING ACTIVITIES			
Investments in acquisitions and developments		**(248,048)**	**(759,231)**
Expenditure on investment property under development		(283,695)	(260,213)
Payments for acquisition of subsidiaries less cash acquired during the year		-	(500,739)
Settlements of deferred consideration for prior years acquisitions		(2,463)	945
Proceeds from sale of assets held for sale		2,309	776
Proceeds from disposal of joint venture		35,801	-
Other investments		-	**10,208**
Loans repaid by third parties		-	4,208
Loans received from joint ventures		-	6,000
Net cash flow from investments in financial assets		**51,121**	**275,834**
Payments for investing in financial investments at fair value through profit or loss		-	(53,743)
Income from financial investments at fair value through profit or loss	13	12,560	29,132
Payments for equity swap resettlement		(39,029)	(78,317)
Cash flows from cash collateral	13	27,784	237,757
Proceeds from sale of financial investments at fair value through profit or loss		49,806	141,005
CASH FLOW USED IN INVESTING ACTIVITIES		**(196,927)**	**(473,189)**
FINANCING ACTIVITIES			
Payment to acquire shares under LTSIP		(3,842)	-
Net movements in bank loans, bonds and other long-term liabilities		**159,202**	**403,565**
Proceeds from bank loans	19	216,936	414,000
Proceeds from bonds	19	985,372	-
Repayment of bank loans	19	(827,594)	(12,165)
Repurchase of bonds	19	(202,200)	-
Premium paid on repurchase of bond	30	(11,893)	-
(Repayment of)/ Proceeds from other long-term liabilities	22	(1,419)	1,730
Other payments		**(2,348)**	**(12,845)**
Repayments of lease liabilities (IFRS 16)		(229)	-
Premium paid on acquisitions of derivatives		(2,119)	(12,845)
Earnings distribution		(161,708)	(296,326)
CASH FLOWS (USED)/ FROM FINANCING ACTIVITIES		**(8,696)**	**94,394**
NET (DECREASE) /INCREASE IN CASH AND CASH EQUIVALENTS		**115,995**	**(98,620)**
Cash and cash equivalents brought forward	15	96,924	195,544
CASH AND CASH EQUIVALENTS CARRIED FORWARD BEFORE THE ADJUSTMENT FOR HELD FOR SALE ASSETS		**212,919**	**96,924**
Cash and cash equivalents classified as asset held for sale	16	(4,173)	-
CASH AND CASH EQUIVALENTS CARRIED FORWARD	15	**208,746**	**96,924**

Notes to the financial statements

1. GENERAL

NEPI Rockcastle plc ("the Company" or "NEPI Rockcastle" or "the Group") 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), Euronext Amsterdam and A2X.

The consolidated financial statements for the year ended 31 December 2019 were authorized for issue in accordance with the Directors' resolution on 20 February 2020.

2. BASIS OF PREPARATION

a. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). They comprise the Company and its subsidiaries, as detailed in 'Basis of consolidation' in Note 4.2. The principal accounting policies applied in the preparation of these financial statements are set out below in Note 4. Apart from the accounting policy changes resulting from the adoption of IFRS 16 "Leases", these policies have been consistently applied for all the periods presented, unless otherwise stated.
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.

b. Basis of measurement

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.

c. Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs 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.

d. Presentation

The consolidated financial statements are presented in thousands of Euros ("€'000s"), rounded off to the nearest thousand, unless stated otherwise.

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 that are relevant to its operations and are effective for accounting periods beginning on 1 January 2019. This adoption did not have a material effect on the accounting policies of the Group, with the exception of IFRS 16 "Leases", whose impact is disclosed below.

3.1 IFRS 16 "Leases"

The IFRS 16 "Leases" standard has replaced IAS 17, effective from 1 January 2019. IFRS 16 provides reporting entities with instructions on the accounting treatment of leases in the lessee's financial statements, changes the definition of leasing and sets the principles regarding the recognition of leases in the balance sheet, both as a right-of-use asset and a lease liability. The application of this standard did not result in any changes to the accounting treatment of leases where the Group acts as the lessor.

Up to 31 December 2018, leases were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the lease payments. The lease payments are discounted using the interest rate implicit in the lease.
As such, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right of use assets that meet the definition of investment property are measured using the fair value model applied to investment property. Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

Nonetheless, for the Group's long-term leases where the Group acts as the lessee, the consolidated financial statements present assets and liabilities to the Group's balance sheet pertaining to these leases. The Group has recognized right-of-use assets from the leases subject to the scope of the standard as part of "Investment property". These right-of-use assets recognized as part of "Investment property" relate to the Group's core business and consists of leases of land areas.

The lease liability of the Group has been valued by discounting the lease payment liabilities of the leases subject to the scope of the IFRS 16 standard to their present value using as the discounting factor the incremental borrowing rate as at 1 January 2019 in the market where the lease agreement was concluded.

3.2 Impact of adoption

The Group has applied IFRS 16 by recognizing the cumulative effect of initially applying this standard without adjusting the comparative information from the corresponding reporting period. In addition, the Group has applied the recognition exemptions permitted by the standard and, hence, has not applied the standard to leases with a duration of less than one year or leases of a low value.

The difference between the operating leases of land areas disclosed by applying IAS 17 as at 31 December 2018 and the lease liabilities recognised in the consolidated statement of financial position at 1 January 2019 (date of initial application) is set out in the table below:

Operating lease commitments	Leases of land areas
Less than 1 year	788
Between 1 and 5 years	3,152
Over 5 years	52,808
Operating lease commitments as at 31 December 2018/ 1 January 2019	**56,748**
Effect of discounting	(24,224)
Present value of lease liabilities as at 31 December 2018/1 January 2019	**32,524**

The impact from the application of IFRS 16 on the consolidated financial statements is set out below:

Consolidated statement of financial position as at 1 January 2019:

- €32,524 thousand increase in Investment property in use
- €32,524 thousand increase in Other long-term liabilities

Consolidated statement of comprehensive income for the year-ended 31 December 2019:

- €788 thousand decrease in Property operating expenses
- €559 thousand increase in Interest expense
- €229 thousand decrease in Fair value adjustments of investment property in use

Consolidated statement of cash flows for the year-ended 31 December 2019:

- €229 thousand increase in Cash flows from operating activities
- €229 thousand decrease in Cash flows from financing activities

4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies set out below have been consistently applied to all periods presented, except for the changes resulted from the adoption of IFRS 16 "Leases" disclosed above (Note 3.1).

4.1 Foreign currency translation

a. Functional and presentation currency

The consolidated financial statements are presented in Euro (€, EUR) thousands unless otherwise stated, which is NEPI Rockcastle'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 most 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.

b. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

4.2 Basis of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets, liabilities, operating results and cash flows of the Company and its subsidiaries.

Subsidiaries are all entities controlled by the Company. The Company controls an entity when it is exposed or has rights, directly or indirectly, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over it. The financial statements of subsidiaries are included in the consolidated financial statements from the date the control commences until the date the 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.

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.

These consolidated financial statements include the Company, the subsidiaries and jointly controlled entities, as set out below:

No	Subsidiary/ joint venture	Country of incorporation	Principal activity	Effective interest 2019 (%)	Effective interest 2018 (%)
1	ACE3 Sp. z o.o.	Poland	Property-owning	85	85
2	Arena Center Zagreb d.o.o.	Croatia	Property-owning	100	100
3	AUPARK Kosice SC, s.r.o.	Slovakia	Services	100	100
4	AUPARK Kosice, spol. s.r.o.	Slovakia	Property-owning	100	100
5	AUPARK Piestany SC, s.r.o.	Slovakia	Services	100	100
6	AUPARK Piestany, spol. s.r.o.	Slovakia	Property-owning	100	100
7	AUPARK Tower Kosice, s.r.o.	Slovakia	Property-owning	100	100
8	AUPARK Žilina SC a.s.	Slovakia	Services	100	100
9	AUPARK Žilina, spol. s.r.o.	Slovakia	Property-owning	100	100
10	Aurora Mall Buzau SRL	Romania	Property-owning	100	100
11	Aviatorilor 8 Office Building SRL *(previous Victoriei Office Building SRL)*	Romania	Property-owning	100	100
12	Białystok Property Sp. z o.o.	Poland	Property-owning	100	100
13	Bonarka City Center Sp. z o.o.	Poland	Property-owning	100	100
14	Braila Promenada Mall SRL	Romania	Property-owning	100	100
15	Brasov Shopping City SRL	Romania	Property-owning	100	100
16	Bulfeld EOOD	Bulgaria	Property-owning	100	100
17	CEE Property Bulgaria EOOD	Bulgaria	Property-owning	100	85
18	City Park Constanta SRL	Romania	Property-owning	100	100
19	Cluj Business Centre SRL * (disposed of in May 2019)	Romania	Property-owning	50	50
20	Constanta Shopping City SRL	Romania	Property-owning	100	100
21	Deva Shopping City SRL	Romania	Property-owning	100	100
22	Energit Sp. z o.o.	Poland	Services	100	100
23	E-power Supply Czech s.r.o.	Czech Republic	Services	100	100
24	E-Power Supply d.o.o. Beograd	Serbia	Services	100	100
25	E-power supply EOOD	Bulgaria	Services	100	100
26	E-power supply management d.o.o.	Croatia	Services	100	100
27	E-Power Supply s.r.o.	Slovakia	Services	100	100
28	Expo Real Estate Project SRL	Romania	Services	100	-
29	FDC Braila B.V.	Netherlands	Holding	100	100
30	Festival Shopping Center SRL	Romania	Property-owning	100	100
31	Floreasca Business Park SRL	Romania	Property-owning	100	100
32	Floreasca Center SRL	Romania	Property-owning	100	100
33	FORUM Usti s.r.o.	Czech Republic	Property-owning	100	100
34	Galati Shopping City SRL	Romania	Property-owning	100	100
35	General Building Management SRL	Romania	Property-owning	100	100
36	General Investment SRL	Romania	Property-owning	100	100
37	Gontar Sp. z o.o.	Poland	Property-owning	100	100
38	HANSA Immobilien EOOD	Bulgaria	Property-owning	100	100
39	IGI Exclusive Sp. z o.o. *(wound up in May 2019)*	Poland	Property-owning	100	100
40	Ingen Europe B.V.	Netherlands	Holding	100	100
41	INLOGIS VI s.r.o.	Slovakia	Property-owning	100	100
42	Iris Titan Shopping Center SRL	Romania	Property-owning	100	100
43	Karolinka Property Sp. z o.o.	Poland	Property-owning	100	100
44	Lakeview Office Building SRL	Romania	Property-owning	100	100
45	Liberec Property s.r.o.	Czech Republic	Property-owning	100	100
46	Mammut Zrt	Hungary	Property-owning	100	100
47	Mammut Management Kft	Hungary	Services	100	100
48	Mammut Real Estate Kft	Hungary	Services	100	-
49	Marapi Sp. z o.o.	Poland	Property-owning	100	100
50	Marketing Advisers SRL	Romania	Services	100	100
51	Mega Mall Bucuresti SRL	Romania	Property-owning	100	100
52	Milvus Sp. z o.o.	Poland	Property-owning	100	100
53	Mlyny a.s.	Slovakia	Property-owning	100	100
54	Modatim Business Facility SA	Romania	Property-owning	100	100
55	Monarda Sp. z o.o.	Poland	Property-owning	90	90
56	NE Property B.V.	Netherlands	Holding	100	100
57	NEPI Bucharest One SRL	Romania	Property-owning	100	100
58	NEPI Bucharest Two SRL	Romania	Property-owning	100	100

No	Subsidiary/ joint venture	Country of incorporation	Principal activity	Effective interest 2019 (%)	Effective interest 2018 (%)
59	NEPI Croatia Management d.o.o.	Croatia	Services	100	100
60	NEPI Czech Management s.r.o.	Czech Republic	Services	100	100
61	Nepi Four Real Estate Solutions SRL	Romania	Property-owning	100	100
62	Nepi Holdings Ltd	Isle of Man	Holding	100	100
63	NEPI Investment Management Ltd *(wound up in April 2019)*	British Virgin Islands	Holdings	100	100
64	NEPI Investment Management SRL	Romania	Services	100	100
65	Nepi Investments Ltd	Isle of Man	Holding	100	100
66	NEPI Project Four EOOD	Bulgaria	Property-owning	100	100
67	NEPI Project One EOOD	Bulgaria	Property-owning	100	100
68	NEPI Project Three EOOD	Bulgaria	Services	100	100
69	NEPI Project Two EOOD	Bulgaria	Holding	100	100
70	NEPI Real Estate Development d.o.o.	Serbia	Services	100	100
71	NEPI Real Estate Project One d.o.o.	Serbia	Property-owning	100	100
72	Nepi Real Estate Project Three d.o.o.	Serbia	Property-owning	100	100
73	NEPI Real Estate Project Two d.o.o.	Serbia	Property-owning	100	100
74	NEPI Rockcastle Hungary Kft.	Hungary	Services	100	100
75	NEPI Rockcastle Lithuania UAB	Lithuania	Services	100	100
76	NEPI Rockcastle Securities B.V.	Netherlands	Services	100	100
77	Nepi Seventeen Land Development SRL	Romania	Property-owning	100	100
78	NEPI Six Development SRL	Romania	Property-owning	100	100
79	Nepi Sixteen Real Estate Investment SRL	Romania	Property-owning	100	100
80	Nepi Slovak Centres One a.s.	Slovakia	Services	100	100
81	NEPI Slovakia Management s.r.o.	Slovakia	Services	100	100
82	NEPI Ten Development Solutions SRL	Romania	Property-owning	100	100
83	Nepi Three Building Management SRL	Romania	Property-owning	100	100
84	Nepi Twenty Real Estate Development SRL	Romania	Services	100	100
85	Nepi Twenty-One Investment Estate SRL	Romania	Services	100	100
86	Nepi Twenty-Three Investment Solutions SRL	Romania	Services	100	-
87	NEPIOM Ltd	Isle of Man	Services	100	100
88	New Energy Management SRL	Romania	Services	100	100
89	New Europe Property (BVI) Ltd *(wound up in April 2019)*	British Virgin Islands	Holding	100	100
90	Nobilia Sp. z o.o.	Poland	Services	100	100
91	NRE Sibiu Shopping City SRL	Romania	Property-owning	100	100
92	NRP Shopping Centre Project Two s.r.o. *(merged with Mlyny a.s. in August 2019)*	Slovakia	Holding	100	100
93	Olsztyn Property Sp. z o.o.	Poland	Property-owning	100	100
94	Otopeni Warehouse and Logistics SRL	Romania	Property-owning	100	100
95	Piotrków Property Sp. z o.o.	Poland	Property-owning	100	100
96	Platan Property Sp. z o.o.	Poland	Property-owning	100	100
97	Ploiesti Shopping City SRL *	Romania	Property-owning	50	50
98	Plovdiv Project 1 EOOD	Bulgaria	Property-owning	100	100
99	Pogoria Property Sp. z o.o.	Poland	Property-owning	100	100
100	Promenada Mall Bucuresti SRL	Romania	Property-owning	100	100
101	Ramnicu Valcea Shopping City SRL	Romania	Property-owning	100	100
102	Real Estate Asset Management SRL	Romania	Services	100	100
103	Retail Park Pitesti SRL	Romania	Property-owning	100	100
104	Rockcastle Europe Limited	Mauritius	Holding	100	100
105	Rockcastle Global Real Estate Company UK Limited	UK	Services	100	100
106	Rockcastle Global Real Estate Holdings B.V.	Netherlands	Holding	100	100
107	Rockcastle Global Securities Limited	Mauritius	Services	100	100
108	Rockcastle Poland Sp. z o.o.	Poland	Services	100	100
109	Rockcastle UK Property SPV Limited	Mauritius	Property-owning	100	100
110	Satu Mare Shopping City SRL *(previous Nepi Fifteen Real Estate Administration SRL)*	Romania	Property-owning	100	100
111	SCP s.r.o.	Slovakia	Property-owning	100	100
112	SEK d.o.o.	Serbia	Property-owning	100	100
113	Serenada Property Sp. z o.o.	Poland	Property-owning	100	100
114	Severin Shopping Center SRL	Romania	Property-owning	100	100
115	Shopping City Piatra Neamt SRL	Romania	Property-owning	100	100
116	Sibiu Shopping City 2 SRL	Romania	Property-owning	100	100
117	Shopping City Timisoara SRL	Romania	Property-owning	100	100
118	Sofia Commercial Centre EOOD	Bulgaria	Holding	100	100
119	Symmetry Arena Kft	Hungary	Property-owning	100	100
120	Targu Jiu Development SRL	Romania	Property-owning	100	100
121	Targu Mures Shopping City SRL	Romania	Property-owning	100	100
122	Timisoara City Business Center One SRL	Romania	Property-owning	100	100
123	Timisoara Office Building SRL	Romania	Property-owning	100	100
124	Tummam Kft	Hungary	Property-owning	100	100
125	Uždaroji akcinė bendrovė Ozantis	Lithuania	Property-owning	100	100
126	Vulcan Residential Park SRL	Romania	Property-owning	100	100
127	Vulcan Value Centre SRL	Romania	Property-owning	100	100
128	Zielona Góra Property Sp. z o.o.	Poland	Property-owning	100	100

*joint venture companies

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.

4.3 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 the discounted cash flow method. 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.

4.4 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 performed 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.

4.5 Assets classified as held for sale

An investment property or a group of assets including an investment property (disposal group) are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. For this to be the case:
- the assets must be available for immediate sale in their present condition,
- the Group must be committed to sell,
- there must be a plan to locate a buyer, and
- it is highly probable that a sale will be completed within one year from the date of classification.

On re-classification as held for sale, investment property that is measured at fair value continues to be measured in this way.

An investment property or disposal group classified as held for sale is presented separately within current assets or liabilities in the Statement of financial position as assets or liabilities classified as held for sale.

4.6 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. 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.

4.7 Impairment of non-financial assets

Intangibles that have an indefinite useful life, including goodwill, are not subject to amortisation and are tested annually for impairment or more frequently if events and changes in circumstances indicate that they might be impaired. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets, other than goodwill, that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

4.8 Loans to participants in the Share Purchase Scheme (as defined in Note 18)

Loans to participants in the Share Purchase Scheme incentive plan are initially recognised at the amount granted, carried at amortized cost and impaired based on expected credit losses (ECL) model (Note 4.18).

4.9 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

4.10 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.

4.11 Financial assets

4.11.1. Classification

In line with IFRS 9 "Financial instruments", the Group 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 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.

4.11.2. 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 commits 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 have transferred substantially all the risks and rewards of ownership.

4.11.3. Measurement

At initial recognition, the Group 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 the economic characteristics and risks of the embedded derivative are closely related to the economic characteristics and risks of the host contract.

a. 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 ("SPPI") 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, long-term loans granted to joint ventures, loans to participants in the Share Purchase Scheme, long term receivables, trade and other receivables (excluding prepaid expenses) and cash collateral.

b. Equity instruments and derivatives

The Group subsequently measures all equity investments at fair value.

Equity investments are measured 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, it is probable that the economic benefits associated with the dividend will flow to the entity and the amount of the dividend can be measured reliably. In addition to equity financial investments at FVTPL (classified as "Financial investments at fair value through profit or loss" on the Statement of consolidated position), other financial assets at FVTPL comprise: Derivative financial assets at FVTPL and financial liabilities at FVTPL.

4.11.4. Impairment – credit loss allowance for Expected Credit Losses ("ECL")

In line with IFRS 9 "Financial instruments", the Group assesses on a forward-looking basis the ECL for debt instruments (including loans) measured at amortised cost. The Group measures ECL and recognises credit loss allowance on an annual basis. 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.

Expected credit losses for trade receivables are recognized using the simplified approach. For all the other financial assets except for trade receivables , the Group adopted a 12-month expected credit loss model using the low credit risk exemption. Low credit risk is assessed based on the instruments low risk of default and the issuers strong capacity to meet its contractual cash flow obligations in the near term.

4.11.5. 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.

4.11.6. Write-off

Financial assets are written-off, in whole or in part, when the Group has 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 may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

4.11.7. Modification

The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group 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 significant increase in credit risk 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.

4.12 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 other financial liabilities designated as such at initial recognition.

4.13 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. 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.

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 and the costs can be measured reliably.

4.14 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of financial position when the Group 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.

4.15 Cash and cash equivalents and cash 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. Cash collateral is cash held as collateral against the Group's equity swap derivatives exposures. Cash and cash equivalents and cash collateral are carried at amortised cost because: (i) they are held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest (SPPI), and (ii) they are not designated at FVTPL.

4.16 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 at 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.

4.17 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.

Own shares purchased by the Group and recognized within the Other reserves are accounted at the fair value of consideration paid. These shares are purchased as part of the debt-free Long-Term Share Incentive Plan (Note 4.18 (b)).

4.18 Share-based payment

To date, NEPI Rockcastle has initiated two types of incentive programs that offered share-based payments in exchange for services provided to it by its directors and employees (equity-settled transactions), which are detailed below.

a. Purchase Offers with a vesting component – Share Purchase Scheme (“NRP SPS”)

This program was put in place before the 2017 merger of the former groups New Europe Property Investments plc (“NEPI”) and Rockcastle Global Real Estate Company Ltd (“Rockcastle”). Costs under this program are accounted for by recognising the fair value of the shares issued at grant date as an asset, classified as “loan to participants in the Share Purchase Scheme” (Note 18) 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.

b. Debt free Long-Term Share Incentive Plan with a vesting component (“LTSIP”)

This program was put in place after the 2017 merger of the former groups New Europe Property Investments plc (“NEPI”) and Rockcastle Global Real Estate Company Ltd (“Rockcastle”). Under this incentive, shares may be issued by the Group to executive directors and other key personnel for no cash consideration. Awards under this plan are at the discretion of the Board and are based on the performance of the Group and the employees. The costs related to the LTSIP are measured based on the fair value of the shares at the grant date and are recognized over the vesting period.

The costs are presented as part of the Administrative expenses in the Statement of Comprehensive Income and within the Other reserves in the Statement of Changes in Equity.

4.19 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.

4.20 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.

4.21 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 variable lease payments which are recognized when they arise.

Service charges income from tenants

Revenue from service and property management charges is recognised in the accounting period in which control of the services are passed to the customer, which is when the service is rendered. For certain service contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services.

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, with an annual service charge reconciliation 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.

4.22 Property operating and administrative expenses

Property operating expenses and administrative expenses are recognised on an accrual basis.

4.23 Net result from financial investments at fair value through profit or loss

Dividend/distribution income related to financial investments at fair value through profit or loss is recognized in the Statement of Comprehensive Income, on the line “Income from financial investments at fair value through profit or loss” on the date the Group’s right to receive payment is established, it is probable that the economic benefits associated with the dividend/distribution will flow to the entity and the amount of the dividend/distribution can be measured reliably. It relates to the investments in listed securities, shown as “Financial investments at fair value through profit or loss”, as well as “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 row “Fair value and net result on sale of financial investments through profit or loss”.

4.24 Earnings distribution

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.

4.25 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.

4.26 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 senior 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 rental income, service charge income and property operating 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, Lithuania, 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.

4.27 Earnings per share

The Group presents basic and diluted earnings per share.

Basic and diluted 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.

4.28 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 1/2019 issued by South African Institute of Chartered Accountants (SAICA).

4.29 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 Statement of Comprehensive Income.

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.

4.30 Standards issued but not yet effective and not early adopted

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, and provides as well 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.

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 6.65% and 11.60% (2018: 6.9%% and 10.8%). 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 tenants and lease duration.

Further information relating to sensitivity of significant accounting estimates used in the valuation of investment properties is presented in Note 9 and Note 16.

Impairment of assets

The Group tests whether assets are subject to impairment, in accordance with the accounting policies stated in Note 4.

The recoverable amounts of CGUs are determined based on future cash flows discounted to their present values using appropriate rates. Estimates are based on interpretation of generally accepted industry-based market forecasts.

Further information in relation to impairment expenses recognised is presented in Note 6 and 12.

6. 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 regarding 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. Should the bonds be repaid at their maturity, the Group's liability towards bonds holders does not vary in line with the market price of its listed notes. For reference, as at 31 December 2019 the market value of the outstanding bonds issued by the Group was as follows:

- €197.8 million outstanding bonds issued in November 2015 were trading on the market at 104.0% (31 December 2018: 94%)
- €500 million bonds issued in November 2017 were trading on the market at 101.9% (31 December 2018: 83%)
- €500 million bonds issued in May 2019 were trading on the market at 105.2% (31 December 2018: not applicable)
- €500 million bonds issued in October 2019 were trading on the market at 99.9% (31 December 2018: not applicable)

6.1 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 loans granted to joint ventures, receivables from tenants, cash collateral in relation to equity swaps and cash and cash equivalents.

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 *in € thousand*	Note	31 Dec 2019	31 Dec 2018
Loans granted to joint ventures	34	21,220	21,311
Trade and other receivables	14	89,383	80,750
Cash and cash equivalents	15	208,746	96,924
Loans to participants in the Share Purchase Scheme	11	5,063	16,758
Cash collateral	13	_	27,784
TOTAL		**324,412**	**243,527**

Out of the above maximum credit exposure, the balance of Loans to participants in the Share Purchase Scheme is not considered to present credit risk as these are guaranteed with shares (see details in Note 18).

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), and there is no concentration of credit risk with respect to trade debtors : top 10 tenants account for 21% of the rental income as at 31 December 2019 (31 December 2018: 22%).

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 analysis 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 a 12 month expected credit loss model for all the other financial assets.

The carrying value of financial assets approximates their fair value.

The Group's exposure to credit risk associated to cash collateral and cash and cash equivalents is limited using financial institutions of good standing for investment and cash handling purposes.

Analysis by credit quality of financial assets is as follows:

in € thousand	Note	31 Dec 2019	31 Dec 2018
Tenant receivables - gross		49,748	51,894
Less: Impairment provisions		(4,547)	(6,949)
TENANT RECEIVABLES - NET OF IMPAIRMENT PROVISION*	**14**	**45,201**	**44,945**

**Trade and other receivables include also VAT receivable, other receivables, prepaid property expenses and other prepaid fees. We detail tenant receivables because others have limited credit risk.*

Reconciliation of impairment provisions is set out below:

Movement of impairment provisions *in € thousand*	31 Dec 2019	31 Dec 2018
Carrying value at beginning of year	**(6,949)**	**(8,185)**
Additional expected credit losses	(1,898)	(1,332)
Reversal of impairment provisions*	4,206	2,457
Foreign exchange gain/loss	94	111
CARRYING VALUE	**(4,547)**	**(6,949)**

**Reversal of impairment provisions was due to the recovery of previously expected credit losses and the write-off of receivables. The amount of the expense associated to the receivable written-off in 2019 is €3,093 thousand (2018: 1,863 thousand). The net amount of expected credit losses in the year was €785 thousand (2018: 738 thousand) .*

The expected loss rates are based on the payment profiles of tenants over a period of 12 months before 31 December 2019 (31 December 2019 or 1 January 2019, respectively) and the corresponding historical credit losses experienced within this period. On that basis, the impairment provision as at 31 December 2019 was determined as follows for trade receivables.

31 December 2019 *in € thousand*	Current	0-30 days	31-60 days	61-90 days	>90 days	Total
Expected loss rate	0%	0%	3%	3%	87%	
Gross carrying amount – trade receivables	37,125	6,479	567	424	5,153	49,748
Impairment provision	**(4)**	**(11)**	**(19)**	**(14)**	**(4,499)**	**(4,547)**

The impairment provision for trade receivables as at 31 December 2018 is set out below:

31 December 2018 *in € thousand*	Current	0-30 days	31-60 days	61-90 days	>90 days	Total
Expected loss rate	0%	0%	0%	6%	92%	
Gross carrying amount – trade receivables	35,619	7,250	1,122	333	7,570	51,894
Impairment provision	_	_	_	**(20)**	**(6,929)**	**(6,949)**

By using the simplified expected credit loss model, the Group assessed its receivables for impairment and concluded that a net amount of expected credit losses of €785 thousand (2018: €738 thousand) are unlikely to be recovered, therefore an expected credit loss expense, including receivables write-offs, was charged to the Statement of Comprehensive Income.

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 2019, 61% of the Group's cash was held with investment-grade rated banks (31 December 2018: 92%).

6.2 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 enough 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 enough 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 19.

The table below presents undiscounted cash flows for all financial liabilities, computed at the contractual rates.

31 Dec 2019 *in € thousand*	**Note**	**under 3 months**	**3–12 months**	**1–5 years**	**over 5 years**	**Total**
Bonds and bank loans (including estimated future interest)		27,859	30,989	1,868,581	515,381	2,442,810
Derivative financial liabilities at fair value through profit or loss	20	–	–	6,714	–	6,714
Trade and other payables (excluding tenant deposits)	21	26,081	101,825	–	–	127,906
Other long-term liabilities	22	–	–	–	74,036	74,036
TOTAL		**53,940**	**132,814**	**1,875,295**	**589,417**	**2,651,466**

31 Dec 2018 *in € thousand*	**Note**	**under 3 months**	**3–12 months**	**1–5 years**	**over 5 years**	**Total**
Bonds and bank loans (including estimated future interest)		131,553	290,036	1,284,693	620,809	2,327,091
Derivative financial liabilities at fair value through profit or loss	20	–	–	2,725	–	2,725
Trade and other payables (excluding tenant deposits)	21	31,226	124,904	–	–	156,130
Other long-term liabilities	22	–	–	–	44,981	44,981
TOTAL		**162,779**	**414,940**	**1,287,418**	**665,790**	**2,530,927**

6.3 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, except for the carrying value of bonds, whose fair value was presented in Note 6 above.

6.3.1 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 currency exposures in respect of monetary assets and liabilities denominated in currencies other than EUR. Sensitivities of profit or loss to reasonably possible changes in exchange rates applied at the financial position date relative to the local currency of the respective Group entities, with all other variables such as interest rates held constant, are immaterial.

6.3.2 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 2019 and 31 December 2018, the Group held interest rate swaps and interest rate caps as further disclosed in Notes 19 and 20.

in € thousand	**31 Dec 2019**	**31 Dec 2018**
Bank loans*	359,446	967,795
— Rate capped	242,753	215,000
— Rate swapped	116,693	346,155
— 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.*

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.

in € thousand	**31 Dec 2019**	**31 Dec 2018**
Loans to participants in the Share Purchase Scheme (including accrued interest) (Note 18)	5,063	16,758
Loans and borrowings (variable or capped rate)	(242,753)	(621,640)
TOTAL	**(237,690)**	**(604,882)**

31 Dec 2019 *in € thousand*	**Profit or loss 100bps increase**	**Profit or loss 100bps decrease**	**Equity 100bps increase**	**Equity 100bps decrease**
Loans to participants in the Share Purchase Scheme (including accrued interest)	51	(51)	51	(51)
Loans and borrowings (variable or capped rate)*	(703)	0	(703)	0
TOTAL	**(652)**	**(51)**	**(652)**	**(51)**

**Calculation is based considering loans' specifics and the allocated hedges (CAPs) net of tax*

31 Dec 2018 *in € thousand*	**Profit or loss 100bps increase**	**Profit or loss 100bps decrease**	**Equity 100bps increase**	**Equity 100bps decrease**
Loans to participants in the Share Purchase Scheme (including accrued interest)	168	(168)	168	(168)
Loans and borrowings (variable or capped rate) *	(1,385)	0	(1,385)	0
TOTAL	**(1,217)**	**(168)**	**(1,217)**	**(168)**

**Calculation is based considering loans' specifics and the allocated hedges (CAPs) net of tax*

6.3.3 Market risk for financial investments at fair value through profit or loss (direct investments in listed securities)

A change of 500 basis points in the market values of the investment in listed property shares held by the Group, classified as Financial investments at fair value through profit or loss, 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 2019 and 31 December 2018. This analysis assumes that all other variables remain constant.

31 Dec 2019 *in € thousand*	**Profit or loss 500bps increase**	**Profit or loss 500bps decrease**	**Equity 500bps increase**	**Equity 500bps decrease**
Financial investments at fair value through profit or loss	8,453	(8,453)	8,453	(8,453)
TOTAL	**8,453**	**(8,453)**	**8,453**	**(8,453)**

31 Dec 2018 *in € thousand*	**Profit or loss 500bps increase**	**Profit or loss 500bps decrease**	**Equity 500bps increase**	**Equity 500bps decrease**
Financial investments at fair value through profit or loss	8,415	(8,415)	8,415	(8,415)
TOTAL	**8,415**	**(8,415)**	**8,415**	**(8,415)**

6.3.4 Market risk for financial assets/liabilities at fair value through profit or loss (equity swaps)

In February 2019, the Group terminated the equity swap arrangements and thus, the gross exposure to the underlying listed securities under equity swaps as at 31 December 2019 is NIL (31 December 2018: €39,311 thousand) (Note 13).

A change of 500 basis points in the market values of gross exposure to listed securities obtained through the equity swaps as at 31 December 2018 would have led to an increase/(decrease) in equity and profit or loss by the amounts shown below.

31 Dec 2018 *in € thousand*	**Profit or loss 500bps increase**	**Profit or loss 500bps decrease**	**Equity 500bps increase**	**Equity 500bps decrease**
Financial assets/(liabilities) at fair value through profit or loss	1,965	(1,965)	1,965	(1,965)
TOTAL	**1,965**	**(1,965)**	**1,965**	**(1,965)**

7. 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 prepares, 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.

8. 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 2019 and 31 December 2018.

Capital is primarily monitored using the gearing ratio (Loan-to-value), computed as interest bearing debt less cash divided by investment property (including investment property held for sale) and net listed securities, excluding the effect of IFRS 16 (as mentioned in Note 3) which decreased to 32% (31 December 2018: 33%).

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's subsidiaries are subject to compliance with bonds and bank borrowings' covenants, as presented in Note 19. The Group has complied with all financial covenants of its borrowing facilities during 2019 and 2018.

The Group will retain comfortable levels of access to liquidity to finance the Group's development pipeline and to pursue further investment opportunities.

9. INVESTMENT PROPERTY IN USE

Movement in investment property in use *in € thousand*	**31 Dec 2019**	**31 Dec 2018**
Carrying value at beginning of year	5,688,610	4,725,093
Carrying value of right-of-use asset related to leased land areas (recognised as per IFRS 16) (Note 3)	32,524	–
Restated carrying value at beginning of year	**5,721,134**	**4,725,093**
Additions from business combinations and asset deals (Note 33)	912	593,199
Transferred from Investment property under development (Note 10)	253,604	267,922
Fair value adjustments (Note 28)	133,804	104,123
Fair value adjustment of right-of-use asset (Note 3.1)	(229)	–
Investment property reclassified as held for sale (Note 16.1)	(308,466)	(1,727)
CARRYING VALUE	**5,800,759**	**5,688,610**

Investment property is carried at fair value and is assessed on a semi-annual basis, as at 30 June and 31 December.

For the year ended 31 December 2019, the Group commissioned independent year-end appraisal reports on its investment property in use from Cushman&Wakefield, Cushman&Wakefield Affiliate Partners, Colliers International and Jones Lang LaSalle, and 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, all members of the Royal Institution of Chartered Surveyors (RICS). Valuations are prepared in accordance with the RICS Valuation – Global Standards 2017 (the "Red Book").

All investment property in use is valued by the Income Method. For the years ended 31 December 2019 and 31 December 2018 respectively, the applied method used for all investment property in use was discounted cash flow (DCF).

The discounted cash flows 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 behavior. 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. For all investment property in use, the current use equates to the highest and best use.

The Group provides all information necessary for the valuations, among which detailed tenancy schedules, 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 2019 valuations. The Group's auditors have performed audit procedures as part of the audit of the consolidated financial statements.

As at 31 December 2019, the investment property in use had an EPRA vacancy rate of 2.1% (31 December 2018: 2.8%).

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 (including Romanian office portfolio held for sale) is between 5.28% and 14.15% (31 December 2018 between 5.11% and 13.10%). The Group's resulting weighted average yield was 6.82% for the entire property portfolio including Romanian office portfolio held for sale (retail: 6.73%; office: 7.98%; industrial: 11.26%). For the period ended 31 December 2018, the Group's resulting weighted average yield was 6.84% for the entire property portfolio (retail: 6.74%; office: 7.89%; industrial: 12.80%).
The Group's resulting weighted average yield was 6.76% for the property portfolio excluding Romanian office portfolio held for sale (retail: 6.73%; office: 8.32%; industrial: 11.26%).

An increase of 25bps to the yield of 6.76% from above would result in a €205.7 million decrease in the fair value of the Group's property portfolio (2018: yield of 6.84%, increase of 25bps would have resulted in a €200.7 million decrease in the fair value of the Group's property portfolio).

A decrease of 25bps to yield of 6.76% from above would result in a €221.6 million increase in the fair value of the Group's property portfolio (2018: yield of 6.84%, decrease of 25bps would have resulted in a €215.9 million increase in the fair value of the Group's property portfolio).

The significant unobservable inputs used in the fair value measurement categorized 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 2019 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	245 – 23,436 (12,628*)	6.65% - 10.60% (8.13*)	5.10% - 9.00% (6.77*)
Office^^	Discounted cash flow	1,554 – 7,831 (4,238*)	8.00% - 9.25% (8.55*)	6.25% - 7.90% (7.47*)
Industrial	Discounted cash flow	545 – 1,536 (1.253*)	10.50% – 11.60% (11.29*)	9.00% – 10.00% (9.71*)

** Amounts or percentages represent weighted averages*

^ Excluding joint ventures

^^ Including Romanian office portfolio held for sale

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*)

**Amounts or percentages represent weighted averages*

^Excluding joint ventures

10. INVESTMENT PROPERTY UNDER DEVELOPMENT

Movement in Investment property under development *in € thousand*	31 Dec 2019	31 Dec 2018
Carrying value at beginning of year	**222,460**	**202,416**
Additions from business combinations (Note 33)	_	575
Additions from construction in progress and asset deals	250,490	282,877
Fair value adjustments (Note 28)	2,495	4,514
Assets which became operational and were transferred to Investment property in use (Note 9)	(253,604)	(267,922)
CARRYING VALUE	**221,841**	**222,460**

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 2019, the Group commissioned independent year-end reports from Cushman&Wakefield, Cushman&Wakefield Affiliate Partners, Colliers International and Jones Lang LaSalle, based on which the fair value of investment property under development was adjusted. 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 under development 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 (in accordance with RICS Valuation Standards). Land under sales comparison method was valued by the external appraisers using the recent transactions of similar land for development in the proximity of the subject property. The residual approach determines the residual land value by subtracting purchase and development cost from the expected gross development value of the project at completion.

Additions from asset deals include land purchased for development of retail projects.

Borrowing costs capitalised in 2019 amount to €5,221 thousand (2018: €5,770 thousand) and were calculated using an average annual interest rate of 2.4% (2018: 2.3%).

The balance of Investment property under development split by land carried at fair value and additions from construction works held at cost (which approximate fair value) is detailed below.

Investment property under development *in € thousand*	31 Dec 2019	31 Dec 2018
Land (at fair value)	149,647	149,783
Construction works (at cost)	72,194	72,677
TOTAL	**221,841**	**222,460**

11. OTHER LONG-TERM ASSETS

Other long-term assets are classified below:

in € thousand	31 Dec 2019	31 Dec 2018
Loans to participants in the Share Purchase Scheme (Note 18)	5,063	16,758
Property, plant and equipment and intangible assets	2,527	2,281
TOTAL	**7,590**	**19,039**

12. GOODWILL

The Group recognised goodwill for the following business acquisitions:

in € thousand	Segment	Balance at 1 Jan 2018	Additions	Balance at 31 Dec 2018	Additions	Transfers to assets held for sale	Impairment of goodwill	Balance at 31 Dec 2019
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 Center	Retail	2,899	–	2,899	–	–	–	2,899
Aupark Shopping Center Piestany	Retail	2,497	–	2,497	–	–	(912)	1,585
Arena Centar	Retail	13,512	–	13,512	–	–	–	13,512
Energit	Retail	6,976	–	6,976	–	–	–	6,976
Paradise Center	Retail	9,311	–	9,311	–	–	–	9,311
Arena Plaza	Retail	7,905	–	7,905	–	–	–	7,905
Galeria Mlyny	Retail	–	10,488	10,488	–	–	(5,044)	5,444
TOTAL		**82,582**	**10,488**	**93,070**	**–**	**(10,310)**	**(5,956)**	**76,804**

In line with the accounting policies presented in Note 4, the goodwill is tested for impairment on an annual basis. The lowest level within the group at which the goodwill is allocated and monitored for internal management purposes is the CGU, represented by each individual property. CGUs to which the goodwill has been allocated were tested for impairment by comparing their net asset value with the recoverable value, which is the higher of value in use and fair value less cost to sell.

Goodwill from recognition of deferred taxes at the date of the business combination

All the goodwill summarised in the table above, with the exception of NEPI Investment Management and Energit, resulted from business combinations, as the difference between the deferred tax liability recognised in the balance sheet of the business acquired and the expected tax to be paid in case of a future disposal.

As a consequence, impairment tests performed on this type of goodwill at each reporting date consist in comparing its carrying amount with the amounts expected to arise from deferred taxes payable, should a disposal occur.

As a result of this test, an amount of €5,956 was booked as goodwill impairment in connection to Aupark Shopping Centre Piestany and Galeria Mlyny.

Goodwill from management and energy trading companies

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 NEPI Investment Management and Energit is represented by their value in use, determined based on the Discounted Cash Flow derived from the five-year financial budgets for these two entities approved by management. Cash flows beyond the five-year period were extrapolated using the estimated cash flow of year 5. The discount rate used was based on the weighted average cost of capital in the specific geography of the two entities.

As a result of this test, no impairment arose in connection with the above two entities.

An amount of €10,310 thousand from goodwill has been reclassified as assets held for sale, belonging to the disposal group constituted by the Romanian office portfolio (Note 16).

13. INVESTMENTS IN LISTED SECURITIES AND NET RESULT FROM FINANCIAL INVESTMENTS

in € thousand	31 Dec 2019	31 Dec 2018
Financial investments at fair value through profit or loss	169,062	168,339
Cash collateral	–	27,784
Financial assets at fair value through profit or loss	–	831
TOTAL	**169,062**	**196,954**

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 2019, the Group held a portfolio of listed securities fair valued at €169,062 thousand (2018: €168,339 thousand), consisting of Unibail-Rodamco-Westfield ("URW") shares (31 December 2018: URW and Klepierre shares).

The percentage of holding represents below 1% of URW equity (31 December 2018: below 1% for both, URW and Klepierre) and does not meet the definition of control in accordance with 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.

The Group utilized equity swap derivatives to obtain exposure mainly to listed real estate companies, which were terminated during February 2019. Thus, the financial assets and liabilities at fair value through profit or loss related to the equity swaps are NIL as at 31 December 2019 (31 December 2018: €831 thousand).

In March 2019, the Group pledged the listed securities portfolio to enter into an equity repurchase agreement maturing in March 2022 (please refer to Note 19 for further details). The loan has a margin trigger of 65%, requiring additional cash collateral to be placed to the lender's account. The balance of the cash collateral required as at 31 December 2019 was NIL. As at 31 December 2018, the cash collateral of €27,784 thousand was required in connection to equity swap derivatives, terminated in the year, as mentioned above. The cash collateral was Euro denominated as at 31 December 2018.

b. 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.

Dividends are recognized in profit or loss when the right to receive payments of dividends is established, it is probable that the economic benefits associated with the dividend will flow to the entity and the amount of the dividend distribution can be measured reliably. The net income from financial investments at fair value through profit or loss of €12,560 thousand (31 December 2018: €29,132 thousand) includes finance costs of €76 thousand (31 December 2018: €1,327 thousand) relating to the funding leg of equity swap derivatives.

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 2019, the net fair value and realized gains from the sale of investment in listed securities amounted to €11,091 thousand (31 December 2018: net fair value and realized losses of €152,047 thousand).

14. TRADE AND OTHER RECEIVABLES

in € thousand	31 Dec 2019	31 Dec 2018
Tenant receivables	45,201	44,945
VAT receivable	33,461	23,392
Prepaid property expenses	7,928	10,343
Other receivables	2,129	1,687
Other prepaid fees	664	383
TOTAL	**89,383**	**80,750**

15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents by currency *in € thousand*	31 Dec 2019	31 Dec 2018
EUR	146,900	45,163
RON	22,170	15,859
PLN	14,162	15,039
BGN	6,143	3,638
HUF	6,819	6,229
HRK	5,736	5,573
CZK	3,123	2,029
RSD	3,099	1,670
ZAR	92	212
USD	21	131
GBP	481	1,381
TOTAL	**208,746**	**96,924**

Cash and cash equivalents by type *in € thousand*	31 Dec 2019	31 Dec 2018
Current accounts	174,702	88,071
Deposits	28,708	984
Restricted cash	4,700	7,210
Petty cash and other values	636	659
TOTAL	**208,746**	**96,924**

16. ASSETS AND LIABILITIES HELD FOR SALE

Investment property held for sale is carried at fair value and is assessed on a semi-annual basis, as at 30 June and 31 December. Based on IFRS 13, it is categorised within Level 3 of the fair value hierarchy.

In December 2019, the Group entered into an agreement to dispose of the Romanian office portfolio, consisting of four type A office buildings, to AFI Europe NV ("AFI Europe"), a wholly owned subsidiary of Africa Israel Properties Limited. The estimated aggregated cash consideration associated to the transaction based on the net assets of the subsidiaries holding the above office buildings is €290 million. The final cash consideration will be paid at completion date and will be determined based on the financial statements of the subsidiaries holding the Romanian office portfolio as at that date.

The unconditional approval of the Romania Competition Council was obtained and the formalities with Trade Registry have been successfully implemented in February 2020; the transaction is scheduled to become effective at the end of March 2020.

The disposal of the Romanian office portfolio is in line with the Group's investment strategy which is focused on core dominant retail properties. The proceeds from the disposal will be used to fund the group's pipeline of acquisitions and developments.

As at 31 December 2019, the assets and liabilities held for sale included the above mentioned four type A office buildings in Romania, five office street properties located in Romania and an office building located in the UK. As at 31 December 2018, the assets and liabilities held for sale included an office building located in the UK and nine office street properties located in Romania, of which four were sold during 2019. The major classes of assets and liabilities of subsidiaries which are presented as held for sale at the end of the reporting period are as follows:

in € thousand	Romanian Office Portfolio	Other Portfolio	31 Dec 2019	31 Dec 2018
Non-current assets	**318,080**	**9,434**	**327,514**	**11,957**
Investment property at fair value (Note 16.1)	307,770	9,434	317,204	11,957
Goodwill (Note 12)	10,310	–	10,310	–
Deferred tax assets	–	–	–	–
Current assets	**10,225**	**–**	**10,225**	–
Trade and other receivables	6,052	–	6,052	–
Cash and cash equivalents	4,173	–	4,173	–
Assets held for sale	**328,305**	**9,434**	**337,739**	**11,957**
Non-current liabilities	**(32,986)**	–	**(32,986)**	–
Deferred tax liabilities	(29,271)	–	(29,271)	–
Other long-term liabilities	(3,715)	–	(3,715)	–
Current liabilities	(6,052)	–	(6,052)	–
Liabilities held for sale	**(39,038)**	–	**(39,038)**	–
Net asset held for sale	**289,267**	**9,434**	**298,701**	**11,957**

16.1 INVESTMENT PROPERTY HELD FOR SALE

in € thousand	31 Dec 2019	31 Dec 2018
Carrying value at beginning of year	11,957	10,238
Disposals	(2,232)	(636)
Transfer from investment property in use (Note 9)	308,466	1,727
Additions from property, plant and equipment	374	854
Fair value adjustments (Note 28)	(1,361)	(226)
CARRYING VALUE	**317,204**	**11,957**

The yield resulting from the fair value and passing rent of the held for sale portfolio is between 5.30% and 8.76%. The resulting weighted average yield for held for sale portfolio was 7.82%.

An increase of 25bps to the yield of 7.82% from above would result in a €9,829 decrease in the fair value of the Group's held for sale portfolio. A decrease of 25bps to yield of 7.82% from above would result in a €10,478 increase in the fair value of the Group's held for sale portfolio.

Information relating to fair value measurement using significant unobservable inputs (Level 3) for 2019 is presented in the table below:

Segment	Valuation technique	Estimated rental value (yearly amount in '000 €)	Discount rate (%)	Capitalisation rate for terminal value (%)
Held for sale portfolio	Discounted cash flow	53 – 7,831 (4,729*)	8.00% - 13% (8.71*)	6.25% - 11,50% (7.21*)

**Amounts or percentages represent weighted averages*

17. SHARE CAPITAL AND SHARE PREMIUM

Movement of ordinary shares *in € thousand*	Share capital €0.01/share	Share premium
Issued as of 1 January 2019	**5,778**	**3,625,568**
— Issued 8,038,153 ordinary shares at €7.0852/share[1]	80	(80)
— Issued 13,958,314 ordinary shares at €7.4314/share[1]	140	(140)
CARRIED FORWARD AS AT 31 DECEMBER 2019	**5,998**	**3,625,348**
[1] *The shares were issued in respect of the return of capital on 30 April 2019 and 1 November 2019.*		
CARRIED FORWARD AS AT 31 DECEMBER 2019	**5,998**	**3,625,348**

The Group had no issues of share capital or options to receive capital return granted to its shareholders during 2018.

During 2019, shareholders had the option to receive:

- 26.37 euro cents per share distribution for the six months ended 31 December 2018 as a cash distribution, or a return of capital through an issue of new shares, credited as fully paid up, at a ratio of 3.7218 new shares for every 100 shares, and

- 29.02 euro cents per share distribution for the six months ended 30 June 2019 as a cash distribution, or a return of capital through an issue of new shares, credited as fully paid up, at a ratio of 3.9050 new shares for every 100 shares.

Shares were issued from the share premium account.

Ordinary shares carry the right to vote at general meetings, to distribution and to the surplus assets of the Group on winding-up.

18. SHARE-BASED PAYMENTS

The Group has implemented incentive plans to reward performance and align the interests of executive directors and key individuals with those of the shareholders.

The Group's current incentive plan was disclosed in the prospectus of the merger between NEPI and Rockcastle (the "2017 Incentive Plan"). The 2017 Incentive Plan was 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.

To date, NEPI Rockcastle has initiated two types of incentive programs that offered share-based payments in exchange for services provided to it by its directors and employees (equity-settled transactions), which are detailed below.

a. Purchase Offers ('SPS')

Under this program, loans were granted to participants in the share purchase schemes (the 'Share Purchase Scheme' or 'SPS') to buy shares, the repayment of which could be made in part out of the distribution payable in relation to the shares (the "NRP SPS"). Of the shares initially subscribed for, 20% vested annually. The Group offered each participant the immediate right to subscribe for the permitted number of shares at their 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 the Group can borrow money. Loans are payable in full, together with interest, ten years after its subscription date, but could be repaid earlier. The Company has security interests that ensure the repayment of the principal and interest on the loan given to participants. The NRP 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 are used to repay loan interest. Any excess distribution after interest payment is used to repay the loan.

No shares were issued during 2019 and 2018 under the NRP SPS.

The number of shares outstanding and the Loans to participants under Share Purchase Scheme as at the year-end are summarised below:

NRP SPS	31 Dec 2019	31 Dec 2018
No of shares outstanding, collateralizing the Loans to participants under Share Purchase Scheme	802,307	3,410,657
Loans to participants under Share Purchase Scheme (in € thousand)	5,063	16,758

b. Debt free Long-Term Share Incentive Plan with a vesting component ('LTSIP')

Under this incentive plan, shares may be issued by the Group to executive directors and other key employees for no cash consideration. Shares are awarded to participants on condition of employment in the Group for the next three years for employees and five years for executive directors (the vesting period), with shares being vested proportionally over each year of the corresponding vesting periods. Shares awarded under LTSIP cannot be disposed of or otherwise encumbered up to their respective vesting dates.

The maximum number of shares which could be offered for under LTSIP is 27,403,086.
The number of shares granted but unvested at 31 December 2019 and their fair value at grant date are summarised below:

NRP LTSIP	No of shares granted but unvested 31 Dec 2019	Fair value at the grant date *in € thousand*
	588,864	4,751

The accounting policy with respect to Share-Based Payments is described in Note 4.18.

19. BORROWINGS (BONDS AND BANK LOANS)

The Group was assigned long-term corporate credit ratings of BBB (stable outlook) from Standard & Poor's Rating Services and Fitch Ratings. Both rating agencies re-affirmed the Group's credit ratings in 2019.

In December 2019, the Group signed with a syndicate of four banks a €175 million three-year unsecured revolving credit facility ("RCF") with two one-year extension options. The facility includes a non-committed accordion clause that allows the increase of the facility size by up to €150 million.

As at 31 December 2019, the Group had undrawn amounts of €575 million from the unsecured revolving credit facilities (31 December 2018: €236 million).

The debt's average interest rate, including hedging costs, was approximately 2.4% during 2019, slightly up from 2.3% in 2018. As at 31 December 2019, fixed-coupon bonds represented 74% of NEPI Rockcastle's outstanding debt; out of the remaining long-term debt exposed to Euribor, 68% was hedged with interest rate caps and 32% with interest rate swaps.

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 31 Dec 2019 *in € thousand*	**Type**	**Payable in less than 1 year**	**Payable in 1-5 years**	**Payable over 5 years**	**Total**
Netherlands	Unsecured fixed coupon bonds	_	1,197,800	500,000	1,697,800
Netherlands	Unsecured revolving facilities	_	_	_	_
Netherlands	Secured loan	_	92,223	_	92,223
Poland	Secured loans	2,307	300,978	_	303,285
Slovakia	Secured loans	7,460	143,070	_	150,530
Czech Republic	Secured loans	410	40,283	_	40,693
Accrued interest on loans and deferred loan costs		(361)	(2,442)	_	(2,803)
Accrued coupon on bonds		17,249	_	_	17,249
Deferred bond costs*		(2,662)	(6,553)	(1,108)	(10,323)
Issue discount on bonds		(4,029)	(11,071)	(1,289)	(16,389)
Total		**20,374**	**1,754,288**	**497,603**	**2,272,265**

** Included in the deferred bond costs above are €69 thousand (2018: NIL) for other assurance services rendered by PwC.*

Interest bearing borrowings 31 Dec 2018 *in € thousand*	**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 loans	3,272	450,954	74,100	528,326
Slovakia	Secured loans	11,954	202,108	_	214,062
Czech Republic	Secured loans	308	1,998	38,694	41,000
Accrued interest on loans and deferred loan costs		(528)	(1,806)	_	(2,334)
Accrued coupon 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)
Total		**275,647**	**1,210,665**	**611,780**	**2,098,092**

Bonds and bank loans reconciliation

This section sets out an analysis of bonds and bank loans outstanding and the related movements for the periods presented.

in € thousand	**Bank loans**	**Bonds**	**Total***
Debt as at 31 December 2018	**1,195,054**	**903,038**	**2,098,092**
Cash repayments of principal	(827,594)	(202,200)	**(1,029,794)**
Cash proceeds from bank loans or bonds	216,936	985,372	**1,202,308**
Cash payments of interest on bank loans or coupon on bonds	(17,981)	(28,414)	**(46,395)**
Interest expense	17,242	32,164	**49,406**
Amortisation of capitalised borrowing costs	1,687	2,351	**4,038**
Amortisation of bond discount	_	2,634	**2,634**
Additional capitalised borrowing costs in the period	(1,437)	(6,567)	**(8,004)**
Other non-cash items	20	(40)	**(20)**
Debt as at 31 December 2019	**583,927**	**1,688,338**	**2,272,265**

in € thousand	**Bank loans**	**Bonds**	**Total***
Debt as at 31 December 2017	**745,061**	**900,662**	**1,645,723**
Cash repayments of principal	(12,165)	_	**(12,165)**
Cash proceeds from bank loans or bonds	414,000	_	**414,000**
Cash payments of interest on bank loans or coupon on bonds	(16,571)	(23,750)	**(40,321)**
Interest expense	16,814	23,789	**40,603**
Bank loans transferred through business combinations	48,353	_	**48,353**
Amortisation of capitalised borrowing costs	1,530	1,860	**3,390**
Amortisation of bond discount	_	1,035	**1,035**
Additional capitalised borrowing costs in the period	(1,764)	(524)	**(2,288)**
Other non-cash items	(204)	(34)	**(238)**
Debt as at 31 December 2018	**1,195,054**	**903,038**	**2,098,092**

**The tables above do not contain interest bearing loans from third parties in amount of €8,642 thousand as at 31 December 2019 (2018: €10,035 thousand) (included in Other long-term liabilities in Note 22), and the associated finance cost. The above finance costs do not include interest capitalized on developments of €5,221 thousand (refer to Note 10) (2018: €5,770 thousand), and interest on lease liabilities of €559 thousand (2018: NIL) recognised as per IFRS 16.*

Further details for the Group's loans and bonds are presented below.

Secured term loans

The Group has secured term loans contracted by some of its subsidiaries in Poland, Slovakia and the Czech Republic.

Securities
- General security over the properties (fair values as at 31 December 2019), 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%.

Equity repurchase agreement

In March 2019, the Group concluded an equity repurchase agreement which matures in March 2022.

Securities
- Collateral over the listed securities portfolio.

Covenants
- Loan to Value ratio of maximum 60% (with a margin trigger of 65%).

Unsecured committed revolving facilities

At 31 December 2019, there are €575 million revolving facilities 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

The Group successfully issued fixed coupon bonds as follows:
- 2015: €400 million of unsecured, 5.25-year Eurobonds. The bonds had their maturity on 26 February 2021 and a 3.750% fixed coupon, with an issue price of 99.597%. An amount of €202.2 million of this bond was repurchased during 2019. The outstanding amount of €197.8 million as at 31 December 2019 was fully repurchased subsequent to the year-end, in January 2020 (Note 38).
- 2017: €500 million 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%.
- May 2019: €500 million of unsecured, 4-year Eurobonds. The bonds mature on 22 May 2023 and carry a 2.625% fixed coupon, with an issue price of 98.147%.
- October 2019: €500 million of unsecured, 7-year Eurobonds. The bonds mature on 9 October 2026 and carry a 1.875% fixed coupon, with an issue price of 98.927%.

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 2019 and 2018. The ratios calculated for all unsecured loans and bonds showed ample headroom compared to the covenants:

- Solvency Ratio: 37% (31 December 2018: 36%);
- Consolidated Coverage Ratio: 6.58 (31 December 2018: 7.38); and
- Unsecured Ratio: 290% (31 December 2018: 315%).

20. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group uses mainly derivative instruments to hedge variable interest rate (Euribor) exposure. Their fair value is summarised below.

in € thousand	31 Dec 2019	31 Dec 2018
Derivative financial assets	2,903	8,645
Derivative financial liabilities	6,714	2,725

The above financial assets and liabilities consists mainly of interest rate caps and fixed interest rate swaps which are not designated as cash flow hedges and are classified as Level Two of the fair value hierarchy as defined by IFRS 13.

21. TRADE AND OTHER PAYABLES

in € thousand	31 Dec 2019	31 Dec 2018
Property related payables	46,505	43,494
Advances from tenants	39,199	41,211
Payable for assets under construction	28,534	51,788
Deferred consideration on business combinations	7,462	11,602
Accrued administrative expenses	6,206	8,035
Tenant security deposits	2,505	3,656
TOTAL	**130,411**	**159,786**

22. OTHER LONG-TERM LIABILITIES

in € thousand	31 Dec 2019	31 Dec 2018
Lease liabilities related to leased land areas (recognised as per IFRS 16)	32,295	–
Borrowings from third parties*	8,642	10,035
Tenant security deposits	32,012	31,132
Other long-term payables	1,087	3,814
TOTAL	**74,036**	**44,981**

Reconciliation of lease liabilities (recognised as per IFRS 16)

in € thousand	31 Dec 2019
Carrying value of the lease liabilities related to leased land areas (recognised as per IFRS 16) (Note 3.1)	32,524
Interest expense associated to the lease liabilities related to leased land areas (Note 3.1)	559
Lease liability payment (Note 3.1)	(788)
Lease liabilities related to leased land areas (recognised as per IFRS 16)	**32,295**

***Reconciliation of borrowings from third parties**

This section sets out the movements in borrowings from third parties for the periods presented.

in € thousand	Borrowings from third parties
Borrowings as at 31 December 2018	**10,035**
Cash repayments of principal	(1,419)
Cash proceeds	–
Cash payments of interest	(1,053)
Interest expense	1,079
Borrowings as at 31 December 2019	**8,642**

in € thousand	Borrowings from third parties
Borrowings as at 31 December 2017	**10,587**
Cash repayments of principal	–
Cash proceeds	1,730
Cash payments of interest	(1,992)
Interest expense	1,060
Debt to equity conversion	(1,350)
Borrowings as at 31 December 2018	**10,035**

23. 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.

in € thousand	31 Dec 2019	31 Dec 2018
Current tax expense	11,331	9,482
Deferred tax expense	31,370	45,326
TAX EXPENSE	**42,701**	**54,808**
Deferred tax brought forward	337,448	258,615
Deferred tax acquired in business combinations (Note 33)	–	33,509
Other adjustments	–	(2)
Deferred tax expense	31,370	45,326
Net deferred tax liability carried forward, out of which:	**368,818**	**337,448**
Deferred tax asset (other than related to held for sale portfolio)	(15,209)	(13,739)
Deferred tax liability (other than related to held for sale portfolio)	354,756	351,187
Deferred tax liability related to held for sale portfolio	29,271	–

Net deferred tax liability results from the following types of differences:

in € thousand	31 Dec 2019	31 Dec 2018
Fiscal losses	217,923	299,555
Other deductible temporary differences (*)	75,841	48,783
Deferred tax asset	**50,479**	**57,401**
Temporary differences between accounting and fiscal value of investment property	(2,754,959)	(2,583,061)
Other taxable temporary differences (*)	(14,757)	(10,708)
Deferred tax liability	**(419,297)**	**(394,849)**
Net deferred tax liability	**(368,818)**	**(337,448)**

(*) 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 2019 is the net effect of deferred tax assets resulted mainly 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 revaluation of the investment property and other local tax adjustments (e.g. local tax depreciation charges, non-capitalisation or certain items, etc.) which diminishes the tax value of the investment property.

in € thousand	*Consolidated statement of financial position*		*Consolidated statement of comprehensive income*	
Deferred tax liability (net)	**31-Dec-19**	**31-Dec-18**	**31-Dec-19**	**31-Dec-18**
Acquired under business combinations (Note 33)	–	(28,470)	–	–
Recognised unused tax losses	–	*14,526*	–	–
Deferred tax liability on investment property valuation	–	*(44,679)*	–	–
Deductible/taxable temporary differences (net)	–	*1,683*	–	–
Valuation of investment property at fair value	(416,495)	(343,011)	(23,768)	(45,722)
Adjustment of deferred tax liability for the amount recovered from seller, deducted from goodwill (no P&L impact)	–	(5,037)	–	–
Recognised unused tax losses	36,171	33,649	(12,005)	(2,727)
Deductible/Taxable temporary differences (incl. corrections)	11,506	5,421	4,403	3,123
TOTAL	**(368,818)**	**(337,448)**	**(31,370)**	**(45,326)**

The Group is liable for taxation on taxable profits in the following jurisdictions at the rates below:

Corporate income tax rates	**31 Dec 2019**	**31 Dec 2018**
Isle of Man	0%	0%
Netherlands	25%	25%
United Kingdom	19%	19%
Mauritius	15%	15%
Romania	16%	16%
Poland	19%	19%
Slovakia	21%	21%
Serbia	15%	15%
Czech Republic	19%	19%
Croatia	18%	18%
Bulgaria	10%	10%
Hungary	9%	9%
Lithuania	15%	15%

A reconciliation between the current year income tax charge (current and deferred tax) and the Group consolidated profit before tax for the years 2019 and 2018 is presented below.

Profit Before Tax Reconciliation *in € thousand*	**31-Dec-2019**	**31-Dec-2018**
Consolidated Profit Before Tax	459,043	276,513
Weighted tax rate on consolidated Profit Before Tax	16%	25%
Group consolidated Profit Before Tax (without Holding loss)	480,357	446,160
Group weighted tax rate on Profit Before Tax without Holding loss	15.29%	15.49%
Group income tax (charge)/credit based on Group weighted tax rate	(73,447)	(69,128)
Effect in corporate income tax resulting from the following items:		
Group share in earnings from companies accounted for under equity method	1,855	1,606
Income from dividends and FV gains on listed securities recognized only at holding level	3,784	–
DTA recognized as gain on acquisition of subsidiaries and additional deferred tax liability from newly acquired land	203	(1,976)
Tax value adjustments in local jurisdictions related to previous years (including foreign exchange impact on non-financial tax base and statutory adjustments)	8,408	(2,577)
Tax depreciable goodwill recognised in local subsidiaries and not recognized at Group level	13,491	7,806
Fiscal losses expired and/or not utilised in the year (release of DTA not related to current year)	(1,890)	(2,896)
New tax losses in the year	3,348	11,152
Others	1,547	1,207
TOTAL Group tax charge	**(42,701)**	**(54,808)**
Effective tax rate (Group consolidated Profit Before Tax)	**9%**	**19.82%**
Effective tax rate (consolidated Profit Before Tax without Holding loss)	**9%**	**12.28%**

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 €217,923 thousand (31 December 2018: €299,555 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 €8,314 thousand (31 December 2018: €66,780 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 profits tax legislation recently introduced will allow such losses to be recovered.

The Group does not withhold taxes on distribution paid.

24. NET ASSET VALUE PER SHARE

in € thousand, unless otherwise stated	31 Dec 2019	31 Dec 2018
Net Asset Value per (the Statement of financial position)	4,096,880	3,845,873
Deferred tax liabilities for controlled subsidiaries	384,028	351,187
Deferred tax assets for controlled subsidiaries	(15,209)	(13,739)
Goodwill	(87,114)	(93,070)
Derivative financial assets at fair value through profit or loss	(2,903)	(8,645)
Derivative financial liabilities at fair value through profit or loss	6,714	2,725
Deferred tax liabilities for joint ventures	5,301	10,744
Derivatives at fair value through profit or loss for joint ventures	810	916
EPRA Net Asset Value	**4,388,507**	**4,095,991**
Net Asset Value per share (euro)	6.83	6.66
EPRA Net Asset Value per share (euro)	7.32	7.09
Number of shares for Net Asset Value / EPRA Net Asset Value per share (Note 31)	599,797,201	577,800,734

25. NET RENTAL AND RELATED INCOME

in € thousand	31 Dec 2019	31 Dec 2018
Gross rental income	407,139	349,907
Service charge income	176,841	151,826
Gross rental and service charge income	**583,980**	**501,733**
Property management, tax, insurance and utilities	(101,537)	(85,079)
Property maintenance cost	(80,920)	(69,252)
Net expected credit losses	(785)	(1,332)
Property operating expenses	**(183,242)**	**(155,663)**
TOTAL NET RENTAL AND RELATED INCOME	**400,738**	**346,070**

The Group rents its investment property under operating leases of various expiry terms. The standard terms of the leases comprise information relating to leased space, rent, rights and obligations of the landlord and tenant, including notice periods, renewal options and service charge arrangements. For most of the leases, the rent is indexed annually, over the term of the leases. Most retail leases have turnover rent clauses, which imply that if the agreed percentage of turnover from the retail unit under lease exceeds the base rent, the tenant will pay the difference to the Group.

A proportion of 3.3% (€13,436 thousand) of the gross rental income is represented by the turnover rent (paid on top of fixed rent) as at 31 December 2019 (31 December 2018: 3.5% (€12,247 thousand)).

Lease incentives represent the non-recurring amount granted (in cash or as fit-out works) by the Group, to a new or an existing tenant, in connection with a new or renewed lease. Lease incentives are straight-lined over the lease term. The lease term corresponds to the contractual duration for the majority of the leases, except for the anchor tenants, for which the lease duration is assessed by the Group based on past experience and taking into account factors such as: GLA of the property where the anchor tenant is located, catchment area, dominance/competition in the catchment area or purchasing power.
The future minimum lease payments receivable under non-cancellable operating leases are detailed below.

in € thousand	31 Dec 2019	31 Dec 2018
No later than 1 year	380,181	359,574
Between 1-2 years	303,874	277,805
Between 2-3 years	253,983	221,787
Between 3-4 years	194,816	175,201
Between 4-5 years	123,639	123,044
Later than 6 years	239,420	242,196
TOTAL	**1,495,913**	**1,399,607**

The breakdown of the net rental and related income by country is disclosed in Note 35.

26. ADMINISTRATIVE EXPENSES

in € thousand	31 Dec 2019	31 Dec 2018
Staff costs*	(10,719)	(10,358)
Directors' remuneration (Note 37)	(3,677)	(4,596)
Advisory services	(3,033)	(2,895)
Audit services	(1,117)	(1,092)
Companies administration	(1,115)	(1,318)
Travel and accommodation	(901)	(854)
Stock exchange expenses	(773)	(909)
Share based payment expense (Note 4.18)	(215)	_
TOTAL	**(21,550)**	**(22,022)**

** Staff costs capitalised as investment property under development in 2019 amount to €3,243 thousand (2018: €2,541 thousand).*

Out of the above administrative services, fees related to PwC, the Group's auditor, are summarised below:

in € thousand	31 Dec 2019	31 Dec 2018
Audit fees	(1,117)	(845)
Other assurance services	(23)	(187)
Other consulting services	(42)	(60)
TOTAL	**(1,182)**	**(1,092)**

27. TRANSACTION FEES

The Group incurred transaction fees in respect of the following:

in € thousand	31 Dec 2019	31 Dec 2018
Fees for finalised transactions	(4,850)	(4,453)
Fees for ongoing transactions	(561)	(1,626)
TOTAL	**(5,411)**	**(6,079)**

Out of the above transaction fees, there was NIL amount (2018: €88 thousand) related to advisory services rendered by PwC. Out of the fees for finalised transactions, an amount of € 3,551 thousand was in connection to a transfer tax paid for the acquisition of Mammut Shopping Center. While the transaction was completed in 2018, the amount of the transfer tax resulted from decision issued by tax authorities in 2019.

28. FAIR VALUE ADJUSTMENTS OF INVESTMENT PROPERTY

in € thousand	31 Dec 2019	31 Dec 2018
Fair value adjustments of investment property in use (Note 9)	133,804	104,123
Fair value adjustments of investment property under development (Note 10)	2,495	4,514
Fair value adjustments of investment property held for sale (Note 16.1)	(1,361)	(226)
Fair value adjustments of right-of-use asset (Note 3)	(229)	_
TOTAL	**134,709**	**108,411**

29. NET FINANCE EXPENSE

in € thousand	31 Dec 2019	31 Dec 2018
Interest income on loans granted to joint ventures	1,551	1,690
Interest on Loan to participants under Share Purchase Scheme	216	488
Interest on bank deposits	171	264
Interest and penalties on receivables	_	15
Finance income	**1,938**	**2,457**
Interest expense on financial liabilities measured at amortised cost	(19,488)	(18,343)
Interest expense capitalised on developments	5,221	5,770
Bonds borrowing costs*	(38,227)	(27,744)
Bank charges	(1,961)	(1,999)
Finance expense	**(54,455)**	**(42,316)**
TOTAL	**(52,517)**	**(39,859)**

**Bonds borrowing costs include coupon, amortisation of borrowing costs and debt discount.*

30. FAIR VALUE ADJUSTMENTS OF DERIVATIVES AND LOSSES ON EXTINGUISHMENT OF FINANCIAL INSTRUMENTS

in € thousand	31 Dec 2019	31 Dec 2018
Fair value adjustments of derivatives and losses on extinguishment of financial instruments	(23,743)	(1,432)

Out of the fair value adjustments of derivatives and losses on extinguishment of financial instruments, a loss of €11,893 thousand (31 December 2018: NIL) was incurred in relation to the premium paid on repurchase of the €202.2 million nominal value bond notes due in February 2021 (refer to Note 19). The remaining amount of €11,850 thousand corresponded mainly to the net fair value adjustment in relation to the interest rate derivatives (31 December 2018: 1,432 thousand).

31. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the year ended 31 December 2019 was based on the profit attributable to equity holders of €416,235 thousand (31 December 2018: €221,855 thousand) and the weighted average of 585,511,850 (31 December 2018: 577,800,734) ordinary shares in issue during the year.

€ thousand, unless otherwise stated	31 Dec 2019	31 Dec 2018
Profit for the year attributable to equity holders	416,235	221,855
Weighted average number of shares in issue	**585,511,850**	**577,800,734**
Diluted weighted average number of shares in issue	**585,511,850**	**577,800,734**
Basic/ diluted earnings per share (euro cents)	71.09	38.4

Weighted and diluted weighted average number of shares for basic and diluted earnings per share purposes:

2019	Event	Cumulative number of shares after return of capital	% of period	Weighted average
01/01/19	Opening balance	577,800,734	33	188,896,394
29/04/2019	Return of capital	585,838,887	51	297,747,786
01/11/2019	Return of capital	599,797,201	16	98,867,670
31/12/2019	Closing balance			585,511,850

2018	Event	Cumulative number of shares after return of capital	% of period	Cumulative number of shares after return of capital
01/01/18	Opening balance	577,800,734	100	577,800,734
31/12/2018	Closing balance			577,800,734

32. HEADLINE EARNINGS AND DILUTED HEADLINE EARNINGS PER SHARE

The calculation of headline earnings per share for the year ended 31 December 2019 was based on headline earnings of €301,066 thousand (31 December 2018: €119,725 thousand) and the weighted average of 585,511,850 ordinary shares in issue during 2019 (2018: 577,800,734).

Reconciliation of profit for the year to headline earnings *€ thousand, unless otherwise stated*	31 Dec 2019	31 Dec 2018
Profit for the year attributable to equity holders	416,235	221,855
Fair value adjustments of investment property in use (Note 28)	(134,709)	(108,411)
Gain on disposal of assets held for sale	(123)	–
Gain on acquisition of subsidiaries	(446)	(6,933)
Impairment of goodwill	5,956	–
Profit on disposal of joint venture	(3,588)	–
Tax effects of adjustments for controlled subsidiaries	20,453	16,888
Fair value adjustment of investment property for joint ventures	(3,227)	(4,374)
Tax effects of adjustments for joint ventures	515	700
HEADLINE EARNINGS	**301,066**	**119,725**
Weighted average number of shares in issue	585,511,850	577,800,734
Diluted weighted average number of shares in issue	585,511,850	577,800,734
Headline earnings per share (euro cents)	51.42	20.72
Diluted headline earnings per share (euro cents)	51.42	20.72

33. BUSINESS COMBINATIONS AND SIGNIFICANT ASSET DEALS

The Group had no acquisitions during 2019 except for the supplementary units (asset deal) in Mammut Shopping Center which were acquired for a consideration paid of €912 thousand (Note 9).

In 2018, the Group acquired retail assets in Slovakia (Galleria Mlyny), Lithuania (Ozas Shopping and Entertainment Centre), Poland (Aura Centrum) and Hungary (Mammut Shopping Centre), as detailed below. In all transactions above, 100% of equity interests were acquired.

	Galleria Mlyny	Ozas Shopping and Entertainment Centre	Aura Centrum	Mammut Shopping Centre
Investment property	128,400	125,403	64,935	275,036
Current assets	4,566	2,395	1,324	7,001
Current liabilities	(3,525)	(3,131)	(1,231)	(7,135)
Non-current liabilities	(50,791)	(560)	–	(247)
Deferred tax (liabilities)/assets	(17,100)	(1,893)	5,117	(19,633)
Total identifiable net assets at fair value	**61,550**	**122,214**	**70,145**	**255,022**
Goodwill arising on acquisition/ (Bargain purchase revenue)	10,488	–	(5,117)	(871)
Total consideration payable	**72,038**	**122,214**	**65,028**	**254,151**
Retained amount	–	–	(1,096)	–
Total consideration paid in cash	**72,038**	**122,214**	**63,932**	**254,151**

34. JOINT VENTURES

In April 2019, the Group signed an agreement for the sale of its 50% stake in The Office Cluj-Napoca. Following the fulfilment of several conditions precedent, the transaction was finalised in May 2019, for a pro-rata consideration of €35,801 thousand, resulting in a profit on disposal of joint venture of €3,588 thousand.

The summarised financial statements of the joint ventures are presented below at 100%. The "Investments in joint ventures" line on the consolidated Statement of financial position represents 50% of the line "Equity attributable to equity holders", as shown below. The "Share of profit of joint ventures" line on the consolidated Statement of comprehensive income represents 50% of the line "Profit for the period attributable to equity holders", as presented below.

Statement of financial position

31 Dec 2019	Ploiesti Shopping City	Total
Non-current assets	113,777	**113,777**
Current assets	12,532	**12,532**
TOTAL ASSETS	126,309	**126,309**
Non-current liabilities	(76,537)	**(76,537)**
Current liabilities	(4,084)	**(4,084)**
Total liabilities	(80,621)	**(80,621)**
Equity attributable to equity holders	(45,688)	**(45,688)**
TOTAL EQUITY AND LIABILITIES	(126,309)	**(126,309)**
INVESTMENT IN JOINT VENTURES (50% of the equity attributable to equity holders)		**22,844**

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
TOTAL ASSETS	**117,692**	**134,084**	**251,776**
Non-current liabilities	(77,135)	(66,653)	(143,788)
Current liabilities	(3,722)	(5,896)	(9,618)
Total liabilities	**(80,857)**	**(72,549)**	**(153,406)**
Equity attributable to equity holders	**(36,835)**	**(61,535)**	**(98,370)**
TOTAL EQUITY AND LIABILITIES	**(117,692)**	**(134,084)**	**(251,776)**
INVESTMENT IN JOINT VENTURES (50% of the equity attributable to equity holders)			**49,185**

Statement of comprehensive income

31 Dec 2019	Ploiesti Shopping City	The Office Cluj-Napoca	Total
Revenue from rent and recoveries	11,996	5,152	17,148
Property operating expenses	(3,212)	(952)	(4,164)
Administrative expenses	(173)	(105)	(278)
Fair value adjustment investment property	6,454	–	6,454
Foreign exchange loss	(208)	10	(198)
Profit before net finance expense	**14,857**	**4,105**	**18,962**
Net finance expense	**(4,274)**	**(1,019)**	**(5,293)**
Finance income	86	–	86
Finance expense	(4,359)	(694)	(5,053)
Other net finance expense	(1)	(325)	(326)
Fair value adjustments of derivatives and losses on extinguishment of financial instruments	88	14	102
Profit before income tax	**10,671**	**3,100**	**13,771**
Tax release/(charge)	(1,818)	(209)	(2,027)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS	**8,853**	**2,891**	**11,744**
SHARE OF PROFIT OF JOINT VENTURE (50% of the Profit for the year)			**5,872**

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)
Profit before net finance expense	**8,961**	**17,773**	**26,734**
Net finance expense	**(4,413)**	**(1,914)**	**(6,327)**
Finance income	68	–	68
Finance expense	(4,481)	(1,914)	(6,395)
Fair value adjustments of derivatives and losses on extinguishment of financial instruments	241	41	282
Profit before income tax	**4,789**	**15,900**	**20,689**
Tax release/(charge)	(1,178)	(2,850)	(4,028)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS	**3,611**	**13,050**	**16,661**
SHARE OF PROFIT OF JOINT VENTURE (50% of the Profit for the year)			**8,329**

Shareholder loans to Ploiesti Shopping City were granted by NE Property BV (formerly NE Property Cooperatief UA). Interest income from joint ventures in 2019 amounted to €1,567 thousand (2018: €1,660 thousand).

31 Dec 2019	Ploiesti Shopping City	The Office Cluj-Napoca	Total
Long-term loans granted to joint ventures	21,220	-	**21,220**

31 Dec 2018	Ploiesti Shopping City	The Office Cluj-Napoca	Total
Long-term loans granted to joint ventures	21,311	-	**21,311**

Included within the balances above from the Statement of financial position are the following:

31 Dec 2019	Ploiesti Shopping City	Total
Cash and cash equivalents	10,990	**10,990**
Bank loans (non-current liabilities)	(21,598)	**(21,598)**
Bank loans (current liabilities)	(2,142)	**(2,142)**

31 Dec 2018	Ploiesti Shopping City	The Office Cluj-Napoca	Total
Cash and cash equivalents	9,666	3,421	**13,087**
Bank loans (non-current liabilities)	(23,737)	(54,767)	**(78,504)**
Bank loans (current liabilities)	(2,146)	(3,808)	**(5,954)**

Secured term loans

The joint venture Ploiesti Shopping City has contracted a secured term loan.

Securities
- General security over the properties (weighted fair value as at 31 December 2019), current assets, cash inflows from operating activities, accounts and receivables

Covenants
- Debt service cover ratio of minimum 120%, and
- Loan to value ratio of maximum 60%.

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 2019 *in € thousand*	Retail	Office	Industrial	Corporate	Total
Net rental and related income	**369,067**	**29,756**	**1,915**	**–**	**400,738**
Gross rental income	375,378	29,830	1,931	–	407,139
Service charge income	164,894	11,728	219	–	176,841
Property operating expenses	(171,205)	(11,802)	(235)	–	(183,242)
Administrative expenses	(13,602)	(897)	(56)	(6,995)	(21,550)
EBITDA*	**355,465**	**28,859**	**1,859**	**(6,995)**	**379,188**
Net result from financial investments	**–**	**–**	**–**	**23,651**	**23,651**
Income from financial investments at fair value through profit or loss	–	–	–	12,560	12,560
Fair value and net result on sale of financial investments at fair value through profit or loss	–	–	–	11,091	11,091
Transaction fees	(5,375)	(36)	–	–	(5,411)
Fair value adjustments of investment property	132,555	929	1,225	–	134,709
Foreign exchange gain/(loss)	(1,168)	(181)	(22)	464	(907)
Gain on acquisition of subsidiaries	446	–	–	–	446
Profit on disposal of assets held for sale	–	123	–	–	123
Profit on disposal of JV	–	3,588	–	–	3,588
Profit before Net finance expense	**481,923**	**33,282**	**3,062**	**17,120**	**535,387**

**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 2018 *in € thousand*	**Retail**	**Office**	**Industrial**	**Corporate**	**Total**
Net rental and related income	**314,229**	**29,946**	**1,895**	**–**	**346,070**
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)
EBITDA*	**301,235**	**28,563**	**1,857**	**(7,607)**	**324,048**
Net result from financial investments	**–**	**–**	**–**	**(122,915)**	**(122,915)**
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)
Transaction 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
Profit before Net finance expense	**421,592**	**16,789**	**1,311**	**(130,217)**	**309,475**

** 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 2019 *in € thousand*	**Retail**	**Office**	**Industrial**	**Corporate**	**Total**
SEGMENT ASSETS					
Non-current assets	**6,059,553**	**76,518**	**16,870**	**16,229**	**6,169,170**
Investment property	5,931,230	74,500	16,870	–	6,022,600
— Investment property in use	5,709,389	74,500	16,870	–	5,800,759
— Investment property under development	221,841	–	–	–	221,841
Goodwill	70,922	–	–	5,882	76,804
Deferred tax assets	13,191	2,018	–	–	15,209
Investments in joint ventures	22,844	–	–	–	22,844
Long-term loans granted to joint ventures	21,220	–	–	–	21,220
Other long-term assets	146	–	–	7,444	7,590
Derivative financial assets at fair value through profit or loss	–	–	–	2,903	2,903
Current assets	**177,053**	**3,343**	**1,706**	**285,089**	**467,191**
Trade and other receivables	83,628	845	136	4,774	89,383
Financial investments at fair value through profit or loss	–	–	–	169,062	169,062
Cash and cash equivalents	93,425	2,498	1,570	111,253	208,746
Assets held for sale	**1,178**	**336,561**	**–**	**–**	**337,739**
TOTAL ASSETS	**6,237,784**	**416,422**	**18,576**	**301,318**	**6,974,100**

Segment assets and liabilities 31 Dec 2019 *in € thousand*	**Retail**	**Office**	**Industrial**	**Corporate**	**Total**
SEGMENT LIABILITIES					
Non-current liabilities	**910,616**	**4,019**	**2,559**	**1,770,203**	**2,687,397**
Bank loans	482,968	–	–	91,144	574,112
Bonds	–	–	–	1,677,779	1,677,779
Deferred tax liabilities	350,586	3,223	947	–	354,756
Other long-term liabilities	71,626	796	1,612	2	74,036
Derivative financial liabilities at fair value through profit or loss	5,436	–	–	1,278	6,714
Current liabilities	**117,286**	**6,166**	**336**	**26,997**	**150,785**
Trade and other payables	107,471	6,166	336	16,438	130,411
Bank loans	9,815	–	–	–	9,815
Bonds	–	–	–	10,559	10,559
Liabilities held for sale	**–**	**39,038**	**–**	**–**	**39,038**
TOTAL LIABILITIES	**1,027,902**	**49,223**	**2,895**	**1,797,200**	**2,877,220**

Segment assets and liabilities 31 Dec 2018 *in € thousand*	**Retail**	**Office**	**Industrial**	**Corporate**	**Total**
SEGMENT ASSETS					
Non-current assets	**5,642,265**	**425,414**	**15,620**	**32,760**	**6,116,059**
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
Derivative financial assets at fair value through profit or loss	–	–	–	8,645	8,645
Current assets	**142,509**	**14,276**	**617**	**217,226**	**374,628**
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
Cash 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
Investment property held for sale	**1,430**	**10,527**	**–**	**–**	**11,957**
TOTAL ASSETS	**5,786,204**	**450,217**	**16,237**	**249,986**	**6,502,644**

Segment assets and liabilities 31 Dec 2018 *in € thousand*	Retail	Office	Industrial	Corporate	Total
SEGMENT LIABILITIES					
Non-current liabilities	**1,121,425**	**39,326**	**2,288**	**1,058,299**	**2,221,338**
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
Derivative financial liabilities at fair value through profit or loss	1,923	–	–	802	2,725
Current liabilities	**149,249**	**12,725**	**234**	**273,225**	**435,433**
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
TOTAL LIABILITIES	**1,270,674**	**52,051**	**2,522**	**1,331,524**	**2,656,771**

The Group's geographical breakdowns per country are detailed below.

Country results 31 Dec 2019 *in € thousand*	Net rental and related income	Profit before tax	Investment property
Romania	160,293	251,324	2,091,484
Poland	80,242	56,495	1,465,364
Slovakia	37,037	27,686	554,872
Bulgaria	35,862	38,922	514,770
Hungary	35,215	44,155	603,900
Croatia	18,718	27,376	275,600
Serbia	13,130	15,959	201,130
Czech Republic	10,650	6,297	182,900
Lithuania	9,595	12,143	132,580
United Kingdom	(4)	170	–
Corporate	–	(21,484)	–
Total	**400,738**	**459,043**	**6,022,600**

Country results 31 Dec 2018 *in € thousand*	Net rental and related 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	–
Corporate	–	(167,148)	–
Total	**346,070**	**276,513**	**5,911,070**

**The Corporate segment represents head office, administrative offices, Group financing expenses and listed securities*

RECONCILIATION OF PROFIT FOR THE YEAR TO DISTRIBUTABLE EARNINGS *€ thousand, unless otherwise stated*	31 Dec 2019	31 Dec 2018
Profit for the year attributable to equity holders	**416,235**	**221,855**
Reverse indirect result	**(97,402)**	**58,876**
Foreign exchange loss	907	923
Transaction fees	5,411	6,079
Fair value adjustments of investment property for controlled subsidiaries	(134,709)	(108,411)
Gain on acquisition of subsidiaries	(446)	(6,933)
Fair value and net result on sale of financial investments at fair value through profit or loss	(11,091)	152,047
Income from financial investments at fair value through profit or loss	(12,560)	(29,132)
Profit on disposal of assets held for sale	(123)	–
Fair value adjustments of derivatives and losses on extinguishment of financial instruments	23,743	1,432
Deferred tax expense for controlled subsidiaries	31,370	45,326
Profit on disposal of joint venture	(3,588)	–
Impairment of goodwill	5,956	–
Fair value adjustments of investment property for joint ventures	(3,227)	(4,374)
Fair value adjustments of derivatives and losses on extinguishment of financial instruments	(51)	(141)
Deferred tax expense for joint ventures	907	1,889
Foreign exchange loss for joint ventures	99	171
Company specific adjustments	**10,916**	**24,682**
Amortisation of financial assets	(1,533)	(2,292)
Realised foreign exchange loss for controlled subsidiaries	(30)	(912)
Realised foreign exchange loss for joint ventures	(7)	(1)
Accrued income from financial investments at fair value through profit or loss	12,349	28,122
Fair value adjustment of Investment property for non-controlling interest	138	(350)
Deferred tax expense for non-controlling interest	(1)	115
Antecedent dividend	4,062	–
Distributable earnings	**333,811**	**305,413**
Less: Distribution declared	(333,811)	(305,413)
Interim distribution	(170,030)	(153,041)
Final distribution	(163,781)	(152,372)
Earnings not distributed	–	–
Number of shares entitled to interim distribution	585,838,887	577,800,734
Number of shares entitled to final distribution	599,797,201	577,800,734
Distributable earnings per share (euro cents)	**56.33**	**52.86**
Less: Distribution declared per share (euro cents)	(56.33)	(52.86)
Interim distribution per share (euro cents)	(29.02)	(26.49)
Final distribution per share (euro cents)	(27.31)	(26.37)

36. CONTINGENT ASSETS AND LIABILITIES

Guarantees

As at 31 December 2019, the Group had received letters of guarantee from tenants worth €114,053 thousand (31 December 2018: €109,920 thousand) and from suppliers worth €31,900 thousand (31 December 2018: €31,577 thousand) related to ongoing developments.

In October 2017, one of the Group's subsidiaries entered into an agreement in relation to the conditional acquisition of an operating shopping centre and a related development. On 1 January 2019, upon the lapse of the respective transaction's long stop date, the subsidiary notified the counterparty that it had exercised its right to terminate the transaction as the long stop date had passed and certain conditions precedent had not been met. The counterparty consequently initiated arbitration proceedings against the Group, claiming a contractual penalty in the amount of €30 million. The Group is confident that its subsidiary has lawfully terminated the agreement and therefore has a solid defense against the potential sellers' claim. Despite the above, the arbitration proceedings and their outcome (similarly to litigation proceedings) are subject to the independent deliberation of the arbiters engaged with the dispute.

One subsidiary of the Group owning Promenada Novi Sad in Serbia, opened to the public in 2018 is in process of obtaining the usage (occupancy) permit. The shopping centre was opened in accordance with local regulation, based on a temporary permit valid until November 2019 which was prolonged until 30th of March 2020.Promenada Novi Sad obtained an amended building permit for the shopping centre and is now in the process of authorizing additional works and obtaining the usage permit. Should Promenada Novi Sad fail to obtain usage permit within the deadline imposed by the authorities, there will be a risk of business interruption for Promenada Novi Sad.

37. RELATED PARTY TRANSACTIONS

Identity of related parties with whom material transactions have occurred

The Directors and jointly controlled entities are related parties for the Group.

Material related party transactions

Fees paid to Directors, together with the performance bonus, during the current and previous year are detailed below. 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.

			31 Dec 19		31 Dec 18
	Directors' fees	Performance bonus	Exit grants	Directors' fees	Performance bonus
Alex Morar	580	344	_	480	407
Spiro Noussis[1]	_	_	640	655	560
Mirela Covasa	395	266	_	370	323
Nick Matulovich[2]	_	_	493	505	438
Marek Noetzel	293	169	_	247	206
Robert Emslie*	122	_	_	78	_
Dan Pascariu[3]	_	_	_	55	_
Michael Mills[4]	_	_	_	43	_
Antoine Dijkstra*	66	_	_	60	_
Desmond de Beer*	60	_	_	57	_
Andre van der Veer*	95	_	_	66	_
Vuso Majija*	57	_	_	23	_
George Aase*	59	_	_	23	_
Andreas Klingen[5]	38	_	_	_	_
TOTAL	**1,765**	**779**	**1,133**	**2,662**	**1,934**

[1] Mr. Spiro Noussis has retired from his position as Executive Director (formerly co-CEO) with effect from 31 December 2018.

[2] Mr. Nick Matulovich has retired from his position as Executive Director by not standing for re-election at the annual general meeting of shareholders held on 28 August 2018.

[3] 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 held on 28 August 2018.

[4] 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.

[5] Mr. Andreas Klingen was appointed as an Independent Non-Executive Director of the Company with effect from 17 April 2019.

**The remuneration of the Non-Executive Directors for 2019 includes a cumulative amount of €50 thousand paid for special duties or services performed during 2018.*

a. Shares held under the Share Purchase Schemes:

Name of Director	Number of shares held as at 31 Dec 2019**	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	84,721
TOTAL	**84,721**	**1,022,509**

**Mr. Spiro Noussis has retired from his position as Executive Director (formerly co-CEO) with effect from 31 December 2018.*

b. Shares unvested as at 31 December 2019 under the LTSIP

Name of Director	Number of shares unvested at 31 Dec 2019**	Number of shares held as at 31 Dec 2018
Alex Morar	222,028	_
Mirela Covasa	173,706	_
Marek Noetzel	71,686	_
TOTAL	**467,420**	**_**

***There were no changes to the Directors' unvested shares from 31 Dec 2019 to the approval of the annual audited financial statements.*

The directors of the Group hold 11,232,796 shares as at 31 December 2019 (1.88% of the outstanding shares), out of which 9,516,706 shares (1.59% of the outstanding shares) are held by the non-executive directors.

38. SUBSEQUENT EVENTS

As already mentioned in Note 19, in January 2020, the €197.8 million outstanding bonds due February 2021 have been repurchased in full.

As mentioned in Note 16, the Group entered into an agreement to dispose the Romanian office portfolio, consisting of four type A office buildings. The unconditional approval of the Romanian Competition Council was obtained and the formalities with Trade Registry have been successfully implemented in February 2020; the transaction is scheduled to become effective at the end of March 2020.

Except for the above, the Directors are not aware of any other subsequent events from 31 December 2019 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.

Schedule of properties

All properties located in Lithuania and Poland have been fair valued by Cushman and Wakefield. All properties located in Bulgaria, Croatia, Czech Republic, Serbia and Slovakia have been fair valued by Jones Lang La Salle. All properties located in Romania have been fair valued by Colliers International and DTZ (Cushman and Wakefield affiliate partners). Properties located in Hungary have been fair valued by Jones Lang La Salle and Cushman and Wakefield.

Crt no.	Property name	Year opened/ acquired	Type	Location	Ownership	GLA m²	Valuation/Cost to date €m	Passing rent €m	Average rental €/m²/month	EPRA Occupancy~
	INCOME PRODUCING PROPERTIES					**2 103 200**	**6 076.4**	**414.2**	**16.4**	**97.9%**
	RETAIL					**1 916 800**	**5 677.2**	**381.8**	**16.6**	**97.8%**
1	Bonarka City Center ^	2009/ 2016	Super-Regional Mall	Poland	100%	74 400	393.6	20.8	27.4	94.0%
2	Mega Mall	2015	Super-Regional Mall	Romania	100%	75 800	320.4	20.5	22.9	99.0%
3	Arena Mall	2007/ 2017	Super-Regional Mall	Hungary	100%	65 800	316.2	20.9	26.6	99.3%
4	Mammut Shopping Centre^^	1998-2001/ 2018	Regional Mall	Hungary	100%	56 400	283.6	16.1	26.6	90.1%
5	Paradise Center	2013/ 2017	Super-Regional Mall	Bulgaria	100%	81 300	267.5	18.8	20.7	97.5%
6	Arena Centar and Retail Park	2010/ 2016/ 2019	Super-Regional Mall	Croatia	100%	75 200	266.2	18.3	21.1	98.0%
7	Promenada Mall	2013/ 2014	Lifestyle Centre	Romania	100%	39 400	209.3	13.7	29.0	100.0%
8	City Park	2008/ 2013	Regional Mall	Romania	100%	52 200	196.3	13.8	22.1	99.8%
9	Aupark Kosice Mall	2011/ 2014	Regional Mall	Slovakia	100%	33 000	172.1	10.4	26.9	98.0%
10	Serdika Center	2010/ 2017	Regional Mall	Bulgaria	100%	51 500	167.4	13.0	21.1	99.9%
11	Galeria Warminska	2014/ 2016	Regional Mall	Poland	100%	42 800	167.0	9.9	19.4	99.4%
12	Karolinka Shopping Centre	2008/ 2015	Regional Mall	Poland	100%	70 700	155.1	9.6	13.4	90.1%
13	Shopping City Sibiu	2006/ 2016	Super-Regional Mall	Romania	100%	83 200	146.5	11.3	11.4	98.8%
14	Shopping City Timisoara	2015-2016	Regional Mall	Romania	100%	56 900	135.8	9.5	14.0	99.4%
15	Ozas Shopping and Entertainment Centre	2009/ 2018	Regional Mall	Lithuania	100%	61 700	132.3	10.4	14.0	100.0%
16	Galeria Mlyny	2009/ 2018	Regional Mall	Slovakia	100%	32 400	131.0	8.4	22.3	98.5%
17	Aupark Zilina	2010/ 2013	Regional Mall	Slovakia	100%	25 000	130.1	8.2	27.4	99.9%
18	Promenada Novi Sad	2018	Regional Mall	Serbia	100%	49 200	129.7	9.9	17.2	98.6%
19	Focus Mall Zielona Gora	2008/ 2016	Regional Mall	Poland	100%	29 300	125.5	6.7	19.1	100%**
20	Shopping City Galati	2013	Regional Mall	Romania	100%	49 200	120.6	8.6	14.6	99.7%
21	Iris Titan Shopping Center	2008/ 2015	Community Centre	Romania	100%	43 000	107.7	8.5	16.5	99.7%
22	Promenada Sibiu	2019	Regional Mall	Romania	100%	42 500	103.6	7.9	15.8	98.8%
23	Alfa Centrum Bialystok	2008/ 2017	Regional Mall	Poland	100%	36 900	99.7	6.6	16.3	93.8%
24	Forum Ústí nad Labem	2009/ 2016	Regional Mall	Czech Republic	100%	27 700	93.0	5.9	17.7	99.2%
25	Forum Liberec Shopping Centre	2009/ 2016	Regional Mall	Czech Republic	100%	46 600	89.9	4.9	9.2	97.8%**
26	Shopping City Deva	2007/ 2013	Regional Mall	Romania	100%	52 500	89.7	6.8	10.8	99.8%
27	Solaris Shopping Centre	2009/ 2015	Regional Mall	Poland	100%	26 400	88.5	5.5	18.3	94.1%
28	Braila Mall	2008/ 2009	Regional Mall	Romania	100%	53 000	84.2	6.4	10.4	97.4%
29	Platan Shopping Centre	2003/ 2015	Regional Mall	Poland	100%	39 900	84.1	4.5	9.8	93.0%
30	Pogoria Shopping Centre	2008/ 2015	Regional Mall	Poland	100%	37 700	81.1	5.3	11.8	98.6%
31	Aura Centrum	2005/ 2018	Regional Mall	Poland	100%	25 400	69.3	5.8	20.1	94.8%
32	Vulcan Value Centre	2014	Community Centre	Romania	100%	24 600	68.8	4.4	14.9	100.0%
33	Galeria Wolomin*	2016	Regional Mall	Poland	90%	30 700	61.2	4.2	11.4	99.3%
34	Shopping City Satu Mare	2018	Regional Mall	Romania	100%	29 200	54.6	4.1	11.8	99.0%
35	Shopping City Piatra Neamt	2016	Regional Mall	Romania	100%	28 000	53.4	3.9	11.6	100.0%
36	Shopping City Targu Jiu	2014	Regional Mall	Romania	100%	27 100	52.8	3.7	11.4	100.0%
37	Shopping City Râmnicu Vâlcea	2017	Regional Mall	Romania	100%	28 200	50.1	3.9	11.6	99.4%
38	Shopping City Buzau	2008/ 2014	Regional Mall	Romania	100%	23 700	49.2	3.6	14.3	100.0%**
39	Focus Mall Piotrkow Trybunalski	2009/ 2016	Regional Mall	Poland	100%	35 100	48.5	4.4	11.3	92.0%
40	Kragujevac Plaza	2012/ 2014	Regional Mall	Serbia	100%	22 300	45.8	3.6	13.6	99.1%
41	Aupark Shopping Center Piestany	2010/ 2016	Community Centre	Slovakia	100%	10 300	42.7	2.6	21.8	97.6%
42	Korzo Shopping Centrum	2010-2011/ 2016	Community Centre	Slovakia	100%	16 100	41.9	3.1	16.0	99.4%
43	Severin Shopping Center	2009/ 2013	Regional Mall	Romania	100%	22 600	36.6	2.6	9.6	99.6%
44	Galeria Tomaszow*	2016	Regional Mall	Poland	85%	18 400	32.4	2.7	12.4	96.9%
45	Pitesti Retail Park	2007/ 2010	Community Centre	Romania	100%	24 800	28.3	4.0	13.4	100.0%
46	Krusevac Shopping Park	2019	Community Centre	Serbia	100%	8 600	11.3	0.9	8.7	100.0%
47-53	Regional strip centres	2007-2014	Strip Centres	Romania	100%	30 100	42.6	3.2	8.9	100.0%
	OFFICE					**41 300**	**74.5**	**6.2**	**12.5**	**99.7%**
54	Serdika Office	2011 / 2017	Office	Bulgaria	100%	28 500	52.8	4.4	13.0	99.5%
55	Aupark Kosice Tower	2012/ 2014	Office	Slovakia	100%	12 800	21.7	1.8	11.7	100.0%
	INDUSTRIAL					**27 300**	**16.9**	**1.9**	**5.8**	**95.5%**
56	Rasnov Industrial Facility	2007	Industrial	Romania	100%	23 000	12.1	1.4	5.2	97.4%
57	Otopeni Warehouse	2010	Industrial	Romania	100%	4 300	4.8	0.5	10.5	90.1%
	OFFICE HELD FOR SALE					**117 800**	**307.8**	**24.3**	**17.2**	**99.6%**
58	Floreasca Business Park	2009/ 2010	Office	Romania	100%	36 300	105.3	8.0	18.4	99.9%
59	City Business Centre	2007-2015/ 2015	Office	Romania	100%	48 000	92.4	8.1	14.1	99.7%
60	The Lakeview	2010/ 2013	Office	Romania	100%	25 700	69.3	5.3	17.4	98.6%
61	Victoriei Office	2017	Office	Romania	100%	7 800	40.8	2.9	31.0	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.

** EPRA occupancy excludes 14,000m² GLA under refurbishment at Focus Mall Zielona Gora, Shopping City Buzau and Forum Liberec Shopping Centre.

^ Auchan, a major tenant, owns their premises of 20,600m². Total GLA of the property including this premises is 95,000m².

^^ The centre offers 61,300m² of total GLA, out of which 56,400m² owned by the Group.

~ EPRA Occupancy ratio = 1 - EPRA Vacancy ratio

The Schedule of properties excludes joint ventures properties valued at €55.1 million, generating a passing rent of €4.0 million (weighted by ownership), and non-core properties held for sale with a market value of €9.4m, generating a passing rent of €0.5 million.

Crt no.	Property name	Type	Location	Ownership	GLA of existing property m²	GLA of development m²	Valuation/ Cost to date €m	Estimated rental value €m
	TOTAL DEVELOPMENTS AND LAND BANK				**377 800**	**278 650**	**221**	**16.4**
	DEVELOPMENTS UNDER CONSTRUCTION				**174 000**	**59 000**	**72**	**16.4**
62	Shopping City Targu Mures	Development	Romania	100%	-	39 800	46	6.5
19	Focus Mall Zielona Gora	Extension and Refurbishment	Poland	100%	29 300	15 600	26	5.2
1	Bonarka City Center	Refurbishment	Poland	100%	74 400	3 600	-	4.7
38	Shopping City Buzau*	Refurbishment	Romania	100%	23 700	-	-	-
25	Forum Liberec Shopping Centre*	Refurbishment	Czech Republic	100%	46 600	-	-	-
	DEVELOPMENTS UNDER PERMITTING AND PRE-LEASING^				**203 800**	**219 650**	**94**	
7	Promenada Mall	Extension	Romania	100%	39 400	62 300	38	
63	Promenada Plovdiv	Development	Bulgaria	100%	-	58 300	27	
64	Promenada Craiova	Development	Romania	100%	-	56 500	25	
3	Arena Mall	Extension	Hungary	100%	65 800	25 900	4	
15	Ozas Shopping and Entertainment Centre	Extension and Refurbishment	Lithuania	100%	61 700	15 450	-	
23	Alfa Centrum Bialystok	Refurbishment	Poland	100%	36 900	1 200	-	
	Land held for developments						**55**	

** Forum Liberec Shopping Centre and Shopping City Buzau are existing projects subject to ongoing refurbishments. The costs incurred by 31 December 2019 related to the refurbishments of the properties were already capitalised on the existing property in use, subject to fair valuation at year-end. After the refurbishment, Forum Liberec Shopping Centre and Shopping City Buzau will generate a total passing rent of EUR (sign) 5.7 million and EUR(sign) 3.9 million respectively.*

^ 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 €1.8 million.

APPENDIX

GLOSSARY

Collection rate: operational performance indicator computed as the net expected credit losses for tenant's receivable (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): (Interest bearing debt – Lease liabilities (IFRS 16) – Cash)/ (Investment property (including investment property held for sale) – Right of use assets (IFRS 16) + Listed securities*)
*Listed securities presented under the following lines:
Financial investments at fair value through profit or loss
+ Cash 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.

EPRA measures

EPRA Cost ratio: The purpose of the EPRA cost ratio is to reflect the relevant overhead and operating costs of the business. It is calculated by expressing the sum of property expenses (net of service charge recoveries and third-party asset management fees) and administration expenses (excluding exceptional items) as a percentage of gross rental income

EPRA Earnings: 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 for losses on disposals, gains on acquisition of subsidiaries, acquisition costs, fair value and net result on sale of financial investments at fair value through profit or loss and deferred tax expense

EPRA Earnings Per Share: EPRA Earnings divided by the number of shares outstanding at the period or year-end

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 NAV Per Share: EPRA NAV divided by the number of shares outstanding at the period or year-end

EPRA Net Initial Yield: annualized rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the portfolio

EPRA 'topped-up' Yield: EPRA Net Initial Yield adjusted in respect of the annualised rent free at the balance sheet date

EPRA Vacancy Rate: vacancy rate computed based on estimated rental value of vacant space compared to the estimated rental value of the entire property

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